

R E P O R T
ON
THE ACTIVITY OF
THE “BULGARIAN EXPORT INSURANCE
AGENCY” /BAEZ/ EAD
YEAR 2008

March 2009

I. PREAMBLE

During the year of 2008, as a consequence of the global financial crisis, there was an extremely high demand for the insurance products of the Bulgarian Export Insurance Agency. In 2008 for insurance was accepted also the export to countries to which we did not have insurances before. Such countries are China, Vietnam, Taiwan, South Korea, Thailand, Egypt, New Zealand, India. The net insurance capacity of the Agency according to the Export Insurance Law was completely engaged and some non-market risks had to be accepted for insurance on its own account. However, the share of the insured export within the overall number of insurances provided by BAEZ has decreased due to the enormous interest in the insurance of credits and financing of small and medium-size enterprises.

Being a guarantee for the economic stability of its clients, BAEZ almost doubled the overall amount of the accepted for insurance credit limits, as the number of the approved credit limits from the total number of credit limits applied for reached 99% (acceptance ratio). The total amount of the insured during the year turnover has increased 3,7 times compared to 2007, which led to 81% premium income growth. The amount of the claims paid during the year has increased by 4,76 times compared to the previous year. Nevertheless, the good reinsurance policy kept up by the Agency protected BAEZ against financial jolts and crises.

Owing to the good organization of the work, the Agency succeeded, with its personnel of 19 people, to cope with the multiple increases of the volume of insurances and on account of the foreseeing financial policy with regard to the long-term risk, ended the year of 2008 with profit before taxation amounting to 1 793 thousand BGN. Despite the financial crisis, because of which almost all banks and insurers account losses, BAEZ increased the volume of its activity and ended the year with the highest profit ever achieved.

II. LEGAL FORM AND MANAGEMENT ORGANS

On 18.12.1997, the Council of Ministers of the Republic of Bulgaria took a decision, reflected in Order No. 101, for the participation of the state in the constitution of an insurance company for the purpose of executing the national strategy in the field of the foreign trade exchange, realization of Bulgarian investments abroad, development of the export potential of the country and increase of the export compatibility of Bulgarian goods and services on the international markets.

By the force of Court Order No. 1 from 29.10.1998, of the Sofia City Court, under company file No. 11 846/1998, BAEZ EAD has been registered as joint stock company with participation of the state. Despite that the legal form of the constitution of BAEZ EAD permits the expansion of the shareholding with still other partners, in 2004 the Agency is transformed into a sole joint stock company, with sole shareholder – the Republic of Bulgaria, represented by the Minister of Economy and Energy.

The capital of the company is BGN 10 000 500, distributed into 100 005 registered dematerialized shares with nominal value of BGN 100 each.

Management Organs

BAEZ EAD is a sole joint stock company with one-tier system of management. Supreme management organ at the Agency is the Sole owner of the capital, represented by the Minister of Economy and Energy of the Republic of Bulgaria–Mr. Petar Dimitrov.

The Board of Directors carries out the operating management of BAEZ and consists of 5 members, who are elected by the Sole owner of the capital for a mandate not longer than 3 years. As per 31.12.2008, members of the Board of Directors of BAEZ EAD are:

- **Bistra Ilkova** – Chairman of the Board of Directors;
- **Diana Naydenova** – Deputy Chairman of the Board of Directors;

- **Docho Karadochev** – Member of the Board of Directors and Executive Director;
- **Rosen Natsev** – Member of the Board of Directors and Deputy Executive Director;
- **Krassimira Djulgerska-Stoykova** – Member of the Board of Directors.

For the past year 2008, they have received, as members of the Board of Directors of BAEZ EAD, the total remuneration of BGN 103 350 and have declared with the required by the law declarations the circumstances under Art. 247, para 2 of the Commercial Code.

Inter-Ministerial Council on Export Insurance /IMCEI/

To the Council of Ministers of the Republic of Bulgaria has been established an Inter-Ministerial Council on Export Insurance /IMCEI/ which implements the state policy in the field of insurance and reinsurance, in accordance to the Export Insurance Law /State Gazette, issue 36/04.04.2008/, of export risks related to production and export of Bulgarian goods and services or with the realization of Bulgarian investments abroad.

