Success guaranteed

Annual Report 2010
KredEx Krediidikindlustus AS

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Beginning of financial year:	31.05.2010
End of financial year:	31.12.2010
Registration code:	11948506
Main area of activity:	non-life insurance
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Auditor:	KPMG Baltics OÜ

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Activity Report 2010

Background and goals of the company

Starting 2008, interest in state export guarantees significantly increased in Estonia. It resulted from the overall world economic downturn and the general insecurity in the domestic economy, as well as deepened conservatism of private credit insurance providers. At the same time, European Union state aid regulations were extended to the operations of Credit and Export Guarantee Fund KredEx, due to which the fund could not offer significant support to Estonian exporters. KredEx fund could only insure the credit risks of exports to other countries of the European Union, if the export turnover of a company was rather small, i.e. up to 2 million Euros. Export capacity of companies of such a size is in general not great and they mostly operate in the internal market. For larger exporters, however, the narrowing of credit insurance possibilities at the end of year 2008 meant restrictions both in competition and availability of financing.

On October 20th, 2009, a thoroughly renewed State Export Guarantees Act (ERTS) was approved in Estonia, which prescribed the foundation of a state owned credit insurance company for offering credit risk management services necessary for the development of entrepreneurship. The task of the insurance company is to offer credit insurance to Estonian companies, making it possible to manage both the commercial risks of buyers and the political risks of buyers' country of location.

According to the new law, the maximum limit amount of state guarantees was increased three times, now reaching three billion kroons. In addition to short-term export guarantees, the new application mechanism also enables more extensive issuing of medium- and long-term export guarantees. To manage the influence of possible claims based on state export guarantees to the state budget, special deposit by the state has been established as a new mechanism, for which means are allocated by the state in the amount of 200 million kroons. Reinsurance premium paid to the state by the insurance provider shall be transferred to the deposit, as well as the income obtained from the investment of deposit funds.

AS KredEx Krediidikindlustus was founded on November 26th, 2009 by the Ministry of Economic Affairs and Communications (2/3 of shares) and Credit and Export Guarantee Fund KredEx (1/3 of shares). Upon the foundation of the insurance company, the state made a budgetary investment of 200 million kroons to which the share of KredEx in the amount of 100 million kroons was added.

The application for insurance license was submitted to the Financial Supervision Authority on January 29th, 2010, and it was approved on May 26th, 2010. The company was registered in the commercial register on May 31st, 2010.

The supervisory council of the company consists of three members, the chairman is Mr. Andrus Treier (from foundation KredEx), and members are Ms. Kertu Fedotov (Ministry of Finance) and Mr. Jarmo Tuisk (Ministry of Economic Affairs and Communications). The management board of the insurance company has two members and started work at the end of year 2009, consisting of the chairman of the board Meelis Tambla and member of the board Mariko Rukholm.

Credit insurance services

When selling a product or providing a service, an entrepreneur always faces a risk that the buyer cannot pay for the service rendered or goods received by the agreed term. An outstanding claim of a buyer conceals in itself a risk to the financial position of a company, the realization of which may jeopardise the liquidity of the company. Credit insurance is the most effective way to manage risks connected with trade credits offered to customers.

Insuring trade receivables helps to:

- sell more to new customers and new markets
- obtain better financing terms
- be more competitive.

Credit insurance of short-term transactions

Credit insurance of short-term transactions is suitable for companies mainly specializing in sale of goods and services, the payment term for which offered to a buyer does not exceed 24 months (usually still 1 to 3 months). Insurance cover ensures payments to a seller for goods sold on credit in the event of insolvency of the buyer. The reasons for insolvency may be different – bankruptcy, temporary illiquidity or political events taking place in the country where the buyer is located. It is suitable both for exporting companies and companies, who also have buyers located in the domestic market.

Credit insurance of long-term transactions

Long-term credit insurance is used for export transactions, where payment terms are longer than 24 months. Usually they include sale of capital goods, whereas transaction may be divided into stages and different financiers of the transaction may be involved. Long-term credit insurance is based on Estonian state guarantee and the guaranteed transactions have to meet the relevant regulations of the European Union and the OECD.

- Supplier credit insurance

Supplier credit means that an Estonian exporter sells his goods to a foreign buyer on credit terms, i.e. the foreign buyer pays for the goods in installments during an agreed period (e.g. within two or more years).

KredEx Krediidikindlustus AS offers supplier credit insurance to Estonian exporters to mitigate such long-term credit risks. By the above described insurance, non-payment risk of installments due to bankruptcy of the foreign buyer, suspension of the installments or the political decisions of the country of location is insured for the supplier. In the event of supplier credit insurance, insurance cover enters into force from the moment the supplier obtains a right to payment according to a commercial agreement. In most cases that is the date when the supplier ships goods to a foreign buyer.

When commercial risk realises (e.g. during bankruptcy) and the foreign buyer does not pay the installment or interest in timely manner, the exporter has a possibility to obtain insurance indemnity from the insurance provider in the amount of (up to 90%) insurance cover from the amount payable by the buyer. If the supplier does not receive an installment due to political events taking place in the buyer's country of location, the exporter could receive indemnity for up to 100% of the amount payable by the buyer.

- Buyer's credit insurance

In the event of buyer's credit, a bank issuing a loan to the buyer or the buyer's bank, is also included in the transaction. The loan is issued according to a loan agreement and the insurance policy insures the risk of non-refunding of the loan due to bankruptcy of the foreign buyer or suspension of installments or political decisions of the buyer's country of location to the bank.

Economic environment

In year 2010, Estonian economy started recovering from the crisis. The growth of GDP increased throughout the year, reaching 6.6% in the 4th quarter. The total growth of GDP in year 2010 was 3.1% according to the initial evaluation of the Statistical Office.

Recovery from the crisis, however, has been uneven in different branches. Thanks to a strong improvement of foreign demand, strong growth in exports took place throughout the year. For example, in December 2010, export increased 67% in yearly comparison; the total growth of the year was 35%. The total export of year 2010 reached the level of 136.9 billion kroons, which is a record figure, as last time the export growth was at a similar level in year 2005. At the same time, internal demand was continually weak, retail sales started to grow only in the second half of the year and rather modestly.

Therefore, the financial situation of many companies is continually difficult. Decrease of turnover has mostly stopped and some sectors have managed to increase prices, which made it possible to increase profit margins. At the same time, loans taken and investments made in the years of boom that lost their value during the crisis inhibit the development of companies. Although there is evidence of active competition between banks for companies that survived the crisis better, many companies are still struggling with liquidity and/or payment problems, not to mention the lack of capital to make new investments. According to the survey of the Estonian Institute of Economic Research carried out at the end of year 2010, the availability of capital is still the main restriction to making new investments among companies. The main articles of goods exported in 2010 were intermediate consumer goods (58%, including processed raw materials 28% of total export), consumer goods (21%, including processed food and beverages for private consumption 6% of total export) and capital goods (13%). As can be seen, the main export articles were processed raw material and other intermediate consumer goods, which carry small additional value and small profit margins. Therefore, for many exporters the existence of financing is of critical importance, the enabling of which is one of the activity goals of KredEx Krediidikindlustus. As the prices of raw materials are currently very volatile in the world markets, in the nearest future the need for financing is expected to increase.

