GOVERNMENT BONDS – PREDICTABLE CASH FLOWS AND LOWER RISK COMPARED TO OTHER ASSETS

IMPORTANT INFORMATION ABOUT INVESTMENT RISKS

Investments and speculations on financial markets generally involve various and numerous risks and may even result in the complete loss of the invested capital. The European regulations require investment firms to establish investor risk profiles before recommending any financial products or investments for those investors. The prices used for our estimations are indicative and not appropriate for direct-trading purposes and so the prices may not be accurate. In addition, the actual future performance may deviate from the forecast.

GENERAL INFORMATION

In general, investment in government bonds provides a low level of risk and predictable cash flows.

The three **sources of return** on a fixed-rate bond purchased at par value are: (1) receipt of the promised coupon and principal payments on the scheduled dates, (2) reinvestment of coupon payments, and (3) potential capital gains, as well as losses, on the sale of the bond prior to maturity.

Bond maturity is the time when the bond issuer must repay the original bond value to the bond holder.

“Coupon rate” or “coupon” is the rate of interest paid by bond issuers on the bond’s face value. It is the periodic rate of interest paid by bond issuers to its purchasers. The coupon rate is calculated on the bond’s face value, not on the issue price or market value.

CORPORATE BONDS

Issued by corporations, these bonds may provide an investor with a steady stream of income. Risk Considerations: The primary risks associated with corporate bonds are credit risk, interest rate risk, and market risk. In addition, some corporate bonds can be called for redemption by the issuer and have their principal repaid prior to the maturity date. When bonds are called in a declining interest environment, investors may not be able to obtain new bonds that offer the same yield.

GOVERNMENT BONDS

Government bonds are issued by the Treasury and backed by the full faith and credit of the government. Risk Considerations: Among the lowest risk of all bond investments, these bonds have low credit risk because they are backed by the full faith and credit of the government. A government bond does present market risk if sold prior to maturity, and also carries some inflation risk — the risk that its comparatively lower return will not keep pace with inflation.

Government bonds are considered low-risk investments since the government backs them. In accordance with the Government Debt Law, the Minister of Finance issues government securities. When you purchase a government bond, you loan money to the government. The term of your loan is known as the maturity date. At this date, the government will repay your investment, and you will have earned interest along the way. This means that government bonds are not risk-free investments. Although not risk-free, government bonds’ risks tend to be less than corporate bonds and equities, because they are issued by national governments instead of corporations. So, Government bonds are considered relatively low-risk compared to other types of debt securities.

THE RISKS ASSOCIATED WITH BONDS

- Credit Risk — The risk that a bond's issuer will go into default before a bond reaches maturity
- Market Risk — The risk that a bond's value will fluctuate with changing market conditions
- Interest Rate Risk — The risk that a bond's price will fall with rising interest rates
- Inflation Risk — The risk that a bond's total return will not outpace inflation

Default and Credit Risk: Most loans face a possibility of default. When you invest in bonds, you are taking a risk that the issuer's promise to repay principal and pay interest on the agreed upon dates and terms will be upheld. Default risk means that the bond obligor will either be late paying creditors (including you, as a bondholder), pay a negotiated reduced amount or, in worst-case scenarios, be unable to pay at all.

Country defaults tend to be very different than businesses or individuals. Unlike business or individual bankruptcies, assets of a country are not repossessed. Instead of going out of business, countries are faced with a number of options. At the same time a government that defaults may be widely excluded from further credit; some of its overseas assets may be seized; and it faces political pressure from its bondholders to pay back its debt. Generally, governments enter into negotiations with their bondholders to agree on a delay (debt restructuring), i.e., they simply restructure their debt by extending the debt's due date. After all, a country cannot exactly close its doors forever.

Credit rating agencies, such as Moody’s, Standard & Poor’s, and Fitch, play a central role in the credit markets. Nearly every bond issued in the broad debt markets carries credit ratings, which are opinions about a bond issue’s creditworthiness. Credit ratings enable investors to compare the credit risk of debt issues and issuers within a given industry, across industries, and across geographic markets. Bonds rated Aaa to Baa3 by Moody’s and AAA to BBB– by Standard & Poor’s (S&P) and/or Fitch (higher to lower) are referred to as “investment grade.” Bonds rated lower than that—Ba1 or lower by Moody’s and BB+ or lower by S&P and/or Fitch—are referred to as “high-yield” bonds.

The rating agencies rate both issuers and issues. Issuer ratings are meant to address an issuer’s overall creditworthiness—its risk of default. Ratings for issues incorporate such factors as their rankings in the capital structure.

