



KredEx Credit Insurance Ltd. Annual Review 2011

About the company

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 trade credit risk management services necessary for the development of entrepreneurship.

KredEx Credit Insurance Ltd 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). 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 task of the insurance company is to offer trade 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.

The supervisory council of the company consists of three members, the chairman is Mr. Andrus Treier (Fund 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 Mr. Meelis Tambla and member of the board Ms. Mariko Rukholm.

Important activities during 2011

Last year was a year of growth for KredEx Credit Insurance Ltd. The risk portfolio, i.e. the amount of valid insurance limits, grew more than three times during the year to 104 million euros. Insurance agreements were concluded with 37 Estonian enterprises, the turnover of which insured by the agreements in year 2011 totalled 258 million euros.

At the end of the year, credit risks insured for domestic buyers formed 57% of risk portfolio, totalling 59 million euros. The volume of credit risks insured by state guarantees was 10 million euros, i.e. 10% of the total risk portfolio, and it included insured buyers from countries outside the OECD.

Throughout the year, the focus was on increasing the awareness of exporting enterprises about credit insurance. For that purpose, various trade events were organised and services were introduced. Important undertakings also included projects connected with the development of the customer management software, where the main focus was on administration of insurance agreements, risk management and financial accounting.



Economic environment

Year 2011 in Estonia was a year of managing the impact of global economic crisis. According to the initial data, the GDP of Estonia grew +7.5% compared to the previous year, which is the quickest growth since 2007. Even though the domestic demand in Estonia increased, the engine of the economy was definitely export.

In comparison to year 2010, export grew by +38%, reaching 12 billion euros. Largest parts of export were formed by machinery and devices (27%), mineral products (17%) and metals and metal products. The first two of those groups of goods showed an increase in turnover of over 50% compared to the previous year.

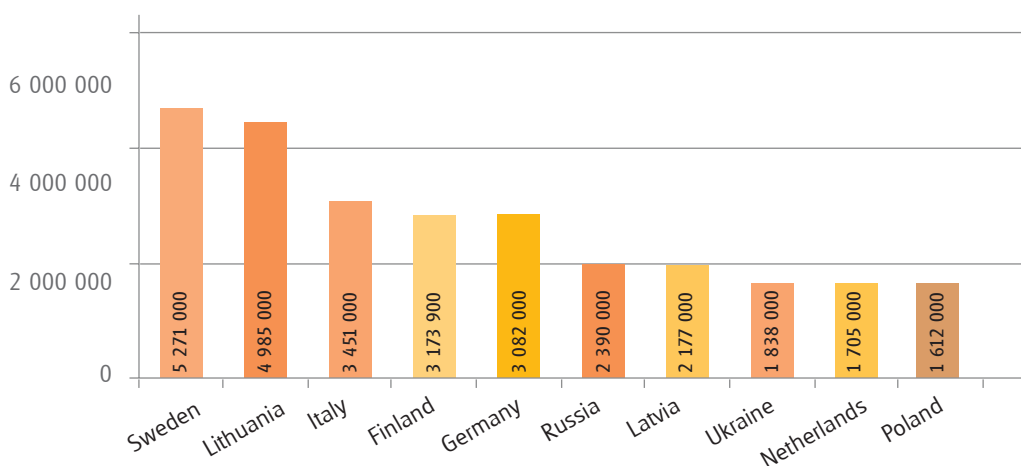
The main export markets were Sweden and Finland, similarly to the previous year. Those markets formed 16% and 15% of the Estonian export. At the same time, Russia moved up strongly, reaching the third position (11%), which meant an increase in turnover by almost 500 million euros. The Latvian and Lithuanian market were traditionally also important for the Estonian exporters. At the same time, Estonian entrepreneurs found new opportunities in the USA and Nigeria, export to those countries grew 127% and 137%, respectively. Domestic trade of Estonia, historically about three times larger than export, grew at a slower pace.

The economic developments described above only increased the importance of credit insurance. Even though many companies are past the phase of a decrease in turnover and started to earn profits, their financial situation is still not very strong. Liquidity and profitability reserves used up during the crisis have not been restored yet, and therefore the financial risks of enterprises are still high. This applies both in Estonia and abroad. In the given situation, enterprises need to be continually careful with offering credit terms and must be able to evaluate risks adequately. For example, according to Intrum Justitia, local enterprises wrote off 3.3% of their issued invoices. In 2011 the share is as high as in year 2010 and even higher than in years 2008 and 2009. The portion of unpaid invoices for companies in the main export markets of Estonia are lower, but still showing an increasing trend. In Sweden, the share in 2011 was approximately 2.3% and in Finland 1.9%.

The volume of insurance services for financial loss increased in Estonia in 2011, and the increase in the premiums collected was 31% compared to year 2010, reaching 5.1 million euros. At the same time, the volume of claim payments decreased by 79% to 1.2 million euros.

The forthcoming year 2012 is first of all characterized by uncertainty, one of the major sources of which is the European debt crisis, where solutions must be found to the large debt loads of Greece, Ireland, Portugal, but also Italy and Spain. In addition, more and more attention is drawn to the problems of Japan, hard landing of the Chinese economy, as well as the debt load of the USA. Each one of those problems is large enough to cause another economic crisis in the event of the worst case scenario. Economic developments of the nearest future will depend on the progress and solution of those situations. Increasing uncertainty in the economy means big risks for companies and consequent unwillingness to offer trade credit. The most cost-efficient solution to cope with these risks for private enterprises, is the use of credit insurance.

