Increase in Demand for Mortgage-Backed Debt Products

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Increase in Demand is Result of:

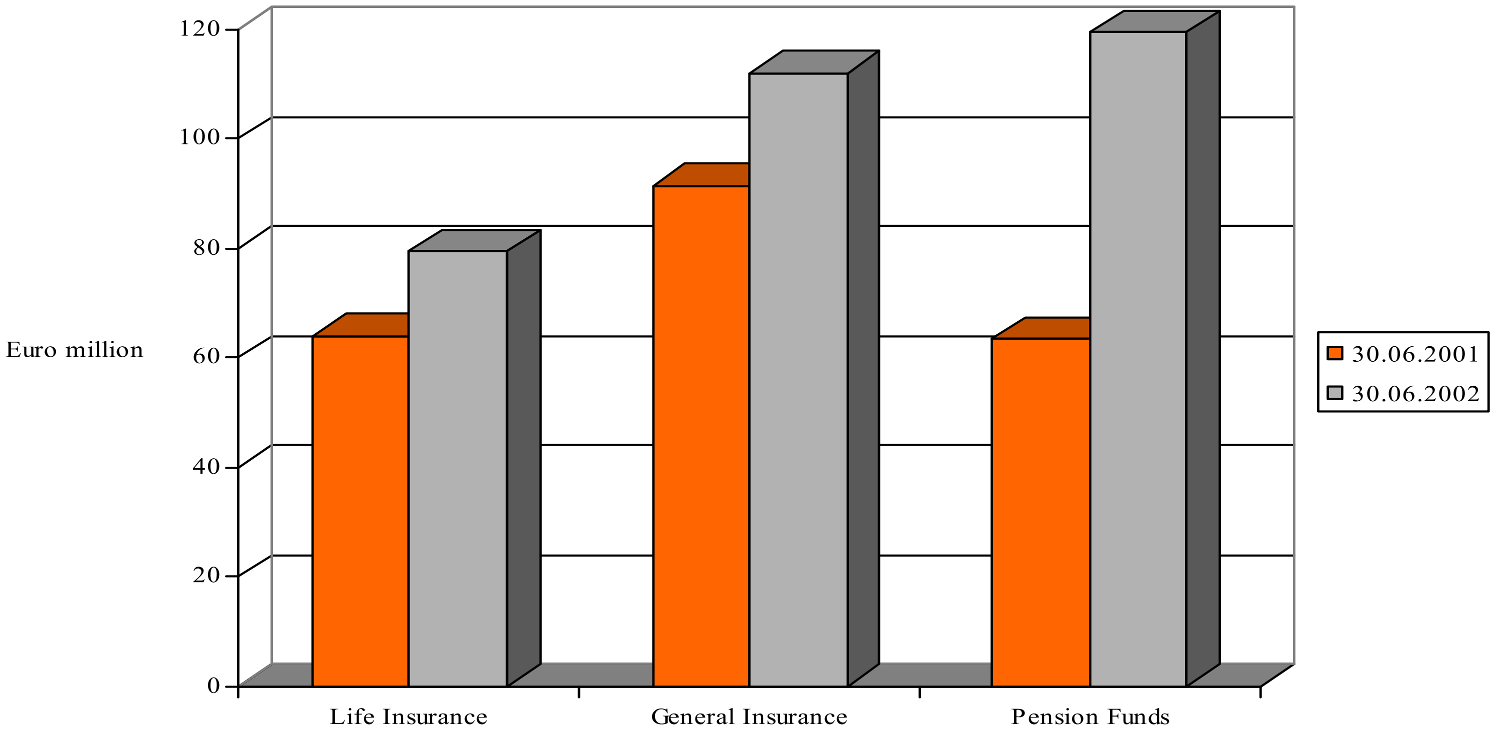
- Pension reform in the country
- Growth of insurance industry
- Increase in household savings

