



## INTRODUCTION

In 2013 the tendency of holding-up in the growth of the world economy remained and the challenges in front of the local companies continued. Not only on the local market, but also in global scale, the companies continued fighting with the results of the financial crisis in almost all spheres of the economy. This situation also had an effect on **BAEZ's** activity. The increase of the possibility of the realization of financial risks in credit and trade deals in 2013 lead to a growth of the total volume of the insured amounts of 7% compared to the previous year 2012.

An indicator for the stagnation and the still impeding economic conditions the economic entities operate in, is the reported maintaining of the insurance premium levels on which **BAEZ** concludes insurance policies. For some policy types even an increase has been detected.

The high inter-company indebtedness is still one of the most serious problems of the world economy. The companies continue suffering from liquidity problems and the number of the companies declared insolvent constantly grows up. This leads to a substantial growth of 42% in the insurance indemnifications paid by **BAEZ**. But due to the more active operations undertaken to recover the payments from bad debtors as well as the more efficient measures for the limitation of the losses, an increase of 18% in the amount of the received payments from debt recoveries was registered compared to the previous year.

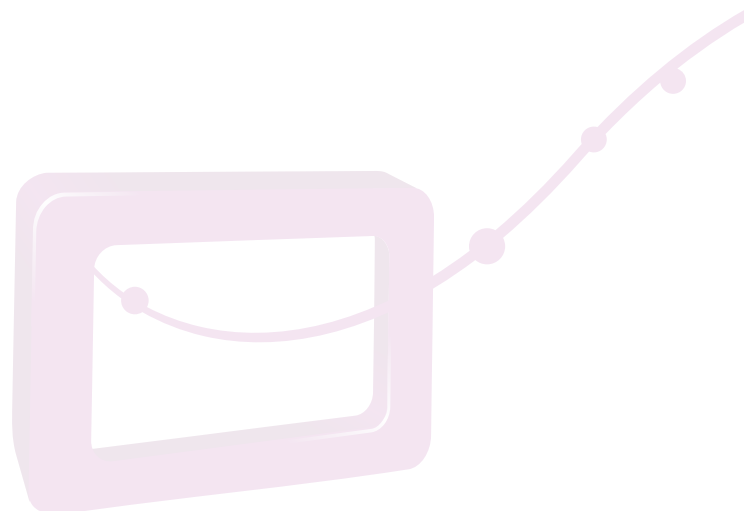
**BAEZ** kept on playing the role of an organization aiming to support the Bulgarian companies on the market and to protect them from possible losses in the realization of their trade deals. For another consecutive year this is visible in the high level of the number of the approved credit limits (acceptance ratio) – in 2013 the Agency provided insurance coverage for 91% of the requested credit limits and in 2012 this percentage was 90%.

In this situation a serious achievement of the Agency is the termination of the financial year 2013 with a profit after taxation of BGN 3 339 thousand (which represent an increase of 0,4% compared to the year 2012).

In 2013 **BAEZ** concluded a quota share reinsurance treaty for the activity on its own account with the Swiss branch of the national Qatar insurance company Q-Re LLC Doha. Concerning its activity on the account of the State the Agency kept its reinsurance coverage with the quota share reinsurance contract with the Belgium state-owned insurance and reinsurance company ONDD; in the contract the new reinsurer Q-Re LLC was also included.



In 2014 **BAEZ** will continue offering adequate and successful solutions for its client's problems, giving them opportunities not only to keep their sales volumes, but also with its insurance products to provide a high level of security in the expanding of the scope and the size of their business.





## LEGAL FORM AND MANAGEMENT

On December 18<sup>th</sup>, 1997 the Council of Ministers of the Republic of Bulgaria adopted a decision, promulgated with Order №101, for the participation of the State in the constitution of an export insurance agency for the purpose of executing the Government strategy in the field of the foreign trade exchange, Bulgarian investments abroad, development of the export potential of the country and increase of the export competitiveness of the Bulgarian goods and services on the international market.

**BAEZ** has been established as a joint-stock company with participation of the State by the provision of Court Order №1 as of October 29<sup>th</sup>, 1998 of the Sofia City Court, under company file №11 846/1998. In 2004 the Agency was transformed into a sole joint-stock company, with a sole shareholder – the Republic of Bulgaria, represented by the Minister of Economy and Energy.

The fully paid in capital of the company is BGN 10 000 500.00, distributed into 100 005 registered dematerialized shares with nominal value of BGN 100.00 each.

### Management

**BAEZ** is a full state-owned joint-stock company with one-tier system of management.

Agency's supreme management body is the Sole Shareholder of the capital, represented by the Minister of Economy and Energy of the Republic of Bulgaria.

The **Board of Directors** performs the operating management of the Agency and its members are elected by the Sole shareholder of the capital for a mandate not longer than 3 years.

As of 31.12.2013 the Board of Directors of **BAEZ** consists of:

- **Bistra Nikolova Ilkova** – Chairman of the Board of Directors;
- **Docho Minev Karadochev** – Member of the Board of Directors and Executive Director;
- **Nikolay Petrov Mishkalov** – Member of the Board of Directors.

During the last year 2013 in the role of members of the Board of directors of **BAEZ**, the persons stated above have received a total remuneration at the amount of BGN 85 187.33 and they have declared with the required by the law declarations the circumstances according to article 247, paragraph 2, subparagraph 4 stipulated in the Commercial Law.



The **Inter-Ministerial Export Insurance Council** has been established to the Council of Ministers of the Republic of Bulgaria. It implements the Government policy in the field of insurance and reinsurance, in accordance of the Export Insurance Act /State Gazette, last amended N°82/16.10.2009/, of export risks related to the production and the export of Bulgarian goods and services or to the Bulgarian investments abroad.

