



БАЕЗ | BAEZ

2014
Annual report



ANNUAL REPORT

of the

**BULGARIAN EXPORT CREDIT AGENCY
/BAEZ/**

2014 г.

2014

Annual report

I. INTRODUCTION

The past 2014, just like the previous years, was characterized with difficult economic conditions for the companies not only on the domestic, but also on the international market – high inter-company indebtedness, increase of the number of insolvencies, difficulties for the seller-companies to receive and collect the due payments, low liquidity etc.

The holding-up in the growth of the world economy remained and the challenges in front of the local companies in almost all the spheres of the economy also gave their reflection in BAEZ activity. Recognizing the higher risk of insolvency and non-payment from the trade deals of their partners in 2014, the Bulgarian companies were more interested in the insurance products, which BAEZ offers. This fact helped BAEZ to attain serious achievements, amongst which are:

- the share of the insured export increased from 13% (2013) to 21% (2014) and the share of the insured deliveries on the domestic market increased to 33% in 2014 from 20% in 2013 from the total insurance portfolio;

- in absolute amount the insured export is 19% more in comparison with 2013 and the insured deliveries on the domestic market increased by 29% compared to 2013;

- the volume of the insured in 2014 export against short-term commercial risk on the account of BAEZ increased by 18% in comparison to the previous 2013 and the volume of the export insured on the account of the State is 36% more in comparison to the previous year;

- the amount of the assigned premium income in 2014 also increased - under policies against short-term marketable commercial risk (by 1,5%), against short-term commercial risk arisen on the territory of the Republic of Bulgaria (by 15,8%) and short-term non-marketable commercial risk (by over 27%);

- and last but not least – BAEZ closed the financial year 2014 with a profit after taxation at the amount of BGN 2 190 thousand.

These achievements were conquered in the turbulent economic situation and highly competitive insurance environment, even giving an account of the fact of the reduction of the premium levels on which BAEZ concludes insurance policies against short-term commercial risk (marketable, non-marketable, arisen on the territory of the Republic of Bulgaria), short-term political risk and for insurance of Bulgarian investments abroad.

Although the risk assessment of the debtors continues being based on the conservative approach (admission of the worst scenario for the development of the analyzed risks), the main target of BAEZ is to play the role of an organization aiming to support the Bulgarian companies on the market and to protect them from the threats they meet on the local and on the international market. This is why BAEZ continues keeping a high level of the number of the approved credit limits (acceptance ratio). The total number of approved credit limits for the reported periods amounts to 18 088, i.e. 91.52% from all the requested credit limits (91.47% for 2013 and 90.00% in 2012).

The claims paid during the year reduced by 33% compared to the previous year and are almost entirely due to protracted default of buyers located in Europe – 98% (in 2013 – 99%), mainly from the EU-member countries – 97% (in 2013 – 96%). The goal of BAEZ is still the undertaking of more efficient activities to collect the payments from incorrect debtors and the organization of overall and more result-oriented measures to reduce the losses of its clients.

In 2013 BAEZ renewed its quota share reinsurance treaty for the activity on its own account with the Swiss branch of the national Qatar insurance company Qatar 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 Qatar Re LLC was also included.

In the future BAEZ will continue offering adequate and successful solutions for its clients' 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.

II. LEGAL FORM AND MANAGEMENT

On December 18th, 1997 the Council of Ministers of the Republic of Bulgaria adopted a decision, promulgated with Order No.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 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 was established as a joint-stock company with a participation of the State by the provision of Court Order No.1 as of October 29th, 1998 of the Sofia City Court, under company file No.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 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 31.12.2014 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;
- **Iliya Antonio Stanoev** – Member of the Board of Directors.

During the last year 2014 in their role of members of the Board of directors of BAEZ, the persons stated above have received a total remuneration at the amount of BGN 100 669.63 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. In 2014 the members of the Board of directors did not acquire, possessed and transferred shares or bonds of BAEZ and they did not conclude contracts under the provisions of article 240b from the Trade Act.

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 with the Export Insurance Act /State Gazette, last amended No.15/15.02.2013/, 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 2014 the Inter-Ministerial Export Insurance Council was convened once on a regular meeting.

According to article 11 of the Export Insurance Act the Inter-Ministerial Export Insurance Council consists of 6 representatives and its chairman by rights is the Minister of economy. The other members are representatives, proposed by the Minister of economy, the Minister of finance, the Minister of agriculture and food, the Minister of foreign affairs and the Chairman of the Financial Supervision Commission.

III. INSURANCE ACTIVITY

1. Highlights in 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 the 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 of BAEZ in this situation is gaining a growth in relation to the volume of insured export and domestic deliveries – in 2014 BAEZ increased the volume of the insured export by 19% in comparison to 2013 and the insured domestic deliveries increased by 29%. Due to the changes in the banking sector during the last year and the specific and increased requirements on behalf of BAEZ for the insurance of bank credits, the insured volume of credits and financing of micro, small and medium enterprises was reduced with 48% compared to the previous year. As the insurance of credits and financing has the biggest share, it lead to a drop of 24% in the overall insured volume (*Table No.1*).