Three Pillar Pension System

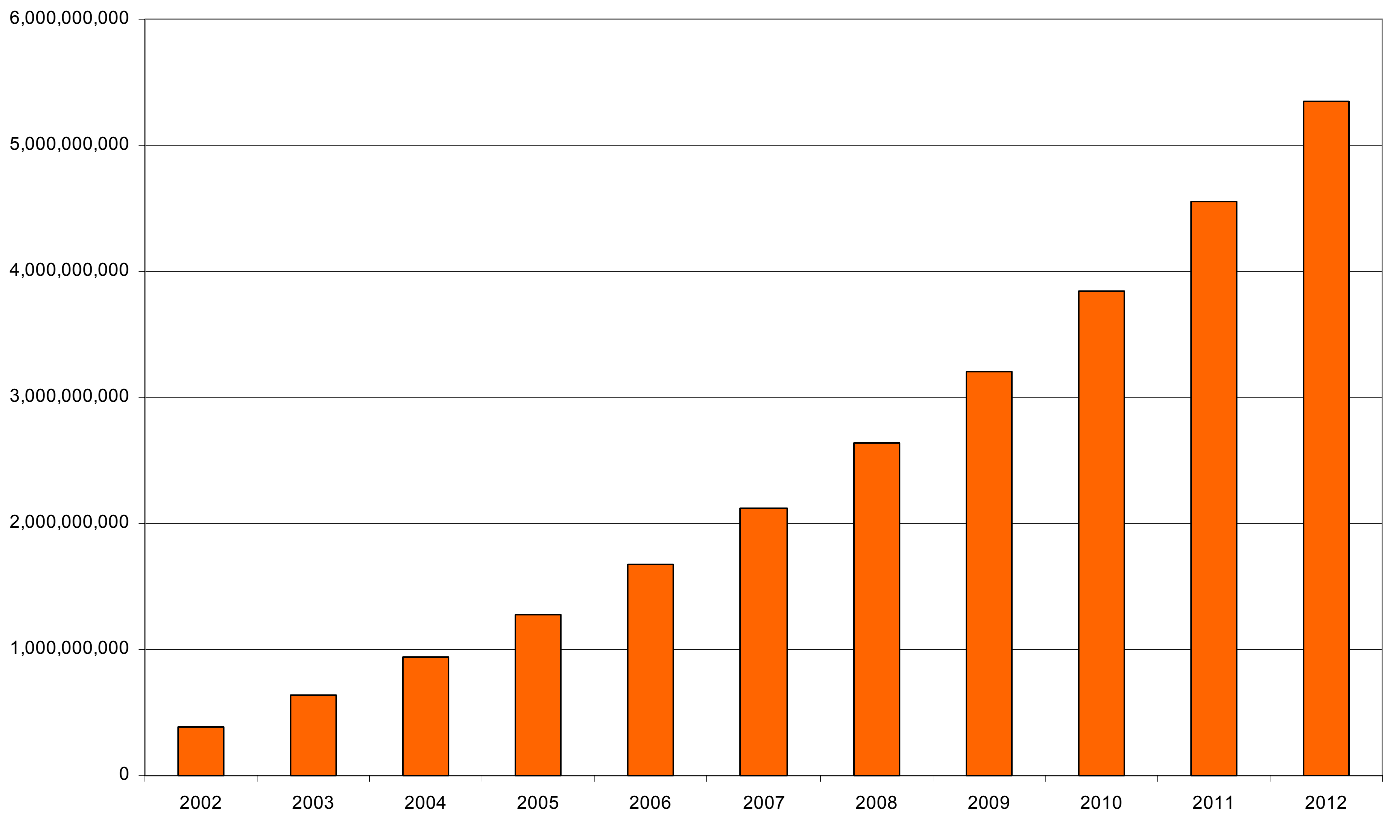
- **<u>First Pillar</u>** **State Social Security covers the working population as a whole and is based on the Pay-As-You-Go principle**
- **<u>Second Pillar</u>** **Supplementary mandatory pension insurance, based on the individual pension savings account principle. Pension funds managed by private management companies**
- **<u>Third Pillar</u>** **Supplementary voluntary pension insurance based on the individual pension savings accounts principle. Pension funds managed by private management companies**