One of the major aspects in terms of competence of the Inter–Ministerial Export Insurance Council is approving the operational expenses of the Agency under the Export Insurance Act, along with defining the way of investing the accumulated monetary funds in the bank account of **BAEZ** under article 14, paragraph 2 of the Export Insurance Act.

Yearly, according to article 13, paragraph 1, subparagraph 4 of the Export Insurance Act, the Council specifies the frame of the competence of the Board of directors and its own one in relation to the conclusion of insurance contracts and rendering insurance indemnities under insurance contracts pursuant to the Export Insurance Act.

During the year 2013 the Inter–Ministerial Export Insurance Council was convened once.

The Inter–Ministerial Export Insurance Council consists of representatives from some of the major ministries and institutions. They are as follows:

- **Dragomir Stoynev** – Minister of Economy and Energy, Chairman of the Inter-Ministerial Export Insurance Council;
- **Krasin Dimitrov** – Deputy Minister of Economy and Energy, member of the Inter-Ministerial Export Insurance Council;
- **Vesela Daneva** – Director of the Real Sector Directorate, Ministry of Finance, member of the Inter-Ministerial Export Insurance Council;
- **Angel Velichkov** – Deputy Minister of foreign affairs, member of the Inter-Ministerial Export Insurance Council;
- **Nikolay Petkov** – Head of Regulatory Policy and Analysis Department, Insurance Supervision, Financial Supervision Commission, member of the Inter-Ministerial Export Insurance Council.

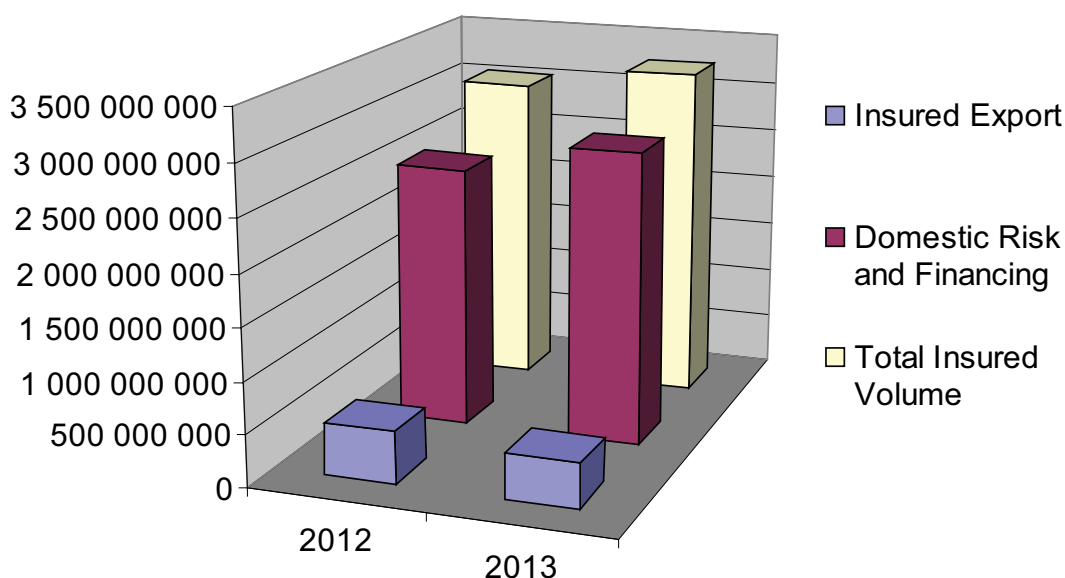




# INSURANCE ACTIVITY

## 1. Highlights of the insurance activity of BAEZ

The macro-environment during the reported period continues being characterized with a serious stagnation not only of the local economy, but also of the economies representing a main destination of the Bulgarian export, deepening problems in the financial situation of the local and the foreign companies, a high inter-company indebtedness. A serious achievement in the international situation is the fact that **BAEZ** reports an increase in the overall volume of the insured turnover by 7% in comparison to the previous year 2012. In 2013 a detention of 15% in **BAEZ's** activity in terms of the insurance of export deliveries is being noticed. In compensation of this the insurance covering receivables from transactions on the territory of the Republic of Bulgaria, marks a growth of 12%.



*Fig. 1: Comparison of the insured by BAEZ turnover in 2012 and in 2013*

The insured export forms 13% of the total volume of insured credits, in 2012 this share was 17%. The domestic risk keeps its level of the previous year – 20% and the product “Credits and financing of small and medium-size enterprises” represents a share of 67% of the overall insured turnover (64% in 2012).



## 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		
		Short-term marketable risk on the account of BAEZ EAD	Short-term non-marketable risk according to the Export Insurance Act	TOTAL
2011	39 559 922 854	392 755 538	140 540 039	533 295 577
2012	40 863 351 773	375 823 041	129 575 602	505 398 643
2013	43 398 000 000	335 249 732	95 579 314	430 829 045

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

- **Europe – 91%**. For comparison, the insured export in 2012 was at the same level. The biggest share belongs to the countries of the European Union – 78%, in 2012 this share was 72%. The countries with the highest share are:

- Germany – 11,41% (in 2012 – 11,56%),
- Greece – 10,97% (in 2012 – 6,83%);
- Italy – 9,48% (in 2012 – 7,02%),
- Romania – 7,17% (in 2012 – 10,42%),
- United Kingdom – 6,85% (in 2012 – 4,62%)
- France – 6,06% (in 2012 – 4,31%),
- Poland – 6,03% (in 2012 – 5,16%),
- The rest of EU-members hold less than 4% share;

- **Other European countries – 13%** (in 2012 – 20%). All the other European countries hold a share lower than 4%.

- **The rest of the world – 9% in total**, in 2012 the percentage stays the same. All the other countries have a share under 4%.