Table No.1

| Period | Insured export | Domestic commercial risk | Credits and financing for SME | Total insured volume |
|--------|----------------|--------------------------|-------------------------------|----------------------|
| 2012 | 505 398 643 | 599 204 378 | 1 934 159 058 | 3 038 762 080 |
| 2013 | 430 829 045 | 639 318 245 | 2 190 678 880 | 3 260 826 171 |
| 2014 | 510 864 929 | 822 172 290 | 1 143 262 371 | 2 476 299 590 |

The insured export has a share of 21% of the total BAEZ insurance portfolio, in 2013 this share was 13%. The insured volume of domestic deliveries increased to 33% from 20% in 2013. The insurance of credits and financing dropped to 46% from the total insured turnover with 67% in 2013, following the tendencies of changes in the banking sector during the last year.

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 | | | Share of the insured export from the total realized export | | |
|------|--|---|--|-------------|--|--|-------|
| | | Short-term marketable risk on the account of BAEZ EAD | Short-term non-marketable risk according to the Export Insurance Act | TOTAL | Short-term marketable risk on the account of BAEZ EAD | Short-term non-marketable risk according to the Export Insurance Act | TOTAL |
| 2012 | 40 863 351 773 | 375 823 041 | 129 575 602 | 505 398 643 | 0.92% | 0.32% | 1.24% |
| 2013 | 43 398 000 000 | 335 249 732 | 95 579 314 | 430 829 045 | 0.77% | 0.22% | 0.99% |
| 2014 | 43 236 200 000 | 387 165 370 | 123 699 559 | 510 864 929 | 0.90% | 0.29% | 1.18% |

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

- **Europe – 87%.** For comparison, the insured export in 2013 was 91%. The biggest share belongs to the countries of the European Union – 74%, in 2013 this share was 78%. The countries with the highest share are indicated in *Table No.2*:

Table No.2

| Country | Share | |
|----------------|-------|-------|
| | 2013 | 2014 |
| Germany | 11,4% | 12,1% |
| Italy | 9,5% | 9,7% |
| Greece | 11% | 8,6% |
| Romania | 7,2% | 6,5% |
| France | 6,1% | 5,5% |
| Великобритания | 6,9% | 5,5% |
| Полша | 6,0% | 4,8% |

The rest of the EU-members hold less than 4% share;

- Other European countries – 13% (in 2013 – at the same level). All the other European countries hold a share lower than 4%.

- **The rest of the world – 13%** in total (in 2013 – 9%). All countries have a share under 4%.

For the period January 1st – December 31st 2014 BAEZ performed risk assessment of 19 764 credit limits based on the submitted applications for insurance from our clients. During the last year the credit risk assessment was also based on the conservative approach. The admission of the worst scenario for 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 2014 was 18 088, i.e. 91.52% of all applications (91.47% in 2013 and 90.00% in 2012). In nominal value the submitted applications for credit limits approval amount to BGN 1 235 735 295 and the accepted limits amounted to BGN 916 928 728 or 74.20% (71.18% in 2013 and 72.32% in 2012) - **Application No.6.**

Regarding the insurance of credits and financing for the same period BAEZ performed risk assessment of 233 credit limits (192 in 2013 and 641 in 2012). The application limits for this product amount to BGN 389 251 925, while the approved ones are BGN 96 777 596. The increase of the approved credit limits is 77.20% in comparison with 2013 - **Application No.6**

The claims paid during the year reduced by 33% compared to the previous year and are almost entirely due to protracted default of buyers located in Europe – 98% (in 2013 – 99%), mainly from the EU-member countries – 97% (in 2013 – 96%). The biggest share of the paid claims are for debtors from the following countries: Bulgaria – 65%, which is entirely logical having in mind that the insurance of domestic risk represents 79% of the overall insured turnover; Italy (traditionally during the last years) – 10% and Spain – 9%. 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 No.238 from October 17th, 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 and Croatia.