Market background – Institutional Money

Double digit annual growth in assets of institutional investors



Projection of Increase in the Assets of Private Pension Funds



Legal constraints on the investments of VPFs

<table>
<tr><th rowspan="2">Type</th><th colspan="2">% of Fund's assets</th><th rowspan="2">Notes</th></tr>
<tr><th>min</th><th>max</th></tr>
<tr><td>1. Securities issued or guaranteed by the government</td><td rowspan="2">50%</td><td></td><td></td></tr>
<tr><td>2. Bank deposits and bank mortgage bonds</td><td>10% for mortgage bonds of single bank issuer</td><td></td></tr>
<tr><td>3. Securities traded on a regulated market</td><td></td><td>5% in single company (10% with SISA permission)</td><td>up to 10% of common stock of single issuer</td></tr>
<tr><td>4. Municipality bonds</td><td></td><td></td><td></td></tr>
<tr><td>5. Real estate and mortgages</td><td></td><td>10%</td><td></td></tr>
<tr><td>6. Other investment instruments</td><td></td><td>5%</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Investments abroad:</td><td></td><td></td><td></td></tr>
<tr><td>7. Government and municipal securities</td><td></td><td rowspan="2">10%</td><td></td></tr>
<tr><td>8. Securities traded on a regulated market</td><td></td><td></td></tr>
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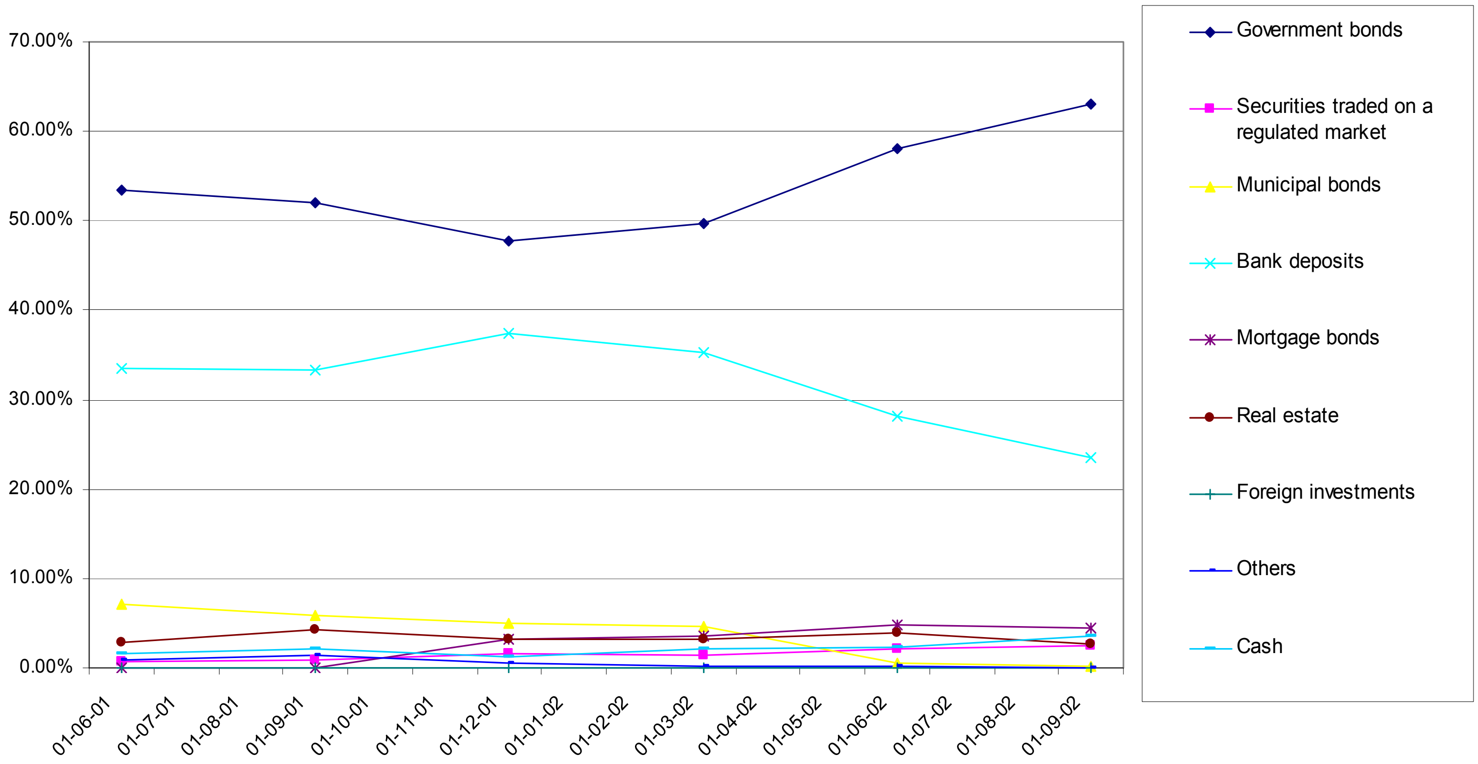
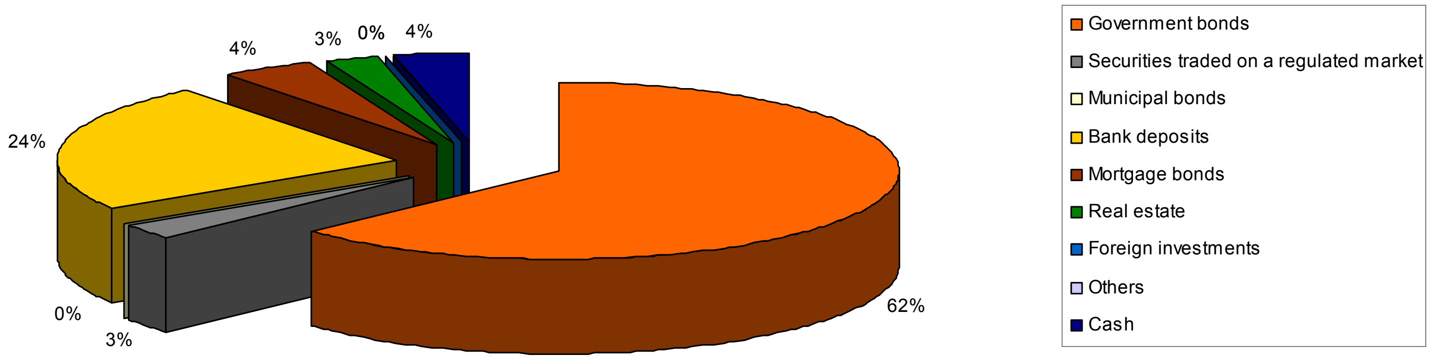
Asset Allocation of Pension Fund Portfolios (06.2001-09.2002)