By right Chairman of the Inter-Ministerial Council is the Minister of Economy and Energy and its members are:

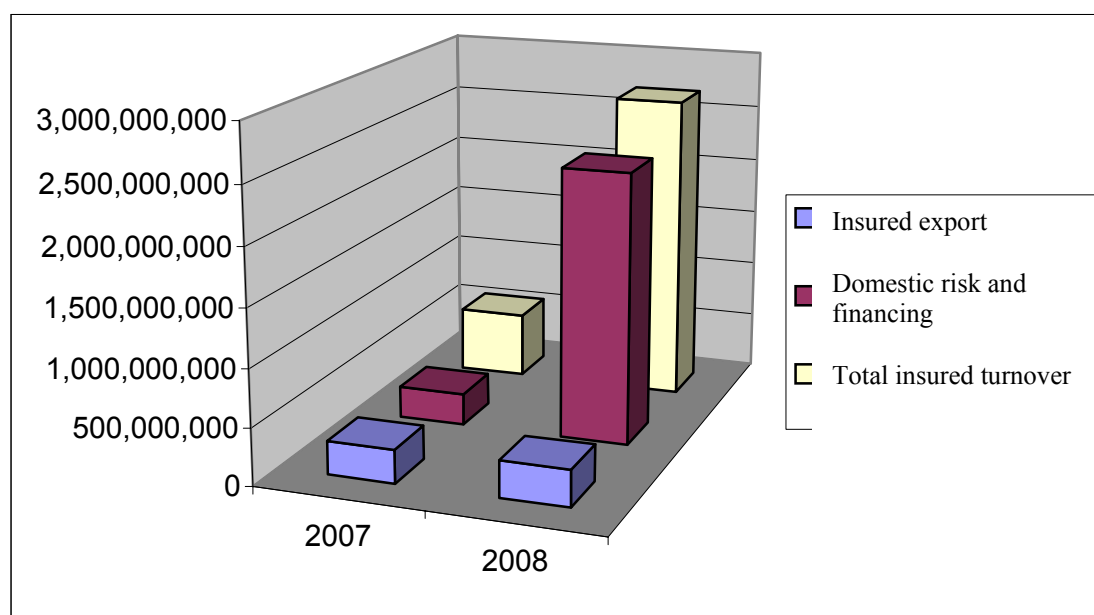
- **Yavor Kuyumdzhiev** – Deputy Minister of Economy and Energy;
- **Dimitar Ivanovski** – Deputy Minister of Finance;
- **Dimitar Peychev** – Deputy Minister of Agriculture and Forestry;
- **Radoslava Kafedjiiska** – Head of Legal Department, Ministry of Foreign Affairs;
- **Stefan Stoilkov** – Head of Department Regulation Policy and Analyses at the Insurance Supervision Directorate to the Financial Supervision Commission.

III. INSURANCE ACTIVITY

1. Highlights in the insurance policy of BAEZ EAD

The activity of the Agency during the year of 2008 is characterized with exceptionally high dynamics of development – the overall amount of the approved credit limits is almost two times higher than in the previous year, the insured during the year turnover has increased 3,7 times, the premium income – with 81%, and the claims paid - 4,76 times.

Comparison of the insured by BAEZ turnover in 2007 and in 2008



The insured export represents 12% of the total volume of insured credits. The domestic risk, including the new product “credits and financing of small and medium-size enterprises”, represents 88% of the overall insured turnover.

In 2008, the volume of the insured domestic risk has been increased 7.5 times compared to 2007. The insured domestic deliveries have been increased with over 30% in comparison to the previous year and the turnover from insurance of credits and financing of small and medium-size enterprises are 17 times higher. This proves that the new product responds to the needs of the business and shall continue to be much in demand.

The insured during the year export has increased by 9% in accordance with 2007. The share of the insured export from the overall volume of realized by

the country export represents 1.07%, and marks an insignificant decrease of 0,04% compared to the previous year.

The highest growth is marked by the insurance activity on the account of the state with increase of the insured export by 43%. The export insured under the activity on its own account marks a decrease of 4% in accordance with 2007, which is principally due to the decrease in the prices of some of the raw-materials, mainly metals, exported for the countries of the European Union.

Percentage of the insured by BAEZ export from the total export of Bulgaria

Year	Realized export from the territory of the Republic of Bulgaria – BGN	Insured export - BGN			Percentage of the insured export from the realized export		
		Short-term marketable risk on the account of BAEZ	Short-term non-marketable risk according to the Export Insurance Law	TOTAL	Short-term marketable risk on the account of BAEZ	Short-term non-marketable risk according to the Export Insurance Law	TOTAL
2006	23 436 003 663	152 826 823	81 990 734	234 817 557	0.65%	0.35%	1.00%
2007	26 351 979 215	210 698 333	82 281 579	292 979 912	0.80%	0.31%	1.11%
2008	29 880 169 134	201 667 672	117 570 704	319 238 375	0.67%	0.39%	1.07%

The distribution of the insured export as per main directions is as follows:

- **For Europe – 87.73%.** Just for comparison the insured export in 2007 was 90.94 %. The biggest share belongs to the countries of the European Union – 48.74%; in 2007 this share was 63.99 %. The countries with the highest share are:
 - Germany – 11.24% (in 2007 - 16.58 %),
 - Italy – 10.56% (in 2007 - 16.74 %),
 - Poland – 5.98% (in 2007 - 5.36 %),
 - Romania – 4.26% (in 2007 – 4.51%),
 - Great Britain – 3.64% (in 2007 – 3.78%),
 - Greece – 2.55% (in 2007 – 2.63%);

- Other European countries – 38.99% (in 2007 – 26.96 %), including:
 - Macedonia – 15.01% (in 2007 – 1.73%),
 - Ukraine – 8.6% (in 2007 - 5.23%),
 - Serbia 4.62% (in 2007 – 3.37%),

The growth here is due to the insurance of the investments for those countries.

