




▲ Preamble

The end of the year 2010 was probably the most anticipated part of a period full of hopes for stabilization of financial markets and improvement in consumer and business confidence.

Nevertheless the rising trend in the amount of the accepted for insurance coverage credit limits – 97% (acceptance ratio), the payment default risks still form a crucial and critical issue in the day- to- day business of the Agency.

The increased number of claim cases made the policyholders to realize the role of the Agency in the marketable and non – marketable risk mitigating process through trade credit insurance protection.

Although the finance markets remain fragile **BAEZ EAD** stands by its clients with expert solutions and remains supportive in meeting their growing credit insurance needs.



* Acceptance ratio of **BAEZ EAD** for 2010

▲ Legal form and management

On 18th of December 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 insurance company 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 compatibility of the Bulgarian goods and services on the international market.

BAEZ EAD has been established as a joint-stock company with participation of the State by the provision of Court Order №1 as of 29.10.1998 of the Sofia City Court, under company file №11 846/1998.

Despite that the legal form of constitution of **BAEZ EAD** permits to increase the number of shareholders, in 2004 the Agency has been 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, distributed into 100 005 registered dematerialized shares with nominal value of BGN 100 each.

Management

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

Agency's supreme management body is the Sole owner of the capital, represented by the Minister of Economy, Energy and Tourism of the Republic of Bulgaria – **Mr. Traicho Traikov**.

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

As of 31.12.2010 the Board of Directors of **BAEZ EAD** 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.

For the year 2010, the members of the Board of Directors of **BAEZ EAD** have declared with the required by the law declarations the circumstances under Art. 247, para 2 of the Commercial Code by virtue of written declarations.

Inter-ministerial export insurance council

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 9 (State Gazette, last amended 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.

Some of the important aspects in terms of competence of the Inter-Ministerial Export Insurance Council are approving the operational expenses of the Agency under the Export Insurance Act, defining the way of investing the free resources in the bank account of **BAEZ EAD** under article 14, paragraph 2 of the Export Insurance Act and specifying the range of powers of the Board of the directors and its own in relation to concluding insurance contracts and paying insurance indemnities under insurance contracts pursuant to the Export Insurance Act.

During the year 2010 the Inter-Ministerial Export Insurance Council was convened only once.

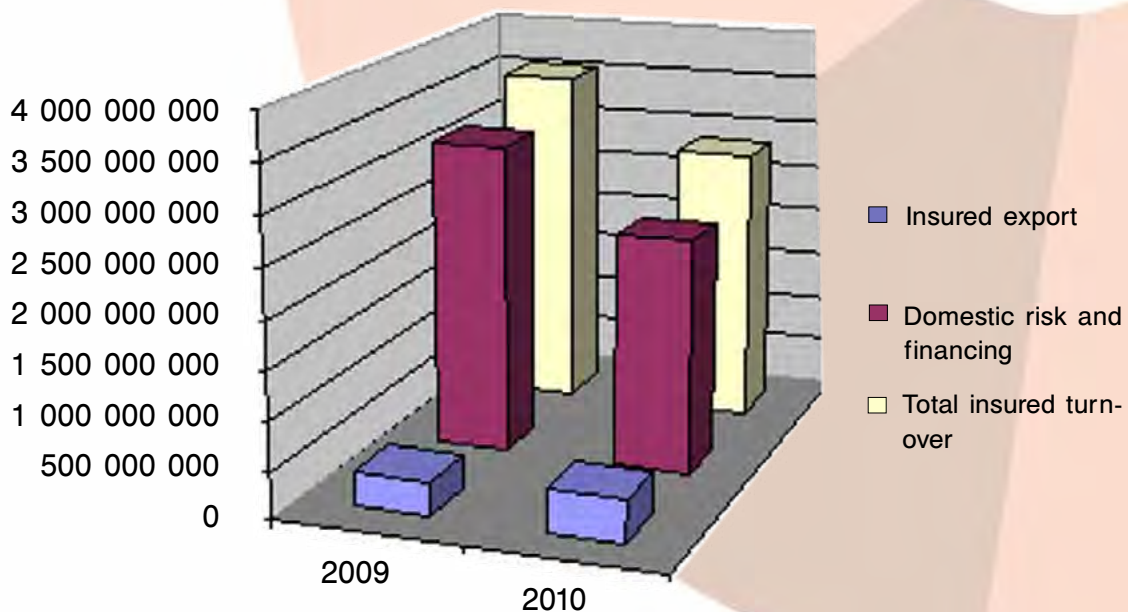
The Inter-Ministerial Export Insurance Council consists of representatives from some of the major ministries and institutions, and along with its chairperson, the Minister of Economy, Energy and Tourism, they are as follows:

- **Ivo Marinov** – Deputy Minister of Economy, Energy and Tourism;
- **Rumen Porozhanov** – Head of the Cabinet of the Minister of Finance;
- **Emilia Manolova** – Head of Strategic Planning Department, Ministry of Agriculture and Food;
- **Radoslava Kafedjiiska** – Head of Legal Department, Ministry of Foreign Affairs;
- **Stefan Stoilkov** – Head of Regulatory Policy and Analysis, Insurance Supervision, Financial Supervision Commission.

Insurance activity

1. Highlights of the insurance activity of BAEZ EAD

In 2010 the Agency proceeded the upward development in its activity although some negative trends recorded. The volume of domestic risk coverage has decreased by 25% at the expense of the insured credits and financing of small and medium-size enterprises and also the insured export that increased by 25%. The recorded decrease in the volume of the insured turnover was 20%.