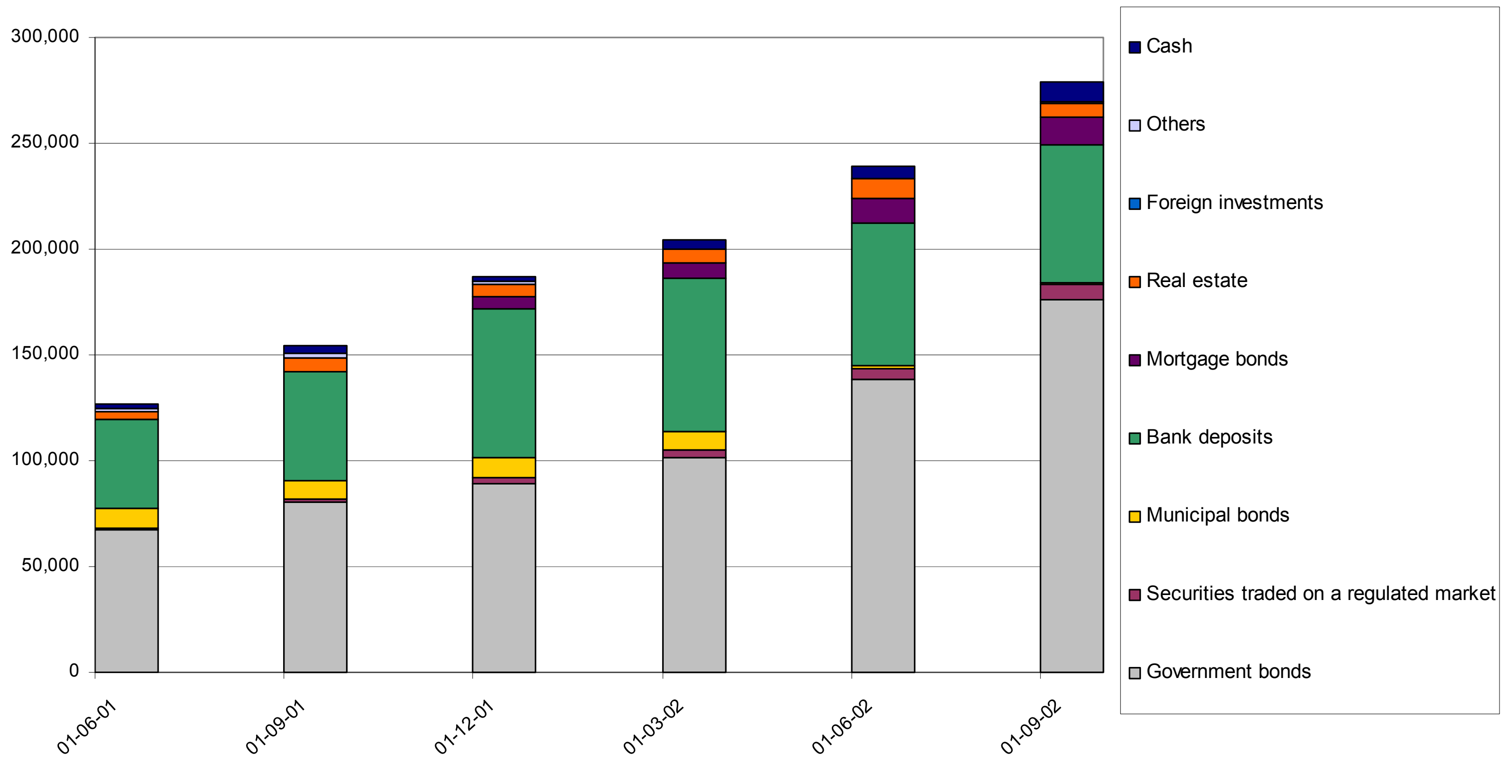


Source: SISA bulletin

Asset Allocation as of 30.09.2002



Changes in Asset Allocation