For the period January 1<sup>st</sup> – December 31<sup>st</sup> 2013 **BAEZ** performed risk assessment of 15 511 credit limits based on the submitted applications for insurance from our clients. 13 750 of them were related to domestic risk (trade transactions on the territory of the Republic of Bulgaria). During the last year the credit risk assessment is based again on the conservative approach, because the admission of the worst scenario with the analyzed companies considerably cuts down the insurance risk in relation of the still turbulent times for the local and world economies. The total number of the approved credit limits in 2013 was 14 189, i.e. 91,47% of all applications (90% in 2012). In nominal value the submitted applications for credit limits amount to BGN 1 083 102 422,50 and the accepted limits amounted to BGN 770 982 213,93 or 71,18%. (Application N<sup>o</sup>6)



Regarding the insurance of credits and financing for the same period **BAEZ** performed risk assessment of 192 credit limits (641 for 2012). The applied limits for this product amount to BGN 114 642 204, while the approved ones are BGN 54 614 100,72. The reduction of the approved credit limits is 64,98% in comparison to 2012. (*Application N°6*)

The claims paid during the year increased by 42% compared to the previous year and are entirely due to protracted default of buyers located in Europe – 99% (in 2012 – 100%), mainly from the EU-member countries – 96% (in 2012 – 90%). The biggest share of the paid claims are for debtors from the following countries: Bulgaria – 59%, which is entirely logical having in mind that the insurance of domestic risk represents 87% of the overall insured turnover; Italy (traditionally for the last years) – 9,5% , Poland – 8%, Spain – 7,7% and Hungary – 7,4%. All the other countries have a share lower than 4%.

## 2. Activity on the account of BAEZ under the Code of Insurance

**BAEZ** insures on its own account as per the Code of Insurance.

The insurance activity on the account of **BAEZ** is performed for countries included in the List of the marketable risk countries, adopted 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 N°238 from October 17<sup>th</sup>, 2013, according to which the marketable risk countries are as follows: Australia, Austria, Belgium, United Kingdom, Germany, Greece, Estonia, Iceland, Spain, Ireland, Italy, Canada, Croatia, Cyprus, Latvia, Lithuania, Luxembourg, Malta, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, USA, Hungary, Finland, France, the Netherlands, the Czech Republic, Switzerland, Sweden, Japan.

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

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

In 2013 the results which **BAEZ** reports for the insurance activity on its own account are as follows:

- Decrease in the amount of the insured in 2013 export against short-term commercial risk on the account of **BAEZ**. Its volume in the last





year reached the amount of BGN 327 817 578, which represents a decrease of 11% compared to the previous 2012, when the insured export was BGN 368 390 887 – *Application N°1*;

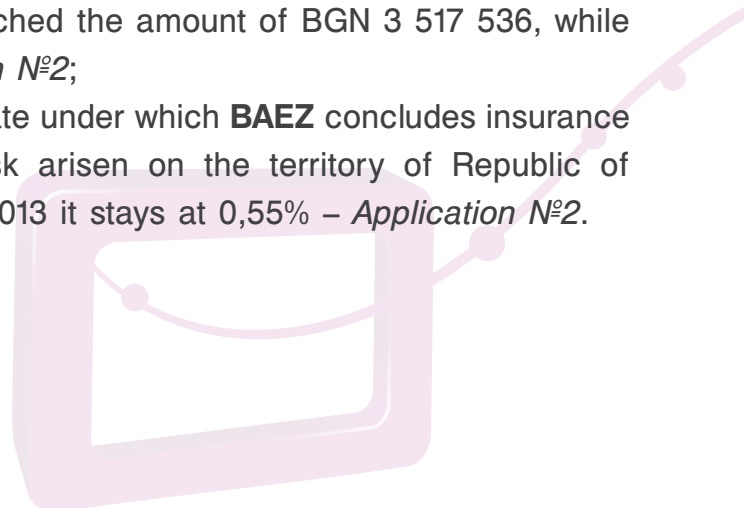
- Increase in the amount of the assigned premium income in 2013 from insurance against short-term commercial marketable risk, which reached BGN 2 115 941, representing a growth of almost 20% in comparison with 2012, when the premium income amounted BGN 1 769 524 – *Application N°1*;

- Increase of the average premium rate from 0,48% to 0,65% – *Application N°1*;

- Increase in the volume of the insured domestic transactions (the deliveries on the territory of the Republic of Bulgaria) in 2013. The amount of the insured turnover reached BGN 639 318 245, which represents an increase of 7% compared to the previous year 2012 when the insured domestic deliveries are reported to be BGN 599 204 378 – *Application N°2*;

- An increase of 6,3% in the amount of the assigned premium income from this type of insurance was registered in 2013 compared to the previous year. In 2013 the assigned premium income from insurance against short-term commercial risk arisen on the territory of Republic of Bulgaria reached the amount of BGN 3 517 536, while in 2012 it was BGN 3 309 848 - *Application N°2*;

- The level of the average premium rate under which **BAEZ** concludes insurance policies against short-term commercial risk arisen on the territory of Republic of Bulgaria, was kept at the same level. For 2013 it stays at 0,55% – *Application N°2*.





### 3. Activity of BAEZ on the account of the State according to the Export Insurance Act

In accordance to the Export Insurance Act **BAEZ** provides insurance against export risks listed in article 3, paragraph 1, related to the production and export of Bulgarian goods and services or Bulgarian investments abroad, as well as insurance of credits and financing, granted to the small and medium-sized enterprises in accordance to article 3, paragraph 4 of the Export Insurance Act.

The insurance cover is provided on the account of the State for the countries not included in the List of marketable risk countries, last updated by the Ordinance of the Council of Ministers of the Republic of Bulgaria №238 from October 17<sup>th</sup>, 2013. Credits and financing, granted by banks and financial institutions to small and medium-sized enterprises, credits for pre-export financing, as well as credits and financing securing transactions and sectors with priority for the country are insured on the account of the State.