Comparison of the insured by **BAEZ EAD** turnover in 2009 and in 2010

The insured export forms 15% of the total volume of insured credits, in 2009 this share was 10%. The domestic risk, including the relatively new product “credits and financing of small and medium-size enterprises”, comprises 85% of the overall insured turnover (90% in 2009).”

The insured export during the year has increased by 25% compared to the previous 2009. The share of the insured export is 1.45% from the overall export of the Country. The export covered on the account of **BAEZ EAD** has increased by 15%. The export covered under the Export Insurance Act takes its highest rate by ascending with 55%.

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

Year	Realized export from the territory of the Republic of Bulgaria – BGN	Insured export - BGN			Percentage of the insured export from the realized export		
		Short-term marketable risk on the account of BAEZ	Short-term non-marketable risk according to the Export Insurance Act	TOTAL	Short-term marketable risk on the account of BAEZ	Short-term non-marketable risk according to the Export Insurance Act	TOTAL
2008	29 880 169 134	201 667 672	117 570 704	319 238 375	0.67%	0.39%	1.07%
2009	23 052 357 293	266 254 733	88 179 932	354 434 666	1.16%	0.38%	1.54%
2010	30 488 093 930	306 135 920	137 114 550	443 250 470	1.00%	0.45%	1.45%

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

- **Europe – 85%.** For comparison, the insured export in 2009 was 93%. The biggest share belongs to the countries of the European Union – 62%, and in 2009 this share was the same. The countries with the highest share are:
 - Germany – 12% (in 2009 - 13%);
 - Italy – 10% (in 2009 – 14%);
 - Poland – 7% (in 2009 - 7%);
 - UK – 6% (in 2009 – 4%);
 - Romania – 5% (in 2009 – 5%);
 - France – 5% (in 2009 – 4%);
 - The rest of EU-members hold less than 4% share.
- **Other European countries – 23%** (in 2009 – 31%), including:
 - Macedonia – 8%, in 2009 - 12%;
 - Serbia – 5%;
 - The rest of European countries have less than 4% share.
- **The rest of the world – 15%** in total, including Yemen – 7%.

BAEZ EAD performed risk assessment of 8509 credit limits during 2010, based on the submitted applications for insurance of our clients, 7357 of which were related to domestic risk. For the same period in 2009 these figures have been as follows: total number of credit limits – 7403, 6734 of them related to domestic risk. The accepted credit limits in 2010 were 8254 (i.e. 97% of all applications). The submitted applications for credit limits coverage amounted to BGN 737 881 306, BGN 526 323 581 or 71.32% of them were accepted.

In 2010 **BAEZ EAD** assessed the credit risk of 2 577 debtors under the General condition for insurance of credits and financing, which is 43% decrease compared to the 2009. The approved limits amount to BGN 493 233 451 and 94% of them comprised the credit portfolios of the commercial banks.

BAEZ EAD assessed also the political risk of the Republic of Macedonia in order to grant investment insurance coverage.

The claims paid during the year have been increased by 86% compared to the previous year and mainly due to protracted default of buyers from the EU member states – 94% (in 2009 – 100%). The countries with the highest share of claims paid because of debtor's default are: Bulgaria – 50%, which is quite logical, having in mind that the domestic risk forms 85% of the insured in 2010 turnover; Germany – 18%, Greece – 13%, Italy – 6%.

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

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

The insurance activity on the account of **BAEZ EAD** 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 №124 from June 1, 2007, according to which the marketable risk countries are the following: Australia, Austria, Belgium, United Kingdom, Germany, Greece, Estonia, Iceland, Spain, Ireland, Italy, Canada, 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 EAD** and the payment of insurance indemnities are provided by:

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

In 2010, the insurance activity on the account of **BAEZ EAD** recorded the following:

- Increase of the insured export against short-term commercial risk. In 2010, the volume of insured export reached the amount of BGN 298 703 766, which is an increase by 33% compared to the previous year, when the insured export was in the amount of BGN 224 506 573 – *Application N°1*;

- Increase of the assigned premium income from insurance against short-term commercial marketable risk by 156%, compared to 2009. In 2010, the amount reached BGN 1 410 231, compared to 2009, when the premium income was in the amount of BGN 551 551 – *Application N°1*;

- Increase by 88% of the average premium rate under which **BAEZ EAD** concludes insurance policies against short-term commercial risk – *Application N°1*;

- Increase of the volume of the insured domestic deliveries (the deliveries on the territory of the Republic of Bulgaria) in 2010. The volume of the insured deliveries reached the amount of BGN 614 735 585, which forms an increase by 72%, compared to the previous year, when the insured deliveries reached the amount of BGN 357 535 706;

- Increase of the assigned premium income from this type of insurance by 44% compared to 2009. In 2010, the assigned premium income from insurance against short-term commercial risk, which has arisen on the territory of Republic of Bulgaria reached the amount of BGN 3 447 656, despite of the significant reduction of the premium rate *Application N°2*;

- Decrease by 16% of the average premium rate under which **BAEZ EAD** concludes insurance policies against short-term commercial risk which has arisen on the territory of Republic of Bulgaria – *Application N°1*.

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

BAEZ EAD provides insurance in accordance to the Export Insurance Act 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.

Insurance cover is provided on the account of the State for the countries not included in the List of marketable risk countries. 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, as well.

