

annual report '05



BAEZ

BULGARIAN EXPORT INSURANCE AGENCY

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ACHIEVEMENTS AND CHALLENGES

The mission of BAEZ is to protect the Bulgarian exporters from financial losses and to support the realization of their production on international markets by export credit insurance mechanisms.

The insurance products of BAEZ are an effective instrument, helping companies and banks to decrease the indebtedness of their clients, thus ensuring overall financial stability.

Achievements

In 2005 BAEZ continued its expansive development, characteristic for its activity in the last years. Some of the most important achievements are:

- The total amount of the insured export grew nearly 2.5 times;
- The amount of the insured deliveries increased more than 2 times;
- The income from the activity (both premium and tax income) increased nearly 2.5 times. This is achieved despite the gradual decrease of the premium rates under the respective insurances;
- The percentage of accepted applications (acceptance ratio) for the insurances on the account of BAEZ reached 95%, and for the applications on the account of the State – 82%;
- A unique for Bulgarian market insurance product was introduced – insurance of bank guarantees;
- BAEZ consolidated its role of valuable factor in risk sharing and mitigation for the Bulgarian companies.

Challenges

At the beginning of 2006, BAEZ has some serious challenges to face in order to increase the efficiency of its activity and to optimize the support to the Bulgarian companies and banks:

- With regard to the forthcoming membership of Bulgaria in EU it is necessary to separate the activity on the account of BAEZ from the one on the account of the State, according to the European directives on officially supported export credits;
- It is planned to introduce an insurance of Buyer's credit – innovative for Bulgaria and useful financial product, very popular in a lot of countries;
- It is prepared to conclude a quota-share reinsurance treaty with ONDD, which will provide division of the non-marketable risks, thus enlarging the insurance capacity of BAEZ;
- A communicational program, directed to the companies in the country, will be realized;
- BAEZ will host the world meeting of the export credit insurers.

STATEMENT BY THE EXECUTIVE DIRECTOR

The past year 2005 was the seventh from the establishment of the Bulgarian Export Insurance Agency (BAEZ). During the whole year the Agency continued its work on the development on the Bulgarian financial market and improved the insurance products, aiming to satisfy the needs of the Bulgarian producers, traders, investors and financial institutions. The achievements in 2005 are an evidence for the increased efficiency of the BAEZ' activity. This strengthens the positions of the Agency as a reliable partner of Bulgarian companies.



The positive changes in the organization of the activity and the insurance policy stabilized the perspectives for future development. In addition, our active work during the whole year contributed to the expanding of the activity, enabling the acceptance and coverage of more risks. This was achieved in spite of the gradual decrease of the premium rates under the respective insurances. This brings serious advantages to the Bulgarian companies.

We are also facing a lot of challenges. Very soon our country will join the European Union, which on the one hand will bring a number of advantages, and on the other will set higher working standards for the Bulgarian companies, as well as for attended financial institutions. In this context BAEZ is ready to face the increasing consumers' demand of specific financial coverages. We have also planned an administrative division of the activity on the account of BAEZ from the one on the account of the State, according to European directives, related with the officially supported export credits.

Finally, we can define the past year as successful one. This was achieved with the assistance of the governmental institutions, providing the environment needed for effective work, as well as thanks to the whole team of BAEZ' professionals. Although, we have a lot of work to be further done with the aim to increase our support for larger part of Bulgarian export. Thus we will reach the level of the export credit insurance coverage of the agencies in EU countries. I rely on the established good relationships and the atmosphere of understanding and I think, that it will continue to have positive influence.

Docho KARADOICHEV
Executive Director

MACROECONOMIC ACCENTS IN 2005

Export

During the past year, the Bulgarian economy continued its positive trend of development, thus registering one of the highest marked so far growth rates. The expected in 2005 increase of the real GDP with 5.7% substantiate the hypothesis of stable economic growth in Bulgaria as from the year 2000, outlined in the country's Pre-accession economic program. The main growth factors include the dynamic export development as well as the increasing volume of investments in the national economy.

The improvement of the business climate is related to the increase of Bulgarian export, accounting for 20.1% as of 2005. In absolute terms the above figure amounts to EUR 9 525 million. The import however continues to increase faster (27.1%), which reflects in the overall increase of the negative trade balance.