- Turkey – 2.40% (in 2007 – 4.54%),
- Russia – 2.27% (in 2007 – 2.09%);
- **Asia – 7.02%** (in 2007 - 5.27%), including Yemen – 4.57% (in 2007 - 5%);
- **America – 3.26%** (in 2007 - 3.9%), including:
 - Cuba – 1.46% (in 2007 – 1.07%),
 - USA – 1.39% (in 2007 - 1.72 %);
- **Africa – 1.96%**, including the Republic of South Africa – 1.6%;
- **Australia and New Zealand – 0.03%**.

In 2008 in BAEZ EAD on the grounds of submitted applications for insurance of our clients have been analyzed 6565 debtors in total, of which 5655 related to domestic risk /on the territory of Bulgaria/. For comparison during the same period in 2007 these figures have been respectively: total number of debtors – 4422, of which related to domestic risk– 2434. The increase in the overall number of applications is by 48%, and of those related to domestic risk – 132%. The approved total number of credit limits in 2008 is 6487 /i.e. 99% acceptance ratio/, of which 5631 related to domestic risk / i.e. nearly 100% acceptance ratio/.

The claims paid up during the year have been increased by 4,76 times in comparison to the previous year and are entirely for outstanding debts of buyers from Europe, where 82.81% of them are debtors from the European Union member-states (in 2007 - 88.32%) and 17.19% are for Russia. With the highest share of claims paid because of incorrect payers are: Italy – 39.06% (14.75% in 2007), Germany 25.54%, Russia 17.19%, USA 9.29% and Bulgaria with 7.54% (18.87% in 2007). Austria, Holland and Great Britain have below 1% of the total number of claims paid.

2. Activity on the account of BAEZ according to the Export Insurance Law

BAEZ EAD insures on its own account as per the order of the Export Insurance Law.

The insurance on the account of BAEZ is performed for countries included in the List of the countries with marketable risk, accepted with an Ordinance of the Council of Ministers of the Republic of Bulgaria. It has been updated by Ordinance of the Council of Ministers of the Republic of Bulgaria No. 124 from the 1st of June 2007, according to which the countries with marketable risk are as follows: Australia, Austria, Belgium, Great Britain, Germany, Greece, Estonia, Iceland, Spain, Ireland, Italy, Canada, Latvia, Lithuania, Luxembourg, Malta, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, USA, Hungary, Finland, France, Holland, the Czech Republic, Switzerland, Sweden, Japan.

The insurance capacity of BAEZ EAD and the payment of insurance indemnities are provided for by:

- The company's capital;
- The insurance reserves and the insurance premiums income.

In 2008, for insurance activity on its own account BAEZ EAD reported the following:

The insured on the account of BAEZ EAD export against short-term commercial risk has decreased by 17,10 % in comparison to the previous year, which is due to a decrease in the prices of some goods and raw-materials, exported to countries of the European Union, mainly metals, with which is related the activity of some of the biggest clients of BAEZ EAD. For comparison, the overall amount of the insured limits is nearly 2 times higher than the one for the previous year, but sales experienced lower turnover rates than the expected by the clients. The accounted premium income has increased by 101% compared to 2007 as a result of the accepted for insurance double higher limits.

Application № 1.

The volume of the insured domestic sales (the sales on the territory of the Republic of Bulgaria) in 2008 reached the amount of BGN190 124 517, which is an increase by 30.29% compared to the previous year. The premium income from insured deliveries on the home market has been increased by 13,2% and reached the amount of BGN 1 115 296 in the year of 2008. *Application № 2.*

In 2008, a significant increase of the credit and financing insurance was observed with almost 7 times in comparison to the previous year, while the premium has increased by 167% compared to 2007. *Application № 6.*

Since the year of 2008 BAEZ insures also investments on its own account. The total insurance amount for the year is BGN 26 990 398, and the collected premium – BGN 147 991. *Application № 5.*

3. Activity of BAEZ EAD on the account of the State according to the Export Insurance Law

BAEZ EAD provides insurance in accordance to the Export Insurance Law against export risks, listed in Art. 3, para 1, related to the production and export of Bulgarian goods and services or with the realization of Bulgarian investments abroad, as well as insurance of credits and financing, granted to micro, small and medium enterprises in accordance to Art. 3, para 4 of the Export Insurance Law.

Insurance is provided on the account of the State for the countries not included in the List of the countries with marketable risk, lastly updated with Ordinance of the Council of Ministers of the Republic of Bulgaria No. 124/01.06.2007. On the account of the state have been insured also credits and financing, granted by banks and financial institutions to small and medium enterprises, as well as credits for pre-export financing.