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

- The appointed in the State Budget of the Republic of Bulgaria funds at the amount of 70 million BGN for the 2009;
- The accumulated in a special account funds from insurance premiums under concluded insurance contracts in accordance to the Export Insurance Act.





Under the activity of **BAEZ EAD** on the account of the State the following was reported:

- Increase of the insured by **BAEZ EAD** export on the account of the State. In 2010, the volume of the insured amount reached BGN 78 182 546, which is an increase of 61.5% compared to 2009, when the insured by **BAEZ EAD** export on the account of the State is at the amount of BGN 48 402 765 - *Application N°3*;
- Increase by 251% in the amount of the assigned insurance premiums under short-term non-marketable commercial and political risk insurances, compared to the levels from the previous year. In 2010, the premium income of the insurance on the account of the State reached the amount of BGN 1 070 500 compared to 2009 when the amount was BGN 304 747 - *Application N°2*;
- Increase by 117% of the average premium rate under which **BAEZ EAD** concludes insurance policies against short-term non-marketable commercial and political risk – *Application N°3*.

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

In 2010 the Agency did not conclude insurances of credits for pre-export financing.

During 2010 the Agency has insured Bulgarian investments abroad at the total amount of BGN 66 364 158 compared to 2009, when the insured investments are in the



amount of BGN 81 231 953 which means a decrease of the total insured amount in 2010. The premium paid in 2010 comes reaches BGN 336 029 compared to 2009 when the premium paid was in the amount of BGN 317 663 which means an increase by 6% of the collected premium compared to the previous year due to the increase of the premium rate. In 2010 the investments are insured at an average premium rate of 1.03%, depicting an increase of 29% compared to the average premium rate applicable for insurance of investments in 2009. - *Application N°5.*

The amount of the insured by **BAEZ EAD** bank credits and financing in 2010 totals to BGN 1 808 131 038, which is a decrease of 37% compared to the previous year 2009 when their amount totals to BGN 2 866 034 838. In 2010 the credits and financing insured by **BAEZ EAD** on its own account reached the amount of BGN 21 714 917 which means 1,2% of the total insured credits turnover (on the account of BAEZ EAD and on the account of the State). The amount of BGN 1 786 416 121 is on the account of the State which means 98,80% of the total insured credits turnover. The assigned insurance premium for coverage of the insured credits and financing in 2010 is at the amount of BGN 1 696 692, which is 18% less than the premium collected for this type of insurance in 2009.

I

4. Exposure of BAEZ by countries

Regarding the activity of BAEZ EAD on its own account – The total net credit exposure as of 31.12.2010 on its own account amounts to BGN 255 373 985. 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
Australia	2	2	140 000	70 000	70 000
Austria	28	28	6 284 622	3 142 311	3 142 311
Belgium	14	14	2 253 351	1 126 676	1 126 676
Bulgaria	9 046	9 046	305 479 373	134 323 588	171 155 785
United Kingdom	28	28	8 511 122	4 033 384	4 477 738
Germany	83	83	23 636 849	10 884 988	12 751 861
Greece	67	67	11 327 938	5 511 319	5 816 619
Denmark	8	8	908 436	454 218	454 218
Estonia	9	9	1 262 876	631 438	631 438
Israel	1	1	488 958	244 479	244 479
Ireland	1	1	391 166	195 583	195 583
Spain	21	21	4 462 685	2 231 342	2 231 342
Italy	51	51	18 633 304	8 179 117	10 454 187
Canada	5	5	1 405 264	694 809	710 455
Cyprus	6	6	925 108	462 554	462 554
Latvia	6	6	676 339	338 170	338 170
Lithuania	6	6	736 436	368 218	368 218
Liechtenstein	1	1	304 895	152 447	152 447
New Zealand	1	1	293 375	146 687	146 687
Norway	6	6	1 765 303	882 651	882 651
Poland	35	35	7 809 463	3 894 953	3 914 511
Portugal	16	16	5 041 943	2 520 971	2 520 971
Romania	72	72	18 330 756	9 087 145	9 243 611
USA	15	15	3 681 164	1 840 582	1 840 582
Slovak Republic	6	6	1 505 989	801 890	704 099
Slovenia	8	8	672 958	336 479	336 479
Serbia	1	1	7 432 154	3 716 077	3 716 077
Hungary	13	13	3 222 941	1 222 513	2 000 428
Finland	7	7	2 085 388	1 042 694	1 042 694
France	59	59	11 715 551	5 857 776	5 857 776
Netherlands	10	10	2 843 266	1 421 633	1 421 633
Czech Republic	25	25	5 826 025	2 186 202	3 639 823
Switzerland	13	13	5 828 181	2 914 090	2 914 090
Sweden	4	4	815 581	407 791	407 791
Total	9 674	9 674	466 698 760	211 324 775	255 373 985

Regarding the activity of BAEZ EAD on the account of the State according to the Export Insurance Act - The total net credit exposure as of 31.12.2010 according to the Export Insurance Act amounts to BGN 354 779 337. The credit exposure by countries is as follows:

Country	Number of limits	Number of re-insured limits	Total credit limit	Reinsured credit limit	Net credit limit
Albania	2	2	1 672 243	836 122	836 122
Argentina	8	8	1 022 577	511 288	511 288
Belarus	9	9	4 760 378	2 380 189	2 380 189
Benin	1	1	78 233	39 117	39 117
Bosnia & Herzegovina	3	3	343 595	171 798	171 798
Brazil	1	1	97 792	48 896	48 896
Bulgaria	1 424	1 424	594 036 516	297 018 258	297 018 258
Venezuela	1	1	100 000	50 000	50 000
Vietnam	5	5	1 057 659	528 829	528 829
Ghana	2	2	97 792	48 896	48 896
Egypt	3	3	1 044 022	522 011	522 011
Ecuador	1	1	105 000	52 500	52 500
Israel	6	6	1 598 057	799 029	799 029
India	2	2	64 542	32 271	32 271
Indonesia	5	5	1 272 734	636 367	636 367
Yemen	1	1	39 117	19 558	19 558
Kazakhstan	2	2	455 835	227 918	227 918
Kyrgyz Republic	1	1	124 387	62 194	62 194
China	10	10	4 070 904	2 035 452	2 035 452
Kosovo	5	5	986 750	493 375	493 375
Costa Rica	2	2	74 911	37 456	37 456
Ivory Coast	1	1	19 558	9 779	9 779
Cuba	7	7	6 478 097	3 239 048	3 239 048
Libya	1	1	97 792	48 896	48 896
Lebanon	4	4	1 253 166	626 583	626 583
Macedonia	32	32	29 996 805	14 998 403	14 998 403
Malaysia	1	1	100 000	50 000	50 000
Morocco	3	3	651 513	325 756	325 756
Mexico	4	4	938 042	469 021	469 021
Moldova	3	3	275 141	137 571	137 571
Mongolia	2	2	156 466	78 233	78 233
United Arab Emirates	5	5	649 336	324 668	324 668
Pakistan	1	1	39 117	19 558	19 558
Peru	1	1	140 000	70 000	70 000

Russia	15	15	5 274 363	2 637 182	2 637 182
Saudi Arabia	3	3	491 166	245 583	245 583
Singapore	6	6	1 273 800	636 900	636 900
Serbia	23	23	24 084 047	12 042 024	12 042 024
Chinese Taipei	2	2	174 000	87 000	87 000
Thailand	1	1	60 000	30 000	30 000
Tunisia	2	2	74 322	37 161	37 161
Turkey	33	33	6 186 102	3 093 051	3 093 051
Uganda	1	1	195 583	97 792	97 792
Ukraine	5	5	13 066 270	6 533 135	6 533 135
Hong Kong	1	1	12 322	6 161	6 161
Croatia	11	11	1 104 240	552 120	552 120
Montenegro	2	2	103 659	51 829	51 829
Chile	3	3	357 076	178 538	178 538
South Africa	3	3	2 933 745	1 466 873	1 466 873
Korea, Rep. (South)	1	1	269 905	134 952	134 952
Total	1 671	1 671	709 558 675	354 779 337	354 779 337

5. Outward Reinsurance Activity

At the end of 2010 **BAEZ EAD** renewed its quota share reinsurance treaty with Swiss Re – Switzerland and as well included a new reinsurer in the portfolio of the activity on its own account – the Swiss branch of the English reinsurance company Novae Re, part of the Group of Lloyd’s Syndicate 2007. The treaty credit limit range was increased to EUR 2 500 000, also the other terms were improved. The cession remained 50%.

With regard to reinsurance on the account of the State, **BAEZ EAD** has secured its reinsurance coverage for the entire world by signing a quota share reinsurance contract with the Belgium state-owned insurance and reinsurance company ONDD, with 50% cession. 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

The continuing trend from the previous insurance year of deepening problems in inter-company indebtedness, reflected in the registered by **BAEZ EAD** overdue payment notifications, as well as in the claims filed and insurance indemnifications paid.

In 2010, the Agency has paid claims of BGN 3 420 712.89, which represents a growth of 86% in the claims paid compared to the previous year.

Activity of BAEZ EAD related to the claims settlement on its own account

Claims paid on **BAEZ EAD** account in 2010 amounted to BGN which is growth of 75% in the claims paid compared to the previous year. Claims paid against domestic risk are 49% of the amount of the claims paid on behalf of **BAEZ EAD**, and 51% are the paid insurance indemnities on insurance events incurred by debtors from U.S. and EU. The prevailing claims within EU countries arose by debtors from Romania, Hungary and Italy. All insurance contracts under which the indemnities were paid on **BAEZ EAD** account are reinsured by the reinsurance company Swiss Re (Switzerland).

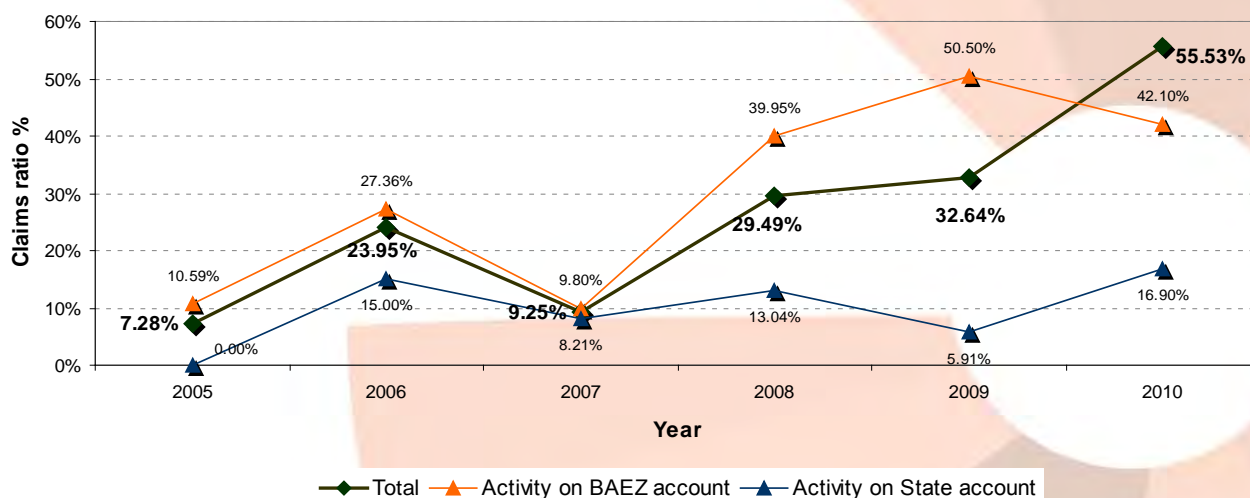
Activity of BAEZ EAD related to claims settlement on the account of the State in accordance to the Export Insurance Act