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

- The appointed in the State Budget of the Republic of Bulgaria funds at the amount of 90 million BGN for the year 2013 with a coefficient 10 in accordance to the Export Insurance Act;
- The accumulated in a special account funds from insurance premiums under concluded insurance contracts in accordance to the Export Insurance Act.

The results that **BAEZ** reports under the activity on the account of the State for 2013 are as follows:

- A decrease in the amount of the export insured by **BAEZ** on the account of the State. It reached a level of BGN 82 352 814, registering a decrease of 8% compared to the previous year when the insured export on the account of the State amounted BGN 89 585 400 - *Application N°3*;
- A decrease of 12% in the amount of the assigned insurance premium under policies against short-term non-marketable commercial and political risk compared to the levels of the previous year. The premium income gained from insurance of export on the account of the State reached BGN 746 175 in 2013, while in 2012 it was BGN 851 372 - *Application N°3*;
- A decrease of 4,2% (from 0,95% in 2012 to 0,91% in 2013) of the average premium rate under which **BAEZ** concludes insurance policies against short-term non-marketable commercial and political risk – *Application N°3*.



The presented above figures exclude the insured by **BAEZ** investments and credits for pre-export financing. However, they incorporate the insured by **BAEZ** letters of credit, issued by foreign banks in favour of the Bulgarian exporters.

In 2013 the Agency has insured Bulgarian investments abroad at a total amount of BGN 20 658 654. The premium paid for this insurance product in 2013 amounts to BGN 124 166, while in 2012 it was BGN 256 874. In 2013 the investments were covered at an average premium rate of 0,6% and in 2012 – at an average premium rate of 0,54%, i.e. a certain increase of the average premium rate of the insurance of investments is registered - *Application N°4*.

In 2013 the insurance of bank credits and financing continued representing a substantial part of **BAEZ** activity and registered a growth of 13% in comparison with the previous 2012. The amount of the insured by **BAEZ** bank credits and financing in 2013 amounts to BGN 2 190 678 880. The credits and financing insured by **BAEZ** on its own account reached the amount of BGN 10 513 758 and the remaining part of BGN 2 180 165 122 is insured on the account of the State. The assigned insurance premium for coverage of the insured credits and financing in 2013 is at the amount of BGN 1 758 529, which is 9.6% more than the premium collected for this type of insurance in 2012 – *Application N°5*.

All insurance policies issued by **BAEZ** on the account of the State, with a bank or another financial institution as a third beneficiary party, allow the financial institutions to make use of the facilities stipulated in the Regulation N°9 of the Bulgarian National Bank.



## 4. BAEZ exposure by countries

Regarding the activity of BAEZ on its own account – The total net credit exposure as of 31.12.2013 amounts to **BGN 253 754 230**. The credit exposures 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	70 000	35 000	35 000
Austria	17	17	4 468 921	2 234 460	2 234 460
Belgium	9	9	2 368 763	1 184 381	1 184 381
Bulgaria	9 724	9 724	306 416 633	145 310 542	161 106 091
United Kingdom	34	34	9 816 207	5 280 677	4 535 530
Germany	66	66	25 349 323	12 527 974	12 821 349
Greece	104	104	21 892 879	11 319 940	10 572 940
Denmark	6	6	1 340 044	670 022	670 022
Estonia	5	5	1 351 166	675 583	675 583
Ireland	1	1	782 332	391 166	391 166
Spain	39	39	10 032 772	5 056 386	4 976 386
Italy	70	70	27 165 684	13 679 238	13 486 446
Canada	2	2	119 542	59 771	59 771
Cyprus	7	7	1 054 003	527 002	527 002
Latvia	6	6	833 166	416 583	416 583
Lithuania	15	15	1 554 302	777 151	777 151
New Zealand	1	1	293 375	146 687	146 687
Norway	7	7	1 362 615	681 307	681 307
Poland	34	34	10 983 367	5 491 684	5 491 684
Portugal	8	8	2 611 413	1 501 290	1 110 124
Romania	111	111	14 877 503	8 316 251	6 561 251
USA	9	9	2 729 988	1 364 994	1 364 994
Slovak republic	5	5	4 713 550	2 845 733	1 867 818
Slovenia	10	10	2 517 873	1 258 936	1 258 936
Serbia	1	1	7 432 154	3 716 077	3 716 077
Hungary	19	19	3 931 166	2 040 583	1 890 583
Finland	5	5	2 170 971	1 085 486	1 085 486
France	66	66	12 221 691	6 110 845	6 110 845
The Netherlands	20	20	4 320 167	2 160 084	2 160 084
Croatia	1	1	312 933	156 466	156 466
Czech Republic	17	17	6 125 144	2 866 989	3 258 155
Switzerland	8	8	3 862 985	1 931 493	1 931 493
Sweden	5	5	945 644	472 822	472 822
Japan	1	1	39 117	19 558	19 558
<b>Total</b>	<b>10 434</b>	<b>10 434</b>	<b>496 067 391</b>	<b>242 313 161</b>	<b>253 754 230</b>



**Regarding the activity of BAEZ on the account of the State according to the Export Insurance Act - The total net credit exposure as of 31.12.2013 according to the Export Insurance Act amounts to **BGN 230 600 279**. The credit exposure by countries is as follows:**