GOVERNMENT BONDS’ POSSIBLITIES FOR MID-TERM INVESTMENT (SCENARIOS)

Presented below are examples of investments in various government bonds with different credit ratings, which are available for you to trade through Fibank Bulgaria AD. The investment horizon is essential in measuring the risk of a fixed-rate bond. Thus, the recommended investment period in our examples is maturities of ≈ 5 - 6 years. The table shows the returns you could get back assuming that you invest EUR 150 000 in one instrument. The scenarios shown illustrate how your investment could perform in actuality.

INSTRUMENT	EUROPEAN UNION 0 03/04/26	CHILE 0.1 01/26/27	ROMANI 2 12/08/26	TURKEY 3 1/4 06/14/25	UKRAIN 6 3/4 06/20/26
CURRENT CREDIT RATING (issuer / bond)	**Aaa (Moody's)**	**A1 (Moody's)**	**Baa3 (Moody's)**	**B3 (Moody's)**	**Caa3 (Moody's)**
COUPON (Annual)	**0 %**	**0.1 %**	**2 %**	**3.25 %**	**6.75 %**
MINIMUM PIECE €	1 000 €	100 000 €	1 000 €	100 000 €	100 000 €
MATURITY	March' 26	January' 27	December' 26	June' 25	June' 28
STARTING CAPITAL €	EUR 150 000	EUR 150 000	EUR 150 000	EUR 150 000	EUR 150 000
CASH IN (AUG/SEP 2022) €	**EUR 149 380.00**	**EUR 149 332.69**	**EUR 149 509.18**	**EUR 149 911.23**	**EUR 148 200.00**
EXPECTED QUANTITY (face value €)	**EUR 154 000**	**EUR 166 000**	**EUR 155 000**	**EUR 160 000**	**EUR 260 000**
If you cash in: + € (2023)	Coupon'23 = 0.00	Coupon'23 = 166.00	Coupon'23 = 3 100.00	Coupon'23 = 5 200.00	Coupon'23 = 0.00
If you cash in: + € (2024)	Coupon'24 = 0.00	Coupon'24 = 166.00	Coupon'24 = 3 100.00	Coupon'24 = 5 200.00	Coupon'24 = 0.00
If you cash in: + € (2025)	Coupon'25 = 0.00	Coupon'25 = 166.00	Coupon'25 = 3 100.00	**Maturity = 165 200.00**	Coupon'25 = 17 550.00
If you cash in: + € (2026)	**Maturity = 154 000.00**	Coupon'26 = 166.00	**Maturity = 158 100.00**	N/A	Coupon'26 = 17 550.00
If you cash in: + € (2027)	N/A	**Maturity = 166 166.00**	N/A	N/A	Coupon'27 = 17 550.00
If you cash in: + € (2028)	N/A	N/A	N/A	N/A	**Maturity = 277 550.00**
EXPECTED ENDING CAPITAL €	**EUR 154 000.00**	**EUR 166 830.00**	**EUR 167 400.00**	**EUR 175 600.00**	**EUR 330 200.00**
EXPECTED GROSS PROFIT €	**(4 Years) + EUR 4 620.00**	**(5 Years) + EUR 17 497.31**	**(4 Years) + EUR 17 890.82**	**(3 Years) + EUR 25 688.77**	**(6 Years) + EUR 182 000.00**
TOTAL ESTIMATED GROSS RETURN (%)	**(4 Years) + 3.09%**	**(5 Years) + 11.72%**	**(4 Years) + 11.97%**	**(3 Years) + 17.14%**	**(6 Years) + 122.81%**

Please, note:

- The expected prices are subject to change depending on market conditions and may vary over time.
- The returns shown in last row of the table are not annualized.
- All calculations are indicative and may differ from the final result depending on the amount, time and other factors.
- Brokerage and custodian fees as well as possible additional costs are not included.
- The figures cannot take into account your personal tax status and tax situation, which can also affect how much cash you get back.

DIVERSIFICATION

Diversification is the practice of spreading your investments around so that your exposure to any one type of asset is limited. Diversification is most often done by investing in different asset classes such as stocks, bonds, commodities etc., but many bond investors find it impractical to assemble and manage a diversified bond portfolio. Of course, diversification generally cannot assure profits or protect against losses, but the wide variety of bonds may make them potentially suitable in many investment scenarios. If you decide to diversify your government bonds' portfolio we will assist you, but you have to be informed that minimal tradable piece is usually ≥ EUR 100 000.

DISCLAIMER

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