of Pension Funds' Portfolios



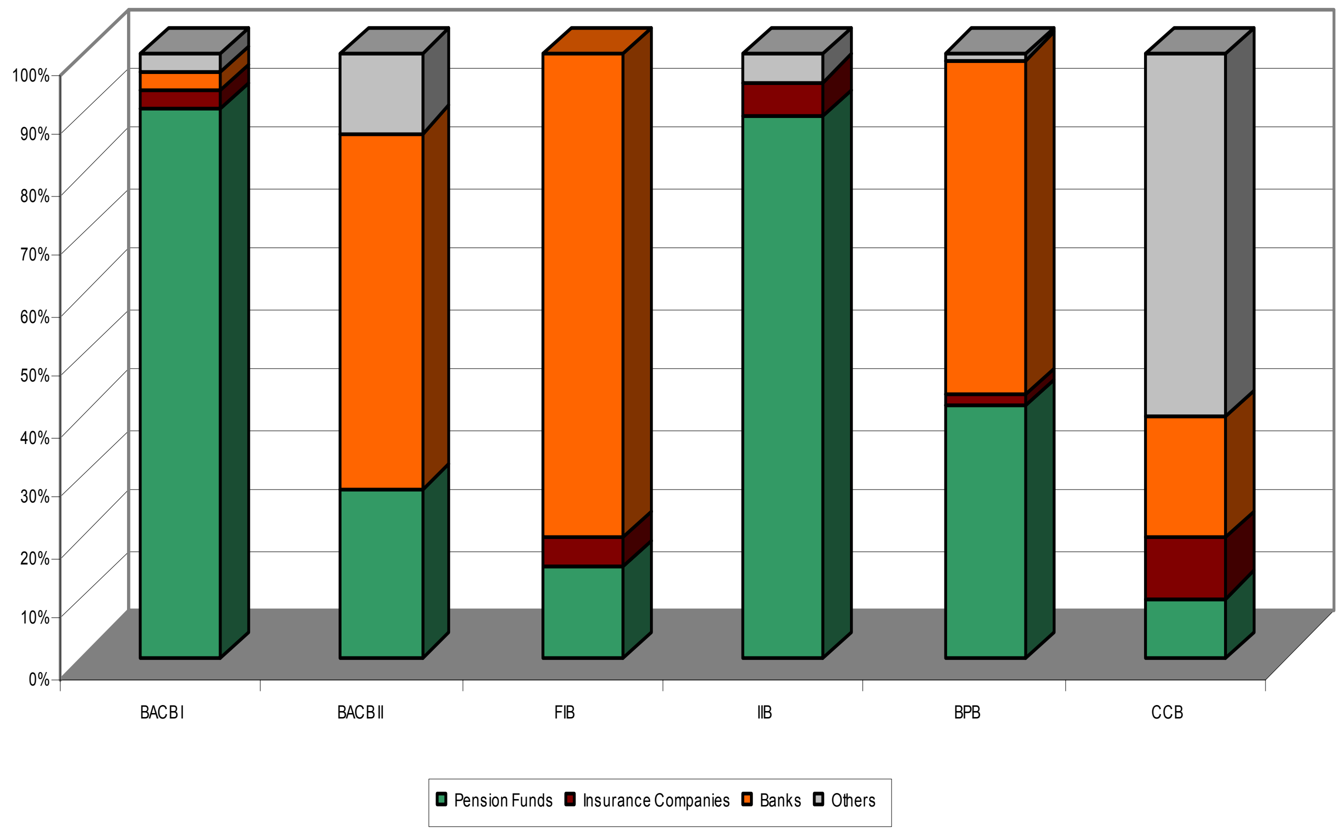
Legal constraints on the investments of insurance reserves