Country	Number of limits	Number of reinsured limits	Total credit limit	Reinsured credit limit	Net credit limit
Azerbaijan	2	2	177 350	88 675	88 675
Albania	7	7	2 166 803	1 087 921	1 078 881
Algeria	1	1	20 000	10 000	10 000
Argentina	9	9	2 290 583	1 145 292	1 145 292
Armenia	2	2	368 454	184 227	184 227
Belarus	3	3	498 737	249 368	249 368
Benin	2	2	117 350	58 675	58 675
Bosnia and Herzegovina	7	7	710 504	355 252	355 252
Brazil	2	2	610 700	305 350	305 350
Bulgaria	675	675	340 955 136	152 862 451	188 092 685
Vietnam	20	20	5 165 000	2 582 500	2 582 500
Ghana	2	2	117 350	58 675	58 675
Guatemala	2	2	600 000	300 000	300 000
Georgia	2	2	666 749	333 375	333 375
Dominican republic	2	2	300 000	150 000	150 000
Egypt	4	4	1 766 166	883 083	883 083
Israel	8	8	2 665 548	1 261 087	1 404 461
India	1	1	36 000	18 000	18 000
Indonesia	6	6	1 330 000	806 166	523 834
Jordan	1	1	48 896	24 448	24 448
Kenya	1	1	100 000	50 000	50 000
China	14	14	7 518 675	3 759 337	3 759 337
Colombia	5	5	1 870 000	935 000	935 000
Kosovo	8	8	1 280 565	640 283	640 283
Costa Rica	3	3	210 000	105 000	105 000
Ivory Coast	1	1	19 558	9 779	9 779
Cuba	8	8	5 707 413	2 853 707	2 853 707
Lebanon	9	9	3 367 332	1 683 666	1 683 666
Macedonia	43	43	5 045 709	2 447 854	2 597 854
Morocco	7	7	1 527 792	763 896	763 896
Mexico	1	1	410 000	205 000	205 000
Moldova	4	4	823 215	411 608	411 608
Namibia	1	1	78 233	39 117	39 117
Nigeria	2	2	88 012	44 006	44 006
UAE	4	4	515 420	257 710	257 710



Peru	2	2	400 000	200 000	200 000
Russia	8	8	2 327 503	1 163 752	1 163 752
Saudi Arabia	4	4	478 375	239 187	239 187
Singapore	3	3	1 330 000	665 000	665 000
Serbia	33	33	4 544 966	2 272 483	2 272 483
Taiwan	1	1	300 000	150 000	150 000
Thailand	3	3	776 749	388 375	388 375
Tunisia	2	2	660 000	330 000	330 000
Turkey	11	11	2 555 247	1 277 624	1 277 624
Ukraine	5	5	12 957 570	6 478 785	6 478 785
The Philippines	1	1	1 173 498	586 749	586 749
Hong Kong	1	1	19 558	9 779	9 779
Croatia	8	8	1 916 289	958 145	958 145
Montenegro	4	4	688 958	344 479	344 479
Chile	3	3	870 000	435 000	435 000
South Africa	4	4	4 146 360	2 073 180	2 073 180
Korea, Republic (South)	4	4	1 650 000	825 000	825 000
<b>Общо</b>	<b>966</b>	<b>966</b>	<b>425 968 322</b>	<b>195 368 043</b>	<b>230 600 279</b>

## 5. Outward Reinsurance Activity

In 2013 **BAEZ** signed its quota share reinsurance treaty with for the portfolio of the activity on its own account with the Swiss branch of Q-Re LLC Doha, Qatar, which is a daughter company of the national Qatar insurer – Qatar Insurance Company SAQ. The treaty credit limit range of EUR 2 500 000, the cession of 50% as well as the other terms remained.

Regarding the reinsurance on the account of the State **BAEZ** kept its reinsurance coverage for the entire world with the quota share reinsurance contract signed with the Belgium state-owned insurance and reinsurance company DELCREDERE/DUCROIRE (former Office National du Ducroire), with a cession of 50%. In the contract a new re-insurer was included – Q-Re LLC. The credit limit under the contract keeps its initial amount of EUR 10 000 000. 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. Claims settlement and claims ratio

In 2013 **BAEZ** reports a substantial increase in the amount of the paid insurance indemnifications. The Agency paid claims at the total amount of BGN 5 111 929, which represents a growth of 42% according to the previous year.

### **Activity related to the claims settlement on BAEZ own account**

The claims paid on **BAEZ** account in 2013 amount to BGN 4 888 949.

The paid insurance indemnifications on insured deliveries on the domestic market comprise 58% of the amount of the paid claims on the account of **BAEZ**. 42% are paid due to debtors from EU, mainly from Italy, Greece, Spain, Poland and Hungary.

All the insurance contracts under whose force insurance indemnifications have been paid in 2013 on the account of **BAEZ**, were reinsured by the reinsurance company Q-Re LLC.

### **Activity of BAEZ related to claims settlement on the account of State in accordance to the Export Insurance Act**

The total amount of paid by the Agency insurance indemnifications under insurance contracts concluded on the account of the State amounts to BGN 222 980. They are due to insurance events occurred under **BAEZ's** General Conditions for export credit insurance against non-marketable short-term commercial risk with debtors from Serbia, Macedonia, Mongolia and Belarus.

All insurance contracts under whose force insurance indemnity has been paid up in 2013 on the account of the State have been reinsured by the reinsurance companies ONDD (Belgium) and Q-Re LLC (Qatar).

The above mentioned insurance indemnifications have been paid from the collected premiums assigned in 2013 on insurance policies concluded on the account of the State /the funds under article 14, paragraph 2 from the Export Insurance Act/, and the Agency did not spend any funds from the budget of the Republic of Bulgaria.