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 2014 the results which BAEZ reports for the insurance activity on its own account are as follows:

- Increase in the amount of the insured in 2014 export against short-term commercial risk on the account of BAEZ. Its volume in the last year reached the amount of BGN 387 165 370, which represents an increase of 18% compared to the previous 2013, when the insured export was BGN 327 817 578 – **Application No.1.**

- A slight increase in the amount of the assigned premium income in 2014 from insurance against short-term commercial marketable risk, which reached BGN 2 147 466. For comparison the assigned premium income in 2013 amounted to BGN 2 115 941 – **Application No.1;**

- Decrease of the average premium rate for the BAEZ activity on its own account from 0,65% to 0,55% – **Application No.1;**

- Increase in the volume of the insured domestic transactions (deliveries on the territory of the Republic of Bulgaria) in 2014. The amount of the insured turnover reached BGN 822 172 290, which represents an increase of 29% compared to the previous year 2013 when the insured domestic deliveries are reported to be BGN 639 318 245 – **Application No.2.**

- An increase of 15.8% in the amount of the assigned premium income from this type of insurance was registered in 2014 compared to the previous year. In 2014 the assigned premium income from insurance against short-term commercial risk arisen on the territory of Republic of Bulgaria reached the amount of BGN 4 073 727, while in 2013 was BGN 3 517 536 - **Application No.2;**

- A tendency was registered for reducing 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 - from 0.55% in 2013 to 0.50% in 2014 - **Application No.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 Art. 3, para 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 Art. 3, para 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 No. 238 from October 17th, 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 BGN 95 million for the year 2014 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, which BAEZ reports under the activity on the account of the State for 2014 are as follows:

- An increase in the amount of the export insured by BAEZ on the account of the State. The volume in 2014 reached a level of BGN 111 964 579, registering an increase of 36% compared to the previous year when the insured export on the account of the State amounted BGN 82 352 814 - **Application No.3**

- An increase of more than 27% 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 949 415 in 2014, while in 2013 it was BGN 746 175. - **Application No.3**

- A decrease of 6.6% (from 0.91% in 2013 to 0.85% in 2014) of the average premium rate under which BAEZ concludes insurance policies against short-term non-marketable commercial and political risk - **Application No.3.**

The above presented 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 2014 the Agency has insured Bulgarian investments abroad at a total amount of BGN 11 734 980. The premium paid for this insurance product in 2014 amounts to BGN 58 675, while in 2013 it was BGN 124 166. In 2013 the investments were covered at an average premium rate of 0.50% and in 2013 – at an average premium rate of 0.60%, i.e. a certain decrease of the average premium rate of the insurance of investments is registered - **Application No. 4.**

In 2014 the insurance of bank credits and financing continued representing a substantial part of BAEZ activity although it registered a decrease of 48% in comparison with the previous 2013. The amount of the insured by BAEZ bank credits and financing in 2014 amounts to BGN 1 143 262 371. The credits and financing insured by BAEZ on its own account reached the amount of BGN 7 753 317 and the remaining part of BGN 1 135 509 054 is insured on the account of the State. The assigned insurance premium for coverage of the insured credits and financing in 2014 is at the amount of BGN 1 179 688, which is 32.9% lower than the premium collected for this type of insurance in 2013. - **Application No. 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 incentives related to the higher collateral quality under the provided credits and financing.

4. BAEZ exposure by countries

Regarding the BAEZ activity on its own account - The total net credit exposure as of 31.12.2014 amounts to BGN 273 366 313. 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 | 2 | 2 | 170 000 | 85 000 | 85 000 |
| Austria | 18 | 18 | 4 122 065 | 2 050 532 | 2 071 532 |
| Belgium | 9 | 9 | 1 570 169 | 785 085 | 785 085 |
| Bulgaria | 11 589 | 11 589 | 341 033 139 | 158 860 614 | 182 172 525 |
| United Kingdom | 32 | 32 | 8 656 272 | 4 318 136 | 4 338 136 |
| Germany | 69 | 69 | 25 125 272 | 12 545 068 | 12 580 203 |
| Greece | 125 | 125 | 24 653 648 | 12 326 824 | 12 326 824 |
| Denmark | 7 | 7 | 1 194 383 | 597 192 | 597 192 |
| Estonia | 7 | 7 | 1 432 049 | 716 025 | 716 025 |
| Ireland | 1 | 1 | 782 332 | 391 166 | 391 166 |
| Spain | 42 | 42 | 9 766 769 | 4 803 093 | 4 963 676 |
| Italy | 77 | 77 | 18 114 786 | 8 812 393 | 9 302 393 |
| Canada | 1 | 1 | 20 000 | 10 000 | 10 000 |
| Cyprus | 14 | 14 | 927 758 | 457 879 | 469 879 |
| Latvia | 6 | 6 | 727 375 | 363 687 | 363 687 |

