

Rating

	Current rating	Previous rating	Rating action
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Local currency

Long-term	BB	BB	
Short-term	a-1	a-1	

Foreign currency

Long-term	BB	BB	
Short-term	a-1	a-1	

Outlook: STABLE
Analysts

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n Rating action and outlook

The current analysis concentrates on the financial performance and creditworthiness of Loznitsa Municipality based on data provided for the 2007-2008 period, reflecting the municipal credit rating action and outlook.

n Resume

Indicator	2007	2008
Operating revenues	2 957 475	3 443 322
Operating expenses	(3 891 572)	(4 204 168)
Operating surplus (deficit)	(934 097)	(760 846)
Debt service (excl. principal)	(1 634)	-
Net operating balance	(935 731)	(760 846)
Capital revenues, incl:	590 953	1 372 300
- Own revenues (from sales of assets, etc.)	37 453	60 000
- Target subsidies from CB	553 500	1 312 300
Capital expenses	(1 333 169)	(1 858 940)
Investment balance	(742 216)	(486 640)
Other revenues (expenses) net	1 361 283	161 958
Surplus (deficit)	(316 664)	(1 085 528)
Financing	(550 602)	-
Balance from previous periods	535 766	541 822
Ending balance	(331 500)	(543 706)
25% of own revenues and general equalizing subsidy	196 701	219 635
60% of own revenues	278 521	280 511

Public Entities

GENERAL INDICATORS	2007	2008
Relations with CB / Total budget	0,757	0,752
Own revenues / Total budget	0,089	0,077
OPERATING INDICATORS	2007	2008
Operating revenues / Total budget	0,566	0,568
Operating expenses / Total budget	0,745	0,693
Operating revenues / Operating expenses	0,760	0,819
INVESTMENT INDICATORS	2007	2008
Capital expenses / Total budget	0,255	0,307
Capital revenues / Capital expenses	0,443	0,738
Sales of assets / Total budget	0,007	0,010
Target subsidy for capital expenses / Total budget	0,106	0,216
POPULATION INDICATORS	2007	2008
Total budget / Population	512,09	594,07
Own revenues / Population	45,48	45,81
Relation with CB / Population	387,77	446,50
Capital expenses / Population	130,63	182,14
Capital revenues / Population	57,90	134,46
Target subsidy for capital expenses / Population	54,23	128,58
Operating expenses / Population	381,30	411,93
Operating revenues / Population	289,78	337,38
Population	10 206	10 206

n Key rating factors and performance

Key positive rating factors include:

- § *Prudent management. Ability to generate revenues from alternative sources.*
- § *Nominal increase of the own revenues.*
- § *Balanced budget. In 2007 the budget execution is 92%, a good level for a Bulgarian Municipality.*

§ *Good levels of the capital expenses.*

Key negative rating factors include:

- § *Low level of the own revenues. Own revenues amount to only 7% of the Municipal budget.*
- § *High levels of the operating deficit and a negative ending balance.*
- § *Tight liquidity.*

§ Budget execution 2007

The budget execution shows the ability of the management team to effectively plan and organise the activities and responsibilities of the municipal administration.

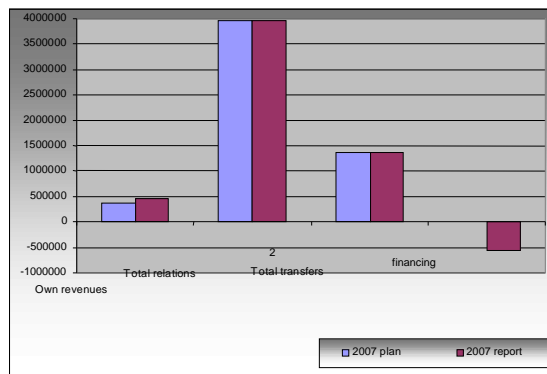
In 2007 the budget execution of Loznitca Municipality amounted to 92% which is a good level. The real budget execution amounted to 101%. The difference is based on the residual funds from previous periods, which were written with a negative sign in the revenue part of the budget. The real execution of the own revenues amounted to 24%. There were an increase in the execution of the own revenues, which is assessed as a positive rating factor.