The insured capacity of BAEZ EAD and the payment of the insurance indemnities are ensured by:

- The determined in the State Budget of the Republic of Bulgaria funds at amounting to 25 million BGN for the year of 2008;

- The accumulated in special accounts funds from insurance premiums under concluded insurance contracts in accordance to the Export Insurance Law.

The net insurance capacity of BAEZ (the net value after cession of part of the liabilities to the reinsurers), in accordance to the provisions of the Export Insurance Law, is defined by multiplying the allotted in the state budget funds by a coefficient approved by the Council of Ministers, which for the year of 2008 is defined to be 10, and respectively the net insurance capacity for the year of 2008 is BGN 250 000 000.

For 2008 under activity of BAEZ EAD on the account of the State was reported the following:

The insured by BAEZ EAD export on the account of the state against short-term non-marketable commercial risk has increased by 8.42% in accordance with 2007. *Application № 3.*

It includes the insured by BAEZ investments and credits for pre-export financing. However, it incorporates the insured by BAEZ letters of credit, issued by foreign banks in favour of Bulgarian exporters.

In accordance to the Export Insurance Law and on the account of the state BAEZ EAD insures also bank credits for pre-export financing. With regard to this insurance product during the past year of 2008 has been marked a significant growth of 76% in respect of the amount of the insured bank credits for pre-export financing in comparison to the previous year. The accounted insurance premiums regarding this type of insurance also marks growth of 27%. *Application № 4.*

During the past year the Agency has insured on the account of the State Bulgarian investments abroad at the total amount of BGN 41 162 976, against which has collected premium at the amount of almost BGN 144 thousand. *Application № 5.*

The changes in the Export Insurance Law, accepted in May, 2007, permitted the Agency to insure all credits granted to micro, small and medium-size enterprises on the account of the state and not only on the account of BAEZ.

Here should be mentioned that exactly the insurance of credits and financing is the product which has marked the most significant growth during the year of 2008. It became popular among Bulgarian banks and part of them offered for insurance a whole portfolio of credits for micro, small and medium-size enterprises. As a result of this expansion the access to financing of the micro, small and medium-size enterprises has been significantly facilitated and it became possible at a lower price and under better conditions.

The amount of the insured by BAEZ EAD bank credits for micro, small and medium-size enterprises, in the year of 2008, on the account of the state totals up to BGN 2 072 158 016, which represents a significant growth of over 18 times in comparison to the previous year. The accounted insurance premium for security of the insured credits and financing in 2008 amounts to BGN 1 229 553, which is almost 4 times more than the collected premium for this product in 2007.

BAEZ EAD insures portfolio of credits, granted to micro, small and medium-size enterprises against annual insurance premium, which varies within the boundaries from 0.60 to 0.90%.

Where on the scale will be fixed the annual insurance premium for a particular portfolio depends on a number of factors, most important of which are the financial status of the borrowers included in the portfolio, on the one side, and on the other - the quality of the remaining credit portfolio securities.

The single credits are also insured by BAEZ EAD at different levels of annual insurance premium. The latter varies between 0,80% and 1,60%, and here as well the factors which count for its formation are the financial status of the respective borrower, the nature of the credit and the way it is secured.

4. Expositions of BAEZ EAD by countries

Regarding the activity of BAEZ EAD on its own account – The total net credit exposition as of 31.12.2008 on its own account amounts to **BGN 173 432 481**. The credit expositions by countries are as follows:

Country	Number of limits	Number of reinsured limits	Total credit limit	Reinsured credit limit	Net credit limit
Australia	1	1	60 000	30 000	30 000
Austria	6	6	1 261 510	630 755	630 755
Belgium	4	4	1 858 039	929 019	929 019
Bulgaria	2 609	2 609	136 380 025	57 514 944	78 865 080
Great Britain	16	16	6 768 937	3 384 469	3 384 469
Germany	38	38	28 814 948	10 835 369	17 979 580
Greece	29	29	5 769 881	2 884 941	2 884 941
Denmark	3	3	301 274	150 637	150 637
Estonia	1	1	195 583	97 792	97 792
Israel	1	1	391 166	195 583	195 583
Ireland	3	3	948 578	474 289	474 289
Spain	11	11	5 047 997	2 523 999	2 523 999
Italy	58	58	37 110 430	18 555 215	18 555 215
Canada	1	1	97 792	48 896	48 896
Cyprus	2	2	188 025	94 012	94 012
Kosovo	1	1	200 000	100 000	100 000
Latvia	2	2	215 141	107 571	107 571
Lithuania	5	5	584 793	292 397	292 397
Lichtenstein	1	1	586 749	293 375	293 375
Macedonia	4	4	8 160 614	4 080 307	4 080 307
Norway	3	3	1 955 830	977 915	977 915
Poland	30	30	15 702 769	5 974 972	9 727 798
Portugal	7	7	1 510 406	755 203	755 203
Romania	35	35	7 002 606	3 501 303	3 501 303
USA	17	17	4 676 404	2 338 202	2 338 202
The Slovak Republic	4	4	361 829	180 914	180 914
Slovenia	7	7	3 512 923	1 756 462	1 756 462
Serbia	3	3	11 644 154	5 822 077	5 822 077
Ukraine	1	1	11 734 980	5 867 490	5 867 490
Hungary	6	6	1 414 636	707 318	707 318
Finland	6	6	3 344 469	1 672 235	1 672 235
France	16	16	3 974 718	1 987 359	1 987 359
Holland	6	6	2 382 010	1 191 005	1 191 005
Czech Republic	11	11	3 016 016	1 508 008	1 508 008
Switzerland	7	7	6 777 575	3 388 787	3 388 787
Sweden	2	2	664 982	332 491	332 491
Total	2 957	2 957	314 617 790	141 185 308	173 432 481