| Country | Number of limits | Number of reinsured limits | Total credit limit | Reinsured credit limit | Net credit limit |
|-----------------|------------------|----------------------------|--------------------|------------------------|--------------------|
| Lithuania | 13 | 13 | 1 913 371 | 956 685 | 956 685 |
| Malta | 1 | 1 | 100 000 | 50 000 | 50 000 |
| New Zealand | 2 | 2 | 290 312 | 145 156 | 145 156 |
| Norway | 7 | 7 | 1 195 045 | 597 522 | 597 522 |
| Poland | 39 | 39 | 10 047 883 | 4 222 652 | 5 825 231 |
| Portugal | 9 | 9 | 2 678 039 | 1 253 144 | 1 424 894 |
| Romania | 147 | 147 | 16 367 541 | 8 085 289 | 8 282 252 |
| USA | 13 | 13 | 3 472 064 | 1 736 032 | 1 736 032 |
| Slovakia | 10 | 10 | 6 360 865 | 3 180 432 | 3 180 432 |
| Slovenia | 11 | 11 | 2 061 406 | 1 030 703 | 1 030 703 |
| Hungary | 23 | 23 | 4 721 609 | 2 336 357 | 2 385 252 |
| Finland | 4 | 4 | 1 955 830 | 977 915 | 977 915 |
| France | 69 | 69 | 13 481 503 | 6 714 126 | 6 767 377 |
| The Netherlands | 21 | 21 | 4 179 195 | 2 089 598 | 2 089 598 |
| Croatia | 13 | 13 | 3 172 361 | 1 566 181 | 1 606 181 |
| Czech Republic | 24 | 24 | 5 695 615 | 2 725 599 | 2 970 016 |
| Switzerland | 8 | 8 | 2 748 520 | 1 249 843 | 1 498 677 |
| Sweden | 8 | 8 | 1 239 018 | 619 509 | 619 509 |
| Japan | 1 | 1 | 39 117 | 19 558 | 19 558 |
| Total: | 12 442 | 12 442 | 520 015 308 | 246 678 995 | 273 336 313 |

Regarding the BAEZ activity on the account of the State according to the Export Insurance Act - The total net credit exposure as of 31.12.2014 according to the Export Insurance Act amounts to BGN 152 187 175. The credit exposure by countries is as follows:

| Държава | Брой лимити | Брой | Кредитен лимит | Презастрахован лимит | Нетен кредитен лимит |
|---------------------------|-------------|------|----------------|----------------------|----------------------|
| Albania | 10 | 10 | 995 478 | 434 564 | 560 914 |
| Argentina | 7 | 7 | 1 906 583 | 950 292 | 956 292 |
| Armenia | 1 | 1 | 200 000 | 100 000 | 100 000 |
| Belarus | 10 | 10 | 5 554 614 | 2 777 307 | 2 777 307 |
| Benin | 2 | 2 | 117 350 | 58 675 | 58 675 |
| Bosnia and Herzegovina | 3 | 3 | 537 854 | 268 927 | 268 927 |
| Brazil | 2 | 2 | 810 700 | 405 350 | 405 350 |
| Bulgaria | 516 | 516 | 180 909 744 | 84 675 807 | 96 233 937 |
| Vietnam | 23 | 23 | 6 395 000 | 3 187 500 | 3 207 500 |
| Ghana | 3 | 3 | 215 141 | 107 571 | 107 571 |
| Guatemala | 4 | 4 | 950 000 | 475 000 | 475 000 |
| Georgia | 3 | 3 | 893 332 | 446 666 | 446 666 |
| Dominican Republic | 2 | 2 | 300 000 | 150 000 | 150 000 |
| Egypt | 5 | 5 | 2 081 166 | 787 270 | 1 293 896 |
| Israel | 5 | 5 | 855 279 | 427 640 | 427 640 |
| India | 2 | 2 | 57 615 | 28 807 | 28 807 |
| Indonesia | 5 | 5 | 872 000 | 436 000 | 436 000 |
| Jordan | 1 | 1 | 97 792 | 48 896 | 48 896 |
| Iran | 1 | 1 | 195 583 | 97 792 | 97 792 |
| Kenya | 2 | 2 | 295 583 | 147 792 | 147 792 |
| China | 14 | 14 | 6 807 792 | 3 403 896 | 3 403 896 |
| Columbia | 11 | 11 | 2 860 000 | 1 430 000 | 1 430 000 |
| Congo Democratic Republic | 1 | 1 | 97 792 | 48 896 | 48 896 |
| Kosovo | 8 | 8 | 988 958 | 494 479 | 494 479 |
| Costa Rica | 4 | 4 | 360 000 | 180 000 | 180 000 |
| Ivory Coast | 1 | 1 | 29 337 | 14 669 | 14 669 |
| Cuba | 19 | 19 | 16 073 807 | 7 094 475 | 8 979 332 |