	2007 plan	2007 report	Execution
Total revenues			
Own revenues			
1. Property taxes	85500	140638	164%
2. Non-tax revenues	288402	323564	112%
Own revenues	373902	464202	124%
Total relations	3957548	3957548	100%
Total transfers	1361283	1361283	100%
Deficit financing	893	(556 658)	-
Total revenues	5 692 733	5 226 375	92%

In 2007 the budget execution amounted to 96% of the budget plan, which is assessed as a good one as well as shows the abilities of the team to plan and organise both the municipal activities and responsibilities.

Public Entities

In 2007 the own revenues amounted to BGN 464 202. According to the budget plan the expected own revenues were to amount to BGN 373 902. There was an increase amounting to 124 %, which is assessed positively by the Agency. The tax revenues amounted to BGN 140 638 and the non-tax revenues amounted to BGN 323 564. The subsidies received through the Republican budget amounted to BGN 3.957 mln, BGN 322 600 of which was the general supplementary subsidy, BGN 553 500 of which was the target subsidy for covering capital expenses, BGN 331 330 of which was the State transfer for remised tax on income of individuals. The total revenues for State delegated activities amounted to BGN 3.374 mln and the revenues for municipal responsibilities amounted to BGN 1.851 mln.

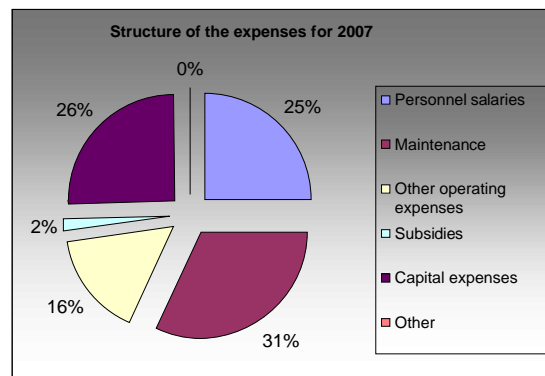


In 2007 the total expenses amounted to BGN 5 226 mln, BGN 3.294 mln of which incurred for State delegated activities and BGN 1.931 mln of which incurred for municipal ones, respectively. BGN 1.881 mln of which are for education, BGN 69 404 of which are for healthcare, BGN 232 400 of which are for culture, BGN 1.615 mln of which are for house construction, communal services and environmental protection, BGN 921 783 of which are for government offices.

	2007 plan	2007 report	Exec.
Total expenses			
Operating expenses	4 074 109	3 808 748	93%
Subsidies	100 065	82 824	83%
Capital expenses	1519452	1333169	88%
Total expenses	5 693 626	5 226 375	92%

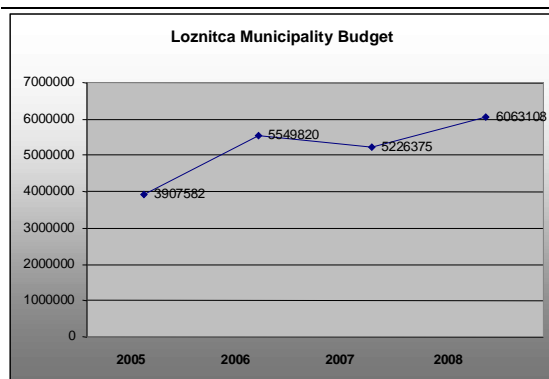
In 2007 the execution of the transfers from the CB amounted to 83%, the execution of the operating expenses amounted to 93% and the execution of the capital expenses amounted to 87%. The execution of the operating expenses was very good and is of significant importance for every Municipality. The operating expenses comprise of the following: salaries and insurances, maintenance expenses, fuels and energy, etc. The execution of the operating revenues is also very good, however, there was an operating deficit amounting to BGN 934 097 or 17.87% of the budget.