There is a great demand for credit insurance also for the Estonian domestic trade. The turnover of Estonian companies for three quarters of year 2010 was 401.1 billion kroons, of which export formed only 97.5 billion kroons. If export grew by 28% in three quarters, domestic trade within Estonia only grew by 6.5%. Continually difficult situation of companies aimed at the internal market will influence the results of domestic credit insurance also in the future.

Credit insurance forms a rather small part of non-life insurance in Estonia. In 2010, the general contraction of non-life insurance market in Estonia continued. The volume of insurance premiums obtained from non-life insurance decreased to 3,400 million kroons (-9% compared to year 2009) and the financial loss insurance volume decreased to 61.2 million kroons (-25%). The total market was influenced by a price battle of the market participants and the volumes of financial loss insurance were influenced by a decrease in the activity of the market participants in the given segment. As to credit insurance, out of international credit insurance companies Euler Hermes decreased its presence in Estonia by closing its office. Coface continued to offer its service through a representative, and Atradius had no representative office in Estonia.

At the same time, payments of financial loss insurance claims were at a continually high level. In 2008 paid claims were about 15.4 million kroons, in year 2009 the relevant figure was 107.8 million kroons and in 2010 it was 85.0 million kroons.

Most important events and activities

AS KredEx Krediidikindlustus started insurance activity in the third quarter, the first portfolio-based credit insurance contract was concluded on July 16th, 2010.

By the end of the year, the risk portfolio, i.e. the total of valid limits grew to 425 million kroons. Insurance contracts were concluded with 16 Estonian enterprises, whose contractual insured turnover totals over 1.9 billion kroons.

At the end of the year, credit risks insured for domestic buyers formed 56% of the risk portfolio, totalling 238 million kroons. The volume of credit risks reinsured by state guarantees was 95 million kroons, i.e. 22% of the total risk portfolio, and it consisted of insured buyers from countries outside the European Union.

From July 1st, 2010, by government order, AS KredEx Krediidikindlustus took over the obligation to issue state export guarantees from foundation KredEx. The transfer took place according to the State Export Guarantees Act that establishes new state reinsurance terms. Existing guarantee portfolio was not taken over from foundation KredEx, instead it will remain with the foundation until expiry.

From July 30th, 2010, partnership agreement between the foundation KredEx and AS KredEx Krediidikindlustus based on programme "State Export Credit Insurance" became valid. By the agreement, 24,231,610 kroons of unused funds of the programme were transferred to the insurance company for fulfilment of the goals of the programme. Activities established by the partnership agreement were completed by the end of the year, and guarantees were issued to exporters from the total funds of the programme to fulfil the goals of the programme.

During the year, significant focus was on the development and implementation of customer management software, whereas the main focus was on administration of insurance contracts, risk management and financial accounting functionality.

Also the development of cooperation with local and foreign financial institutions was a priority, in order to offer additional possibilities to local exporters for financing of exports. One area of activity is to offer insurance upon factoring of unpaid sales invoices. For that, first customer projects were completed, and cooperation agreements concluded with several Estonian financial institutions.

In November 2010, AS KredEx Krediidikindlustus became a member of the Estonian Insurance Association. Estonian Insurance Association is an organization operating in Estonia that unites insurance providers. The objectives of the organization are to represent the general interests of its member companies in the development of the insurance sector as well as in the social and economic environments. The Association includes 15 insurance providers operating in Estonia.

Main financial indicators

In thousands of kroons	*31.05.2010-31.12.2010*
Collected insurance premiums	4 219
Income from insurance payments as net from reinsurance	1 364
Net technical provisions	1 016
Net loss	- 824
Gross expense ratio	250,3%
Net expense ratio	480,0%
	31.12.2010
Financial assets	341 000
Return on investments on annual basis	1,8%
Balance sheet total	349 356
Equity capital	299 177

Gross premiums earned	gross premiums + change in EPE
Gross expense ratio	(acquisition expenses + administration expenses) / gross premiums earned
Net expense ratio	(acquisition expenses + administration expenses – reinsurance commission fees) / net premiums earned
Return on investments	(income from investments – investment expenses) / average volume of financial investments

Financial results

From the commencement of insurance activities in July 2010, gross premiums were collected in the amount of 4.2 million kroons by the end of the year. Net premiums after reinsurance were 1.4 million kroons. Income of 5.1 million kroons was earned on investments. Other income totalled 0.6 million kroons. There were no claims during the reporting period.

Operational expenses formed 6.8 million kroons. 0.9 million kroons of the operational expenses were connected with conclusion of insurance contracts. Ratio of acquisition expenses to gross premiums formed 20.5%. Ratio of net expenses to premiums formed 480% due to relatively large cost related to starting of operations, compared to premiums earned.

In total, the year ended with a loss of 0.8 million kroons, which was in accordance with expectations, as year 2010 was the first year of activity for the company, and therefore significant expenses had to be made in connection with the launch of operations.

As of December 31st, 2010, financial assets of the company formed 341.0 million kroons. All funds were placed in fixed-term deposits with fixed interest. As of the end of the year, equity capital was 299.2 million kroons and the balance sheet total was 349.4 million kroons.

Staff

As of the end of year 2010, AS KredEx Krediidikindlustus had a total of 6 employees. Total labour expenses in 2010 were 2.9 million kroons.

Directions for year 2011

In 2011, offering of credit insurance services and further development of the new organization will continue. In line with increasing export levels that became evident at the end of the year, general focus will be on increasing awareness of available credit insurance services.

Skills of employees shall continually be developed in various functions connected with credit insurance: credit analysis, management of customer relations and handling of claims.

Main business goals will be to increase business volumes of credit insurance and to maintain the general high quality of the risk portfolio. Increase in volume is expected to come from increased awareness of companies regarding the management of export risks, as well as an increased activity of banks in financing of the insured trade receivables. It is planned to strengthen cooperation with Estonian financial institutions to offer additional long-term guarantees for export projects.

Annual Financial Report 2010

KREDEX

Statement Of Comprehensive Income

In thousands of Estonian kroons

	Annex	31.05.2010-31.12.2010
Revenue		
Premium earned, gross	3	4 219
Reinsurance payments premiums ceded to reinsurers	3	-2 109
Change in provision for unearned premiums	3	-1 491
Change in provision for unearned premiums, reinsurer's share	3	745
Total net premiums earned		**1 364**
Return from investments	4	5 066
Other income	5	590
Total other income		**5 656**
Total income		7 020
Expenses		
Change in provision for outstanding claims (incl IBNR)		-2 032
Change in provision for outstanding claims (incl IBNR), reinsurer's share		1 016
Net provision for outstanding claims		**-1 016**
Insurance contract acquisition expenses of	6	-864
Operating expenses	6	-5 964
Total operating expenses		**-6 828**
Total Expenses		-7 844
Loss of Financial Year		-824
Other Comprehensive Income (Loss)		0
Total Comprehensive Loss For the Financial Year		-824