Very indicative is the fact that the export of investment goods continues to increase with faster terms (35.6% on an annual basis), taking into consideration that this trend is sustainable since 2004 onwards. These are products with a higher value added and to which it could be expected that the export-oriented producers and investors direct a lot more their activity. In parallel, the share of the biggest, labor-consuming and of relatively low value added product group in the export of the country – clothing and shoes – decreases. One of the reasons for this could be the increased competition on the European market caused by the China production, as well as the increase of the labor cost in the country.

The integration of the country towards the European markets is reflected in the orientation of the Bulgarian exporters to the European region, showing the highest share in the overall increase of the Bulgarian export. In 2005 more than 80% of the Bulgarian export is directed to EU and Balkan countries. Only 1.3% of the export goes to the CIS countries, about 5% to the American countries and about 6% to Asian countries. Similar development was expected in view of the forthcoming EU membership of Bulgaria.

Inter-company indebtedness

After the continuing drop of the companies' profitability during the 90ies of the last century, since 2001 onwards a process of profit increase took place. The profitability of sales marks a permanent increase and for the year 2005 could be estimated at about 5%.

Independently of the above tendency, there is a significant increase of the companies' liabilities towards suppliers, financial institutions (mostly banks) and the state. In principle, the inter-company indebtedness is a normal characteristic for a well functioning economy. It shall however be maintained within reasonable limits. In the opposite case, the indebtedness stays as a serious problem under the surface of macro-problems. This results in company decapitalization, deterioration of its financial standing as well as capacity to resist to external pressure and perform its current financial obligations.

According to an information presented by the Bulgarian Industrial Association as of the half of 2005, the total indebtedness of Bulgarian companies ranges at about BGN 40 billions, of which BGN 28 billions are inter-company. Their overdue payments according to different



assessments amount to BGN 8 to 10 billions – they represent payment obligations not complied with the respective payment date and show the occurrence of some commercial risks. The overdue company indebtedness in 2005 increases with about 12-15% (compared to 2004), and this growth, compared to the respective GDP growth, is even faster. This endures the economy and distorts the normal market competition. The high level of inter-company indebtedness leads to a lack of financial resources for the entrepreneurs, which forces them to be incorrect to their business partners.

One of the main barriers to the decrease of the inter-company indebtedness is the relatively slow court procedures and executive proceedings, as well as the obstacles in declaring bankruptcy. For this reasons, the indebtedness shall be managed efficiently. With this regard a good point is the recently started initiative for establishment of a system for sale of receivables, and as a preventive measure could be considered the conclusion of an insurance of payments.

Competitiveness

The reach of stable economic growth presumes the maximum use of the competitive advantages of the Bulgarian economy and increase of its competitiveness on both national and company level. The crucial condition for the above is the preservation of the financial stability of the country.

The Bulgarian enterprises have a lot of work to be done for the increase of their competitiveness, particularly on international markets. This factor is of great importance in view of our forthcoming EU membership.

Some of the factors for increasing the competitiveness are the convergence of the activity and production in conformity with the European common market requirements, the implementation of international standards, the introduction of innovative products and services, certificates, compliance with environment norms, etc. In parallel, the companies should direct their attention to the financial aspects of the competitiveness – pricing, payment terms, etc. One of the options thereof is to offer deferred (credit) periods to their partners. In one way or another, in international trade, the competition is based not on pricing, but on the additional services offered and financial parameters of the transaction itself (such as credit period for example).



STRUCTURE OF BAEZ

Capital and management

BAEZ was established in 1998 as a joint stock company with an initial capital of BGN 10 000 500. In June 2004 BAEZ was transformed from a joint stock company into a sole joint stock company. The sole proprietor remained the State, represented by the Minister of economy and energy.

The supreme management body of the agency is the **General meeting of shareholders**. By the end of 2005 the General meeting is represented by Rumen Ovcharov – Minister of economy and energy of the Republic of Bulgaria.