| Държава | Брой лимити | Брой | Кредитен лимит | Презастрахован лимит | Нетен кредитен лимит |
|-----------------|-------------|------------|--------------------|----------------------|----------------------|
| Lebanon | 10 | 10 | 3 535 786 | 1 767 893 | 1 767 893 |
| Mauritius | 1 | 1 | 782 332 | 391 166 | 391 166 |
| Macedonia | 43 | 43 | 5 606 564 | 2 718 282 | 2 888 282 |
| Morocco | 8 | 8 | 2 046 687 | 1 023 344 | 1 023 344 |
| Mexico | 1 | 1 | 500 000 | 250 000 | 250 000 |
| Moldova | 4 | 4 | 1 194 381 | 499 399 | 694 982 |
| Namibia | 1 | 1 | 117 350 | 58 675 | 58 675 |
| Nigeria | 1 | 1 | 58 675 | 29 337 | 29 337 |
| Nicaragua | 1 | 1 | 90 000 | 45 000 | 45 000 |
| UAE | 5 | 5 | 598 307 | 299 153 | 299 153 |
| Panama | 1 | 1 | 150 000 | 75 000 | 75 000 |
| Peru | 2 | 2 | 400 000 | 200 000 | 200 000 |
| Russia | 18 | 18 | 5 860 099 | 2 881 179 | 2 978 920 |
| Saudi Arabia | 3 | 3 | 195 000 | 97 500 | 97 500 |
| Singapore | 2 | 2 | 980 000 | 490 000 | 490 000 |
| Syria | 1 | 1 | 200 000 | 100 000 | 100 000 |
| Serbia | 43 | 43 | 5 789 156 | 2 706 787 | 3 082 370 |
| Taiwan | 2 | 2 | 550 000 | 275 000 | 275 000 |
| Thailand | 5 | 5 | 1 296 749 | 648 375 | 648 375 |
| Tanzania | 1 | 1 | 97 792 | 48 896 | 48 896 |
| Tunisia | 3 | 3 | 1 444 479 | 722 239 | 722 239 |
| Turkey | 27 | 27 | 5 025 653 | 2 512 827 | 2 512 827 |
| Uganda | 1 | 1 | 50 000 | 25 000 | 25 000 |
| Ukraine | 9 | 9 | 13 286 655 | 6 643 328 | 6 643 328 |
| The Philippines | 1 | 1 | 1 955 830 | 977 915 | 977 915 |
| Hong Kong | 2 | 2 | 74 158 | 37 079 | 37 079 |
| Montenegro | 3 | 3 | 320 000 | 160 000 | 160 000 |
| Chile | 3 | 3 | 990 000 | 495 000 | 495 000 |
| South Afrika | 3 | 3 | 3 129 328 | 1 564 664 | 1 564 664 |
| South Korea | 4 | 4 | 1 650 000 | 825 000 | 825 000 |
| Total: | 874 | 874 | 289 433 479 | 137 246 304 | 152 187 175 |

5. Outward Reinsurance Activity

In 2014 BAEZ renewed its quota share reinsurance treaty for the portfolio of the activity on its own account with the Swiss branch of Qatar 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) and the Qatar re-insurance company Qatar Re LLC with a cession of 50%. 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 2014 BAEZ paid claims at the total amount of BGN 3 435 458. The Agency reports a downfall in the amount of the registered claims and paid insurance indemnities for the last year compared to the previous periods, which is due to the restrictive credit limits assessment policy and the more result-oriented and effective actions with the policyholders during the waiting period under the insurance policies. In 2014 claims at the amount of BGN 1 532 267 were withdrawn due to the timely repayment on behalf of the debtors

Activity related to the claims settlement on BAEZ own account

The claims paid on BAEZ account in 2014 amount to BGN 2 985 989.

The paid insurance indemnities under insured deliveries on the domestic market comprise 68% of the amount of the paid claims on the account of BAEZ. 32% are paid due to debtors from EU, mainly from Italy, Spain, and Hungary.

In a 2014 a reduction was registered of the claim ratio on the account of BAEZ compared to 2013 and a maintenance at the same level of paid claims in 2011 and 2012 (Figure No. 1), which is to some extent due to the gradual improvement of the market situation, more restrictive credit limits assessment policy and the efficient results from the actions taken by BAEZ in case of declared by policyholders overdue invoices. The countries of the debtors, which were in default, still remain the member-countries of the EU. The biggest share in the paid claims are the policies covering deliveries at the domestic market.

All the insurance contracts under whose force insurance indemnities have been paid in 2014 on the account of BAEZ, were reinsured by the reinsurance company Qatar Re LLC.