Regarding activity of BAEZ EAD on the account of the state according to the Export Insurance Law - The total net credit exposition as of 31.12.2008 according to the Export Insurance Law amounts to **BGN 246 142 662**. The credit expositions by countries are as follows:

Country	Number of limits	Number of reinsured limits	Total credit limit	Reinsured credit limit	Net credit limit
Albania	3	3	1 605 290	802 645	802 645
Algeria	1	1	130 000	65 000	65 000
Argentina	5	5	630 000	315 000	315 000
Armenia	1	1	10 793	5 396	5 396
Belarus	6	6	1 491 401	745 701	745 701
Bosnia and Herzegovina	5	5	431 829	215 914	215 914
Bulgaria	1 000	1 000	417 447 731	208 723 866	208 723 866
Venezuela	2	2	237 392	118 696	118 696
Vietnam	2	2	788 896	394 448	394 448
Georgia	1	1	48 896	24 448	24 448
Egypt	4	4	1 054 223	527 111	527 111
Equador	2	2	167 587	83 793	83 793
Israel	2	2	646 190	323 095	323 095
India	1	1	35 205	17 602	17 602
Indonesia	6	6	606 098	303 049	303 049
Jordan	1	1	100 000	50 000	50 000
Kirghizstan	1	1	68 454	34 227	34 227
China	5	5	2 095 106	1 047 553	1 047 553
Cuba	11	11	6 802 580	3 401 290	3 401 290
Lebanon	3	3	312 000	156 000	156 000
Macedonia	17	17	29 345 907	14 672 954	14 672 954
Malaysia	2	2	393 375	196 687	196 687
Maroco	3	3	628 516	314 258	314 258
Mexico	1	1	290 000	145 000	145 000
Moldova	3	3	195 583	97 792	97 792
Mongolia	2	2	58 675	29 337	29 337
United Arab Emirates	1	1	6 650	3 325	3 325
Peru	1	1	140 000	70 000	70 000
Russia	22	22	9 099 878	4 549 939	4 549 939
Saudi Arabia	3	3	1 682 456	841 228	841 228
Singapore	4	4	1 991 715	995 857	995 857
Siria	2	2	2 938	1 469	1 469
Serbia	13	13	2 388 668	1 194 334	1 194 334
Taiwan	4	4	819 000	409 500	409 500
Thailand	1	1	113 438	56 719	56 719
Tuniss	1	1	18 900	9 450	9 450
Turkey	23	23	3 482 507	1 741 254	1 741 254
Uganda	1	1	391 166	195 583	195 583
Ukraine	4	4	1 798 973	899 487	899 487
Croatia	5	5	1 024 003	512 002	512 002
Republic of Chile	3	3	304 076	152 038	152 038
South African Republic	2	2	3 129 328	1 564 664	1 564 664

South Korea	1	1	269 905	134 952	134 952
Total	1 181	1 181	492 285 324	246 142 662	246 142 662

5. Reinsurance Activity

In 2008 still further were developed the successful business relations with the Swiss Reinsurance Company and BAEZ EAD, which was confirmed by the resigning of the Quota Share Treaty for the sixth-successive year. The treaty covers the activity of BAEZ on its own account. The Treaty credit limit was preserved on EUR 2 000,000.00 for every single risk and it is the highest level ever fixed up to now. It is due to the extremely fast and flexible expansion of the Agency's activity. The cession of liabilities under the Treaty remains 50%.

BAEZ EAD has secured its reinsurance coverage for the entire world concerning the activity on the account of the State, by signing a quota share reinsurance contract with the Belgium state-owned insurance and reinsurance company ONDD, with 50% cession. The credit limit kept its initial amount of EUR 10,000,000.00. The coverage of this contract includes insurance against short-term non-marketable commercial and political risks, insurance of bank guarantees, credits and financing, investments, letters of credit and credit lines for pre-export financing.