The total amount claims paid under insurance contracts on behalf of the State amounted to BGN 437 929.00 in 2010. 42% of them are paid on insurance events, acc. General Terms for insurance of payments against non-marketable commercial risks and 58% - acc. General Terms of **BAEZ EAD** for insurance of credit and financing.

All insurance contracts by the force of which insurance indemnity has been paid up in 2010 on the account of the State have been reinsured by the reinsurance company ONDD (Belgium).

The above mentioned insurance indemnities have been paid from the collected premiums assigned on insurance policies concluded on the account of the State for 2010 (the funds under Art. 14, para 2 from the Export Insurance Act), and in this way the Agency did not utilize funds from the budget of the Republic of Bulgaria.

Claims ratio of **BAEZ EAD** for 2005-2010:



Claim ratio on the account of BAEZ EAD:

- Gross ratio, excl. the expenses and the reinsurance costs – 55.54%;
- Net ratio, incl. the expenses excl. reinsurance – 66.77%;
- Claim ratio, net from reinsurance, excl. the operational costs – 45.06%;
- Claim ratio, net from reinsurance and operational costs – 50.31%.

Claim ratio on the account of the State:

- Gross ratio, excl. the expenses and the reinsurance costs – 16.91%;
- Net ratio, incl. the expenses excl. reinsurance – 19.69%;
- Claim ratio, net from reinsurance, excl. the operational costs – 13.82%;
- Claim ratio, net from reinsurance and operational costs – 14.17%.

Claim ratio for the total activity:

- Gross ratio, excl. the expenses and the reinsurance costs – 42.18%;
- Net ratio, incl. the expenses excl. reinsurance – 50.18%;
- Claim ratio, net from reinsurance, excl. the operational costs – 40.66%;
- Claim ratio, net from reinsurance and operational costs – 42.22%.

7. Debt recoveries

As a result of the activities taken by **BAEZ EAD** both pre-judicial and judicial in exercising of regress rights in 2010 were recovered claims amounting to BGN 483 831.64 from debtors operating at the territory of the Republic of Bulgaria and by a debtor from USA.

BAEZ EAD also continues its cooperation with the debt-collecting companies, with which has contractual relationships and with the members of the Prague club and the Bern Union in order to undertake the most effective debt collection actions against the foreign debtors.

8. Applications

Application №1

Statistics on the insured export, premium income and average premium rate against short-term marketable commercial risk for the period 2001 – 2010

Year	Insured export volume (in BGN)*	Assigned insurance premium income	Average premium rate in %	Percentage increase of 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%

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

Application №2

Statistics on the insured export, premium income and average premium rate against short-term marketable commercial risk on the territory of the Republic of Bulgaria for the period 2003 – 2010

Year	Insured export volume (in BGN)*	Assigned insurance premium income	Average premium rate in %	Percentage increase of the insured export 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%

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

Application №3

Statistics on the insured export, premium income and average premium rate against short-term non-marketable commercial and political risk for the period 2001 – 2010

Year	Insured export volume (in BGN)*	Assigned insurance premium income	Average premium rate in %	Percentage increase of 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%

* The above given statistics excl. the insurances of bank credit lines for pre-export financing and the investment insurances.

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

Application №4

Statistics on the insured bank credit line, premium income and average premium rate for bank credit line insurance for pre-export financing, for the period 2001 – 2010

Year	Insured export volume (in BGN)*	Assigned insurance premium income	Average premium rate in %	Percentage increase of 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%

Application № 5

Statistics on the insured limits, premium income and average premium rate for the insurance of investments for the period 2005 – 2009

Year	Amount of the insured investments (in BGN)*	Assigned insurance premium income	Average premium rate In %	Increase in the amount of the insured investments compared to the previous year
Insured investments 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
Insured investments on the account of BAEZ EAD				
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%	-82%
Total on both activities				
2008	68 153 374	291 759	0.43%	4.12
2009	81 231 953	317 663	0.80%	0.19
2010	66 364 158	336 029	1.03%	-0.18

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

Application № 6

Statistics on the insured turnover, premium income and average premium rate for the insurance of credits and financing for the period 2007 – 2009

Year	Amount of the insured investments (in BGN)*	Assigned insurance premium income	Average premium rate In %	Increase in the amount of the insured investments compared to the previous year
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
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
Total on 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

* The insurance of credits and financing starts in 2007.

▲ Financial results of BAEZ EAD

For the financial 2010 **BAEZ EAD** records gross premium income at the amount of BGN 7 961 thousand. There is an increase of BGN 2 337 thousand compared to 2009. The technical result from the insurance activity of the Agency for the year of 2010 is positive and amounts to BGN 2 167 thousand.