Statement of Financial Position

In thousands of Estonian kroons

	Annex	31.12.2010	31.05.2010
Assets			
Tangible assets	7	304	0
Intangible assets	8	127	0
Other receivables	9	64	0
Accrued income and prepaid expenses	9	625	0
Receivables related to insurance activities	9	1 115	0
Reinsurance assets	9	1 761	0
Financial investments	10	341 000	0
Cash and cash equivalents	11	4 360	300 000
Total Assets		349 356	300 000
Liabilities And Owner's Equity			
Share capital	12	300 000	300 000
Net loss for the year		-824	0
Total owner's equity		**299 176**	**300 000**
Reinsurer's deposit	13	44 871	0
Liabilities from insurance contracts	14	3 522	0
Liabilities from reinsurance contracts	15	738	0
Other liabilities from insurance activity	16	907	0
Tax payables	16	142	0
Total liabilities		**50 180**	**0**
Total Liabilities And Owner's Equity		349 356	300 000

Statement of Cash Flows

In thousands of Estonian kroons

	Annex	31.05.2010-31.12.2010
Cash flows from operating activities		
Premiums received		3 487
Received from other activities		325
Received from reinsurance		44 209
Payments to reinsurer		-401
Paid operating expenses		-6 360
Investments in term deposits		-1 283 585
Return on term deposits		942 585
Interests received		4 574
Total cash flows from operating activities		-295 166

Cash flows from investing activities

	Annex	31.05.2010-31.12.2010
Acquisition of fixed assets	7,8	-474
Total cash flows from investing activities		-474
Total Cash Flows		-295 640
Cash and cash equivalents at the beginning of period		300 000
Cash and cash equivalents at the end of period	11	4 360
Change in cash and cash equivalents		-295 640

Statement Of Changes In Equity Capital

In thousands of Estonian kroons

		Share capital	*Undivided profit*	*Total*
As of	31.05.2010	300 000	0	300 000
Comprehensive loss for the year			0	-824
				-824
As of	31.12.2010	300 000	-824	299 176

Additional information about equity capital has been provided in Annex 12 to the annual financial report

Annexes To Annual Financial Report

Annex 1. Principles of drafting of the annual report

AS KredEx Krediidikindlustus is a non-life insurance company registered in the Republic of Estonia. 2/3 of the company's shares belong to the Republic of Estonia represented by the Ministry of Economic Affairs and Communications and 1/3 to Credit and Export Guarantee Fund KredEx. The core activity is the provision of credit insurance.

1. Principles of drafting

Annual financial reports of AS KredEx Krediidikindlustus have been prepared according to the International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB) and the interpretations thereof, as they have been approved by the European Union (EU) and entered into force for year 2010.

The present accounting reports are individual reports due to the fact that AS KredEx Krediidikindlustus has no subsidiaries.

According to the requirements of the Estonian Commercial Code, the annual report including the annual financial report prepared by the Management Board and approved by the supervisory Board shall be approved by the general meeting of shareholders. The shareholders have a right not to approve the annual report prepared and submitted by the Management Board and request the preparation of a new report.

The drafting of financial reports is based on the principle of acquisition cost, except for financial assets at fair value with a change through income report and financial assets to be sold, which are evaluated at fair value.

As AS KredEx Krediidikindlustus started operations on 31.05.2010, the reporting period of year 2010 is shorter than the calendar year.

Judgments and estimates by the board

Preparation of financial reports according to the International Financial Reporting Standards (EU) requires evaluations, decision-making and predictions by the board, which influence the balances of income, expenses, assets and liabilities and presentation of notional assets and liabilities as of the reporting date. Evaluations and estimates connected with those are based on the experience of previous period and various other factors considered justified based on the existing circumstances. According to the results obtained, decisions are made in regard to assets and liabilities that are not obvious according to other sources. Even though the above stated evaluations have been made according to the best knowledge of the board, the actual result may differ from the predictions.

Evaluations and estimates thereof are continually reviewed. Changes of accounting evaluations are recorded in the year of the change, if they concern only the given year, or in the year of the change and in following years, if they concern the given and the following years.

The most important criteria connected with evaluations influencing the amounts provided in the present report are connected with the evaluation of liabilities under insurance contracts. Evaluations are used in evaluation of the extent of reported, but not settled claims (RBNS) and incurred, but not reported claims (IBNR).

As AS KredEx Krediidikindlustus concluded the first insurance contract in July 2010, and there were no claims as of the end of the reporting period, the determination of provision for and incurred, but not reported losses is based on the estimates of the loss ratios and recovery ratios provided in the business plan. The estimates are based on the previous experience of Credit and Export Guarantee Fund KredEx, benchmark information of the credit insurance market and the management evaluation. Evaluations of the previous periods and any changes shall be reviewed at every reporting date, and provisions shall be revaluated. The changes occurred are reflected in the consolidated income statement. Claim provisions are not discounted.

The total amount of technical reserves at the end of year 2010 was 1,761 thousand Estonian kroons. Technical reserves have been described in sub clause 4.3 of Annex 1.

2. Calculation and presentation currency

Annual financial reports have been prepared in thousands of Estonian kroons, unless stated otherwise. In year 2010, the calculation currency of the company was Estonian kroon.

3. Transactions recorded in foreign currency

In recording of transactions in foreign currency, the official currency exchange rates of the Bank of Estonia as of the date of the transaction have been considered. Financial assets and liabilities recorded in foreign currency have been revaluated as of December 31st, 2010 into Estonian kroons based on foreign currency exchange rates officially valid on the reporting date. Profits and losses obtained from foreign currency transactions have been recorded in the consolidated income statement as profit or loss of the period.

4. Insurance contracts

An insurance contract is a contract according to which a company assumes a remarkable insurance risk of the policy holder with an agreement to compensate for the loss to the policy holder caused by a defined uncertain future event (insured event). The company concludes insurance contracts with customers to cover both short- and long-term credit risks. As of December 31st, 2010, the portfolio of the company included only insurance contracts related to short-term transactions. All insurance contracts concluded by AS KredEx Krediidikindlustus classify as insurance contracts under IFRS 4.

4.1. Insurance premiums

Collected insurance premiums are recognized upon the effective date of an insurance policy and they are adjusted by the change of allocated prepaid premiums. The collected insurance payments include obtained and due insurance payments after the conclusion of insurance contracts, or in the event of payment in several installments , those installments for which the payment term remains within the reporting period. If the payment term of an insurance payment or the first contractual installment occurs later than the effective date of the insurance contract, the reflection of collected insurance payment is based on the date of entry of the contract into force. Insurance payments and installments received for contracts for which the effective date is later than the balance sheet date are reflected as prepayments.

4.2. Insurance indemnities

In the consolidated income statement, insurance indemnities include loss from insurance events when claims are paid. Up to payment, estimated loss is reflected among the provision for unsatisfied claims and in the consolidated income statement through a change in the relevant allocation.

The share of reinsurance among expenses of incurred claims includes the part for which the reinsurance provider has liability, and that is based on the terms of reinsurance contract.

4.3. Technical reserves

4.3.1. Unearned Premium Reserve

Unearned premium reserve is formed of the total amount of provisions for prepaid premiums for single contracts. A single contract's provision for prepaid premiums reflects proportionally an equal share of the collected gross premium of the given contract to the share of the validity period of the insurance contract after the reporting date from the total validity period of the insurance contract.

Reinsurance provider's share of the unearned premium reserve forms the same percentage of the provision for prepaid premiums having reinsurance cover as the reinsurance provider's liability forms of the total liability of those insurance contracts.