6. Promoting Financing of Bulgarian Exporters

In 2008 BAEZ EAD continued its work in the direction of improvement of the scheme for financing of the activities of the export-companies through the commercial banks. This financing represents mainly short-term financing of Bulgarian exporters trading under the conditions of the commodity credit. This financing has been secured by insurance policy issued by BAEZ EAD (assigned in favour of the financing bank) most often for the insurance of payments against short-term commercial and/or political risk. This opportunity is made use of not only by exporters but also by companies which sell on the home market using the deferred payment scheme, again to the financing bank a collateral under the form of an insurance policy issued by BAEZ EAD for the insurance of payments against short-term commercial risk which may arise on the home market. This way of financing is often used in the Western countries for it is extremely convenient and profitable both for the exporter and for the bank.

The banks which actively apply the current financing of export and sales schemes through acceptance as collateral the issued by BAEZ EAD insurance policies are: UniCredit Bulbank AD, the Central Cooperative Bank AD, the Corporate Commercial Bank AD, Societe Generale Expressbank AD, Pireos Bank AD, Unionbank AD, United Bulgarian Bank EAD, International Asset Bank AD and others.

All policies, issued by BAEZ EAD on the account of the State, on which a bank or another financial institution have been specified as Insured or as third person beneficiary authorize the financial institutions to take advantage of the relieves provided by Regulation No. 9 of the Bulgarian National Bank.

BAEZ EAD shall go on developing in future all the above mentioned schemes for cooperation with financial institutions taking into account the specificity of their activity and also the requirements of the Bulgarian companies and the performed by them activity.

7. Liquidation of Damages and Damages Quota

Activity of BAEZ EAD related to liquidation of damages on its own account

Having in mind the reported growth rate of the concluded insurance policies during 2008, there was also an increase of 52.6%, compared to the previous insurance year of 2007, in respect of the raised in front of BAEZ EAD claims for payment of insurance indemnity under policies concluded on its own account.

The claims under policies for insurance of payments against short-term commercial risk comprise 57.9% of the raised during the year claims under policies, concluded on the account of BAEZ EAD, and the share of those against commercial risk arising on the territory of the Republic of Bulgaria /domestic risk/ is 42.1%.

In 2008 the Agency has paid up insurance indemnities at the total amount of BGN 1,486,950.66, of which BGN 1,231,414.56 or 82.8% are under insurance coverage, realized on its own account, which represents growth rate of 76.98% with regard to the paid up insurance indemnities on the account of BAEZ EAD compared to the previous year 2007.

From the paid up during the year 2008 claims on its own account those with established insurance event “delayed payment on behalf of the debtor” comprise 81.25%, and 18.75% are the paid up insurance indemnities with the “insolvency” risk coverage as per the meaning of the General Conditions.

All insurance contracts by the force of which insurance indemnity has been paid up in 2008 on the account of BAEZ EAD have been reinsured by the reinsurance company Swiss Re /Switzerland/.

Activity of BAEZ EAD related to liquidation of damages on the account of the State in accordance to the Export Insurance Law.

The reported growth rate of the raised claims for payment of insurance indemnity under policies concluded in accordance to the Export Insurance Law during the insurance year of 2008, compared to 2007, is 33%.

The total amount of the paid by the Agency insurance indemnities in 2008 under insurance contracts concluded on the account of the State, is BGN 255,536.10, which comprises 17.2% of the overall amount of the paid up claims during the year. The growth in the amount of the paid insurance indemnities on the account of the State compared to the previous insurance year 2007, is 56.85%.

All insurance contracts by the force of which insurance indemnity has been paid up in 2008 on the account of the State have been reinsured by the reinsurance company ONDD /Belgium/.

The above mentioned insurance indemnities have been paid from the realized on the account of the State premium income for the year of 2008 /the funds on the account provided by Art. 14, para 2 from the Export Insurance Law/, and thus the Agency did not utilize funds from the budget of the Republic of Bulgaria.

Damages Quota for the year 2008

Damages quota on the account of BAEZ EAD:

- Gross-quota without taking into account the expenses and reinsurance costs – 39.95%;
- Net-quota taking into account the expenses except for reinsurance – 48.15%;
- Damages quota, net from reinsurance, without taking into account the operational costs – 29.94%;
- Damages quota, net from reinsurance and operational costs – 33.09%.

Damages quota on the account of the State:

- Gross-quota without taking into account the expenses and reinsurance costs – 13.04%;
- Net-quota taking into account the expenses except for reinsurance – 16.30%;
- Damages quota, net from reinsurance, without taking into account the operational costs – 10.41%;
- Damages quota, net from reinsurance and operational costs – 12.10%.

Damages quota in total for the activity:

- Gross-quota without taking into account the expenses and reinsurance costs – 29.49%;
- Net-quota taking into account the expenses except for reinsurance – 36.05%;
- Damages quota, net from reinsurance, without taking into account the operational costs – 22.13%;
- Damages quota, net from reinsurance and operational costs – 24.95%.