The Board of Directors carries out the operating management of BAEZ. This body consists of:

- 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

Inter-Ministerial Council on Export Insurance

BAEZ performs its activity on the account of the State under the supervision of the Inter-Ministerial Council on Export Insurance. The Chairman of the Inter-Ministerial Council is Rumen Ovcharov – Minister of economy and energy. Its members are:

- Kornelia Ninova** – 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”, Financial supervision commission

The Inter-Ministerial Council on Export Insurance implements the State policy in the field of insurance and reinsurance of credits, guarantees and financial losses related to Bulgarian export.

INSURANCE PRODUCTS

BAEZ underwrites export credits against non-marketable risks on the account of the State (according to the Export Insurance Law) and against marketable risks on its own account.

The Export Insurance Law (last amendment – State gazette No 92/2004) was specially adopted in order to regulate the principles of this activity in Bulgaria. According to this law BAEZ implements the State policy in the field of export credit insurance, covering non-marketable risks on its own behalf and for the account of the State.

The main criteria for conclusion of an insurance policy on the respective account, is the country of the possible occurrence of the risk.

Insurance of payments

Insurance against short-term commercial risk (marketable and non-marketable)

This insurance covers risks, related to the foreign buyer – insolvency and protracted default when the supply of goods or services is performed correctly. The maximum period of deferred payment under the contract should be up to 1 year.

Insurance against short-term political risk

The insurance covers the risks of occurrence of political events (war, strike, embargo, confiscation, nationalization, etc.) in the country of the foreign buyer, leading to non-payment under the export contract. The credit period should be up to 1 year.

Domestic credit insurance

The insurance covers the risks of non-payment under contracts between domestic companies. The maximum period of deferred payment under the contract should be up to 1 year.

Insurances of investments and letters of credit

The *insurance of investments* covers losses, which Bulgarian companies can suffer on the territory of the accepting country during the investment process. Covered risks include: non-convertibility of the local currency into a freely convertible one; impossibility for transfer of payments from the country of investments to Bulgaria; expropriation, nationalization or confiscation; politically motivated acts of violence: war, revolution, terrorism and sabotage; etc.

The *insurance of letters of credit* covers a non-execution of a payment obligation under the condition of a letter of credit. It covers non-legally justified failure or rejection on behalf of the issuing bank to pay to the exporter bank.

Export financing

BAEZ offers possibilities for Bulgarian companies to finance in advance or currently their activity.

Pre-shipment financing

A bank credit, granted for the purpose of production of goods or supply of services designated for export is insured. All commercial and political risks are covered.

Post-shipment financing

When the exporter needs a current financing of its activity, the concluded insurance policy of payments could be transferred in favour of commercial bank. Thus, in fact, there is no deferred payment, which gives the Bulgarian company a higher liquidity.

According to Regulation # 9 of BNB insurance policies, issued by BAEZ on the account of the State, where a bank is either an insured entity or a third beneficiary, are classified as "Risk-free collateral".



ACTIVITY REVIEW

Changes in the legal framework

In 2005 a new Insurance Code was adopted. Regarding the export credit insurance, the market principles in it are strengthening in relation to the forthcoming EU accession of Bulgaria. Thus the activity of BAEZ on its own account is facilitated by the new Code, including provisions and regulating more cases, compared to the current legislation.

In relation with the necessity of synchronization of our legislation with the European directives, work groups were set up. They are responsible for the preparation of proposals for changes in the export credit insurance legislation in Bulgaria.

According to Art. 10 (5) of the Export Insurance Law, the coefficient (multiplier) for the insurance capacity of BAEZ, has to be set according to methods, adopted by the Council of Ministers. According to this Law, the mechanism of call the funds from the State budget and for payment of insurance indemnities is also arranged. According to the Decision of the Council of Ministers, for 2006 the coefficient is set at 8, where allocation provided in the State budget amounts to BGN 15 million. This means, that the insurance capacity of BAEZ for the activity on the account of the State is BGN 120 million, which is with BGN 20 million more than in 2005. This extension is well justified in view of the increasing needs of the Bulgarian companies – for the previous year the capacity was almost utilized.

Product innovations

In the previous year BAEZ introduced a new insurance product, which covers specific financial risks – insurance of bank guarantees.