In 2007 the capital expenses amounted to 26% of all expenses. According to the international standards in the public finances levels of the capital expenses over 25% of all expenses are assessed as good ones. The investment balance was negative amounting to BGN 742 216 due to the fact that the target transfers were insignificant. In 2007 it covered only 41.5% of the capital expenses. The management team aims at attracting alternative revenues from other revenue sources, such as revenues from sale of municipal and State property as well as revenues from the allocation of investment loans, for the realization of its capital programme.



n Financial performance – 2007 (exec.) - 2008 (plan)

Public Entities



In 2008 according to the budget plan the municipal budget amounts to BGN 6.063 mln or 116% of the report of the budget in 2007. In 2008 the revenues for State delegated activities are expected to amount to BGN 3.430 mln and the revenues for municipal responsibilities are expected to amount to BGN 2.632 mln. In 2008 the own revenues are expected to reach BGN 467 519 and the transfers from the CB are expected to amount to BGN 4.556 mln.

General indicators	2007	2008
Relations with the CB/ Total budget	0,757	0,752
Own revenues / Total budget	0,089	0,077

In 2008 the own revenues are insignificant reaching just 8.9% of all revenues. The transfers from the CB reach almost 76% of all revenues, which is not a good sign. The Municipality is highly dependent on transfers from the CB, which is not a good rating factor.

Structure of the own revenues

The main revenue sources comprising the municipal budget are the **non-tax revenues**. They comprise of the following: revenues from properties, municipal fees, fines, sanctions and penalty interest, revenues from property sales, revenues from concessions, aids, donations and other gratuitous funds from the country. In 2008 they amount to 80.86% of the own revenues and 6 % of all revenues. During the 2007-2008 period the non-tax revenues increase insignificantly by inly BGN 2 000. The revenues from

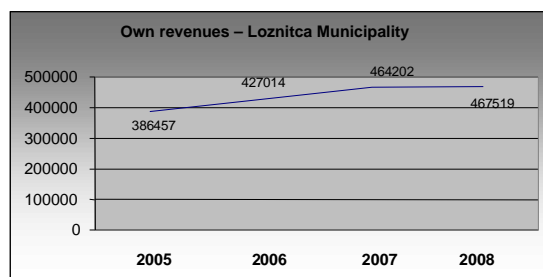
municipal and State property sales amounted to 15.87 % of the non-tax revenues and 1 % of the total budget.

Indicator	2007	2008
Tax revenues / Own revenues	30,30%	19,14%
Tax revenues/ Total revenues	2,69%	1,48%
Own revenues / Total revenues	8,88%	7,71%

Indicator	2007	2008
Non-tax revenues / Own revenues	69,70%	80,86%
Non-tax revenues / Total revenues	6,19%	6,23%
Municipal fees / Non-tax revenues	61,77%	66,64%
Revenues from sales / Non-tax revenues	11,58%	15,87%

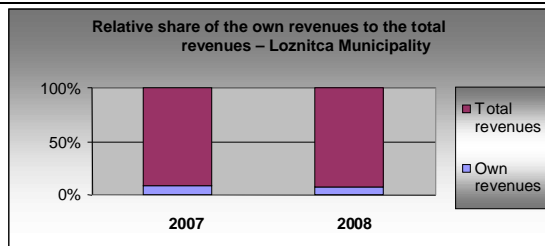
Property taxes

They comprise of the following: tax on real estate, tax on heritage, tax on motor vehicles, patents, road tax, etc. According to the changes in the Bulgarian legislation, since 2008, the tax revenues comprise also of the proceeds of the State transfer for remised tax on income of individuals – a final annual patent tax. In 2008 according to the budget plan the tax revenues amount to 19.14 % of the own revenues and a small part of all revenues amounting to around 2 %. The absolute values of the revenues from property taxes keep stable. According to the budget plan the revenues from patents are expected to amount to BGN 10 000. The tax revenues are expected to amount to BGN 89 500 or 63% of the tax revenues in 2007.



The absolute values of the own revenues keep relatively stable in the 2005-2008 period.

Public Entities



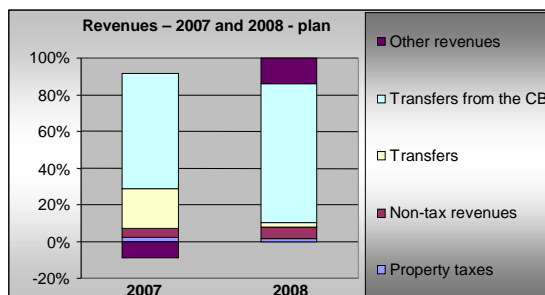
Relations with the CB

In 2008 budget plan the transfers from the CB are expected to amount to BGN 4.718 mln or 77% of all revenues.