In 2010 the administrative and acquisition expenses amount to BGN 1 323 thousand.

The assigned to the re-insurers stake of the insurance premiums paid records an increase of BGN 885 thousand due to the extensive reinsurance protection of the insurance portfolio. In 2010 the amount of the premiums paid reaches the level of BGN 3 273 thousand, and the acquired by the re-insurers commissions amount to BGN 1 033 thousand, i.e. BGN 244 thousand more than those received in 2009.

In 2010 the claimed and recovered by the re-insurers insurance indemnities amount to BGN 1 294 thousand. The fees paid by the applicants for defining a credit limit to a particular buyer by the risk assessment department of **BAEZ EAD** are at the amount of BGN 232 thousand.

A profitability of 7.43% has been achieved as a result of the investment policy of the cash portfolio of the Agency. The recorded net financial income is at the amount of BGN 1 957 thousand. The Agency's investments, including the investments for securing the insurance reserves and the free own funds investments, are distributed in the following way: bank deposits - 50.25%, securities – 36.13% and funds management – 6.45%. The money (monetary assets) deposited in bank current accounts and at the company's cash-desk amount to about 7.18%.

As a final financial result for the year 2010, **BAEZ EAD** reports profit after taxation at the amount of BGN 3 168 thousand, distributed as follows:

- From activity on its own account – BGN 1 763 thousand;
- From activity on the account of the State – BGN 1 405 thousand.

BALANCE SHEET

of BAEZ EAD for the year ended on 31.12.2010

amount (BGN '000)

ASSETS	current year	previous year
I. Long-term intangible assets		
1. Intangible assets		
2. Expenses for acquisition of intangible assets		
Total		
II. Own funds investments		
1. Trading portfolio investments	14 966	13 922
Total	14 966	13 922
III. Financial assets on behalf of insurance reserves	5 716	3 185
IV. Reserves. Re-insurers' share in insurance reserves	2 276	957
V. Receivables		
1. Insurance receivables	621	871
2. Other receivables	236	581
Total	857	1452
VI. Cash	1 661	1 262
VII. Long term tangible assets		
1. Land and building	961	1 015
2. Equipment	43	60
3. Other	3	2
Total	1 007	1 077
VIII. Prepaid expenses	2	3
TOTAL ASSETS	26 485	21 858
SHAREHOLDERS' EQUITY AND LIABILITIES		
I. Shareholders equity		
1. Share capital	10 000	10 000
2. Reserves according to the Trade Law	6 197	4 493
3. Current year profit	3 168	2 449
Total	19 365	16 942
II. Insurance reserves		
1. Equalization reserve	477	477
2. Loss reserve	3 678	1627
3. Unearned premium reserve	2 045	2 064
4. Other	222	152
Total	6 422	4 320
III. Current liabilities		
1. Reinsurance liabilities	358	167
2. Other liabilities	340	429
Total	698	596
IV. Deferred income		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	26 485	21 858

PROFIT AND LOSS STATEMENT

of **BAEZ EAD** for the year ended on 31.12.20010

amount (BGN '000)

	current year	previous year
TECHNICAL ACCOUNT – GENERAL INSURANCE		
1. Premiums earned	7 961	5 624
2. Premiums ceded	(3 273)	(2 388)
3. Investment income	425	225
4. Claims incurred	(2 949)	(1 876)
5. Recovered insurance claims	1 294	958
6. Change in insurance reserves	(2 102)	(1 107)
7. Change in re-insurers' share in the insurance reserves	1 320	452
8. Operating expenses	(1 323)	(1 148)
9. Other expenses	(451)	(172)
10. Other income	1 265	971
TECHNICAL ACCOUNT BALANCE	2 167	1 539
NON-TECHNICAL ACCOUNT		
1. Technical account balance	2 167	1 539
2. Investment income	1 957	1 526
3. Income from reinvesting of insurance reserves	(425)	(225)
4. Investment expenses	(325)	(234)
5. Other income	84	14
6. Other expenses	(92)	(55)
PRE-TAX PROFIT	3 366	2 565
Tax expenses	(198)	(116)
NET PROFIT	3 168	2 449

CASH FLOW STATEMENT

of BAEZ EAD for the year ended on 31.12.2010

amount (BGN '000)

	current year	previous year
I. CASH FLOWS FROM OPERATING ACTIVITIES		
1. Premiums received	8 034	6 030
a. Direct insurance	8 034	6 030
6. Reinsurance premiums		
2. Reinsurance premiums paid	-694	-752
3. Claims paid	-2 614	-1506
a. Direct insurance	-2 614	-1506
6. Inward re-insurance		
4. Sums recovered from re-insurers		
5. Payments to suppliers and employees	-573	-426
6. Acquisition costs paid	-435	-535
7. Charges and fees paid		
8. Dividends received		
9. Interest received		
10. Rent received		
11. Premium and income tax paid	-144	-36
12. Other cash flows from operating activities	-550	-692
13. <i>Net cash provided by operating activities (I)</i>	3 024	2 083
II. CASH FLOWS FROM INVESTING ACTIVITIES		
1. Share-sale proceeds	38	
2. Proceeds from government securities		0
3. Proceeds from other fixed income securities	25 834	45 842
4. Purchase of shares		
5. Purchase of government securities		-1174
6. Purchase of other fixed income securities	-26 908	-45 385
7. Other cash flows from investing activities	-845	-699
8. <i>Net cash provided by investing activities (II)</i>	-1 881	-1416
III. CASH FLOWS FROM FINANCING ACTIVITIES		
1. Dividends paid	-744	-285
2. Interest paid		
3. Proceeds from issuing stock		
4. Stock repurchase		
5. Cash flows from loans received		
6. Cash flows from loans granted		
7. Other cash flows from financing activities		
8. <i>Net cash provided by financing activities (III)</i>	-744	-285
IV. CHANGE IN CASH HELD DURING THE PERIOD (I+II+III)	399	382
V. CASH AT THE BEGINNING OF THE PERIOD	1 262	880
VI. CASH AT THE END OF THE PERIOD	1 661	1 262

