

# 2017

## Annual Report

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# Fund KredEx Annual Report 2017

Beginning of financial year: 01.01.2017

End of financial year: 31.12.2017

Registry code of non-profit  
associations and foundations: 90006012

Main area of activity: based on state development plans and policies:  
- guarantee of credit products offered by credit institutions,  
including state guarantee of enterprise and housing loans  
for the purposes of the Support of Enterprise and State Loan  
Guarantees Act;  
- development and offering of other financing services  
in the enterprise and housing sector

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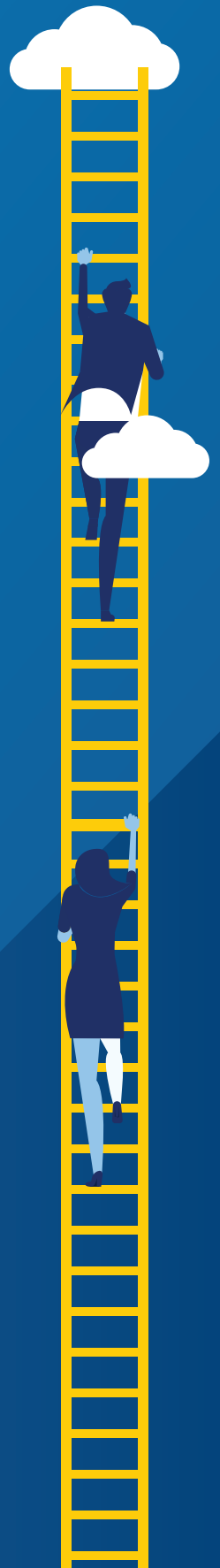
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CEO: Lehar Kütt

Auditor: KPMG Baltics OÜ

The year 2017  
was successful  
for KredEx



The year 2017 was successful for KredEx. The volume of activities mainly grew in the area of offering guarantees to home loans and apartment building loans and decreased in the area of guarantees to enterprise loans. In the course of the year, KredEx led or contributed to the realisation of several new initiatives.

When compared to the previous year, the volume of guarantees for home loans increased by 24%. With the help of KredEx guarantees in the sum of EUR 33.7 million, banks financed the purchase or renovations of 3350 homes in the sum of EUR 267 million. Every fifth home loan issued in Estonia used KredEx guarantees.

The volume of guarantees to apartment building loans increased by 32% year-on-year. KredEx guarantees in the amount of EUR 8.6 million enabled 80 apartment buildings to acquire additional funding from banks in the sum of EUR 13.5 million.

The guarantee volume of enterprise loans decreased by 29% year-on-year. This mainly results from the exceptional comparison basis of 2016 and the changes in the terms and conditions of the service in 2017. In the course of the year, 813 guarantee agreements were concluded for the additional guarantee sum of EUR 65.8 million. This gave 687 enterprises access to additional funding in the sum of EUR 114.3 million.

As at the end of 2017, KredEx was providing guarantees to the obligations of 7274 enterprises, private persons and apartment associations in the sum of EUR 973 million. The outstanding balance of the guarantee obligations of KredEx is EUR 225 million.

Given the growing volume of their activities, KredEx is reassured in planning their operations for the following years by the amendment to the *Support of Enterprise and State Loan Guarantees Act* that entered into force at the end of the year. It increased the total sum of valid enterprise loan agreements with state guarantees provided by KredEx to EUR 220 million and the upper limit for the guarantees to housing loans to EUR 170 million.

In addition to continuing the provision of guarantees to loans issued by credit institutions, in 2017

we continued with the administration of seven support measures in the field of housing as commissioned by the state. We also continued issuing direct loans in the entrepreneurial sector and participating as an investor in the funds of funds Baltic Innovation Fund and EstFund.

Among the housing grants, reconstruction grants for apartment buildings took up the greatest volume, for which we terminated the receipt of applications in September 2017 due to the budget having been exhausted. The budget of the support programme was EUR 102 million, which enables around 400 apartment buildings, inhabited by around 34,400 people, to be fixed up.

One of the new initiatives in which KredEx was involved in 2017 was the investment aid directed to local municipalities for developing their housing stock. Another initiative was an exemption to the Aliens Act, known as the startup visa, which makes it easier for non-EU citizens to work in startups based in Estonia, establish startups in Estonia, or move their enterprises here. As part of the Startup Estonia programme, a procurement was carried out to find a management company and the provider of an accelerator programme for the accelerator fund, in cooperation with AS SmartCap. Due to the new objectives defined, the rental service of electrical cars that KredEx had been providing since 2013 was privatised.

In June, the Estonian Development Fund, the Ministry of Economic Affairs and Communications and KredEx concluded an agreement according to which the Estonian Development Fund handed over the shares of AS SmartCap — their subsidiary founded for the purpose of venture capital investments — to KredEx. This finalised the process through which KredEx took over the investment activities of the Estonian Development Fund.

All in all, 2017 was a successful year for KredEx in terms of operational volumes, satisfaction of stakeholders and financial results. The net profit for the financial year was EUR 1.2 million.

**Lehar Kütt**  
CEO



Activity  
principles



Fund KredEx was founded in 2001 by the Ministry of Economic Affairs and Communications. KredEx is a financial institution helping Estonian enterprises to develop faster and expand securely to foreign markets. To do so, KredEx offers loans, venture capital, credit insurance, and guarantees secured by the state, and carries out the activities of the Start-up Estonia programme. We also help the residents of Estonia to improve their living conditions, offering them loan guarantees secured by the state for purchasing homes, as well as loans, guarantees, and grants for solutions aimed at energy efficiency.

The vision of KredEx is to offer financing solutions based on the best global practices.

KredEx considers it important to be professional, reliable, open, and innovative. We value solution-mindedness, top quality service, and readiness

for cooperation, which leads to the satisfaction of our customers and partners. When making our decisions, we value accuracy, quick action and objectivity. We are open to new ideas and honest feedback. We wish to offer solutions to compensate for the shortcomings of the financial market, bringing together the best skills, experience, and resources of different countries.

In cooperation with other participants on the financial market, we are constantly developing our services in order to provide suitable financing solutions in a changing economic environment. Over the years KredEx has developed into a considerable link between Estonian financial institutions and loan applicants, exporters and foreign buyers.

## 2.1. Values

In its operations, KredEx is guided by the following values.



## 2.2. Main operational principles of Kredex. State guarantee and self-sustainability

In its activities KredEx relies on two main principles – the state guarantee and the principle of self-sustainability. According to the Support of Enterprise and State Loan Guarantees Act, the guarantees issued by KredEx are provided by the state.

If, despite the conservative risk management and the existence of sufficient capital, KredEx cannot fulfil its obligations arising from guarantees, the state shall fulfil the relevant liabilities according to the law. For that, the state may pay the claims directly to the recipients of the guarantees, or transfer additional amounts to the foundation capital of KredEx. However, equity requirements and limitations on investment activities have been established in the legislation for the purposes of risk management.

KredEx is a legal person governed by private law and operating in the form of a foundation. Even though KredEx has been established by the state and the state exercises control over its activity through the Ministry of Economic Affairs and Communications, KredEx acts independently in its decisions.

KredEx is a not for-profit organisation and is guided, above all, by the public interest in its activities. As such, the main basis of the decisions made is their economic substance. However, activities that clearly cause loss or are too risky are not undertaken.