The general supplementary subsidy, which is aimed at covering additional costs incurred by the Municipality for State delegated responsibilities, has the highest share of all other transfers from the CB. There is a stable tendency of increase of this transfer. In 2008 the general supplementary subsidy is expected to amount to BGN 2.565 mln.

The general equalizing subsidy is based on the income level of the population and the GDP per capita on the territory of the Municipality. The amount of this grant also depends on the funding means available at the State level. In 2008 it is expected to amount to BGN 411 021. In 2008 the general equalizing subsidy is just 1 % of all transfers from the CB.

According to the 2008 budget plan the target subsidy for covering capital expenses is expected to reach BGN 1.312 mln of all transfers from the CB. The increase is significant amounting to around 21% of all transfers.



Expenses

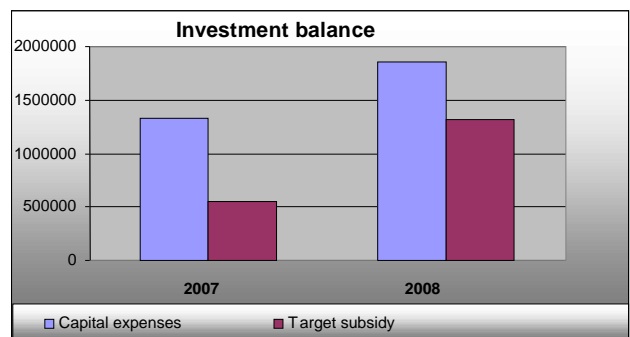
CAPEX dominate

In 2008 budget plan the capital expenses dominate amounting to 32 % of all expenses, followed by the maintenance expenses – 28 % and by the expenses incurred for salaries and insurances - 26%.

315 people work in the municipal administration, 290 people of whom work for the State delegated activities and the other work for covering the municipal responsibilities.

In 2008 budget plan the capital expenses dominate amounting to 32 % of all expenses or amounting to BGN 1.858 mln.

The funds, which are used for capital expenses, comprise of target subsidy from the Central Budget, own revenues and of transfers being capital expenditures. In Loznitca Municipality the revenues covering the capital expenses come from target subsidies from the CB. In 2008 just 30 % of the capital expenses are expected to be covered by own revenues.



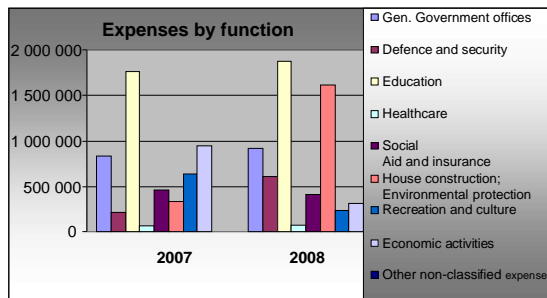
INVESTMENT INDICATORS	2007	2008
Capital expenses / Total budget	0,255	0,307
Capital revenues / Capital expenses	0,443	0,738
Sales of assets / Total budget	0,007	0,010
Target subsidy for capital expenses / Total budget	0,106	0,216

The distribution of the expenses by functions for the 2007 – 2008 period looks as follows:

Public Entities

Distribution of the expenses by functions	2007	2008
General government offices	832 335	921 783
Defence and security	210 009	614 226
Education	1 758 949	1 881 257
Healthcare	60 673	69 404
Social aid	459 557	414 084
House construction, environmental protection and communal services	329 612	1 615 270
Recreation and culture	630 230	232 400
Economic activities	943 376	314 684
Other expenses	1 634	
Total expenses by functions	5 226 375	6 063 108

The distribution of the expenses by functions is shown in the following graph:



n Budget indicators

According to the international standards Bulgarian Municipalities tend to report low operating margins on average. This is mainly related to their revenue structure which largely consists of transfers and tax remised from the State aimed at matching delegated responsibilities without creating surpluses. In case, a surplus is generated, it is redistributed to the next budget expenses.