4.3.2. Provision for unsatisfied claims

Provision for unsatisfied claims consists of three parts.

Provision for claims reported but not settled (RBNS) formed to cover the final or estimated losses of insurance events reported before the reporting date. The amount of claim is evaluated per case, considering all the information available by the evaluation date and the potential of change in the claim in the future. The provision also includes handling costs the amount of which is determined according to earlier information about claims and handling expenses thereof.

The reinsurance provider's share in the provision for loss reported but not settled includes the part for which the reinsurance provider is liable according to the terms of the reinsurance contract.

Provision for loss incurred but not reported claims (IBNR) is an estimated provision to cover insurance loss that has probably occurred but is not known. The amount of provision is determined by a responsible actuary, using statistical methods among others. The provision also includes the estimated handling expenses.

The reinsurance provider's share in the provision for loss incurred, but not reported includes the part for which the reinsurance provider is liable according to the terms of the reinsurance contract.

Provision against outstanding risks is formed if the unearned premium reserve for is estimated to be insufficient to cover losses from insurance contracts effective before the reporting date, but taking place after the reporting date, including expenses connected with administration of such contracts.

The reinsurance provider's share of the provision for outstanding risks is calculated according to the reinsurance terms and only if the provision for outstanding risks has been formed.

Provision for unsatisfied claims is not discounted.

4.4. Reinsurance

In its operations, AS KredEx Krediidikindlustus uses private reinsurance and state reinsurance. Private reinsurance has been concluded as a reinsurance contract with quota participation. State reinsurance is governed by the State Export Guarantees Act including terms characteristic for reinsurance of both quota participation and non-proportional type *(excess of loss)*.

Reinsurance premiums and indemnities obtained are reflected in the consolidated income statement and the balance sheet by the gross method. Reinsurance assets consist of reinsured insurance liabilities. The reinsurance providers' share in provision for prepaid premium and unsatisfied claims is reflected according to reinsurance contracts.

4.5. Reinsurance commissions

Commission received from reinsurance providers in accordance with reinsurance contracts is reflected as commission for reinsurance. Claims regarding the commissions for reinsurance are reflected in the financial reports at the moment when the contractual right of claim arises, which according to the agreed terms is the conclusion of an insurance contract with a customer and reflection of reinsurance premium calculated from that.

5. Cash and cash equivalents

Cash and cash equivalents reflected in the financial reports include amounts on bank accounts and balances of overnight deposits.

Cash flows are reflected by the direct method in cash flow report.

6. Financial assets

According to the purpose of acquisition of financial assets and plans of the management financial assets are classified into the following categories:

1. Financial assets at fair value through profit and loss
2. Loans and receivables
3. Investments maintained until redemption date
4. Financial assets ready for sale

The acquisition of financial assets (except for loans and claims) is reflected on the transaction date, i.e. at the moment when the company shall acquire or sell the assets. The reflection is terminated, when the contractual rights to cash flows obtained from the assets expire or when the assets with all significant risks and amenities connected with ownership have been transferred.

In the first group, financial assets acquired with a purpose of trade are reflected. This includes bonds, stock and shares, as well as other securities acquired with a purpose of trade, or that are not planned to retain until their redemption date. Financial assets belonging to this group are initially registered at their acquisition cost, which is the fair value of the fee paid for those financial assets. The fair value does not include transaction expenses. After the initial registration, shares and securities are evaluated at their fair value, which in the event of publicly traded securities is based on the closing prices of the balance sheet date and in the event of securities not publicly traded on available information regarding the investment value. Profits/losses from a change in the fair value, as well as interests and dividends are reflected in the incomes/expenses of the period.

The second group includes financial assets not considered as derivative instruments with fixed or definite payments, which are not listed in the active market. This includes, for example, issued loans, receivables from clients, other receivables and also fixed-term deposits. Financial assets belonging to the given group are initially registered at their acquisition cost, and later at the acquisition cost corrected according to the effective interest rate method subtracted by loss from a decrease in the value of the assets. Upon later evaluation, every claim is handled separately. If it is likely that all due amounts cannot be collected according to the terms of the claims, the claims are discounted. Claims that are known to be irrecoverable are written off. Discount of financial assets connected with business activity is reflected in the consolidated income statement as business expense and discount of financial assets connected with investment activity is reflected in the consolidated income statement as financial expense. Upon payment of a claim discounted earlier or other events showing that the discount is no longer justified, cancellation of the discount is reflected in the consolidated income statement as reduction of the expense in which the discount was initially reflected.

The third group includes financial assets that are not derivative instruments and are with fixed or defined payments and fixed redemption dates, whereas the company intends and can keep the given assets until the redemption date. Financial assets belonging to the given group are initially registered at their acquisition cost with transaction expenses, and later are reflected at the acquisition cost corrected according to the effective interest rate method subtracted by loss from a decrease in the value of the assets. Profits and losses from the change in the value of assets are reflected in the consolidated income statement of the period.

The fourth group includes financial assets not belonging to the above described groups, or that have been assigned for this group by the board. Financial assets belonging to this group are initially registered at their acquisition cost, which is the fair value of the fee paid for those financial assets. The fair value includes also transaction expenses. After the initial registration, assets are evaluated at their fair value at every balance sheet date. If it is not possible to determine the fair value, it shall be reflected in the acquisition cost subtracted by the discount. Unrealized incomes and expenses based on a change in the value are reflected in other consolidated profit/loss. If financial assets ready for sale is sold or its value decreases, cumulative incomes or expenses previously reflected in the equity capital shall be reflected in the consolidated income statement.

During the reporting period, all financial assets belonged to the second group, i.e. under loans and receivables.

Accounting for lease

Financial lease is a lease relationship, where all risks and amenities connected with the ownership of the asset are transferred to the lessee. Other lease agreements are treated as operational lease. During the reporting period, the company had no assets leased by financial lease.

Company as lessee

Operational lease payments are reflected as cost by linear method during the lease period, regardless when the payments actually take place. During the reporting period, the company had two lease agreements concluded on the terms of operational lease.

8. Tangible assets

Tangible fixed assets are considered to be assets with significant acquisition price, the service life of which is longer than 1 year. Tangible fixed assets are registered at their acquisition price consisting of the purchase price (including customs tax and other non-refundable taxes) and expenses directly connected with the acquisition, which are necessary to take the asset to its working state and location. In the future, tangible fixed assets are reflected in acquisition cost subtracted by the accumulated depreciation and possible discounts due to a decrease in the value of the asset.

Fixed assets are depreciated by the linear method. Depreciation rate is assigned separately for every group of fixed assets, depending on its useful life. The cost of land and artwork is not depreciated. The following depreciation rates apply:

- buildings and constructions 5% per annum
- means of transportation 15-25% per annum
- inventory 20% per annum
- computers and office equipment 20-40% per annum

If it appears that the actual useful life of an asset is different from the initial evaluation, the depreciation period shall be changed. The influence of change of the depreciation period shall be reflected in the reporting period and following periods, not ex tunc.

For improvements and long-term use rights of rented assets the determination of depreciation period is based on the length of the period of use of the asset reflected in the contract.