KredEx operates on the principles of a credit provider, earning profit from guarantee fees as well as interest and investment income, from which the losses incurred as well as the administrative expenses are covered. KredEx also provides the administration service of grants in the housing area for the state.

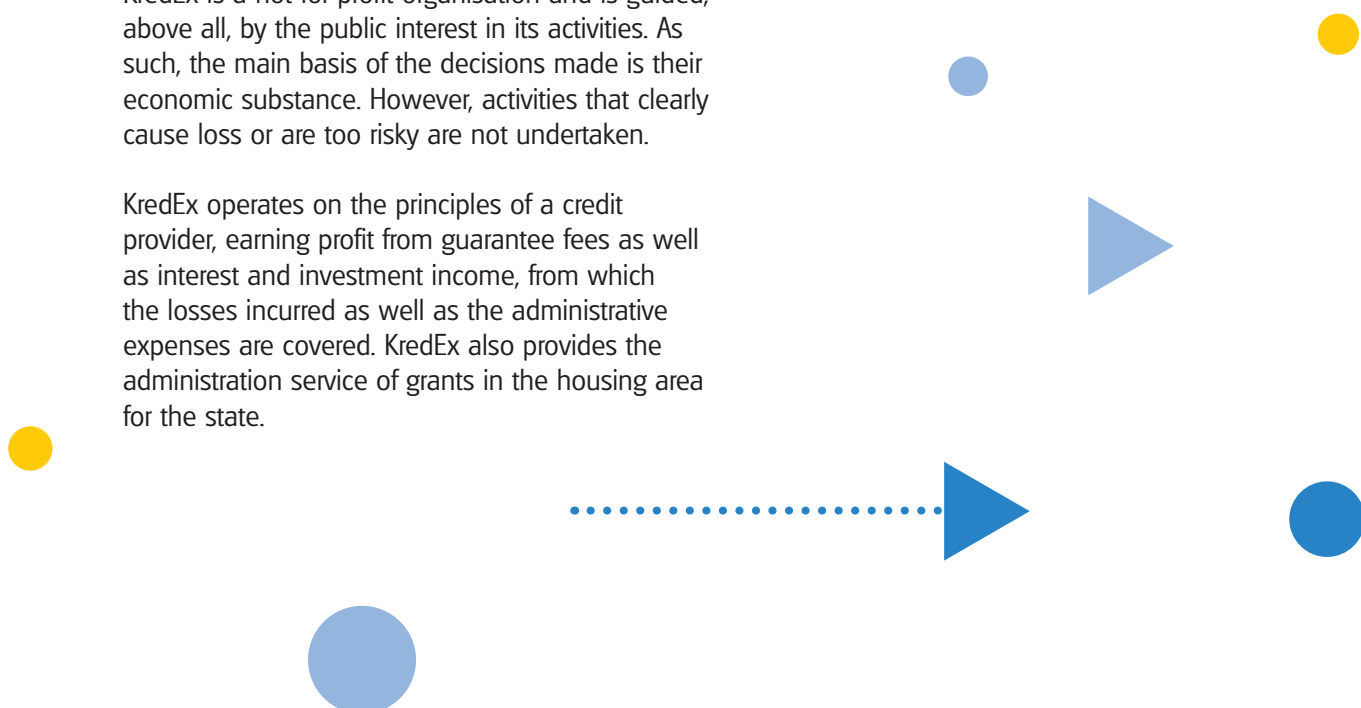
## 2.3. Management of the organisation

KredEx has a Supervisory Board and a Management Board. Starting from 2015, the CEO of KredEx is Lehar Kütt. The task of the Management Board is to manage and represent the organisation.

The Supervisory Board plans the operations of KredEx, organises its management and carries out supervision over its activities. Also, the approval of the Supervisory Board is necessary for all projects where the total amount of the guarantee issued by KredEx and the loan exceeds EUR 1 million per company or group of companies.

According to its statutes, the Supervisory Board of KredEx has up to seven members. The Supervisory Board members are appointed and removed by the Minister of Entrepreneurship and Information Technology as the person exercising the rights of a founder.

In 2017, the powers of Supervisory Board member Marina Kaas expired and Rene Tammist stepped down from his position as a Supervisory Board member. Pille Parind-Nisula and Kaido Padar were named as new members of the Supervisory Board.





At the end of 2017, the composition of the Supervisory Board of KredEx is as follows:

**Merike Saks**

Chairman of the Supervisory Board, Secretary General of the Ministry of Economic Affairs and Communications

**Raivo Rand**

Vice Chairman of the Supervisory Board, Chairman of the Management Board of the Association of Construction Entrepreneurs

**Kaido Padar**

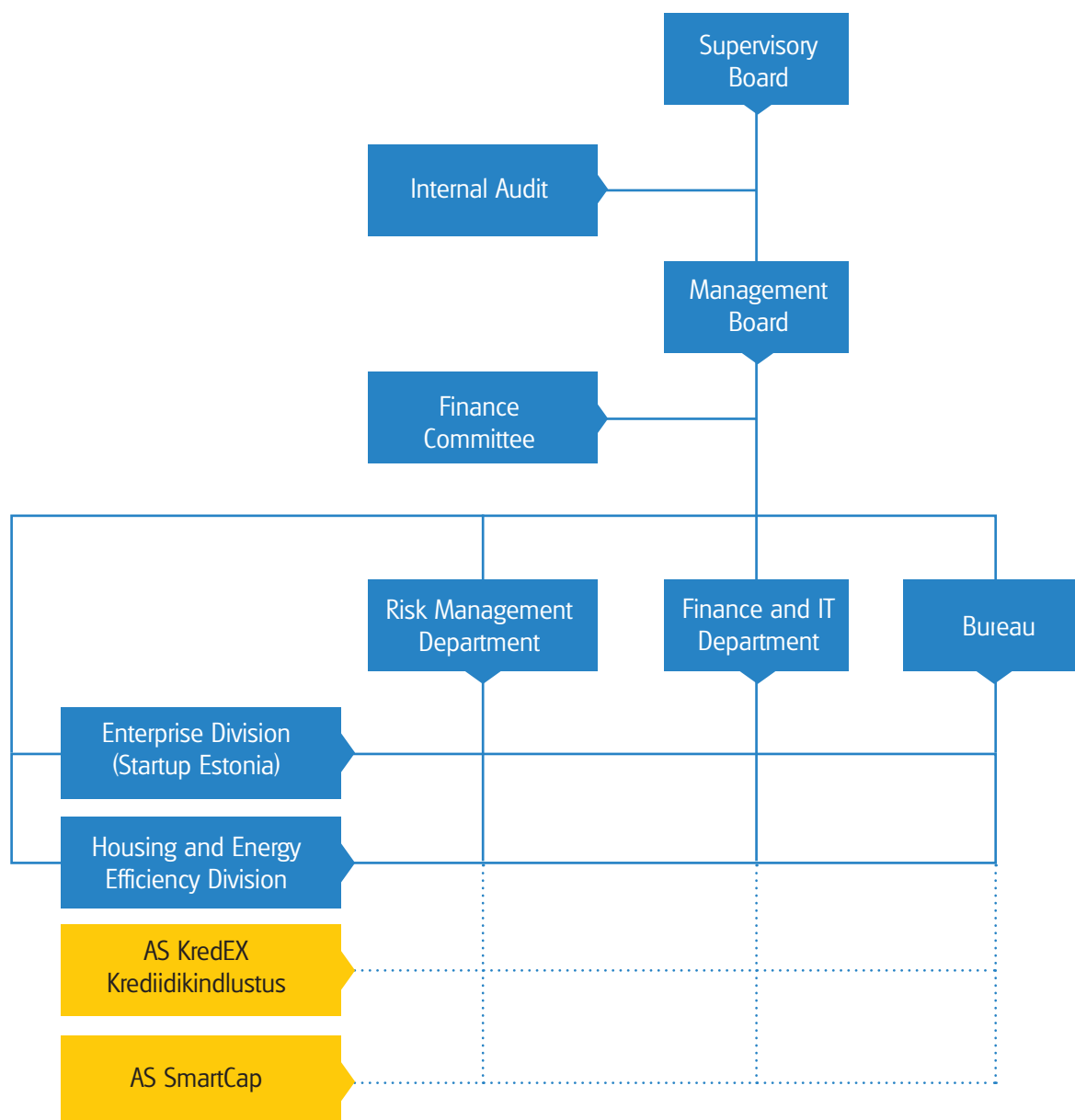
Member of the Supervisory Board, Chairman of the Management Board of AS Eesti Talleks