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

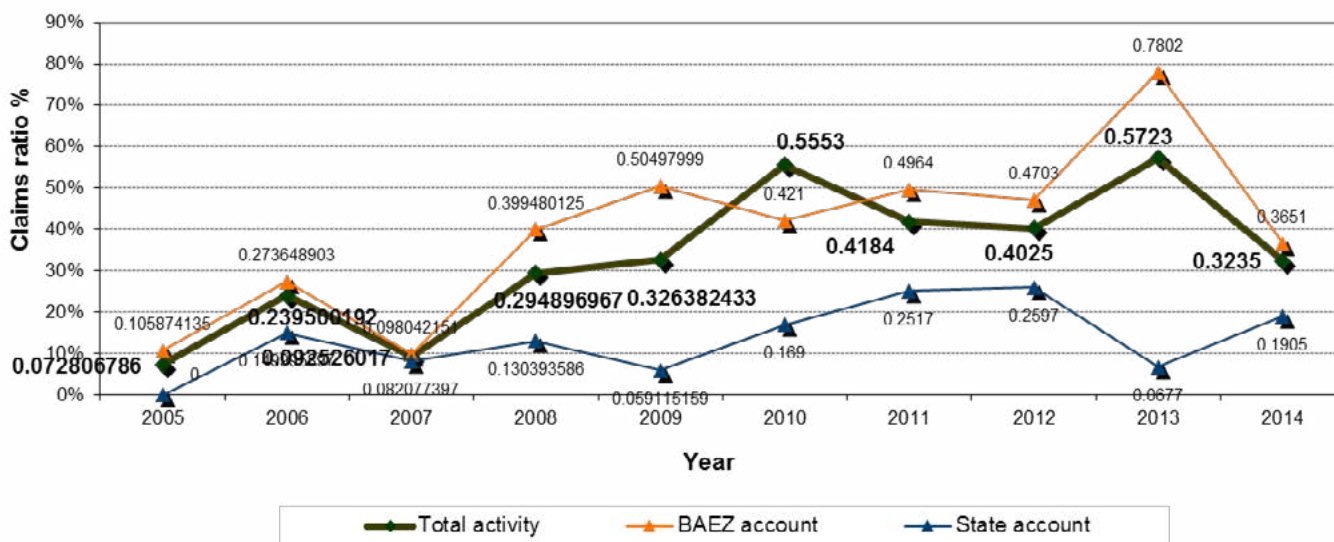
The total amount of paid by the Agency insurance indemnities under insurance contracts concluded on the account of the State amounts to BGN 449 469. They are due to insurance events occurred under BAEZ's General conditions for export credit insurance against short-term non-marketable commercial risk with debtors from Macedonia, Kirgizstan, Azerbaijan and Mongolia, as well as under the General conditions for insurance of credits and financing.

From the insurance indemnities paid by BAEZ on the account of the State 47% represent policies concluded under the General conditions for insurance of credits and financing and 53% - under policies against short-term non-marketable commercial risk. In 2014 BAEZ registers an increase of the claims ratio for its activity on the account of the State compared to 2013 (Figure No. 1), although the claims ration for the account of the State remains under the average claims ration of the company. We can recognize this is due to the good risk management and the timely actions in collecting the insured receivables.

All insurance contracts under whose force insurance indemnity has been paid up in 2014 on the account of the State have been reinsured by the reinsurance companies ONDD (Belgium) and Qatar Re LLC (Qatar).

The above mentioned insurance indemnities have been paid from the collected premiums assigned in 2014 on insurance policies concluded on the account of the State (the funds under Art. 14, para 2 from the Export Insurance Act), and the Agency did not spend any funds from the budget of the Republic of Bulgaria.

Figure No. 1: Dynamics of BAEZ gross claim ratio, 2005-2014



Claim ratio on the account of BAEZ:

- Gross ratio, excl. the expenses and the reinsurance costs – 45.34%;
- Claim ratio, net from reinsurance and operational costs – 36.51%.

Claim ratio on the account of the State:

- Gross ratio, excl. the expenses and the reinsurance costs – 20.24%;
- Claim ratio, net from reinsurance and operational costs – 19.05%.

Claim ratio in total for the activity:

- Gross ratio, excl. the expenses and the reinsurance costs – 38.86%;
- Claim ratio, net from reinsurance and operational costs – 32.35%.

7. Debt recoveries

In 2013 our efforts were once more directed towards improvement of the quality of the insurance service that BAEZ offers. As part of the measures taken could be specified the more active contacts with the debtors of the delayed insurance receivables in order to obtain payments on the overdue invoices and to limit the occurrence of insurance event, as well as with the clients of the Agency in improving the communication and seeking mutual solutions against the incorrect debtors.

Due to BAEZ actions in relation to the debt recoveries rights, the out-of-court recoveries for 2014 altogether for the two types of BAEZ activities amount to BGN 194 440. The amount of the debt recoveries forms a recovery ratio of 5.66%, registering a drop in the recovery volume compared to 2013, when the proportion of recovered amounts to paid insurance indemnities is 8.20%. The registered decrease is due to the bigger number of indemnities paid under the Insolvency type of insurance event, which is related to the more limited possibilities for recovery of any amounts. Although the recovery ratio of BAEZ is similar to similar to BAEZ organizations like ECIO (Greece), KUKI (Poland), AOFI (Serbia) and others¹

The debt-collecting agencies BAEZ has a successful cooperation with in 2014 are EOS Matrix OOD, Pro Collect Sofia OOD, CEF International and Integrities International LLP. We also continue relying on the active cooperation of analogue export credit insurers, members of the Prague club and the Berne Union.