The company shall periodically (or upon the occurrence of circumstances that may reveal a decrease in the value) assess the correspondence of the balance sheet value of the fixed assets to the covered value. If the covered value of the fixed asset (i.e. the higher of the following two indicators: fair value of the asset minus the estimated sales expenses or the use value of the asset) is lower than its balance sheet residual value, the objects of tangible fixed assets are discounted to their covered value.

9. Intangible assets

Intangible assets include development expenses, concessions, patents, licenses bought, including software and trademarks specially created for the company, if their acquisition cost is significant and they participate in the creation of income during a longer period. Intangible assets are depreciated by the linear method in up to five years.

Reflection of acquisition expenses

Acquisition expenses of insurance contracts that are connected with premiums that are transferred to the following reporting period are capitalized as prepaid expenses in the report of financial situation among intangible assets. Direct acquisition expenses are capitalized according to the ratio of the total amount of the provision for prepaid premiums and the total amount of collected insurance payments. Capitalized acquisition expenses include the direct acquisition costs of insurance contracts, i.e. commissions for intermediaries and additional fees connected with the sales of sales employees (including taxes).

10. Corporate income tax

According to the valid legislation, profit of companies is not taxed in Estonia, due to which also deferred income tax requirements or liabilities do not exist. Instead of the profit, dividends paid from undivided profit are taxed with rate 21/79 from the amount paid as net dividends. Corporate tax brought along by payment of dividends is reflected as income expense at the same period when dividends are announced, regardless for which period they have been announced or when they will actually be paid.

11. State reinsurance provider's deposit

To manage the direct influence of possible claims based on state export guarantees, the State Export Guarantees Act prescribes the creation of a deposit at the insurance provider, where means are allocated by the Republic of Estonia as the reinsurance provider. Deposit is increased by reinsurer's share of insurance premiums, from which commissions have been deducted, as well as by income obtained from the investment of the deposit funds and funds obtained from the loss recoveries. Losses based on insurance contracts meeting the state reinsurance terms are covered from the deposit.

12. Mandatory reserve

The insurance company forms the legal reserve according to the requirements of the Commercial Code and the provisions of the articles of incorporation. The legal reserve is an obligatory reserve prescribed by the Commercial Code that may be used to cover loss by a decision of the general meeting, if it is not possible to cover it from the free equity capital of the company, as well as to increase the share capital. The legal reserve is formed of annual net profit allocations, as well as other provisions transferred to the legal reserve according to the law. The extent of the legal reserve is 10% of the share capital. Until the achievement of the above stated amount, 1/20 of the net profit of the company shall be annually transferred to the reserve capital. In the event of net loss, no legal reserve shall be formed.

13. Events after the balance sheet date

The annual financial report reflects significant circumstances influencing the evaluation of assets and liabilities that were revealed between the balance sheet date December 31st, 2010 and the date of drafting the report, but that are connected with transactions having taken place during the reporting period or earlier periods.

14. Liability adequacy test

Adequacy of insurance liabilities is tested at the reporting date, using current evaluations about the future cash flows of insurance contracts. If the evaluation shows that the value of reserves is insufficient in the light of estimated future cash flows, the total deficit shall be reflected in the consolidated income statement of the financial year, initially discounting the capitalized expenses and then forming a provision based on the liability adequacy test (provision against outstanding risks).

The test conducted for year 2010 did not show any deficiency in the technical reserves.

15. Other provisions and potential liabilities

Liabilities based on a binding event having taken place before the reporting date that have a legal or contractual basis or are based on the current practice of the company, require assignment of property, the realization of which is likely and the cost of which can be reliably measured, but the time of realization of amount of which are not exactly known, shall be reflected in the report of financial situation as a provision. The reflection of provisions in the report of financial situation is based on the management evaluation regarding the amount probably necessary for fulfilment of provision and the time of realization of the provision. The provision shall be reflected in the report of financial situation in the amount necessary for the satisfaction of an obligation connected with the provision or transfer to a third party according to the evaluation of the management as of the reporting date. If the provision is realized probably later than within 12 months after the reporting date, it is reflected in discounted value (in the amount of current value of payments connected with the provision), except in the event that the influence of discounting is insignificant. Expense of the provisions is reflected in the expenses of the reporting period.

16. Indemnities to employees

Short-term indemnities to employees, including the salary and holiday pay based on employment contract, as well as social tax and unemployment insurance payments from those, calculated according to the legislation, shall be reflected in operational expenses by accrual method. Additional bonuses (including additional pension and stock options) have not been established for employees.

17. Revenue recognition

Income is reflected in fair value of received or due payment.
Principles of reflection of insurance premiums are described in clause 4.1.
Other incomes are reflected by accrual method at the moment of transaction.
Interest income is reflected by accrual method, relying on internal interest rate.
Dividend income is reflected according to the creation of right of claim.

18. Operating expenses

Expenses of the company are divided as follows according to functionality:

Acquisition expenses. Here, direct and indirect expenses are included from conclusion of insurance contracts. Direct acquisition expenses include commissions to intermediaries and bonuses to sales employees connected with sales results. Indirect acquisition expenses include expenses with permanent nature, such as permanent labour expenses of sales employees, advertising expenses, travel expenses, change in the value of fixed assets and other expenses to the extent they do not belong to administration expenses, loss adjustment expenses or investment expenses.

Claims handling expenses. Those include expenses directly connected with handling of claims and the part of indirect administration expenses connected with loss adjustment. Loss adjustment expenses include both direct payments to third persons and relevant expenses of the insurance provider, including the salaries of employees, social expenses and administration expenses connected with loss adjustment.

Administrative expenses. Those include expenses connected with the collection of insurance premiums, management of insurance portfolio and handling of benefits. Administration expenses include expenses connected with the insurance activity to the extent they do not belong among acquisition or loss adjustment expenses.

Investment portfolio administration expenses. Those include fees payable under property administration agreement for administration and governing of investment portfolio.

The main principle in division of expenses to entries of the income report is as follows: expenses that can be divided exactly, are divided directly according to the entries. Expenses that cannot be divided directly are divided proportionally to the numeric share of employees or estimated working time of employees.

19. New international financial reporting standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

By the moment of drafting the present report, new international standards of financial reporting, as well as amendments and interpretations thereof, have been approved, which will become obligatory for companies from January 1st, 2011 or in reports of periods starting later. According to the evaluation of the management of the company, the above described new standards and interpretations will have no effect to the financial reported of the company, except for the amended IAS 24 "Related Party Disclosures" (applicable to reporting periods beginning on January 1st, 2011 or later).

The amendment exempts a company connected with the government from requirements from disclosure related to transactions with related parties and outstanding and unpaid balances, including binding liabilities it has (a) with the government that has control, common control or significant influence over the reporting enterprise, and (b) with another company as related party, if the same government has control, common control or significant influence over both the reporting enterprise and the other enterprise. If the reporting company decides to use the above described exemption, the amended standard requires disclosure of certain information.

Also, the definition of related party has been amended, and the new definition also includes relationships like affiliates of the controlling owner and enterprises under the control or common control of key persons of the management.

Upon the application of the amended standard, the amount of disclosed information about related parties and transactions and balances with other enterprises under the control of the government decreases.