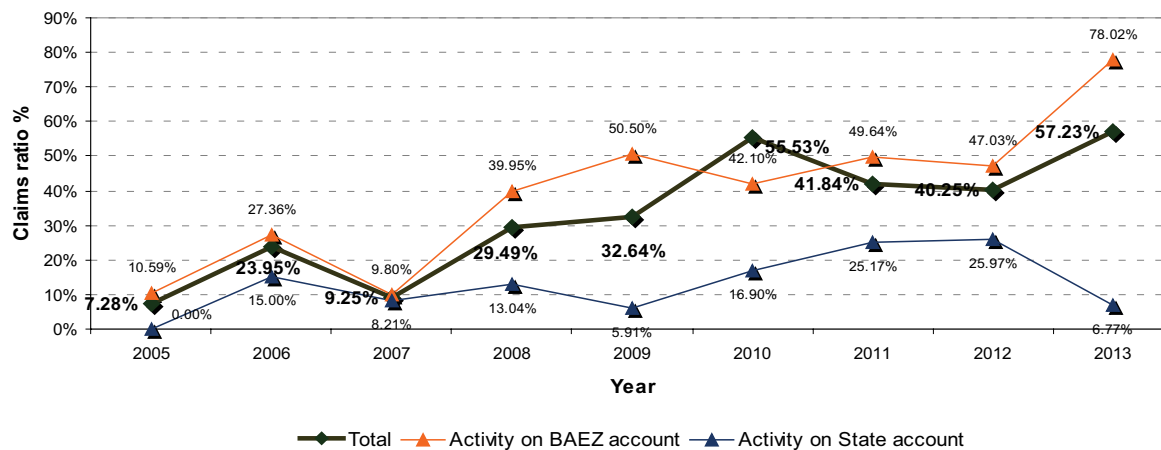


Fig. 2: Dynamics of BAEZ gross claim ratio, 2005 - 2013:

### Claim ratio on the account of BAEZ:

- Gross ratio, excl. the expenses and the reinsurance costs – 78,02%;
- Claim ratio, net from reinsurance and operational costs – 76,42%.

### Claim ratio on the account of the State:

- Gross ratio, excl. the expenses and the reinsurance costs – 5,22%;
- Claim ratio, net from reinsurance and operational costs – 4,96%.

### Claim ratio in total for the activity:

- Gross ratio, excl. the expenses and the reinsurance costs – 57,23%;
- Claim ratio, net from reinsurance and operational costs – 55,46%.



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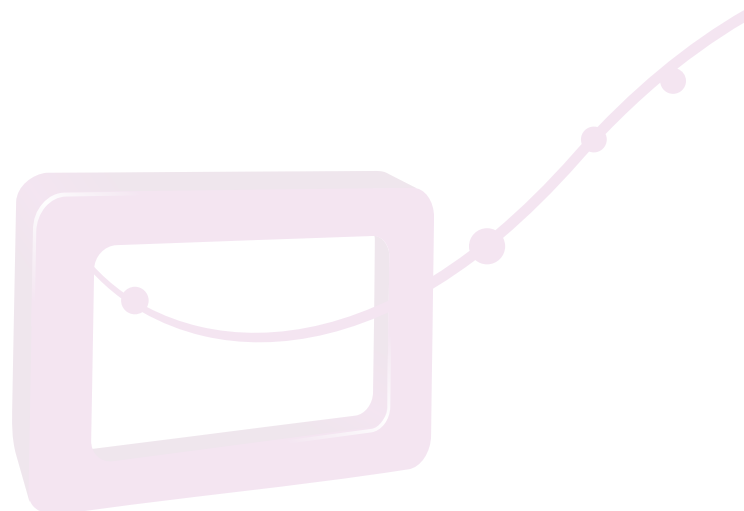


## 7. Debt recoveries

In 2013 our efforts were once more directed towards improvement of the quality of the insurance service that **BAEZ** offers - more active contacts with the debtors of the delayed insurance receivables in order to obtain payments on the overdue receivables and to limit the occurrence of insurance events and also with the clients of the Agency in seeking mutual solutions against the incorrect debtors.

Due to **BAEZ** court and out-of-court activities for collection of the paid insurance indemnifications, the net recoveries in 2013 amount to BGN 383 642<sup>1</sup> both on **BAEZ** own account and on the State account. Compared to the previous insurance year **BAEZ** reports an increase of 18% in the amount of the net recoveries.

The debt-collecting agencies **BAEZ** has a successful cooperation with in 2013 are EOS Matrix OOD, Pro Collect Sofia OOD, CEF International and Integrities International LLP. We also continue relying on the active cooperation with the members of the Prague club and the Bern Union.



<sup>1</sup>The quoted amount is formed as difference between the court and out-of-court recoveries, the awarded but not collected until 31/12/2013 recoveries and the costs arisen in the collection process.





## FINANCIAL RESULTS OF BAEZ

For the financial 2013 **BAEZ** records a gross premium income at the amount of BGN 8 262 thousand. Compared to 2012 an increase of BGN 122 thousand is recorded. The gross premium income for 2013, reduced with the amount of the returned premium and the written-off premium on early terminated contracts from previous financial periods, is at the amount of BGN 8 075 thousand. The technical result from the insurance activity of the Agency for the year 2013 is positive and amounts to BGN 3 260 thousand.

For the year of 2013 the administrative and acquisition expenses amount to BGN 1 791 thousand.

The assigned to the reinsurers' stake of the insurance premiums paid records an increase of BGN 706 thousand. In 2013 the amount of the premiums paid reaches the level of BGN 3 847 thousand and the acquired by the reinsurers commissions amount to BGN 1 347 thousand.

The paid insurance indemnities amount to BGN 4 728 thousand. During the year have been requested and reimbursed by the reinsurers indemnities amounting to BGN 2 380 thousand.

The amounts collected from application fees for determining a credit limit paid by the applicants are at the amount of BGN 328 thousand.

A profitability of 3,24% has been achieved as a result of the investment policy of the cash portfolio of the Agency. 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 – 33,13%, government securities – 62,89% and funds management – 1,99%. The money /monetary assets/ deposited in bank current accounts and at the company's cash-desk amount to about 1,99%.

As a final financial result for the year 2013 **BAEZ** reports a profit after taxation at the amount of BGN 3 339 thousand, distributed as follows:

- From activity on its own account – BGN 2 680 thousand;
- From activity on the account of the State – BGN 659 thousand.