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND INSURANCE RESERVES

of BAEZ EAD for the year ended on 31.12.2010

amount (BGN '000)

Index	Share capital								
	Share capital	Share premium	Re-valuation reserve	Reserve		Financial result		Translation adjustments	Total share capital
				General reserve	Other reserve	Profit	Loss		
A	1	2	3	4	5	6	7	8	9
A. Equity									
Balance at the beginning of the period	10 000			4 493		2 449			16 942
1. Current year profit (loss)						3 168			3 168
2. Profit distribution, including dividends				1 518	186	(2 449)			(745)
Balance at the end of the period	10 000			6 011	186	3 168			19 365

amount (BGN '000)

Index	Insurance reserves							
	Equalization reserve	Mathematical reserve	Loss reserve	Un-earned premium reserve	Accrued pension amount	Other reserves	Investment Fund "Life Insurance" reserves	Total insurance reserves
A	10	11	12	13	14	15	16	17
B. Insurance reserves								
Balance at the beginning of the period	477		1 627	2 065		151		4 320
1. Changes in insurance reserves, including:			2 051	(20)		71		2 102
a) increase			2 051	506		80		2 637
b) decrease				(526)		(9)		-535
Balance at the end of the period	477		3 678	2 045	0	222	0	6 422

FIXED (LONG-TERM) ASSETS REPORT

of BAEZ EAD for the year ended on 31.12.2010

amount (BGN '000)

Index	Book value of the fixed assets				Subsequent valuation		Revaluated amount (4+5-6)
	At the beginning of the period	Acquired during the period	Disposed during the period	At the end of the period (1+2-3)	Increase	Decrease	
a	1	2	3	4	5	6	7
I. Tangible fixed assets							
1. Land	14	0	0	14	0	0	14
2. Buildings	1 336	0		1 336	0	0	1 336
3. Machinery and equipment	200	5	0	205	0	0	205
4. Plants and facilities	0	0	0	0	0	0	0
5. Vehicles	95	0	0	95	0	0	95
6. Herds	0	0	0	0	0	0	0
7. Other	3	2	0	5	0	0	5
Group I total:	1 648	7	0	1 655	0	0	1 655
II. Fixed intangible assets							
1. Property rights							
2. Software	0	0	0	0	0	0	0
3. Research and development products							
4. Other	0	0	0	0	0	0	0
Group II total:	0	0	0	0	0	0	0
III. Long-term financial assets							
(excl. long-term receivables)							
1. Share and interest in:							
- subsidiary undertakings							
- joint ventures							
- associate undertakings							
- other undertakings							
2. Investment property							
3. Other long-term securities							
Group III total:	0	0	0	0	0	0	0
IV. Goodwill							
1. Positive goodwill							
2. Negative goodwill							
Group IV total:	0	0	0	0	0	0	0
Sum total (I+II+III+IV)	1 648	7	0	1 655	0	0	1 655

FIXED (LONG-TERM) ASSETS REPORT

of BAEZ EAD for the year ended on 31.12.2009

amount (BGN '000)

Index	Depreciation				Subsequent valuation		Depreciation on the revalued amount at the end of the period (11+12-13)	Carrying amount at the end of the period (7-14)
	At the beginning of the period	Acquired during the period	Write off during the period	At the end of the period (8+9-10)	Increase	Decrease		
a	8	9	10	11	12	13	14	15
I. Tangible fixed assets								
1. Land	0	0	0	0	0	0	0	14
2. Buildings	335	54	0	389	0	0	389	947
3. Machinery and equipment	180	9		189	0	0	189	16
4. Plants and facilities	0	0	0	0	0	0	0	0
5. Vehicles	54	14	0	68	0	0	68	27
6. Herds	0	0	0	0	0	0	0	0
7. Other	1	1	0	2	0	0	2	3
Group I total:	570	78	0	648	0	0	648	1 007
II. Fixed intangible assets								
1. Property rights								
2. Software	0	0	0	0	0	0	0	0
3. Research and development products								
4. Other	0	0	0	0	0	0	0	0
Group II total:	0	0	0	0	0	0	0	0
III. Long-term financial assets								
(excl. long-term receivables)								
1. Share and interest in:								
- subsidiary undertakings								
- joint ventures								
- associate undertakings								
- other undertakings								
2. Investment property								
3. Other long-term securities								
Group III total:	0	0	0	0	0	0	0	0
IV. Goodwill								
1. Positive goodwill								
2. Negative goodwill								
Group IV total:	0	0	0	0	0	0	0	0
Sum total (I+II+III+IV)	570	78	0	648	0	0	648	1 007

ASSETS, LIABILITIES AND PROVISIONS

of BAEZ EAD for the year ended on 31.12.2010

A. ASSETS

amount (BGN '000)