Annex 2. Risk management

By nature, insurance activity means undertaking risks and managing those risks. The main risks are connected with the selection of risks to be insured, fair evaluation and pricing thereof, as well as selection of sufficient reinsurance cover. In addition, an insurance company needs to consider the risks connected with the investment of their assets to guarantee the fulfilment of obligations based on insurance contracts in the future.

For determination of principles of risk management, risk management policies and procedures have been approved by the supervisory council of KredEx Krediidikindlustus.

The following table shows the possible influence of a change in various risk factors to the financial results of the company, and thereby to the equity capital:

Risk factor	*Total net gain(loss) 2010 (thousands of kroons)*	*Possible change*	*Influence to the total net gain(loss) 2010 (thousands of kroons)*
Income from insurance payments (net)	1 364	increase 5%	-68
Operating expenses (net)	6 548	increase 5%	-327
Investment incomes	5 066	decrease 5%	-253

Insurance risk management

Insurance risks are managed formally by establishment of relevant procedures and regular internal audits that evaluate the sufficiency of such procedures and how well they are followed.

Limited rights for risk approvals, approval procedures for transactions exceeding certain conditions, pricing manuals and reinsurance are used for credit insurance risk management. Additionally, a reporting system has been created that shall ensure the acknowledgement of important risks and timely application of necessary measures for their management.

Evaluation of insurance risks includes the evaluation of risks connected to potential customers, risks connected to buyers and countries of their location. Evaluation of customer risk includes the evaluation of the risk profile of the policy holder, i.e. evaluation of loss potential. The purpose of buyer's risk analysis is the analysis of the credit capability of the buyer, and that as a rule is based on a formal credit report, financial reports, as well as background information obtained from other reliable sources. According to the risk analysis, buyers are classified into risk categories. To avoid the concentration of a buyer-based risk, in the event of every new limit application, the existence of limits already provided to other customers is checked. The goal of evaluation of the country risk is to evaluate the financial stability of countries of the buyers' location, as well as the expected financial and political development thereof, mainly to avoid the realization of political risks. The risk classification of countries consists of 7 risk categories. In assignment of a country's risk classification, the general credit capability of the country, its development prospects and the payment history shall be considered. Generally, the evaluations of internationally approved organizations (e.g. OECD) and rating agencies are considered.

The first principle of pricing is that in longer perspective, expenses connected to insurance services (including losses) shall be covered by collected insurance premiums. According to this, the expected volume, possible losses and the premium fees charged from customers shall be in balance.

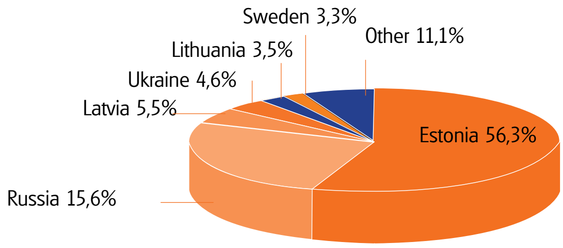
In addition, insurance risk management also includes constant monitoring of portfolio risks. The greatest possible diversification of risks and avoidance of possible losses must be ensured. For that, risk concentration restrictions related to the insurance portfolio have been set, which shall be followed starting from the end of the first full year of operation. Upon a significant change in the risk portfolio of the insurance portfolio, the management can employ additional risk-diminishing measures. Measures diminishing the risk may for example be a change in reserve accounting, change of cover policy, change of minimum premiums and rates, closing of limits and other measures.

For management of risks undertaken by the insurance company, reinsurance is used. For management of non-marketable risks defined in regulations of the European Union and OECD, the insurance company is using the state reinsurance as described in the State Export Guarantees Act. This includes credit insurance connected with export transactions to non-marketable countries and export credit insurance with an insurance period of over 2 years. For management of risks from liabilities not reinsured by the state, the insurance company is using private reinsurance providers as needed. In selection of a reinsurance provider, their reliability is evaluated, analyzing the important financial indicators: such as equity capital, quality of assets, income, liquidity and financial ratings.

Below, liabilities from insurance contracts are provided as of 31.12.2010

Type of insurance	*Liabilities in insurance contracts (thousands of kroons)*	*Liabilities from reinsurance contracts reinsurance provider's share*	*Liabilities in insurance insurance contracts net*
Credit insurance	279,128	139,564	139,564

At the end of year 2010, the main share of insured credit risk by countries was concluded for domestic buyers (56.3%). The volume of credit risks reinsured by state including insured buyers in countries outside the European Union formed 22.0% of the insured risk portfolio. Distribution of the risk portfolio by countries as of December 31st, 2010 was the following:



Financial risk management

Financial risk may be divided into liquidity risk, credit risk and market risk. For the establishment of financial risk management principles, the company has procedures for investment activities approved by the supervisory council, which regulate the undertaking of investment risks to support the core activity. In investment activity of the insurance company, the management board follows a conservative investment strategy, by which the liquidity of the insurance company, allocation and diversification of investments, preservation of value, as well as compliance with restrictions established by the law are ensured.

Liquidity risk

To ensure the fulfilment of the insurance company's obligations and satisfaction of claims by customers, i.e. liquidity, the management plans liquidity needs upon the investment of assets. The share of liquid assets is based on the amount of free assets necessary for the daily operations of the insurance company, considering among other things all contractual liabilities and estimated timing and amounts of loss payments. Liquid assets consist of securities or deposits and demand deposits with a short term corresponding to the payment dates of the estimated liabilities.

Division of financial assets based on duration, as of 31.12.2010

Thousands of kroons	*Up to 1 year*
Fixed-term deposits	341 000
Other receivables	64
Deferred payments	610
Receivables from insurance activity	1 115
Receivables from reinsurance contracts	1 761
Cash and cash equivalents	4 360
Total	348 910

Remaining division of liabilities based on duration, as of 31.12.2010

	Up to 1 year
Provision for unearned premiums	1 490
Insurance provisions	2 032
Liabilities from reinsurance contracts	738
Other liabilities from insurance activity	1 049
Total	5 309

In addition, the state reinsurance deposit has been reflected as a liability, from which possible applicable losses shall be paid in the future. The amount of the deposit as of December 31st, 2010 was 44,871 thousand kroons. The above stated deposit is a long-term account that AS KredEx Krediidikindlustus uses according to the State Export Guarantees Act. State reinsurance deposit has been described in clause 11 of Annex 1.

Credit risk

Credit risk includes a possibility that one party of a financial instrument causes financial loss to another, not being able to fulfil a liability. For management of such risk, deposits are made and securities kept in reliable financial institutions, and financial investments are allocated to several counter parties.

By credit rating, financial assets are divided as follows, as of 31.12.2010

A2	345 970
Without a rating	2 940
Total	348 910

Market risk

Market risk results from changes in the interest rates, currency exchange rates and prices of financial assets. For management of market risks, procedures for investment activities have been established, defining the allocation between different asset classes. Investment of the financial means of the insurance company into securities requires the existence of liquid aftermarket for the relevant security, in order to conclude transactions quickly and in sufficient amounts without influencing the market price.

Interest risk lies in a danger that the change of interest rates influences the market value of the company's assets and liabilities and the net income obtained from investment of assets. As of the end of the reporting period, the interest risk of the company was minor, as the assets were invested into time deposits with fixed interest rate.