This insurance can be concluded with a bank, which issues guarantees in favor of Bulgarian exporters. It covers performance bonds, bid bonds, advance payment bonds, as well as other types of guarantees, related to the execution of export contracts.

The insurance of bank guarantees covers the bank's risk of financial losses, related to a fair or unfair calling of the guarantee's sum in favour of the principal. As fair calling are perceived cases, when the exporter doesn't perform correctly its obligations under the export contract or the terms of the tender. The unfair calling is related to the payment of the sum under the guarantee, when the exporter performed its obligations under the contract or the tender correctly. The insurance covers also risks of unfair calling as a result of political events (war, riot, strike, etc.), administrative decisions in the buyer's country or another countries, as well as natural disasters.

Insurance and reinsurance

During the previous year BAEZ continued the ascending trends of development in the field of the volume of insured payments, as well as regarding the collected premium income.

This could be seen in the table below. The highest growth is attributed to the insurance activity on the account of the State – the growth of the insured export is 182%. This is mainly due to the improvement of the legislation, which regulates BAEZ' activity on the account of the State. As a result its insurance capacity in 2005 increased significantly. The insured export on the account of BAEZ shows a growth of 88%, and the insured payments in Bulgaria (domestic commercial risk) increased with 121%.

The total volume of the insured export, deliveries and investments showed a growth of 136% compared to 2004. The leading factor for that is the economical development of the country, as well as BAEZ' active policy regarding Bulgarian companies.

Insurance activity

Year	2005	2004
	BGN	BGN
Activity on the account of BAEZ		
Insured export	59 707 894	31 793 651
Insured deliveries in Bulgaria	134 108 451	60 570 972
Claims paid	205 559	50 631
Activity on the account of the State		
Insured export (incl. pre-shipment financing and letters of credit)	104 087 525	36 882 061
Insured investments abroad	6 631 600	–
Claims paid	–	59 487
Total		
Insured export, deliveries in Bulgaria and investments	304 535 470	129 246 684
Claims paid	205 559	110 118

Indicative for the development of BAEZ is the considerably increasing percentage of accepted applications for insurance (acceptance ratio) both in number and absolute terms. For 2005 these indicators are between 82% for non-marketable risks (where the export is directed to more risky countries) and 95% for marketable (export to less risky countries and domestic deliveries). In 2004 these figures amounted to 52% and 68% respectively.

BAEZ also reports a growth of the insurance activity income of nearly 2.5 times for 2005. The collected premium income and reinsurance commissions form more than 97% of them, and the rest comes from tax incomes.

The total volume of the insurance activity income for the previous year reached BGN 3 167 211. Only the premium income is BGN 2 823 340, which is also a growth of 2.5 times compared to 2004. The increase is achieved despite the gradual decrease of the premium rates under the respective insurance products.

Insurance activity income

Year	2005	2004
	BGN	BGN
Activity on the account of BAEZ		
Premium income	1 941 535	645 521
Other income	48 076	53 737
Activity on the account of the State		
Premium income	881 805	449 081
Other income	32 143	42 380
Total		
Premium income	2 823 340	1 094 602
Other income	80 219	96 117
Reinsurance income	263 652	82 767
Grand total	3 167 211	1 273 486

In 2005 BAEZ continued to develop its insurance products, following the tendencies in the export credit insurance companies in the EU countries. The needs of Bulgarian companies were also taken into account.

The tendency of concluding framework insurance contracts (for the whole portfolio of the export and sales on deferred payment), which began in 2004, continued in the examined year. This type of relations proved its benefit for the company and for the insurance company. In the developed countries this scheme is an important financial instrument to guarantee the payments and also for financing. With signing framework insurance policy, companies can also use the additional benefits as division of the insurance premium into installments, as well as "no claims bonuses".

In the field of reinsurance activity some important achievements were recorded as well. In 2005 the cooperation between the Agency and the reinsurance company Swiss Re continued. The quota-share reinsurance treaty, covering the activity of BAEZ on its own account, was significantly amended and supplemented. As a result of the developing of the activity and successful cooperation between the two parties, the credit limit for every single risk were doubled, and Bulgaria was included in the group of the EU countries, Switzerland, Norway, Iceland and Liechtenstein. Part of the export designated to countries, which BAEZ underwrites for the account of the State, was also adopted for reinsurance.