**Pille Parind-Nisula**

Member of the Supervisory Board

**Katrin Rasmann**

Member of the Supervisory Board



## The team

We have achieved good work results thanks to a unified team that values long-term labour relations, which we consider important for achieving our goals and securing continuity. Our team of 40 people is long-standing. There are 25 people who have worked at KredEx for more than five years, 13 of them more than ten years. The average seniority in office of KredEx employees is 7.7 years.

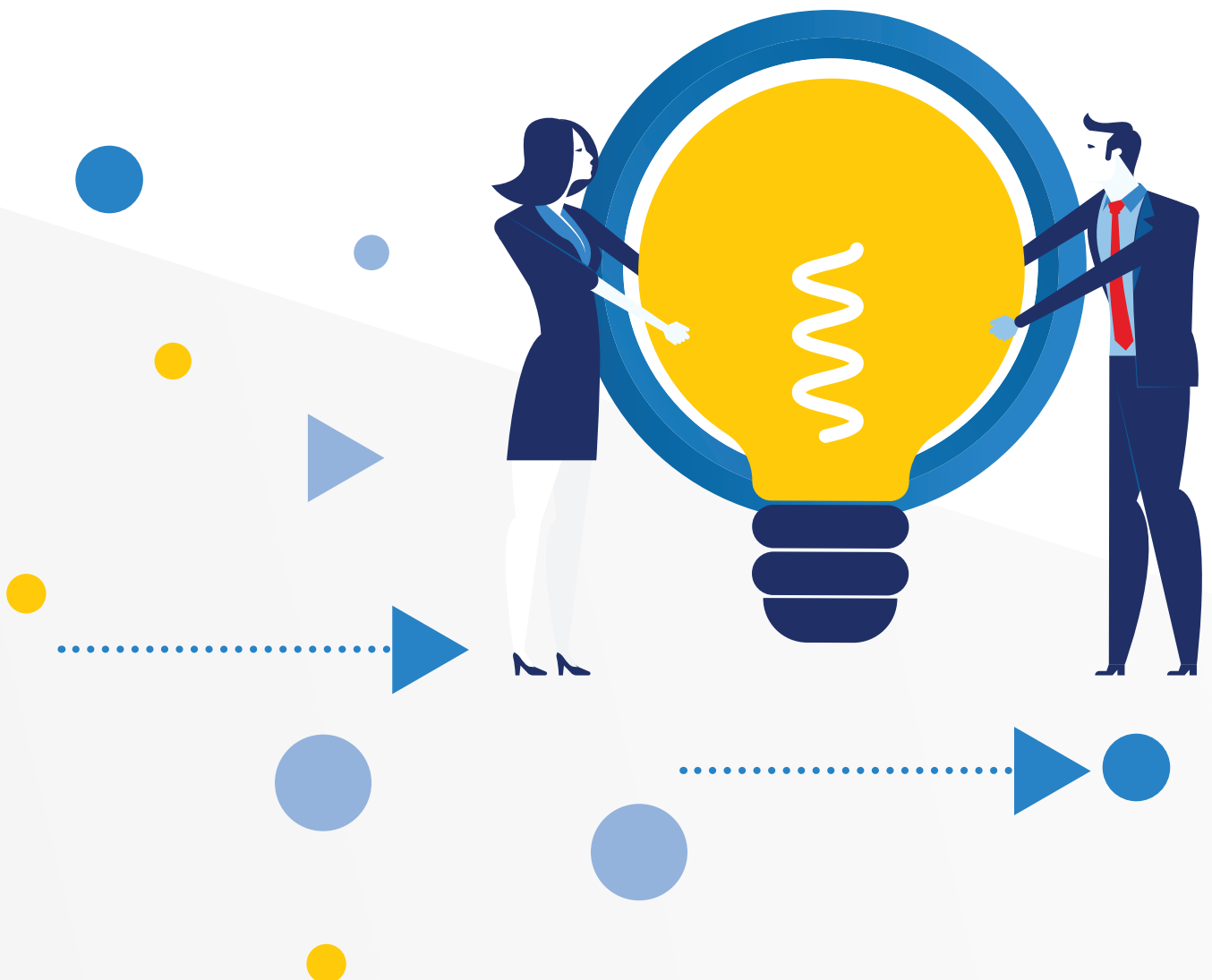
We support the self-development of our employees through interesting work, a good working environment and great training opportunities. Each year we organise a training session supporting the preservation of a communication and working environment that gives us positive energy. Good team training contributes to the functioning of important processes and achieving the goals that have been set. At the same time it increases the employee's wish to continue working as part of the

same team. In 2017, there were 5.5 training days per each employee.

During the annual performance reviews held with each employee, we summarise the previous year and set key tasks and development goals for the new period.

The results of the colleague feedback survey reflect great cooperation. The submitted comments included a lot of positive feedback and valuable proposals for making the cooperation between departments even more efficient.

In addition to cooperation, we put a lot of value into traditions that make us feel one as a team. Common winter and summer events, a Christmas party for the children of employees, and our year-end party with families are always long awaited among employees.



## 2.4. Risk management and overview of the internal control system

When it comes to the operations of KredEx as a financial institution, reliability is essential. Therefore, the efficient functioning of risk management as well as the internal control system forms the basis for our successful operation. We have established relevant procedures for risk management, which are updated and amended as necessary. As a core tool we use the four-eye principle, where the precondition to every significant financial transaction is the approval of the performer as well as that of another person with the relevant competence.

Principles of risk management at KredEx are as follows:

- The risk taken and the fee collected are in proportion to one another.
- Risks are sufficiently spread; the loss from a single risk is not too large in comparison to the capital.
- All risk that is not re-insured has been covered with sufficient capital and provisions.

An important goal of risk management is to possess adequate information for service price formation. For this, we estimate the volumes and loss potential of each service as well as other circumstances influencing the total net gain. For that, we assess and classify every risk based on the probability of realisation and the accompanying loss amount.