In 2007 Loznitca Municipality generated a negative operating balance amounting to BGN 934 097. According to the 2008 budget plan it is expected that the net operating deficit will decrease reaching BGN 760 846 or 12.55% of the total budget.

The negative investment balance is expected to decrease to BGN 486 640 or a decrease by 34 % due to the increased target transfers from the CB.

In 2007 Loznitca Municipality reported a negative ending balance amounting to BGN 331 500. In 2008 it is expected to reach BGN 543 706.

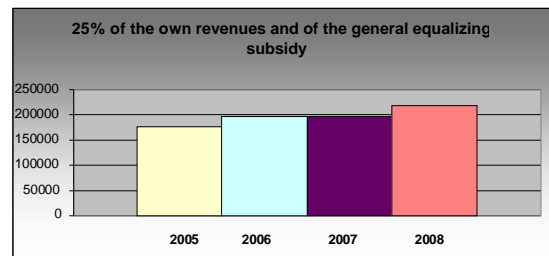
n Debt and liquidity

Liquidity

As of 30.06.2008 the overdue receivables amounted to BGN 64 317 and the overdue payables amounted to BGN 838 881. The cash in deposits reached BGN 213 715. The municipal liquidity is assessed as being low according to the analysis of the financial data.

Debt

Bulgarian municipalities' debt service costs cannot exceed by law 25 % of the aggregated amount of the municipal own revenues and the general equalizing subsidy for the respective year. The municipal debt is not guaranteed by the State and cannot be defined as State debt, unless a special guarantee has been granted.



In 2007 these 25 % of the own revenues and the general equalizing subsidy amounted to BGN 196 701. In 2008 they are expected to amount to BGN 219 635. There is a stable tendency of increase started in 2005.

In 2008 Loznitca Municipality has a debt free position.

Alternative revenue sources. Realized projects

For the 2006-2008 period Loznitca Municipality won a significant sum of money under projects and financing programs. For the 2006-2007 period the Municipality won 12 projects, 9 of which have already been realized, amounting to BGN 2.919 mln. 3

Public Entities

projects amounting to BGN 473 634 are about to be realized. In 2008 13 other projects have been won, 5 of which have already been realized amounting to BGN 582 005. 8 projects amounting to BGN 3.445 mln are about to be realized. The ability of the management team to find alternative revenue sources is assessed positively by the Agency.

Public Entities

Total				
Revenues	Paragraph	2007 plan	2007 report	2008 plan
I. Own Revenues				
1. Property Taxes	1300	84 000	138 703	78000
- Tax on real estate	1301			
- Tax on heritage	1302			
- Tax on motor vehicles	1303			
- Tax on acquisition of property through donation or other gratuitous way	1304			
- Patents	1305			10000
-Other taxes	2000	1 500	1 935	1500
Total property taxes		85 500	140 638	89 500
2. Non-tax revenues				
Revenues from properties	2400	56554	82727	67554
- Instalments from municipal companies	2401			
- Net revenues from sale of services, goods and production	2404			
- Revenues from rents on property	2405			
- Revenues from rent on land	2406			
- Revenues from dividends	2407			
- Revenues from interest on current deposits	2408			
- Revenues from interest on term deposits	2409			
Municipal Fees	2700	188574	199868	251901
- for kindergartens	2701			
- for nurseries and other healthcare activities	2702			
- for camps and other recreation activities	2703			
- social patronage and other municipal services	2704			
- for markets, fairs, sidewalks, etc.	2705			
- for half-day kindergartens	2706			
- for household waste	2707			
- for boarding houses and others on education	2708			
- for extraction of quarry materials	2709			
- for technical services	2710			
- for administrative services	2711			
- for graveyard lots	2715			
- tourist fees	2716			
- other municipal fees	2729			
Fines, sanctions and penalty interest	2800	1 000	1 839	1450
- fines, sanctions, interest penalties, indemnities, etc.	2802			
Other non-tax revenues	3600	5 000	1 341	1500
- other non-tax revenues	3619			
Collected and paid-in V A T and other taxes on sales	3700	(10 067)	(9 125)	(15 207)
Revenues from sale of municipal and state properties	4000	35 000	37 453	60 000
- from sale of fixed assets	4002			
- from sale of intangible assets	4003			
- from sale of land	4004			
Revenues from concessions	4100	11 461	8 581	10821
Aids, donations and other gratuitous funds from the country	4500	880	880	
Total non-tax revenues		288 402	323 564	378 019
Total revenues (1 + 2)		373 902	464 202	467 519