## STRUCTURE AND PROFESSIONAL QUALIFICATION OF THE PERSONNEL

**BAEZ** has provided excellent assets necessary for a fluent working process. It has its own office building and appropriate technical equipment.

For the purposes of the human resource management, a number of internal regulations have been elaborated and adopted by the Board of directors in accordance with the Charter of **BAEZ**. They are as follows: “Rules for the Organization of the Operative Control in the Bulgarian Export Insurance Agency EAD”, “Internal Rules for the Structure and Organization of the Salary Payments”, “Rules for the Internal Labor Order in **BAEZ**”, “Rules for Securing of Healthy and Safe Labor Conditions”, “Internal Rules of **BAEZ** for the Order of Detecting Conflict of Interests and Ensuring Confidentiality, accepted on the grounds of article 90, paragraph 7 of the Code of Insurance”.

**BAEZ** is a registered personal data administrator according to the Personal Data Protection Act. In this connection the Agency lawfully and in good faith collects, processes and keeps the personal data. **BAEZ** also provides secure mechanisms against the unlawful treatment in the process of the free movement of the data.

As of December 31<sup>st</sup>, 2013 the number of employees, working under employment contracts in **BAEZ**, is 27.

The personnel’s number and its dynamics report stability as in the year 2013 there are no newly employed persons, no terminations of employment relations due to reduction of the staff, no reappointments or discharged by mutual consent.

The permanently employed staff is allocated into the following departments – “Underwriting Department”, “Risk Assessment Department”, “Legal Department”, “Claims Department”, “Financial Accounting and Administration Department” and “Business Development and controlling”.

Due to the specificity of some aspects of the activity of **BAEZ** external experts have been hired on freelance contracts in **BAEZ**, including the appointed by the Sole shareholder of the capital the Head of the Specialized Service “Internal Audit”.

For 2013 there have been no personal changes in the management of **BAEZ**, which is a prerequisite for the carrying out of a consistent management and personnel policy as to achieve the goals of **BAEZ** in its capacity of a specialized insurer.



## **Internal Rules and Organization of the Labor Process**

In compliance with the requirements of the Law for Healthy and Safe Labor Conditions, the subordinate legislation in terms of its application and the internal regulations of **BAEZ**, the Agency is regularly providing instructions on safety regulations and fire security.

In 2013 a report on the risk assessment was prepared by the authorized Labor Medicine Service.

In 2013 the Board of directors of **BAEZ** with a Protocol №218/01.10.2013 adopted changes in the Policy for determining the remunerations, in compliance with the Regulation №48/20.03.2013 for the requirements about the remunerations of the Financial Supervision Council (Regulation №48/20.03.2013 of the Financial Supervision Council).

At the same meeting of October 1<sup>st</sup>, 2013 the Board of directors adopted amendments and supplements in the Rules of the Bulgarian Export Insurance Agency EAD for the activity and the procedures in relation to the conclusion of insurance contracts and claims settlements (with a new name – Rules of the Bulgarian Export Insurance Agency EAD for the activity and the procedures in relation to the conclusion of insurance contracts, consideration of claims for the payment of insurance indemnifications and complains handling by insurance policyholders) in compliance with the requirements of the Guidelines on Complaints-Handling by Insurance Undertakings №EIOPA-BoS-12/069 BG, adopted by the European Insurance and Occupational Pensions Authority (EIOPA).



## Professional Qualification

The policy of **BAEZ** in the field of elaborating human resources approach is based on a few vital virtues: professionalism, innovation, divergence in a broad sense and prosperity.

The sector, in which **BAEZ** is conducting its business, is strictly specialized and due to the latter a team with a sound experience is needed, capable of proposing brand new solutions to the everyday advantages. This makes the professional qualification crucial for the newly coming specialists as well as to the old ones.

During the year experts and managers from **BAEZ** took participation in various educational and qualification programs and thus raising the level of professionalism and optimizing the current activity of **BAEZ**, and also improving the communication between its experts and enforcing the efficiency of their work.



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# APPLICATIONS

## APPLICATION №1

Statistics of the insured export, premium income and average premium rate on the insurance against short-term marketable commercial risk for the period 2001 – 2013

Year	Insured export volume (in BGN)*	Written premium income (in BGN)	Average premium rate in %	Percentage of increase in the insured export compared to the previous year
2001	6 411 733	68 000	1.06%	-
2002	15 391 964	166 499	1.08%	140%
2003	19 474 853	142 738	0.73%	27%
2004	31 793 651	220 852	0.69%	63%
2005	59 707 894	429 272	0.72%	88%
2006	152 826 823	1 047 752	0.69%	-5%
2007	210 698 333	639 843	0.30%	38%
2008	174 677 273	1 284 833	0.74%	-17%
2009	224 506 573	551 551	0.25%	29%
2010	298 703 766	1 410 231	0.47%	33%
2011	385 323 384	2 218 801	0.58%	29%
2012	368 390 887	1 769 524	0.48%	-4%
2013	327 817 578	2 115 941	0.65%	-11%

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



## APPLICATION №2

Statistics of the insured turnover, premium income and average premium rate of the insurance against **short-term marketable commercial risk on the territory of the Republic of Bulgaria** for the period 2003 – 2013

Year	Insured turnover (in BGN)*	Written premium income (in BGN)	Average premium rate in %	Percentage of increase in the insured turnover compared to the previous year
2003	1 213 145	14 045	1.16%	-
2004	60 570 972	432 655	0.71%	4893%
2005	134 108 451	1 512 263	1.13%	121%
2006	117 195 109	604 018	0.52%	-54%
2007	158 962 892	985 206	0.62%	36%
2008	190 124 517	1 115 296	0.59%	30%
2009	357 535 706	2 392 037	0.67%	88%
2010	614 735 585	3 447 656	0.56%	72%
2011	712 048 330	3 184 863	0.45%	16%
2012	599 204 378	3 309 848	0.55%	-16%
2013	639 318 245	3 517 536	0.55%	7%