The goal of risk spreading is to avoid the accumulation of similar risks and reduce the negative impact of the realisation of a single risk factor with a significant effect on the financial results of KredEx. In order to avoid jeopardising the sustainability of operations, KredEx has established a principle that if the realisation of a single risk or a group of risks significantly depends to a large extent on single events or processes, the effect of this risk or the group of risks must form a limited part of the total solvency margin of KredEx. Generally, the amount of such an effect should not exceed 20%

of net assets. Thereby, the division of risks helps to ensure a sufficient number of successful projects in the portfolio in order to guarantee the earning of the income necessary for achievement of the goals established in the strategy of KredEx.

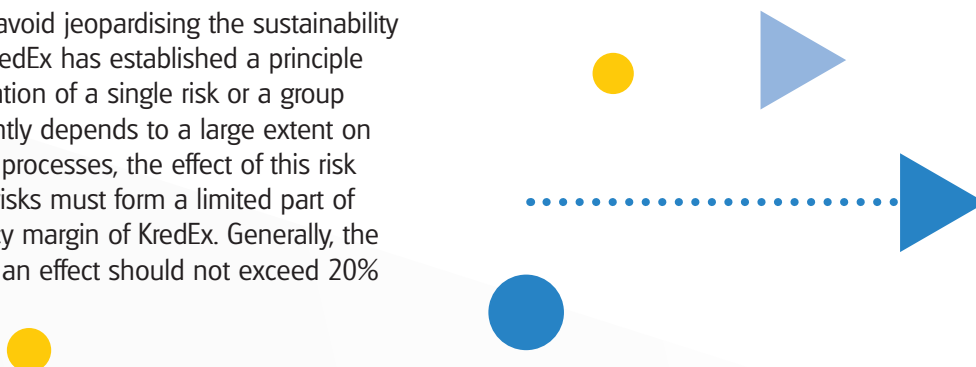
To cover regular and predictable losses, sufficient provisions are formed from income and reinsurance is used for the risks taken. Net assets are used to cover extraordinary losses, due to which risk taking is also limited by required solvency margins.

To ensure the impartiality and efficiency of the internal control system, we select the provider of internal audit via public procurement. Qualified auditors periodically examine the various areas of KredEx activities, and submit summaries of the course and results of the audit, both to the Management as well as the Supervisory Board. In the years 2015–2017, the internal audit has been performed by KPMG Baltics OÜ.

In 2017 the internal audit action plan included, among other things, an assessment of the purchasing process and measures applied to avoid a conflict of interest. Also, the administration and measures of information security were inspected, assessing the compliance of the processes applied with the widely recognised international standards ISO/IEC 27001:2013 and ISO/IEC 27002:2013.

The use of structural and other external funds by KredEx is also inspected and audited annually by the Ministry of Finance as well as the Ministry of Economic Affairs and Communications.

From the beginning of its operations, KredEx annual reports have been audited annually by an internationally recognised auditing firm. So far, they have approved all reports without reservations.



## 2.5. Economic environment

In 2017, the Estonian economy grew by 4.9%. The biggest contribution was made by the construction sector, which continued its rapid growth for the third consecutive quarter. The growth of gross domestic product was significantly supported by other activity areas having displayed strong growth beforehand: information and communication, the mining industry, vocational, research and technology-related activities, the processing industry, transport and storage, and administrative and auxiliary activities. Economic growth was hindered the most by the decrease of added value in the field of energetics. The growth of gross domestic product was also curbed by trade, real estate operations, other service activities and financial intermediation.

Domestic demand grew by 7%, driven by the total allocation of capital into assets. While the acquiring of fixed assets in the sector of non-financial enterprises decreased, the sale of fixed assets also shrank significantly, due to which the total allocation of capital into assets grew 13.2% in the third quarter. Investments increased in all sectors, but their growth was mainly supported by government investments into buildings and structures and the investments of non-financial enterprises into machinery and equipment.

The final consumption expenditures of households increased by 3.5%. The expenditures had the greatest positive impact on clothing and food, but the growth was hindered the most by expenditures on alcohol and tobacco.

Economic growth in the Eurozone accelerated in the third quarter of 2017 to 2.6%. Estonia was impacted the most by the economies of its main trade partners, Sweden, Finland and Latvia, where growth exceeded that of the Eurozone average. According to Statistics Estonia, in 2017 goods were exported in the amount of EUR 12.8 billion in current prices and imported in the amount of EUR 14.7 billion. Year-on-year, exports grew 8% and imports 9%. The relative importance of European Union (EU) countries in exports was 71% and in imports

82% in 2017. As in previous years, the main foreign trade partners were Finland (16% of the total exports), Sweden (14%) and Latvia (9%). The main export articles were electrical equipment, timber and wood products, and mineral products.

In the first three quarters of 2017, the turnover of the construction sector increased by 10% and the profit by around 20%. Driven by the increased demand and sense of security and profits, corporate investments also increased in 2017, particularly in the processing industry, construction and real estate, and transportation sectors. Companies financed investments largely from their own funds, but the volume of long-term loans also increased.

Enterprises are still good at financing their activities. This ability is supported by accumulated buffers, relatively good access to bank loans, and the very low level of base interest rates. The debt burden of companies grew by just 1% in 2017. The percentage of the domestic banking sector in corporate debt liabilities remained stable during the year and accounted for 48% of corporate debt in the third quarter.

The domestic loan market in 2017 was characterised by the volume of short-term loans growing by 6% and the volume of long-term loans by 1%. As a result of this, the corporate loan portfolio would have grown 6%, but ended up decreasing by 2%, because one bank transferred a portion of their loans to the portfolio of their parent company. Growth was supported by loans granted to the real estate, industry, and trade sectors. Corporate leverage, or the debt-to-equity ratio, was 44% in the third quarter of the year, which is the lowest level in the past 15 years. The EU's average financial leverage is 64%.

According to the survey on the access to finance, prepared in cooperation with the European Central Bank and the European Commission, access by Estonian small and medium-sized enterprises to funding is better than the average in the European Union. The reasons for this are the relatively sound financial position of enterprises, good capitalisation of Estonian banks and low funding costs. Entrepre-



neers view a lack of collateral or a guarantee as being the main obstacle when applying for loans. The most favourable outlook for the environment of banking loans is given by industrial enterprises; more problematic is the situation in the construction and real estate sector.

The share of overdue loans in the Estonian banking sector, amounting to 0.9% of the loan portfolio, dropped in 2017. At the same time, according to Creditinfo Eesti AS, debts of enterprises to both business partners and the state grew in 2017 when compared to 2016. The sectors with the most arrears are construction and real estate development. The number of companies with arrears has not grown and remains at 5.3% of all companies. The share of companies with a negative credit rating at Creditinfo (with a probability of default over 5%) is 11%, which is similar to last year's figures. The risk of default is the highest in the accommodation and catering, construction, mining and processing industry.

The financial situation of households improved in 2017 owing to increased earnings and low interest rates. Lending activity grew significantly: the total sum of new home loans was 16% more than in 2016. The housing loan portfolio grew by 6.6%, reaching EUR 7 billion. Further growth of the housing loan volume is facilitated by increasing earnings and very low loan interest rates. Households are still cautious about the financing of real estate transactions. The ratio of the volume of new housing loans to the total volume of residential real estate transactions has not increased.

The economy is growing rapidly in 2018: Swedbank offers 3.9% and Eesti Pank 4.2% as the economic growth estimate. Government investments are increasing on the account of European funds and changes in the income tax system increase the

usable revenue of households. Economic growth is also driven by the growth in exports, as the economic situation of the country's trade partners is good. According to Swedbank's estimates, in 2018 the Swedish economy will grow by 2.7%, the Finnish economy by 2.6% and the Latvian economy by 3.2%.