BAEZ also provides reliable reinsurance coverage for Russia and the CIS countries by deepening the cooperation with the Russian company Ingosstrakh. The reinsurance treaty is facultative and covers the risks of non-payment under the policies, which BAEZ issues on the account of the State. In order also to protect the interests of Bulgarian companies, exporting to Ukraine, BAEZ concluded facultative reinsurance treaty with the insurance company Lemma.

In 2005 BAEZ has concluded insurance policies against short-term political risk, letters of credit and investments and reinsured part of the risk under these contracts in Unistrat Assurances, which is owned by Coface (France).



At the end of 2005, with the cooperation of Willis Re, BAEZ started negotiations with the Belgian company ONDD for concluding quota-share reinsurance treaty. This contract will ensure reinsurance coverage for all non-marketable risks. This will be of a great benefit for the Agency, as well as for the Bulgarian exporters as an insurance capacity and the possibility for covering risks will increase.

Regarding the recoveries BAEZ continued its relations with the debt collections agencies Creditreform Bulgaria and Coface Intercredit Bulgaria. In 2005 continued also its beneficial cooperation with Polish company CEF International. As a result BAEZ made recoveries for the first time.

International cooperation

The international cooperation in the field of export credit insurance is one of the most important factors for the development of every export insurance company. In 2005 BAEZ continued to enlarge and stabilize its network of international relations. This was one of the main predispositions for strengthening the positions of the Agency as internationally recognized insurer.

During the whole year BAEZ continued its active participation in the regular half-year meetings of the Prague Club of newly established ECAs, an organization of the Berne Union. This enables BAEZ to be fully adequate and responding to the requirements of the market and the customers.

In 2005 the bilateral cooperation with the similar foreign organizations continued its development. BAEZ signed cooperation agreements with the Italian agency SACE and the Polish insurer KUKI. The object of the Agreements is the cooperation in field of exchange of information, necessary for insurance decision making process, as well as providing credit opinions. They also provide possibilities for assistance in collecting due payments in the respective countries.

By the end of 2005 two bilateral cooperation agreements are in process of preparation to be signed. One of them is with the Chinese export credit insurer SINOSURE and other – with CREDIT DNEPR BANK, Ukraine. A cooperation with a lot of other partner organizations about the current issues took also place.

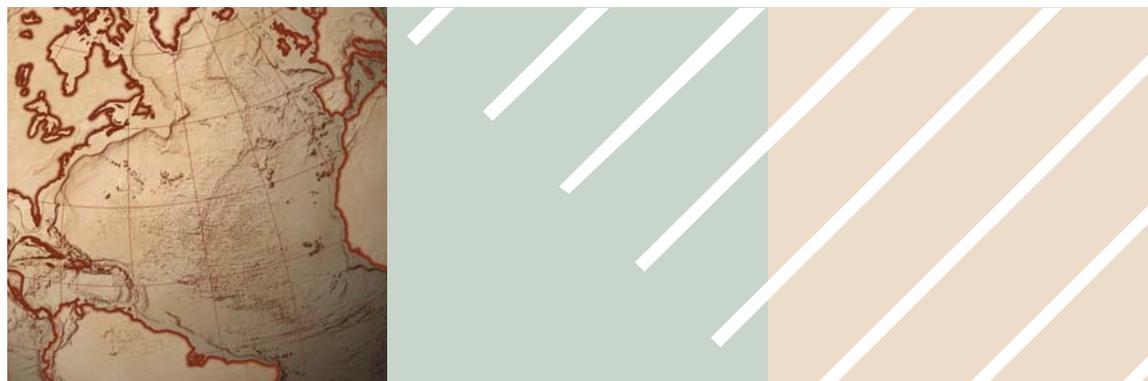
Corporate social responsibility

BAEZ is established with the purpose of stimulating the development of export and trade in Bulgaria. Thus, BAEZ assists the development of Bulgarian companies, and helps improving their competitiveness, leading as a result to overall increase in employment.