Type	% of Fund's assets		Notes
	min	max	
1. Securities, issued or guaranteed by the government			
2. Real estate (not hypothecated)		10%	
3. Bonds, issued or guaranteed by the municipalities		5%	
4. Corporate securities (bonds and common stock) listed on the stock exchange		30%	up to 10% of bonds and common stock of single issuer
5. Bank deposits		50%	up to 25% in the same bank
6. Mortgage bonds		25%	up to 15% of mortgage bonds of single bank
7. Assets, agreed on in the General terms of life insurance policies related to investment fund.			

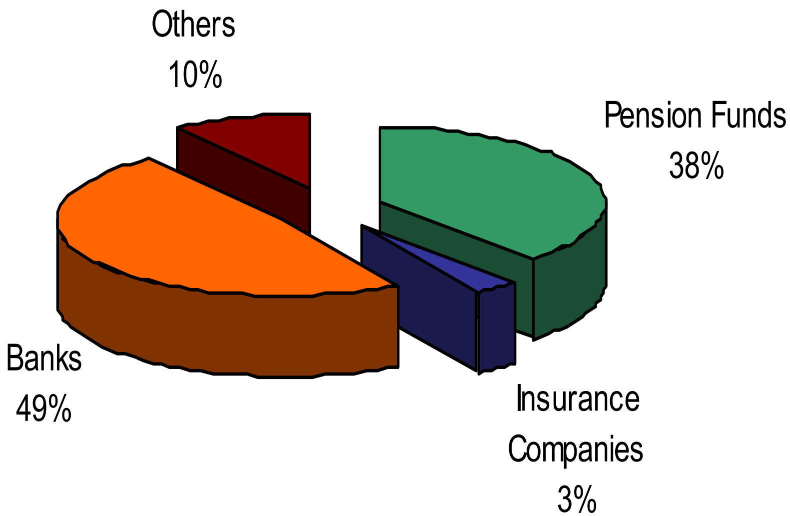
Summary of Mortgage Bond Issues in Bulgaria

MORTGAGE BONDS ISSUERS	ISSUE PAR VALUE	CURRENCY	COUPON	YIELD	ISSUE DATE	MATURITY	PAR	ISSUE PRICE	PLACEMENT	TRADING
YEAR 2001										
BULGARIAN-AMERICAN CREDIT BANK	3 242 000	EUR	7.75% annually, semiannual coupon	7.75%	1/8/2001	36 months	1 000	1 000	Private	BSE - unofficial market
FIRST INVESTMENT BANK	5 000 000	EUR	7.80% annually, semiannual coupon	7.80%	25/10/2001	24 months	1 000	1 000	Private	BSE - unofficial market
INDUSTRIAL AND INVESTMENT BANK	1 674 610	BGN	7.25% annually, semiannual coupon	7.25%	21/11/2001	24 months	10	10	Public	BSE - official market
TOTAL YEAR 2001	**9 098 214**	**EUR**								
YEAR 2002										
BULGARIAN-AMERICAN CREDIT BANK	5 500 000	EUR	7% annually, semiannual coupon	7.30%	28/3/2002	36 months	1 000	992	Private	BSE - unofficial market
BULGARIAN POST BANK	15 000 000	BGN	7.625% annually, semiannual coupon	7.625%	21/5/2002	36 months	1 000	1 000	Private	BSE - unofficial market
CENTRAL COOPERATIVE BANK	5 000 000	BGN	8% annually, semiannual coupon	8.00%	16/12/2002	24 months	1 000	1 000	Private	BSE - unofficial market
TOTAL YEAR 2002	**15 725 838**	**EUR**								
TOTAL MORTGAGE BONDS	**24 824 052**	**EUR**								

Investment in Mortgage Bonds by Issuers and Type of Investors



Investments in Mortgage Bonds by Investors Type



Type of Bonds issued in 2001 - 2002

Type of bonds	Nominal Value (in Euro)	as %
Corporate bonds	15 044 764	33.50%
Mortgage bonds	**24 824 052**	**55.27%**
Municipal bonds	5 045 168	11.23%
Total:	**44 913 983**	**100.00%**

Liquid Secondary Market Is Necessary, Otherwise:

- High liquid premiums in the primary market – financing is expensive for issuers
- Difficulties in setting fair market price for new and current issues
- Higher risk to investors