The future profitability of enterprises depends largely on the growth of exports and controlling salary costs. There are solid options for the financing of investments, because interest rates are low and enterprises have sufficient equity. The growth of loans remains below the growth of investments, because a portion of the investments are financed from own funds. According to the forecast by Eesti Pank, the debt obligations of enterprises will increase by around 6% annually in the years to come.

The real growth of private consumption remained lower in 2017 than in 2016, due to the rapid growth in prices (estimated at 2.4%), but will accelerate in 2018 to 5.4% due to the growing salaries and wages and changes in the income tax system.





# Activities and results in 2017



## 3.1. In brief

In January, an exemption to the Aliens Act, known as the startup visa, created in cooperation with the Estonian startup community, the Ministry of Internal Affairs and Startup Estonia, entered into force. This makes it easier for non-EU citizens to work in startups based in Estonia, establish startups in Estonia or move their enterprises here.

In April and May, ETV aired the second season of the series *Oma Kodu*, consisting of eight episodes, which was produced with the help of KredEx. When compared to the past seasons, it covered to topics of housing construction and energy efficiency in a more in-depth manner. The series will air a third season in 2018.

In May, the BaltCap Growth Fund, financed from the Baltic Innovation Fund, started its operations, investing into Baltic enterprises with great growth potential.

That same month, SmartCap and Tera Ventures signed a contract, according to which the state's direct investment portfolio and the management of extra capital for continued investments were handed over to a private fund manager.

In June, the Estonian Development Fund, the Ministry of Economic Affairs and Communications and KredEx concluded an agreement according to which the Estonian Development Fund handed over the shares of SmartCap, their subsidiary founded for the purpose of venture capital investments, to KredEx. This finalised the process through which KredEx took over the investment activities of the Estonian Development Fund.

In July, KredEx and SmartCap chose the winner of the accelerator procurement, which was the joint tender of Mobi Solutions OÜ and Astrec Baltic OÜ.

In the same months, due to the procurement contracts concluded for the provision of the service

ending and the initial objectives being fulfilled, KredEx ended the provision of the rental service of electrical cars. The Ministry of Economic Affairs and Communications organised an open auction to find a new service provider. Short-term rental service was funded from the ELMO programme. There were 32 rental cars distributed between 12 rental centres, of which 10 were located in Tallinn and two in Tartu. In the course of four years, the service was used more than 35,000 times. The rental cars travelled almost 2.5 million kilometres during their 255,000 rental hours. There were more than 8000 registered users.

In September, KredEx stopped accepting applications for reconstruction grants for apartment buildings, due to the budget having been exhausted.

In the same month, the cooperation programme *Level 11* started, which joins Estonian large, medium-sized and startup companies with the aim of reaching a new level of innovation together. It will include joint seminars, visits to companies, match-making, forming a club of innovation leaders and their own accelerator programme.

In October, KredEx helped to lead the project *Entrepreneurship in Schools*, where more than 100 entrepreneurs and CEOs visited Estonian schools, to tell young people their story. The objective of the project is to get students interested in entrepreneurship.

In November, United Angels Co-investment Fund I, financed from EstFund, started its operations, using the help of business angels to invest into Estonian enterprises with great growth potential.

During that same month, KredEx began accepting applications for investment aid directed at local municipalities for developing their housing stock. The objective of this aid is to improve the accessibility of rental housing for mobile workers and to facilitate investments for building residential housing.

In November, Marika Truu started as the new Director of Startup Estonia.

In November, KredEx organised the third event of the *Career Exploration Tours*, in the course of which more than 240 students from nine counties visited their local enterprises and obtained information on local career opportunities.

In December, the Supervisory Board of KredEx Krediidikindlustus appointed Erki Aamer as the new Chairman of the Management Board, while Mariko Rukholm continued in as a Member of the Management Board of the insurance company.

In the same month, the Riigikogu approved a legislative amendment increasing the maximum value of state guarantees offered to enterprise and housing loans by KredEx. This enables KredEx to provide guarantees to the loans of enterprises and homeowners in the future, as well.

In December, KredEx published the results of the 2017 call for applications for the home grant targeting large families with limited financial resources. There were 356 families with three or more children, raising a total of 1261 children, who received the grant. The grant sum allocated was EUR 3.2 million.

In the last month of the year, the guidelines and sample plans for nearly zero-energy buildings commissioned by KredEx were completed. The guidelines include a manual for designing apartment buildings and small detached houses, covering all topics important for energy efficiency. The included sample projects are standard solutions for a smaller and a larger houses made of wood or stone, for a single semi-detached house, and for a larger and a smaller apartment building.



## 3.2. Overview of the results for the year 2017 in the area of housing and energy efficiency

### 3.2.1. Most important activities in the area

The year 2017 saw a significant increase in the volume of home loan guarantees and apartment building loan guarantees: the former were issued in the amount of EUR 33.7 million and the latter in the amount of EUR 8.6 million. For KredEx to be able to provide these guarantees continuously, the Riigikogu amended the *Support of Enterprise and State Loan Guarantees Act*, establishing EUR 170 million as the new maximum total value of current housing loan contracts.

In addition to the grants to apartment buildings and small residential buildings, in 2017 we started to provide grants to municipalities for the construction and reconstruction of rental houses. In September, acceptance of applications for the reconstruction grant for apartment buildings was closed due to the funds having been exhausted.

The volume of housing loans with KredEx guarantees increased by 24% when compared to 2016. The volume of these loans out of all housing loans in Estonia made up an annual average of 21%. The volume of the home loan guarantee portfolio of KredEx has increased by EUR 16.3 million, reaching EUR 65.9 million. This is the highest annual growth in history.

In 2017, 80 new guarantee agreements for apartment buildings were concluded in the total sum of EUR 8.6 million. The volume of this service is heavily influenced by the issuing of the reconstruction grant: the growth in volume is first and

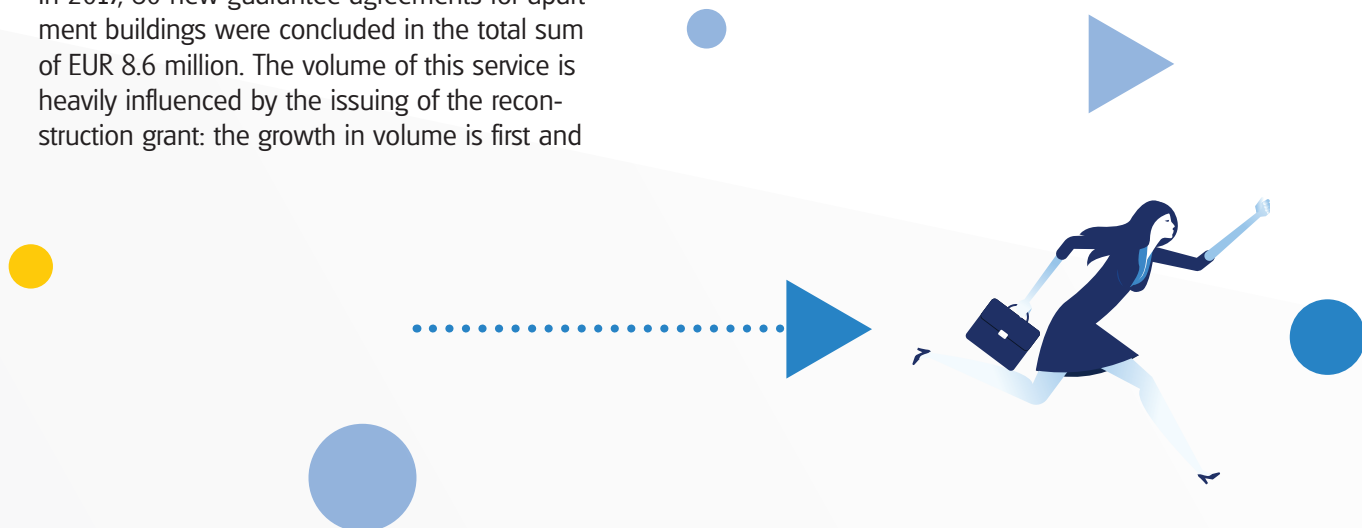
foremost due to the large number of applications. The guarantee portfolio of apartment building loans is already approaching EUR 30 million.