¹ The comparison is made taking in consideration representative data from the Prague club of the export credit insurers.

IV. FINANCIAL RESULTS OF BAEZ

For the financial 2014 BAEZ records a gross premium income at the amount of BGN 8 409 thousand. Compared to 2013 an increase of BGN 147 thousand is recorded. The technical result from the insurance activity of the Agency for the year 2014 is positive and amounts to BGN 2 190 thousand.

For the year of 2014 the administrative and acquisition expenses amount to BGN 1 727 thousand, keeping almost the same level of 2013, when it was BGN 1 791 thousand.

The assigned to the reinsurers' stake of the insurance premiums paid records an increase of BGN 169 thousand. In 2014 the amount of the premiums paid reaches the level of BGN 3 678 thousand and the acquired by the reinsurers commissions amount to BGN 1 268 thousand.

The paid insurance indemnities amount to BGN 3 268 thousand. During the year indemnities have been requested and reimbursed by the reinsurers amounting to BGN 1 702 thousand.

The amounts collected from application fees for determining a credit limit paid by insurance applicants are at the amount of BGN 319 thousand.

A profitability of 1.43% 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 – 20.69%, government securities – 73.37% and funds management – 0.00%. The money /monetary assets/ deposited in bank current accounts and at the company's cash-desk amount to about 5.94%.

As a final financial result for the year 2014 BAEZ reports a profit after taxation at the amount of BGN 2 283 thousand, distributed as follows:

- From activity on its own account – BGN 1 347 thousand;
- From activity on the account of the State – BGN 936 thousand.

V.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 Art. 90, Para 7 of the Code of Insurance" and "Internal rules for personnel selection and management in the Bulgarian Export Insurance Agency (BAEZ) EAD".

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 31st, 2014 the number of employees, working under employment contracts in BAEZ, is 24.

The personnel's number and its dynamics report stability as in the year 2014 there are 3 newly employed persons, 2 have left and 2 employees started using their pregnancy and birth leave.

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".

In 2014 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 2014 a report on the risk assessment was prepared by the authorized Labor Medicine Service.

In 2014 in accordance with Order No. 300 from September 25th, 2014 of the Deputy chairman of the Financial Supervision Committee, heading the Insurance supervision section and in relation to the execution of the requirements under Directive 2009/138/EU on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) of the Council and the European Parliament, the Board of directors of BAEZ with a Protocol No.244/22.12.2014 adopted the following new internal regulations: "Risk management policy in the Bulgarian Export Insurance Agency (BAEZ) EAD", "Regulations concerning the actuary work in the Bulgarian Export Insurance Agency (BAEZ) EAD", "Credit risk assessment and credit limit determination procedure", "Internal procedure of the Bulgarian Export Insurance Agency (BAEZ) EAD for the creation and implementation of a new insurance product (new tariff)", "Action plan of BAEZ EAD in case of emergency situations", "Internal rules for selection and management of the personnel in the Bulgarian Export Insurance Agency (BAEZ) EAD",

“Reinsurance policy of the Bulgarian Export Insurance Agency (BAEZ) EAD”, “Accounting policy of BAEZ EAD for 2015” and “Investment program of the “Bulgarian Export Insurance Agency EAD” for 2015”.

At the same meeting of December 22nd, 2014 the Board of directors adopted amendments and supplements in: “Management and organizational structure of BAEZ EAD”, “Rules for the organization and the activity (status) of the Specialized Service “Internal Audit” in BAEZ EAD” and “Regulations for the order and conditions for the composition, registration, reporting and storage of documents and for the internal documents circulation organization in the Bulgarian Export Insurance Agency (BAEZ) EAD”.

Professional Qualification

The policy of BAEZ in the field of elaborating human resources approach is based on a few vital virtues: professionalism, innovation 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.

***Docho Karadochev,
Executive Director***

APPLICATION No.1

Statistics of the insured export, premium income and average premium rate on the insurance against short-term marketable commercial risk for the period 2001–2014

| 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% | n.a. |
| 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% |
| 2014 | 387 165 370 | 2 147 466 | 0.55% | 18% |

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

APPLICATION No.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 2003–2014

| 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% |
| 2014 | 822 172 290 | 4 073 727 | 0.50% | 29% |

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

APPLICATION No.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 2001–2014

| 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 | n.a. | n.a. | n.a. | n.a. |
| 2002 | 1 460 469 | 37 778 | 2.59% | n.a. |
| 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 | 0.95% | 10% |
| 2013 | 82 352 814 | 746 174 | 0.91% | -8% |
| 2014 | 111 964 579 | 949 415 | 0.85% | 36% |