Public Entities

II. Relations with the central budget (CB)				
Transfers (subsidies) from CB /net/	3100	3 957 548	3 957 548	4 556 961
- general supplementary subsidy	3111	1 876 796	1 876 796	2 565 791
- general equalizing subsidy	3112	322 600	322 600	411 021
- target subsidy for capital expenses from CB /+/ Other transfers received	3113 3118	553 500 873 322	553 500 873 322	1 312 300 208 858
- state transfer for remised tax on income of individuals*	3119	331 330	331 330	58991
- reimbursed transfers (subsidies)	3120			
Total:		3 957 548	3 957 548	4 556 961
III. Transfers				
Transfers (subsidies paid) between budget accounts (net)	6100	391 895	391 895	161958
Transfers (subsidies paid) between budget and off-budget accounts	6200	969 388	969 388	
Transfers from/to the Environmental Protection Fund	6400			
Total transfers:		1 361 283	1 361 283	161 958
IV. TEMPORARY NON-INTEREST BORROWINGS				
		-	-	334 848
TOTAL REVENUES (I+II+III+IV)				
		5 692 733	5 783 033	5 521 286
V. Deficit (surplus) financing				
Acquisition of stakes, shares and other financial assets	7000	(534 873)	(534 873)	
Temporary financial aid	7200			
Loans from abroad net (+/-)	8000			
State (municipal) securities issued on international capital markets	8100			
Loans from banks in the country /net/	8300			
Issues of state (municipal) securities +/-	8500			
Repayment of state (municipal) securities /net/	8600			
Repayment of debt in other bonds	8700			
Privatization	9000			
Other financing (+/-)	9300		(15 729)	
Deposits and funds with deposit accounts (net)	9500	535 766	(6 056)	541822
- residual funds in BGN from previous period (+)	9501	535 766	535 766	541822
- funds in BGN deposits at the end of period (-)	9507		(541 822)	
- ongoing transfers (+/-)	9513			
TOTAL DEFICIT (SURPLUS) FINANCING		893	(556 658)	541 822
Total revenues (I+II+III+IV+V)				
		5 693 626	5 226 375	6 063 108

Public Entities

Total	Expenses	BGN			
		Paragraph	2007 plan	report 2007	Plan2008
I. Expenses					
	Salaries on personnel on labor and service contracts	100	1353704	1307934	1599268
	Other remunerations and payments on personnel	200	413789	400125	256042
	Social security payments from employer	300			
	Security payments from employer for teacher's pension fund	400			
	Healthcare payments from employer	500	447741	418123	416098
	Other healthcare payments	600			
	Payments on supplementary social security	700			
	Maintenance	1000	1836810	1664690	1702788
	Scholarships	4000	7390	3627	5320
	Indemnities and aids for households	4200	14675	14249	12204
Total expenses:			4 074 109	3 808 748	3 991 720
II. Subsidies					
	Subsidies for non-financial companies	4300			
	- for operating activities	4301			
	- for healthcare activities and medical aid	4302			
	- other payments and subsidies	4309			
	Subsidies for non-commercial organizations	4500	98529	81288	139488
	Membership fees for memberships in non-commercial organizations	4600	1536	1536	2000
TOTAL SUBSIDIES:			100 065	82 824	141 488
III. Other expenses					
	Expenses on interest payments under State (Municipal) securities issues	2100			
	Expenses for interest under bank loans in the country	2200		1634	
Total other:			-	1 634	-
IV. Capital expenses					
	Rebuild of fixed assets	5100			
	Acquisition of fixed assets	5200			
	Acquisition of intangible assets	5300			
	Capital transfers	5500			
Total capital expenses			1 519 452	1 333 169	1 858 940
	Non-distributed reserve for contingent liabilities				70 960
	Municipal expenses for financing of State activities				
Total expenses:			5 693 626	5 226 375	6 063 108