BAEZ fully abides by and observes the principles of business ethics in its everyday activities. The Agency follows an open and transparent policy and strives to build confidence in its clients and contributes to the development of trade and economy in general. The social responsible corporate behavior in contemporary reality is not only a vitally important factor for building trust among the public and the institutions, but also a prerequisite for successful business. In today's dynamic world the advantages are not only for companies, which offer products, adequate to their clients' needs, but also for companies, which make all the possible to be "good corporate citizens".

In the year under review BAEZ continued to be fully transparent in its media relations, as a result of clearly understood responsibility towards the society, which is the main factor for generating trust. The effectiveness of this is proved by the attitude of the clients towards our activity. The cooperation with some universities in Bulgaria, which are educating people in the field of insurance and finance continued. Representatives of BAEZ attended as lecturers on several seminars, forums, as well as in Finance Master class in the University of National and World Economy.

In BAEZ we believe, that people are the most valuable resource for each company and their professionalism is the most important factor for providing financial services of high quality. To that purpose, BAEZ continued to invest in improving its employees' qualification. During the year the experts participated in programs for professional qualification and exchange of experience, organized by EGAP, MIGA, Swiss Re, Credit Alliance, etc.



ANNUAL FINANCIAL STATEMENTS

For the year ended on 31.12.2005

Balance sheet

Amounts in thousands of BGN		
	Current year	Previous year
ASSETS		
I. Long-term intangible assets		
1. Intangible assets	12	28
2. Expenses for acquisition of intangible assets	101	27
	113	55
II. Investments		
1. Investments in securities	9 913	9 102
	9 913	9 102
III. Financial assets on behalf of insurance reserves	1 270	258
IV. Reinsurers' share in insurance reserves	565	92
V. Receivables		
1. Insurance receivables	387	29
2. Other receivables	202	139
	589	168
VI. Cash and cash equivalents	179	489
VII. Long term tangible assets		
1. Land and building	1 230	1 283
2. Equipment	31	49
3. Other	52	71
	1 313	1 403
VIII. Prepaid expenses	2	2
TOTAL ASSETS	13 944	11 569
SHAREHOLDERS' EQUITY AND LIABILITIES		
I. Shareholders Equity		
1. Share capital	10 000	10 000
2. Reserves according to the Trade Law	1 038	495
3. Current year profit	955	551
	11 993	11 046
II. Insurance reserves		
1. Equalization reserve	220	43
2. Loss reserve	1 017	189
3. Unearned premium reserve	554	118
4. Other	44	0
	1 835	350
III. Current liabilities		
1. Reinsurance liabilities	23	86
2. Other liabilities	93	82
	116	168
IV. Deferred income	0	5
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	13 944	11 569

Profit and loss account

Amounts in thousands of BGN

	Current year	Previous year
TECHNICAL ACCOUNT – GENERAL INSURANCE		
1. Premiums earned	2 824	1 095
2. Premiums ceded	(706)	(391)
3. Investment income	26	14
4. Claims incurred	(206)	(110)
5. Recovered insurance claims	103	25
6. Change in insurance reserves	(1 485)	(271)
7. Change in reinsurers' share in the insurance reserves	473	73
8. Operating expenses	(673)	(553)
9. Other expenses	(108)	(182)
10. Other income	241	326
11. Tax on the insurance income	0	(33)
TECHNICAL ACCOUNT BALANCE	489	(7)
NON-TECHNICAL ACCOUNT		
1. Technical account balance	489	(7)
2. Investment income	648	632
3. Income from reinvesting insurance reserves	(26)	(14)
4. Investment expenses	(36)	(14)
5. Other income	6	5
6. Other expenses	(21)	(51)
PROFIT BEFORE TAXATION	1 060	551
Tax expenses	(105)	0
PROFIT (LOSS) FOR THE PERIOD	955	551