To manage the currency risk, the currency of financial assets must correspond to the currency of liabilities under insurance contracts. All insurance contracts are concluded in Euros, and therefore any potential liabilities under such insurance contracts is also fulfilled in Euros. As the exchange rate of Euro is fixed by the Bank of Estonia in relation to Estonian kroon, and on January 1st, 2010, Estonia changed over to Euro, theoretically there was no currency risk between the Estonian kroon and Euro as of December 31st, 2010. Accordingly, all financial assets as of December 31st, 2010 were in Estonian kroons.

The risk of a change in price of financial assets includes a risk that the fair value of financial assets or future cash flows fluctuates due to changes in their market prices. To manage the above described risk, the company holds an diversified and liquid investment portfolio.

Management of operational risk

Operational risks are connected both with internal processes and external factors. To map out operational risks, an annual general risk evaluation is carried out during which important risks affecting the company are identified and evaluated, their likelihood is determined and measured. As the company started its operation from June 2010, the first risk evaluation shall be carried out in year 2011.

The operation of the company is also greatly dependent on information technology and IT systems. IT solutions and administration services were outsourced during the reporting year from various partners. Special attention is paid to the security of databases and faultless functioning of systems. The chairman of the management board is responsible for the overall management of operational risks.

Capital management

The goal of capital management is to ensure the sustain ability of the company and thereby the protection of the interests of policy holders, creditors and shareholders.

According to the Insurance Activities Act, the total amount of an insurance provider's available solvency margin may never be smaller than the required solvency margin. According to the law, the minimum solvency margin of a company specializing in credit insurance shall be at least 3.5 Euros (i.e. ca 54.8 million kroons).

The available solvency margin of the company as of December 31st, 2010 was 299.0 million kroons, and the calculated required solvency margin was less than the minimum solvency margin. Therefore, solvency margin requirement was 54.8 million kroons and the company has fulfilled the terms prescribed by the law.

A summarizing table of the required margin is given below:

	31.12.2010
Available solvency margin	299 047
Solvency margin requirement	54 763
Surplus of solvency margin	244 284

Additionally, according to § 14 of the State Export Guarantees Act, the Republic of Estonia has opened for the company a reinsurer's deposit for fulfilment of reinsurance liabilities based on export guarantees. The balance of the above described deposit as of 31.12.2010 was 44,871 thousand kroons (see Annex 15).

Annex 3. Net premiums

	31.05.2010-31.12.2010
Gross premiums earned	4 219
Change in provision for unearned premiums	-1 491
Total income from insurance payments	**2 728**
Reinsurance premiums	-2 109
including state reinsurance (see Annex 13)	*-641*
Change in provision for unearned premiums, share of reinsurance	745
including state reinsurance (see Annex 13)	*284*
Total incomes from insurance payments, reinsurer's share	**-1 364**
Total	1 364

AS KredEx Krediidikindlustus only specializes in non-life insurance, specifically credit insurance.
All insurance contracts are concluded in Euros.

Annex 4. Income from investments

	31.05.2010-31.12.2010
Deposits-interest income	5 066
Total	5 066

Annex 5. Other operating income

	31.05.2010-31.12.2010
Fees from credit reports	310
Reinsurance commissions	280
Total	590

Annex 6. Operating expenses

	31.05.2010-31.12.2010
Acquisition expenses	
Personnel expenses	593
Expenses on premises	49
Other operating expenses	198
Change in the value of tangible and intangible assets	24
Total acquisition costs	**864**
Operating expenses	
Personnel expenses	2 354
Expenses on premises	187
Change in the value of tangible and intangible assets	19
Other operating expenses	3 404
Total operating expenses	**5 964**
Total	6 828

Annex 7. Tangible fixed assets

	Other inventory
Acquisition cost 31.05.2010	0
Acquisition	333
Acquisition cost 31.12.2010	**333**
Cumulative depreciation 31.05.2010	0
Calculated depreciation	29
Cumulative depreciation 31.12.2010	**29**
Residual value 31.05.2010	0
Residual value 31.12.2010	**304**

Annex 8. Intangible assets

	Computer software
Acquisition cost 31.05.2010	0
Acquisition	141
Acquisition cost 31.12.2010	**141**
Cumulative depreciation 31.05.2010	0
Calculated depreciation	14
Cumulative depreciation 31.12.2010	**14**
Residual value 31.05.2010	0
Residual value 31.12.2010	**127**

As of 31.12.2010, the company did not have capitalized acquisition expenses.

Annex 9. Claims

Other receivables	*31.12.2010*	*31.05.2010*
Fees of credit reports	15	0
Other receivables	49	0
Total	64	0

Other receivables reflect the overpaid amount to SA KredEx that will be settled by payments of next periods.

Accrued income and prepaid incomes of periods

	31.12.2010	*31.05.2010*
Deferred interest payments	610	0
Prepaid expenses of future periods	15	0
Total	625	0

Receivables from insurance activity

	31.12.2010	*31.05.2010*
Receivables from insurance contracts	1 115	0
Total	1 115	0

Receivables from insurance contracts reflect outstanding invoices for insurance premiums as of the balance sheet date. All reflected receivables are to be realized within 12 months. No outstanding claim is overdue for more than 90 days.

Receivables from reinsurance contracts

	31.12.2010	*31.05.2010*
State reinsurance (see Annex 13)		
Reinsurer's share of the provision for unearned premiums	284	0
Reinsurer's share of provision for outstanding claims (incl. IBNR)	318	0
Total state reinsurance	**602**	**0**
Private reinsurance		
Reinsurer's share of the provision for unearned premiums	461	0
Reinsurer's share of provision for outstanding claims	698	0
Total private reinsurance	**1 159**	**0**
Total	1 761	0

Annex 10. Financial investments

As of 31.12.2010, the financial investments of AS KredEx Krediidikindlustus consisted of deposits in credit institutions.

	31.12.2010	31.05.2010
Fixed-term deposits	341 000	0
Total	341 000	0

During the reporting period, interest rates of the deposits were between 1.00% and 1.15%.

All deposits were concluded in Estonian kroons and during introduction of Euro, the exchange rate was fixed at the level of 15.6466. Therefore, keeping assets in kroon nominated fixed-term deposit did not cause a currency risk.

As of 31.12.2010, all fixed-term deposits had a term of up to 3 months.

Annex 11. Cash and cash equivalents

Cash and cash equivalents consist of funds in the bank in overnight deposit. As of 31.12.2010, all funds in bank account were in Estonian kroons.

In thousands of Estonian kroons	31.12.2010	31.05.2010
Overnight deposit in bank	4 360	300 000
Total	4 360	300 000

Annex 12. Equity capital

	31.12.2010	31.05.2010
Share capital	300 000 000	300 000 000
Number of shares	300 000	300 000
Nominal value of shares (in kroons)	1 000	1 000

According to the Statutes, the minimum amount of the share capital is 75 million kroons, and maximum 300 million kroons. The nominal value of shares is 1,000 kroons. 2/3 of the company's shares (i.e. 200,000 shares) belong to the Republic of Estonia represented by the Ministry of Economic Affairs and Communications and 1/3 (i.e. 100,000 shares) to Credit and Export Guarantee Fund KredEx. Shares are registered shares of one type. According to the Commercial Code, a share gives a shareholder a right to participate in the general meeting of shareholders, and in division of profit and remaining assets upon termination of the company, as well as other rights prescribed by the law and the Statutes.