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



### APPLICATION №3

Statistics of the insured export, premium income and average premium rate of the insurance against **short-term non-marketable commercial and political risk** for the period 2001 – 2013

Year	Insured export volume (in BGN)*	Written premium income (in BGN)	Average premium rate in %	Percentage of increase in the insured export compared to the previous year
2001	-	-	-	-
2002	1 460 469	37 778	2.59%	-
2003	6 085 742	97 011	1.64%	27%
2004	35 585 202	435 243	1.22%	485%
2005	97 968 988	799 433	0.82%	158%
2006	81 849 532	626 649	0.77%	-6%
2007	66 596 730	628 258	0.94%	-19%
2008	72 202 693	570 957	0.79%	8%
2009	48 402 765	304 747	0.63%	-33%
2010	78 182 546	1 070 500	1.37%	62%
2011	81 751 295	706 292	0.86%	5%
2012	89 858 400	851 372.49	0.95%	10%
2013	82 352 814	746 174.82	0.91%	-8%

\* The above given statistics excludes the insurance of bank credit line for pre-export financing and the investment insurance.

\*\* In the volume of the insured export is included insurance of letters of credit issued by foreign banks and assigned to the Bulgarian exporters.

## APPLICATION №4

Statistics of the insured limits, premium income and average premium rate of the insurance of investments for the period 2005 – 2013

Year	Amount of the insured investments (in BGN)*	Written premium income (in BGN)	Average premium rate in %	Increase in the amount of the insured investments compared to the previous year
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### On the account of the State

2005	6 631 600	27 848	0.42%	-
2006	0	0	0	-0.10
2007	13 299 644	69 628	0.52%	1.24
2008	41 162 976	143 768	0.35%	2.10
2009	39 483 792	265 638	0.67%	-0.04
2010	58 932 004	297 010	0.50%	0.49
2011	58 788 744	338 656	0.58%	0
2012	39 717 202	204 849	0.52%	-0.32
2013	13 226 500	72 141	0.55%	-0.67

### On the account of BAEZ

2008	26 990 398	147 991	0.55%	-
2009	41 748 160	52 025	0.12%	0.55
2010	7 432 154	39 019	0.53%	-0.82
2011	7 432 154	65 031	0.88%	0
2012	7 432 154	52 025	0.70%	0
2013	7 432 154	52 025	0.70%	0

### Total for both activities

2008	68 153 374	291 759	0.43%	4.12
2009	81 231 953	317 663	0.39%	0.19
2010	66 364 158	336 029	0.51%	-0.18
2011	66 220 898	403 688	0.61%	0
2012	47 149 356	256 874	0.54%	-0.29
2013	20 658 654	124 166	0.60%	-0.56

\* This insurance has been concluded since 2005 on the account of the State, since 2008 – also on the account of **BAEZ**.

## APPLICATION №5

Statistics of the insured turnover, premium income and average premium rate of the insurance of **credits and financing** for the period 2007 – 2013

Year	Amount of the insured credit turnover (in BGN)*	Written premium income (in BGN)	Average premium rate in %	Increase in the amount of the insured credit turnover compared to the previous year
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### On the account of the State

2007	107 136 144	253 581	0.24%	-
2008	2 072 158 016	1 229 553	0.06%	18.34
2009	2 772 560 883	1 682 423	0.06%	0.34
2010	1 786 416 121	1 222 820	0.07%	-0.36
2011	2 164 096 669	1 647 518	0.08%	0.21
2012	1 906 971 527	1 561 272	0.08%	-0.12
2013	2 180 165 122	1 541 245	0.07%	0.14

### On the account of BAEZ

2007	13 955 120	200 292	1.44%	-
2008	110 760 058	534 424	0.48%	6.94
2009	93 473 954	375 664	0.40%	-0.16
2010	21 714 917	473 872	2.18%	-0.77
2011	15 108 677	283 567	1.88%	-0.30
2012	27 187 531	385 077	1.42%	0.80
2013	10 513 758	217 284	2.07%	-0.61

### Total for both activities

2007	121 091 264	453 873	0.37%	-
2008	2 182 918 074	1 763 977	0.08%	17.03
2009	2 866 034 838	2 058 088	0.07%	0.31
2010	1 808 131 038	1 696 692	0.09%	-0.37
2011	2 179 205 346	1 931 084	0.09%	0.21
2012	1 934 159 058	1 946 349	0.10%	-0.11
2013	2 190 678 880	1 758 529	0.08%	0.13

\* The type insurance of credits and financing starts in 2007.

\*\* Premium on this insurance is calculated on monthly basis.

## APPLICATION №6

Statistics of the number of the credit limits based on submitted insurance applications for the period 2012 – 2013

	2012	2013	Increase compared to the previous year (in %)	
<b>Insurance of receivables (export and domestic)</b>				
Total number of submitted applications	13 784	15 511	▲	12.53
Including domestic risk	11 864	13 750	▲	15.90
Approved credit limits	12 420	14 189	▲	14.24
Percentage of approved credit limits	90.00%	91.47%	▲	-
Requested credit limits / absolute value in BGN/	1 232 899 403	1 083 102 423	▼	12.15
Approved credit limits / absolute value in BGN/	891 685 672	770 982 214	▼	13.54
Percentage of approved credit limit in relation to their value	72.32%	71.18%	▼	-
<b>Insurance of credits and financing</b>				
Number of submitted applications	641	192	▼	70.05
Requested credit limits / absolute value in BGN/	221 971 804	114 642 204	▼	48.35
Approved credit limits / absolute value in BGN/	155 962 524	54 614 101	▼	64.98
Percentage of approved credit limit in relation to their value	70.26%	47.64%	▼	-