Export limit exposure by countries 2011 (Top 10, euros)





Credit insurance services

The mission of the KredEx Credit Insurance Ltd is to offer credit insurance service to Estonian companies, making it possible to manage the credit-related risks. 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 jeopardize the liquidity of the company.

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 provides longer term credit terms to a foreign buyer on credit terms, i.e. the foreign buyer pays for the goods in instalments during an agreed period (credit period two or more years).

KredEx Credit Insurance Ltd offers supplier credit insurance to Estonian exporters to mitigate long-term credit risks. Insured events include, non-payment of instalments due to bankruptcy of the foreign buyer, suspension of the instalments or the negative political events in the country of location. 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 realizes (e.g. during bankruptcy) and the foreign buyer does not pay the instalment or interest in timely manner, the exporter has a possibility to obtain insurance indemnity from the insurance provider in the amount of insurance cover (up to 90%) from the amount payable by the buyer. If the supplier does not receive an instalment 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 credit insurance

In the event of buyer's credit, a bank issues a loan to the buyer or the buyer's bank to finance the purchase transaction. The insurance policy insures the risk of non-payment of the loan due to bankruptcy of the foreign buyer or suspension of instalments or political decisions of the buyer's country of location to the bank.



Investment Insurance

Investment insurance protects direct capital investments of Estonian companies and their financing banks in foreign countries against political risks. Such insurance provides cover for investments typically made to establish a new enterprise. In addition to initial invested capital, future cash flows can also be protected, as well as, long term loans by the owners, bank loans and bank guarantees.

ANNUAL FINANCIAL REPORT 2011

Statement of comprehensive income

In Euros

	2011	31.05.2010– 31.12.2010
Revenue		
Premium earned, gross	1 500 364	269 611
Premiums ceded to reinsurers	-750 182	-134 805
Change in provision for unearned premiums	-5 013	-95 250
Change in provision for unearned premiums, reinsurer's share	2 506	47 625
Total net premiums earned	747 675	87 181
Other income		
Return from investments	355 404	323 780
Other income	226 360	37 720
Total other income	581 764	361 500
TOTAL INCOME	1 329 439	448 681
Net outstanding claims and provisions		
Claims paid and claims handling costs	-45 337	0
Claims paid and claims handling costs, reinsurer's share	21 301	0
Change in provision for outstanding claims (incl IBNR)	-1 001 323	-129 862
Change in provision for outstanding claims (incl IBNR), reinsurer's share	500 662	64 931
Total net outstanding claims and provisions	-524 697	-64 931
Expenses		
Insurance contract acquisition expenses of	-136 801	-55 209
Operating expenses	-348 417	-381 165
Total operating expenses	-485 218	-436 374
TOTAL EXPENSES	-1 009 915	-501 305
INCOME (-LOSS) OF FINANCIAL YEAR	319 524	-52 624
OTHER COMPREHENSIVE INCOME (-LOSS)	0	0
TOTAL COMPREHENSIVE PROFIT (-LOSS) FOR THE FINANCIAL YEAR	319 524	-52 624

Statement of financial position

In Euros

	31.12.2011	31.12.2010
ASSETS		
Tangible assets	14 480	19 439
Intangible assets	11 495	8 124
Other receivables	1 559	4 101
Accrued income and prepaid expenses	249 047	39 964
Receivables related to insurance activities	386 750	71 251
Reinsurance assets	615 724	112 556
Financial investments	31 144 000	21 793 872
Cash and cash equivalents	174 247	278 638
TOTAL ASSETS	32 597 302	22 327 945
LIABILITIES AND OWNER'S EQUITY		
Share capital	19 173 495	19 173 495
Net income (loss) for the year	266 900	-52 624
Total owner's equity	19 440 395	19 120 871
Reinsurer's deposit	11 565 087	2 867 795
Liabilities from insurance contracts	1 231 448	225 112
Liabilities from reinsurance contracts	192 554	47 092
Other liabilities	167 818	67 075
Total liabilities	13 156 907	3 207 074
TOTAL LIABILITIES AND OWNER'S EQUITY	32 597 302	22 327 945

Statement of cash flows

In Euros

	2011	31.05.2010- 31.12.2010
Cash flows from operating activities		
Premiums received	1 275 510	222 900
Received from other activities	67 947	20 775
Received from reinsurance	8 626 681	2 825 490
Payments to reinsurer	-340 362	-25 647
Paid operating expenses	-515 968	-406 497
Claims paid and claims handling expenses	-44 077	0
Investments to term deposits	-101 609 000	-82 036 051
Return on term deposits	92 258 872	60 242 179
Interests received	181 758	292 302
Total cash flows from operating activities	-98 639	-18 864 549
Cash flows from investing activities		
Acquisition of fixed assets	-5 752	-30 308
Total cash flows from investing activities	-5 752	-30 308
Total cash flows	-104 391	-18 894 857
Cash and cash equivalents at the beginning of period	278 638	19 173 495
Cash and cash equivalents at the end of period	174 247	278 638
Change in cash and cash equivalents	-104 391	-18 894 857

This Annual Review 2011 is derived from, and should be read in conjunction with, the A KredEx Credit Insurance Ltd Annual Report 2011. The audited Annual Report 2011 is available in estonian as .pdf on www.krediidikindlustus.ee