Index	Asset amount	Degree of liquidity	
		Up to 1 year	Over 1 year
a	1	2	3
I. Outstanding capital	0	0	0
II. Long-term receivables			
1. Receivables from linked enterprises, incl.:			
- granted loans			
- others			
2. Commercial loan receivables			
3. Other long-term receivables, incl.:			
- financial lease			
- advance payment			
- others			
Group II total:	0	0	0
III. Short-term receivables			
1. Receivables from linked enterprises, incl.:			
- granted loans			
- sales			
- others			
2. Receivables from clients	621	621	0
3. Advance granted receivables			0
4. Commercial loan receivables			
5. Court receivables			
6. Awarded receivables			
7. Tax refunds, incl.:			
- municipal tax			
- profit tax			
- value added tax			
- refundable tax temporary differences			
- other taxes			
8. Other short-term receivables, incl.:	236	236	0
- shortage and deficiency in accounts			
- social security			
- claims			
- others			
Group III total:	857	857	0
Receivables total (I+II+III):	857	857	0

ASSETS, LIABILITIES AND PROVISIONS

of BAEZ EAD for the year ended on 31.12.2010

B. LIABILITIES

amount (BGN '000)

Index	Liability amount	Degree of liquidity		Security value
		Up to 1 year	Over 1 year	
a	1	2	3	4
I. Long-term liabilities				
1. Amounts payable to linked enterprises				
2. Liability to financial institutions				
3. Commercial loans liability				
4. Debenture loan liability				
5. Advance received liability				
6. Deferred taxes				
7. Other long-term liabilities				
Group I total:	0	0		0
II. Short-term creditors				
1. Amounts payable to linked enterprises, incl.:				
- delivered assets and services				
- dividends				
2. Liability to financial institutions, incl.:				
- banks				
- outstanding payments				
3. Commercial loans liability				
4. Obligations to suppliers	13	13	0	0
5. Advance received liability	0	0		
6. Amounts payable to personnel	45	45	0	0
7. Tax duty	83	83	0	0
- municipal tax	0	0		
- profit tax	77	77		
- value added tax				
- other taxes	6	6	0	0
8. Liability to social security enterprises:	9	9	0	0
- social insurance	9	9	0	0
- health insurance			0	0
- others			0	0
9. Other short-term creditors, incl.:	548	548	0	0
- unpaid interest				
Group II total:	698	698	0	0
Liabilities total (I+II):	698	698	0	0

▲ Structure and professional qualification of personnel

As of December 31, 2010 the number of employees, working under employment contracts in **BAEZ EAD**, is 19. **BAEZ EAD** provides an excellent working environment. It has its own office building and necessary 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 Statutes of **BAEZ EAD**, and 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 Labour Order in **BAEZ EAD**”, “Rules for Securing of Healthy and Safe Labour Conditions”, “Internal Rules of **BAEZ EAD** 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”.

The personnel dynamics as of 31st of December 2010 reflects the following parameters:

- Newly employed – 1 person;
- Termination of employment relations due to reduction of the staff – none;
- Reappointment – none;
- Discharged by mutual consent – 1 person;
- With no change of the job position – 17 people.

The permanently employed staff is allocated into five departments – “Underwriting Department”, “Risk Assessment Department”, “Legal Department”, “Claims Department” and “Financial Accounting and Administration Department”.

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

For 2010 there have been no personal changes in the management of **BAEZ EAD**, which is a prerequisite for the carrying out of a consistent management and personnel policy as to achieve the goals of **BAEZ EAD** in its capacity of a specialized insurer.

Internal rules and organization of the labor process

New Internal rules under the Measures Against Money Laundering Act and against financing terrorism were recognized in **BAEZ EAD** by virtue of an Order N°3 – 608/15.04.2010 of the Chairperson of the State Agency for National Security. As a consequence of the latter new stages in the process of administering the underwriting process were adhered in **BAEZ EAD**.

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 EAD**, the Agency is regularly providing instructions on safety regulations and fire security.

In 2010 a report on the risk assessment was prepared by the authorized Labor Medicine Service.

Professional qualification

The policy of **BAEZ EAD** 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 niche in which **BAEZ EAD** 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 EAD** attended the following educational and qualification programmes:

- Insurance of Bank Guarantees Training, organized by the Office National du Ducroire /ONDD/ in Brussels, Belgium - 09-10 March 2010;
- Annual Seminar 2010 “Bonding”, hosted by Nationale Borg, Nederland – 13-17 April 2010;
- Coface Country Risk Conference 2010 – 25 May 2010;
- International Conference “20 years international bank activity in Bulgaria”, organized by “Banks, Investments, Money” – 07-09 June 2010;
- Participation in the Semi-annual Autumn Meeting at the Berne Union Prague Club, in Zagreb, Croatia – 27–29 September 2010;
- Taking part in session of the EU Council Working Group on Export Insurance, Stockholm, Sweden - 09-12 September 2009;
- International Forum Credit Risk 2010, organized by Experian (Europe, Middle East and Africa) - 25-26 November 2010.

All these events raised the level of professionalism and optimized the current activity of **BAEZ EAD**, and also improved the communication between its experts and thus enforced the efficiency of their work.



▲ Conclusion

BAEZ EAD team closed 2010 satisfied and more experienced. It was a difficult year during which the Agency managed to follow the upward trend started in the last few years.

BAEZ EAD proved its responsibility to its clients' receivables and at the end of the day the Agency meets the upcoming 2011 year by developing new and improving the current insurance products, increasing its personnel qualification and providing the best insurance solutions against credit risk on the Bulgarian insurance market.

Docho Karadochev,
Executive Director