In 2017 we began issuing reconstruction grants to small residential buildings in a large volume which, as expected, was popular. During that year, 258 applications were submitted to us within the framework of this support measure. The grant is mainly used to renovate the core structures and heating systems of the buildings, but in many cases also solar panels are installed.

We also continued issuing home grants for large families, grants for the renovation of electrical installations, updating the heating systems and grants for local governments for the demolition of residential buildings. We also continued to offer services related to the ELMO electrical mobility programme.

One part of the activities in this area is related to raising awareness. In 2017, the survey on the use of the reconstruction grant was completed, which provided a good opportunity to supplement the requirements and conditions set to the reconstruction projects. In cooperation with the Estonian Union of Co-operative Housing Associations, we organised the free information seminar series *On Renovation: From Practitioner To Practitioner*.

An important activity was developing the sample designs and guidelines for residential passive houses, providing an overview of the construction practice directions and the technical solutions necessary for building such houses. The television series *Oma Kodu* was continued on ETV with the support of KredEx.



### 3.2.2. Guarantee and loan activity in the area of housing and energy efficiency

With the help of its loan guarantees, KredEx enables the purchasing of a home at a lower rate of self-financing and ensures the preservation and energy efficiency of residential buildings. With housing loan guarantees, young families, young specialists, purchasers of energy-efficient housing, tenants of restituted houses, and veterans of the Defence Forces or the Defence League, can take out loans with a lower rate of self-financing for the purchase or renovation of housing. Residents of apartment buildings can also use the apartment building loan guarantee to make their home energy-efficient.

The total amount of housing loans issued by banks in 2017 that were secured by immovable property was EUR 1 billion (EUR 959 million in 2016), of which the volume of loans with KredEx guarantee accounted for EUR 267 million. A year before, housing loans with a KredEx guarantee were issued in the amount of EUR 183 million, i.e. at an average of EUR 15 million per month. In 2017, the volume of housing loans with KredEx guarantee accounted for 21% of the volume of housing loans issued in Estonia (19% in 2016). The largest amount of loans with a KredEx guarantee were issued in August (EUR 37 million), and the smallest in January (EUR 9 million).

The amount of housing loan guarantees issued in

2017 was EUR 33.7 million, which is EUR 6.5 million (24%) more than in the previous year. By the end of the year, the portfolio volume of these guarantees amounted to EUR 65.9 million (EUR 49.6 million in 2016). A total of 3350 households purchased or renovated their homes in 2017 with the loan guarantee, including 1722 young specialists (EUR 15.6 million), 1349 young families (EUR 12.9 million) and 265 acquirers of energy-efficient housing (EUR 5 million) and 17 veterans (EUR 150,650). Since 2000, 30,307 households have improved their living conditions with the help of KredEx.

Apartment associations seeking loans from banks to renovate their building can apply for a loan guarantee from KredEx. This is suitable for apartment buildings rated at a higher-than-average risk by banks due to their location, small size, or number of debtors, or who wish to use the KredEx guarantee to insure their solvency risk.

During the year, KredEx issued 80 loan guarantees for apartment buildings totalling EUR 8.6 million, which is 32% more than in 2016. The growth was primarily based on the extensive use of the apartment building reconstruction grant issued by KredEx. In 2017, the apartment building guarantee portfolio reached EUR 28.7 million, having increased by EUR 4.8 million over the year.

Since 2002, KredEx guarantees have been used with 998 guarantee contracts for the renovation of apartment buildings in the total loan sum of EUR 71.6 million.

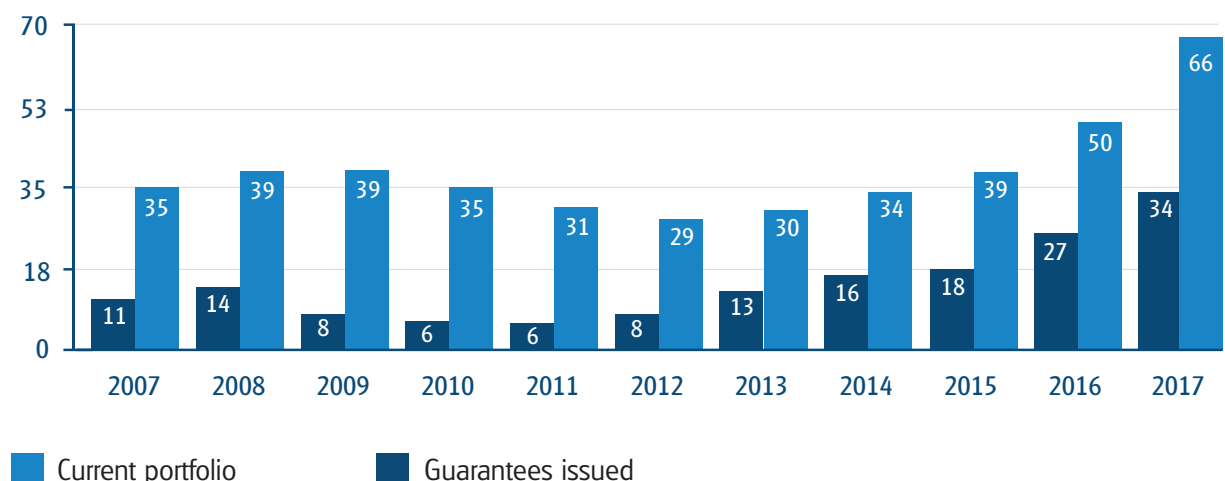


Figure 1. Volume of KredEx housing loan guarantees in 2007–2017, millions of euros