Cash flow statement

Amounts in thousands of BGN

	Current year	Previous year
I. CASH FLOWS FROM OPERATING ACTIVITIES		
1. Premiums received		
(a) Direct insurance	2 375	1 169
2. Reinsurance premiums paid	(505)	(225)
3. Claims paid		
(a) Direct insurance	(100)	(110)
4. Payments to suppliers and employees	(447)	(406)
5. Acquisition costs paid	(64)	(132)
6. Levies and charges paid	(65)	(64)
7. Premium and income tax paid	(86)	(72)
8. Other cash flows from operating activities	(209)	94
9. Net cash provided by operating activities (I)	898	254
II. CASH FLOWS FROM INVESTING ACTIVITIES		
1. Proceeds from government securities	686	272
2. Proceeds from other fixed income securities	2 032	2 072
3. Purchase of government securities	(304)	
4. Purchase of other fixed income securities	(3 790)	
5. Other cash flows from investing activities	168	(2 502)
6. Net cash from investing activities (II)	(1 208)	(158)
III. CASH FLOWS FROM FINANCING ACTIVITIES		
IV. NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD (I+II+III)	(310)	96
V. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	489	393
VI. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	179	489

Statement of changes in shareholders' equity and insurance reserves

Amounts in thousands of BGN

Index	Share capital								
	Share capital	Share premium	Revaluation reserve	Reserve		Financial result		Translation adjustments	Total share capital
				General reserve	General reserve	Profit	Loss		
A	1	2	3	4	5	6	7	8	9
A. Share capital									
Balance at the beginning of the period	10 000			495		551			11 046
1. Current year profit (loss)						1 060			1 060
2. Profit distribution, including dividends				543		(551)			(8)
Balance at the end of the period	10 000			1 038		1 060			11 046

Amounts in thousands of BGN

Index	Insurance reserves					
	Equalization reserve	Mathematical reserve	Loss reserve	Unearned premium reserve	Other reserves	Total insurance reserves
A	10	11	12	13	14	15
B. Insurance reserves						
Balance at the beginning of the period	43		189	118		350
1. Changes in insurance reserves, including:	177		828	436	44	1 485
a) increase	177		828	436	44	1 485
b) decrease						
Balance at the end of the period	220		1 017	554	44	1 835

REPORT OF INDEPENDENT AUDITORS

We have made an audit of the annual financial statements of the Bulgarian Export Insurance Agency (BAEZ) EAD Sofia for the financial year 2005, including a balance sheet, income statement, statement for changes in the shareholder's equity, cash flow statement and notes (attachments). To obtain a clear view of the financial standing and cash flows of the company, the readers of the present report shall be acquainted with the attached financial statements, prepared by the company's management.

Responsibility of the company's management

The company's management is responsible for the preparation of the financial statements, presenting fairly the financial position, standing and cash flows of the company in conformity with the International accounting standards. This responsibility includes:

- Organization and carrying out of internal control to establish and avoid misstatements and errors;
- Selection and implementation of accounting policies, corresponding to the International accounting standards and appropriate for the particular circumstances;
- Elaboration of the necessary accounting estimations, including essential assumptions on which such estimations are based.

Responsibility of independent auditors

Our responsibility consists in making an opinion on these financial statements, based on the independent audit carried out by us. We conducted an independent financial audit in accordance with the International auditing standards. These standards require that we perform the audit in a way so as to obtain an acceptable, but not absolute assurance that the financial statements are free of material misstatements, based on circumvention or not. Such an independent financial audit includes:

- Comprehension of the company's activity and its operating environment, in the aim to assess the risk of essential omissions and errors in the financial statements and definition and implementation of further auditing procedures to respond to such risks;
- Obtaining of evidences for the amounts and disclosures made in the financial statements through tests and other procedures;
- Assessment of the reasonability of the essential assumptions;
- Assessment of the general presentation of the information in the financial statements and disclosures.

In an independent financial audit the auditors get an understanding of the internal control of the company as a basis for determination of the type, duration and size of auditing procedures, with the aim to obtain a sufficient base for expression of an opinion on the establishment and effective operation of this internal control.

We believe that we have received sufficient number of adequate evidences, allowing us to express an opinion on the financial statements.

Our opinion

On our opinion, the financial statements represent fairly the financial standing of the company as of 31 December 2005, the results of its operation and cash flows for the year, ending at the above date, are in conformity with the International standards on financial statements.



Dr. Stoyan Durin
Certified auditor



Dimitar Zhelyazkov
Certified auditor

10.03.2006