* 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 No.4

Statistics of the insured limits, premium income and average premium rate of the insurance of investments for the period 2005–2014

| 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 |
|------|---|---------------------------------|---------------------------|---|
| 2005 | 6 631 600 | 27 848 | 0.42% | - |
| 2006 | 0 | 0 | 0 | - |
| 2007 | 13 299 644 | 69 628 | 0.52% | 124% |
| 2008 | 68 153 374 | 291 759 | 0.43% | 4.12 пъти |
| 2009 | 81 231 953 | 317 663 | 0.39% | 19% |
| 2010 | 66 364 158 | 336 029 | 0.51% | -18% |
| 2011 | 66 220 898 | 403 688 | 0.61% | 0 |
| 2012 | 47 149 356 | 256 874 | 0.54% | -29% |
| 2013 | 20 658 654 | 124 166 | 0.60% | -56% |
| 2014 | 11 734 980 | 58 675 | 0.50% | -43% |

* This insurance has been concluded since 2005.

APPLICATION No.5

Statistics of the insured turnover, premium income and average premium rate of the insurance of credits and financing for the period 2007 – 2014

| 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 |
|------------------------------------|---|---------------------------------|---------------------------|---|
| 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 пъти |
| 2009 | 2 772 560 883 | 1 682 423 | 0.06% | 34% |
| 2010 | 1 786 416 121 | 1 222 820 | 0.07% | -36% |
| 2011 | 2 164 096 669 | 1 647 518 | 0.08% | 21% |
| 2012 | 1 906 971 527 | 1 561 272 | 0.08% | -12% |
| 2013 | 2 180 165 122 | 1 541 245 | 0.07% | 14% |
| 2014 | 1 135 509 054 | 1 161 026 | 0.10% | -48% |
| On the account of BAEZ | | | | |
| 2007 | 13 955 120 | 200 292 | 1.44% | - |
| 2008 | 110 760 058 | 534 424 | 0.48% | 6.94 пъти |
| 2009 | 93 473 954 | 375 664 | 0.40% | -16% |
| 2010 | 21 714 917 | 473 872 | 2.18% | -77% |
| 2011 | 15 108 677 | 283 567 | 1.88% | -30% |
| 2012 | 27 187 531 | 385 077 | 1.42% | 80% |
| 2013 | 10 513 758 | 217 284 | 2.07% | -61% |
| 2014 | 7 753 317 | 18 663 | 0.24% | -26% |
| Total for both activities | | | | |
| 2007 | 121 091 264 | 453 873 | 0.37% | - |
| 2008 | 2 182 918 074 | 1 763 977 | 0.08% | 17.03 пъти |
| 2009 | 2 866 034 838 | 2 058 088 | 0.07% | 31% |
| 2010 | 1 808 131 038 | 1 696 692 | 0.09% | -37% |
| 2011 | 2 179 205 346 | 1 931 084 | 0.09% | 21% |
| 2012 | 1 934 159 058 | 1 946 349 | 0.10% | -11% |
| 2013 | 2 190 678 880 | 1 758 529 | 0.08% | 13% |
| 2014 | 1 143 262 371 | 1 179 688 | 0.10% | -48% |

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

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

APPLICATION No.6

Statistics of the number of the credit limits based on submitted insurance applications for the period 2012 – 2014

| | 2012 | Variation | 2013 | Variation | 2014 |
|--|---------------|-----------|---------------|-----------|---------------|
| Insurance of receivables (export and domestic): | | | | | |
| Total number of submitted applications | 13 784 | ▲ 12.53% | 15 511 | ▲ 27.42% | 19 764 |
| Including domestic risk | 11 864 | ▲ 15.90% | 13 750 | ▲ 29.60% | 17 820 |
| Approved credit limits | 12 420 | ▲ 14.24% | 14 189 | ▲ 27.48% | 18 088 |
| Percentage of approved credit limits | 90.00% | ▲ | 91.47% | ▲ | 91.52% |
| Requested credit limits /absolute value in BGN/ | 1 232 899 403 | ▼ -12.15% | 1 083 102 423 | ▲ 14.09% | 1 235 735 295 |
| Approved credit limits /absolute value in BGN/ | 891 685 672 | ▼ -13.54% | 770 982 214 | ▲ 18.93% | 916 928 728 |
| Percentage of approved credit limit in relation to their | 72.32% | ▼ | 71.18% | ▲ | 74.20% |
| Insurance of credits and financing: | | | | | |
| Number of submitted applications | 641 | ▼ -70.05% | 192 | ▲ 21.35% | 233 |
| Requested credit limits /absolute value in BGN/ | 221 971 804 | ▼ -48.35% | 114 642 204 | ▲ 239.54% | 389 251 925 |
| Approved credit limits /absolute value in BGN/ | 155 962 524 | ▼ -64.98% | 54 614 101 | ▲ 77.20% | 96 777 596 |
| Percentage of approved credit limit in relation to | 70.26% | ▼ | 47.64% | ▼ | 24.86% |