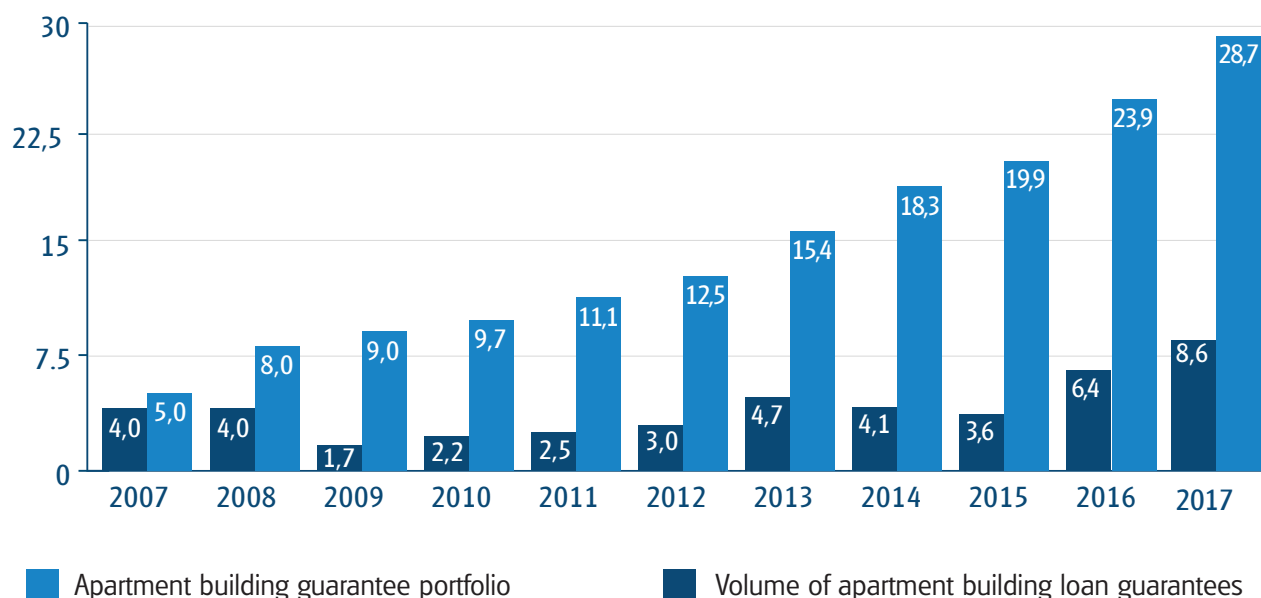


Figure 2. Volume of loan guarantees for apartment building loans in 2007–2017, in millions of euros

### 3.2.3. State grants for the housing sector

In 2017, KredEx provided eight types of grants to improve energy efficiency or develop the housing sector in general. Grants could be applied by housing associations for the renovation of the technical systems of the building or full reconstruction, by private persons for full or partial reconstruction and by local municipalities for the construction of rental housing or the demolition of dilapidated houses that have fallen out of use.

#### 3.2.3.1. Reconstruction grant

KredEx issues reconstruction grants to apartment associations and local governments, aimed at the complete reconstruction of apartment buildings. The grants are provided with the rates of 15, 25 and 40%, with the rate being 10% higher in Ida-Viru County. In addition, the services of technical consultancy, construction project preparation, and owner supervision are supported up to 50%.

The number of applications continued to grow rapidly in 2017, which is why the EUR 102 million that had been allocated for the aid was already covered with applications in September. Around 90% of the applications are centred around finding the best solutions, as a result of which the houses will be fully reconstructed; the maximum grant rate that can

be applied for is 40%. This way the energy dependency of residential buildings and greenhouse gas emissions will decrease and it will have a favourable impact on the living environment and economy. The period of applying the measures has also seen a significant increase in the use of solar panels.

In 2017, KredEx received 231 applications for the reconstruction grants of apartment buildings in the total sum of EUR 66.6 million. The average grant amount per apartment building was about EUR 288,000. As the average number of apartments in these houses is 41, the grant amount per apartment is around EUR 7000. The greatest number of applications came from Harju, Tartu and Lääne-Viru County (69, 58 and 43, respectively).

As of the end of 2017, there were 138 applications in the sum of EUR 39.3 million that had received the initial positive answer. That year, there were 139 applications in the sum of EUR 37.7 million that received the final positive answer. A total of 12 applications were rejected due to deficiencies in the documents. Grant payments were made in 180 instances and 85 housing associations completed their reconstruction works.

Most of the apartment buildings being reconstructed are located in counties with a higher population (Harju County and Tartu County); however, a significant portion of the residents of Lääne-Viru County, in particular Rakvere, are also reconstructing their

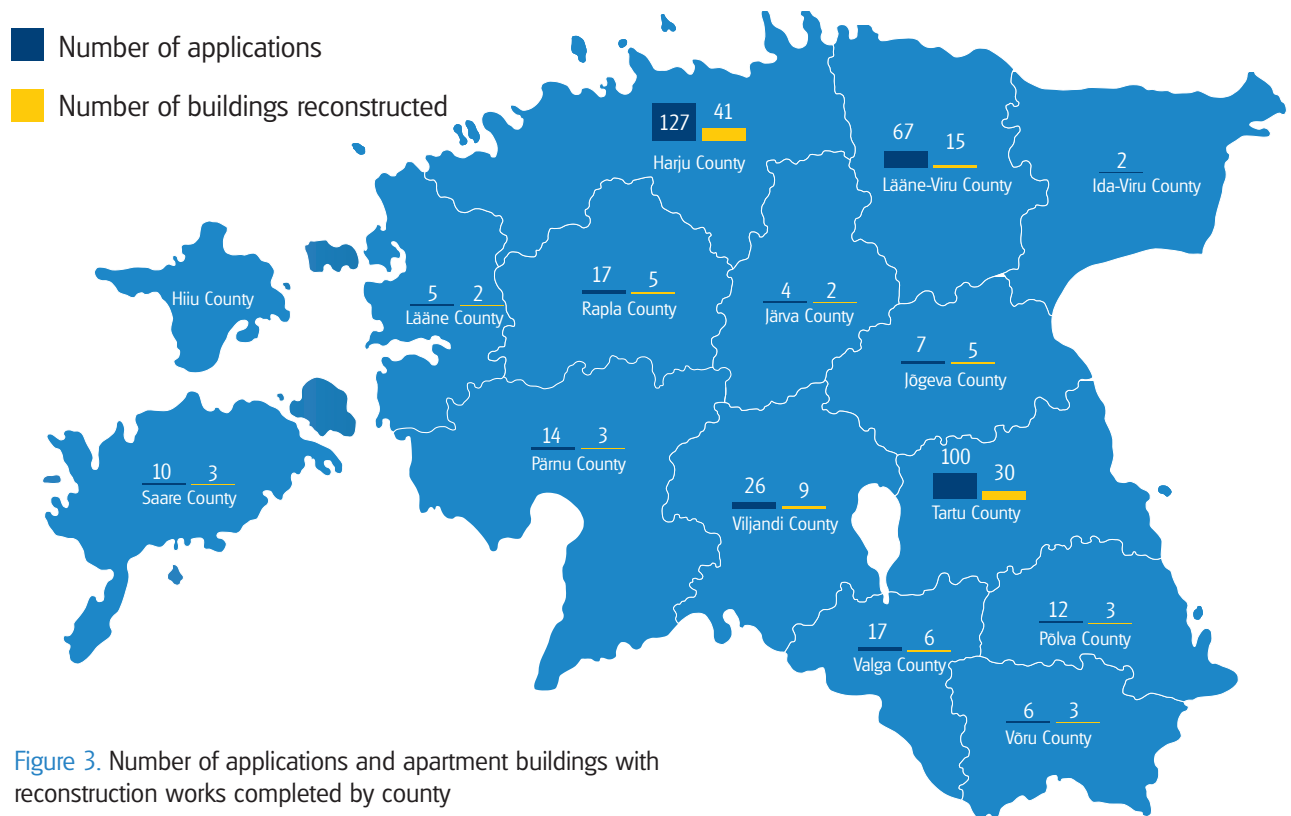


Figure 3. Number of applications and apartment buildings with reconstruction works completed by county

apartment buildings. Much of the reconstruction works supported from the measure will be carried out in 2018, and to a certain extent during the beginning of next year. As of the end of 2017, there are 125 apartment buildings that have been reconstructed. It is estimated that around 400 apartment buildings will be reconstructed with the measure.