8. Regress Activity of BAEZ EAD

As a result of the independently taken on behalf of BAEZ EAD steps to exercise regress rights in relation to paid up claims for insurance indemnity, during the year have been collected BGN 33,783.78 from debtors with registered offices and performing activity on the territory of the Republic of Bulgaria .

In relation to the receivables from regresses with debtors –foreign legal persons, in 2008 BAEZ EAD continued its cooperation with the collecting companies: CEF International, CONTROL RISK MANAGEMENT, INC. /USA/, COFACE BULGARIA Credit Management Services EOOD, EOS Matrix Ltd. /Bulgaria/. For the first time have been established cooperation relationships with the collecting companies: IGK /Latvia/ and Working Capital Management Bulgaria EAD.

In relation to exercising its rights of regress through the insurance indemnity payment, in 2008, BAEZ EAD initiated four legal proceedings against three debtors – tradesmen, with registered offices in Bulgaria and brought legal actions for collection of regress receivables against two debtors, with registered offices respectively in Germany and USA, after payment of insurance indemnities under Insurance Contracts for insurance of payments under export contracts against short-term commercial risk.

IV. FINANCIAL RESULTS OF BAEZ EAD

BAEZ EAD reports for the financial year of 2008 premium income at the amount of BGN 5 042 thousand. Compared to 2007, there is an increase with BGN 2 253 thousand. The technical result from the insurance activity of the Agency for the year of 2008 is positive and is in the sum of BGN 1 425 thousand.

For the year of 2008, the administrative and acquisition expenses amount to BGN 922 thousand.

The conceded to the reinsurers part from the received by the Agency premiums marks an increase with BGN 436 thousand, which is due to the extensive insurance portfolio volume. In 2008, the amount of the received premiums totals up to BGN 1 567 thousand, while the received by the reinsurers commissions amount to BGN 526 thousand, which is with BGN 172 thousand more than those received in 2007.

The paid up indemnities during the year are at the amount of BGN 1 487 thousand. In 2008 have been claimed and recovered by the reinsurers indemnities amounting to BGN 717 thousand. Also regress receivables have been collected at the amount of BGN 34 thousand or in total the reinsurers' indemnities and regresses amount to BGN 751 thousand.

The collected from potential clients fees for determination of credit limit are at the amount of BGN 72 thousand and the expenses made in this relation amount to BGN 66 thousand.

As a result of investment of the cash portfolio of the Agency has been achieved profitability of 3.00 %. The reported net financial income is at the amount of BGN 445 thousand. The Agency's investments, including the investments for securing the insurance reserves and the free own funds investments, are distributed in the following way: bank deposits - 54.96 %, securities – 31.82 % and funds management – 8%. The money stock in bank current accounts and at the company's cash-desk amount to 5.22%.

As final financial result for the year 2008 BAEZ EAD reports profit before taxation at the amount of BGN 1 793 thousand.

V. STRUCTURE AND PROFESSIONAL QUALIFICATION OF THE PERSONNEL

During the past 2008, the Board of Directors of BAEZ EAD approved new job table, which introduced organizational change in the company, and namely: the existing “Legal Services and Liquidation of Damages” Department split into two different departments – “Legal Services” and “Liquidation of Damages”, which led to diversification and subject differentiation of both activities.

The personnel dynamics as of 31.12.2008 reports the following parameters:

From the 20 people staff working under employment contracts with BAEZ EAD as of 31.12.2008 have been observed the following changes:

- Newly employed – 3 people;
- Termination of employment relations due to reduction of the staff – 1 person;
- Reappointment – none;

- Leaving by mutual consent – 4 people;
- Without change of the job position – 18 people.

Therefore, a conclusion can be drawn that there is stability and relative preservation of the personnel status quo at the Agency, which indicates serious and accountable attitude on behalf of the Management of BAEZ EAD towards its personnel.

Internal Rules and Organization of the Work

In compliance to the requirements of the Law for Healthy and Safe Labour Conditions, the subdelegated legislation in relation to its application and the internal regulations of BAEZ EAD, at the Agency are performed initial and periodic briefings on safety and hygiene of labour and anti-fire security.

In 2008, as well, was prepared a report on the risk assessment by the authorized Labour Medicine Service.

Professional Development

During the past year as well the Agency took care to invest in its personnel through the organization of different type of trainings, participations in seminars, exchange of experience during the visits abroad and others.