Reserves of equity capital consist of the obligatory legal reserves formed of annual provision of net profit, and the amount of which shall be 1/10 of the share capital. According to the Statutes, 1/20 of the net profit of the company shall annually be transferred to the legal reserves. As of 31.12.2010, the legal reserve of the company was 0, as the company was founded on May 31st, 2010, and the result of the first year of operation was net loss.

Annex 13. Deposits from reinsurance providers

	2010
Balance 01.01.2010	**0**
Payments to deposit	44 278
Interest income earned on investments	48
Insurance premiums collected from contracts with state guarantee	641
Commission from state reinsurance provider	-96
Balance 31.12.2010	**44 871**

Technical provisions from state reinsurance	**31.12.10**
Reinsurer's share of the provision for unearned premiums	284
Reinsurer's share of provision for outstanding claims (incl. IBNR)	318
Total technical provisions from state reinsurance	**602**
Net liabilities from reinsurance deposit 31.12.2010	**44 269**

To manage the direct influence of possible claims based on state export guarantees, the State Export Guarantees Act prescribes at the legislative level the creation of a deposit at the insurance provider. Reinsurance premium paid to the state by the insurance provider shall be transferred to the deposit, as well as the income obtained from the investment of deposit funds.

Annex 14. Liabilities from insurance contracts

	31.12.2010	31.05.2010
Technical reserves		
Provision for unearned premiums	1 490	0
Provision for reported claims (RBNS)	0	0
Provision for incurred, but not reported claims (IBNR)	2 032	0
Total	3 522	0

Balance as of 31.12.2010 reflects loss provisions formed in year 2010. No indemnities were paid in the reporting period.

Annex 15. Liabilities from reinsurance contracts

	31.12.2010	31.05.2010
Liability before reinsurance provider	738	0
Total	738	0

The liability reflects the liability of company to pay to the reinsurance provider its share of collected insurance premiums, from which the commission of reinsurance has been deducted.

Annex 16. Other liabilities

	31.12.2010	31.05.2010
Prepayments of policy holders	366	0
Reserve of change in reinsurance commissions	146	0
Total	512	0
Employee related liabilities (incl. vacation reserve)	355	0
Supplier payables	38	0
Other liabilities	2	0
Total	395	0
Total other liabilities from insurance activity	907	0
VAT liability	7	0
Income tax liability	52	0
Social tax liability	83	0
Total tax liabilities	**142**	**0**
Total	1 049	0

Annex 17. Fair value of financial assets and liabilities

	Book value	Fair value
Financial assets as of 31.12.2010		
Fixed-term deposits	341 000	341 000
Receivables from customers and other receivables	3 550	3 550
Cash and cash equivalents	4 360	4 360
Total financial assets 31.12.2010	**348 910**	**348 910**
Financial liabilities as of 31.12.2010		
Other financial liabilities (see Annex 16)	395	395
Total financial liabilities 31.12.2010	**395**	**395**

According to the evaluation of the company board the values of assets and liabilities reflected in the balance sheet at their depreciated acquisition cost do not significantly differ from their fair value as of December 31st, 2010. Claims against customers as well as other claims and liabilities from reinsurance contracts and other liabilities from insurance activity have occurred during the general business operations and shall be paid short-term, due to which their fair value, according to the evaluation of the board, does not significantly differ from the book value. Those claims and liabilities do not bear interest.

Annex 18. Financial assets and liabilities by category

31.12.2010	Loans and claims	Financial liabilities at corrected acquisition cost	Total
Fixed-term deposits	341 000	0	341 000
Receivables from customers and other receivables	3 550	0	3 550

Cash and cash equivalents	4 360	0	4 360
Other financial liabilities (see Annex 16)	0	395	395
Total	348 910	395	349 305

Annex 19. Operational lease

From June 10th, 2010, office premises are being leased at address Hobujaama 4. Lease expenses in the new premises in year 2010 were 110 477 kroons. Upon retaining of the lease contract, the lease expenses planned for year 2011 are 227,063 kroons.

From June 1st, 2010 a car has been taken on operational lease. Lease expenses in 2010 were 70,000 kroons, including VAT, lease expenses in year 2011 (in the event of retaining the contract) will be 120,000 kroons, including VAT.

Annex 20. Transactions with related parties

Related parties are considered to be:

1. shareholders of the company (see Annex 1)
2. members of the board and council
3. close relatives of the above persons and companies connected with them
4. state institutions

Transactions with members of the board and council

During the reporting period, fees paid to the members of the board, including the social tax, were 1,669 thousand kroons. Fees paid to the council members, including the social tax, were 186 thousand kroons. Upon the termination of the company's operation, members of the board are entitled to compensation of 3 monthly salaries. The said amounts were not paid during the reporting period.

Other transactions with related parties.

During the reporting period, the company has outsourced services from related parties as follows

Services outsourced	*31.05.2010-31.12.20010*
SA KredEx (shareholder)	3 578
Company connected with a member of the board	70
State owned companies	4
Total	3 652

In addition, 44,209 thousand kroons were received in the state reinsurance deposit through SA KredEx. Overview of state reinsurance deposit in clause 11 of Annex 1 and claims and liabilities from transactions during the reporting period in Annex 13 as of December 31st, 2010 were as follows:

	31.12.2010
Claims	
SA KredEx (shareholder)	49
Republic of Estonia (shareholder)	602
Total	651

Liabilities	
Republic of Estonia (shareholder)	44 871
State institutions	1
Total	44 872

Annex 21. Events after the balance sheet date

From January 1st, 2011, the Republic of Estonia joined the Euro zone, and the Estonian kroon (EEK) was replaced by Euro (EUR). Therefore, from that date the company converted its accounting into Euros, and the financial reports of 2011 and the following financial reports will be drafted in Euros. Benchmark data shall be converted with an official transfer exchange rate 15.6466 EEK/EUR

Signatures of the members of the board to the annual report 2010

The board has drafted the annual report and the annual financial report of AS KredEx Krediidikindlustus for the year that ended on December 31st, 2010.

Meelis Tambla	*Chairman of the board*	18.03.2011
Mariko Rukholm	*Member of the board*	18.03.2011

Report of independent sworn auditor

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Independent Auditors' Report

(Translation from Estonian)

To the shareholders of AS KredEx Krediidikindlustus

We have audited the accompanying financial statements of AS KredEx Krediidikindlustus ("the Company"), which comprise the statement of financial position as at 31 December 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 9 to 37.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 18 March 2011

KPMG Baltics OÜ
Licence No 17

/signature/

Taivo Epner
Authorized Public Accountant

Proposal for covering loss

The board of AS KredEx Krediidikindlustus proposes to transfer the net loss of year that ended on December 31st, 2010 in the amount of 824 thousand kroons to the account of retained earnings.

List of areas of activity

The sales income of AS KredEx Krediidikindlustus according to EMTAK classifiers was divided as follows:

In Estonian kroons	*31.05.2010-31.12.2010*
Non-life insurance (EMTAK code 65121)	4 218 501
Total	4 218 501