During the year have been conducted the following educational and qualification raising programmes for the personnel:

- Participation in the Half-year Spring Meeting at the Berne Union Prague Club, in May 2008, Amman, Jordan, with host the Jordan Export Insurance Agency;
- Participation in the 30-th Annual Seminar on credits and guarantees, organized by Atradius Reinsurance Ltd., in May 2008;
- Attendance at the Annual meeting of Credit Alliance in Paris, France, in July 2008;

- Taking part in sessions of the EU Council Working Group on Export Insurance, 8-9 May 2008, Ljubliana, Slovenia and 22 – 25 October 2008, Toulouse, France;
- Y Participation in the Half-year Autumn Meeting at the Berne Union Prague Club, Bratislava, Slovakia, November 2008.

All these events led to raising of the professionalism and the optimization of current activity of BAEZ EAD, as well as to improvement of the communication between its employees and raising the efficiency of their work.

VI. CONCLUSION

Despite the financial crisis, for which almost all banks and insurers reported losses, in 2008 BAEZ EAD expanded the volume of its activity and ended the year with the highest reported up to the moment profit. The personnel's high professionalism and the good organization of the work made it possible to provide the clients with the same high level of services, regardless of the multiple increase of the volume of work. During the past year, the Agency proved once more to be a trustworthy partner and a guarantee for the financial stability of its clients.

VII. APPLICATIONS

APPLICATION № 1

Statistics on the insured export against short-term marketable commercial risk for the period 2001–2008

Year	Insured export volume (in BGN)*	Accounted insurance premium	Percentage increase of the insured export compared to the previous year
2001	6 411 733	68 000	n.a.
2002	15 391 964	166 499	140%
2003	19 474 853	142 738	27%
2004	31 793 651	220 852	63%
2005	59 707 894	429 272	88%
2006	152 826 823	1 047 752	-5%
2007	210 698 333	639 843	38%
2008	174 677 273	1 284 833	-17%

* The short-term commercial risk on the territory of the Republic of Bulgaria is excluded from the statistics.

APPLICATION № 2

Statistics on the insured export against short-term marketable commercial risk on the territory of the Republic of Bulgaria for the period 2003–2008

Year	Amount of the insured sales (in BGN)	Accounted insurance premium	Percentage increase of the insured sales compared to the previous year
2003	1 213 145	14 045	-
2004	60 570 972	432 655	4893%
2005	134 108 451	1 512 263	121%
2006	117 195 109	604 018	-54%
2007	158 962 892	985 206	36%
2008	190 124 517	1 115 296	30%

* BAEZ concluded the first insurance policies against domestic commercial risk in June, 2003.

APPLICATION № 3

Statistics on the insured export against short-term non-marketable commercial and political risk for the period 2001–2008

Year	Insured export volume (in BGN)*	Accounted insurance premium	Percentage increase of the insured export compared to the previous year
2001	n.a.	n.a.	n.a.
2002	1 460 469	37 778	n.a.
2003	6 085 742	97 011	27%
2004	35 585 202	435 243	485%
2005	97 968 988	799 433	158%
2006	81 849 532	626 649	-6%
2007	66 596 730	628 258	-19%
2008	72 202 693	570 957	8%

* The above given statistics is without the insurances of bank credit lines for pre-export financing and the investment insurances.

** In the volume of the insured export are included insurances of letters of credit issued by foreign banks in favour of Bulgarian exporters.

APPLICATION № 4

Statistics on the insured bank credit lines for pre-export financing or the period 2001–2008

Year	Amount of the insured credit lines (in BGN)	Accounted insurance premium	Increase in the amount of the insured credit lines compared to the previous year
2001	300 000	3 000	-
2002	400 000	4 000	33%
2003	1 000 000	8 314	150%
2004	1 643 375	15 002	64%
2005	6 118 537	54 525	272%
2006	141 202	3 553	182%
2007	2 385 205	12 185	1589%
2008	4 205 035	15 451	76%

APPLICATION № 5

Statistics on the insured investments for the period 2005–2008

Year	Amount of the insured investments (in BGN)	Accounted insurance premium	Increase in the amount of the insured investments compared to the previous year
<i>Insured investments on the account of the State</i>			
2005	6 631 600	27 848	-
2006	0	0	-
2007	13 299 644	69 628	1.24
2008	41 162 976	143 768	2.10
<i>Insured investments on the account of BAEZ EAD</i>			
2008	26 990 398	147 991	-
<i>Total on both activities</i>			
2008	68 153 374	291 759	4.12

* Since 2005 the insurance is concluded on the account of the State, and since 2008 – also on the account of BAEZ.

APPLICATION № 6

Statistics on the insured credits and financing for the period 2007 – 2008

Year	Amount of the insured credit turnover	Accounted insurance premium	Increase in the amount of the insured credit turnover compared to the previous year
<i>On the account of BAEZ EAD</i>			
2007	13 955 120	200 292	-
2008	110 760 058	534 424	6.94
<i>On the account of the State</i>			
2007	107 136 144	253 581	-
2008	2 072 158 016	1 229 553	18.34
<i>Total on both activities</i>			
2007	121 091 264	453 873	-
2008	2 182 918 074	1 763 977	17.03

* The insurance of credits and financing starts in 2007.