Figure 3 shows both the number of applications and reconstructed buildings by counties. The comparison clearly shows that in all counties there are still great volumes of reconstruction works ahead.

### 3.2.3.2. Grants for small residential buildings

In 2017, small residential buildings were issued two grants, one of which was designed for renovating oil-powered heating systems and the other for the reconstruction of the housing.

Grants for renovating heating systems are provided to private persons who own small houses and wish to replace boiler units that operate on liquid fuel with a heating device that uses renewable

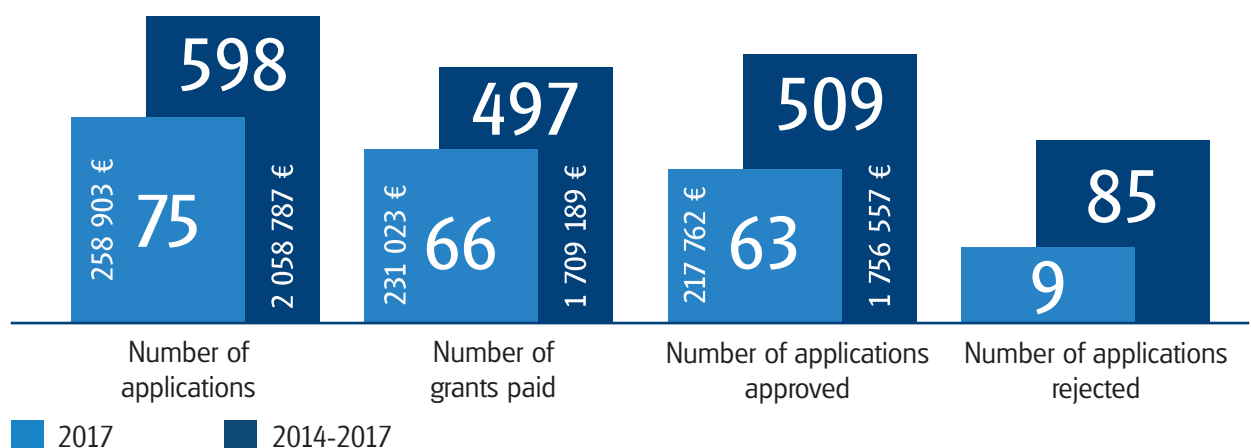


Figure 4. General data of the grants for the renewal of heating systems



energy sources, to reduce the energy consumption of the building and make it more sustainable. Since December 2014, 598 applications totalling EUR 2.1 million have been submitted. A total of 497 technological systems have been renewed for the grant sum of EUR 1.7 million paid for this purpose.

The most common heating appliance using renewable energy solutions, installed with the help of the grant, was an air to water heat pump (345 applications), followed by a geothermal heat pump (147 applications) and a pellet boiler (91 applications).

In 2017, KredEx started to receive significantly more applications for increasing the energy-efficiency of small residential buildings. The grant is targeting natural persons who are owners of small residential buildings. The purpose of the grant is to improve the technical condition of the residential building and reduce its energy consumption. Also, the support contributes to investments made to

reconstruct small residential buildings, improving the quality of inner climate of the existing housing and reducing their energy consumption. The grant also enables residents to deploy renewable energy appliances.

Starting from November 2016, KredEx has received 395 applications for increasing the energy efficiency of small residential buildings in the total sum of EUR 2.4 million. A total of 162 residential buildings reconstructed with EUR 700,000 issued for this purpose in the form of grants.

The most common reconstruction works throughout the whole application period of the measure have been the replacement of windows (144 applications), insulation of the roof, roof ceiling or attic (123) and insulation of the facade (119). In many cases, geothermal heating has been installed, first floors have been insulated, exterior doors and solar panels have been fitted and stoves have been reconstructed.

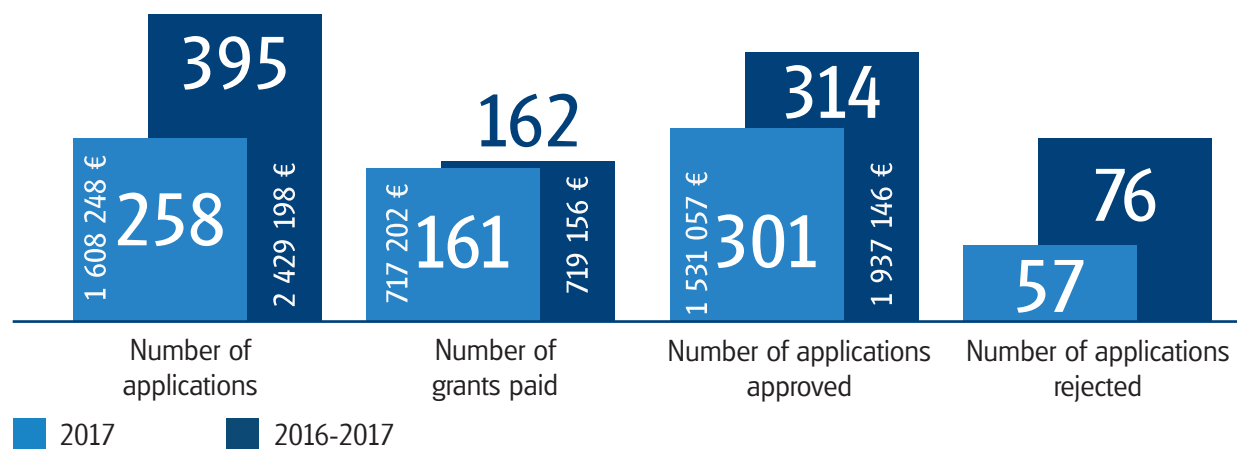


Figure 5. General data of grant for increasing the energy-efficiency of small residential buildings



### 3.2.3.3. Home grant for families with many children

In the framework of the *Development Plan for Children and Families for 2012–2020*, KredEx will allocate grants to large families to improve their residential living conditions. Its target group is households with limited income raising at least three children under 19, whose income per family member is less than EUR 355. Eligible activities include purchasing, building, reconstructing, renovating, or expanding their home and the construction, replacement, or updating of technical systems or utilities. As of 2017, home grants are no longer being issued for the repayment of the outstanding principal part of a home loan.

This is a grant with application rounds. In 2017, the round for applications lasted from 29 May to 30 June, in the course of which large families filed 668 applications in the total sum of EUR 5.9 million. Based on a ranking with points scored, 356 applications were satisfied. One applicant withdrew their application, 198 applications were rejected due to the funds being exhausted, and 113 were rejected due to non-compliance. The applicants were distributed evenly all over Estonia. The most applications were submitted from Harju and Ida-Vi-

ru counties, in which the number of residents is also higher compared to the rest of the counties.

In total, the applications of 356 families were satisfied, of which 305 received the grant for the first time and 51 for the second time. The average grant amount per family was EUR 7351. There are 1261 children growing in the families that received funding; an average of 3.5 children per family.

Most of the applications were submitted for renovating or reconstructing privately owned housing and the construction, reconstruction or replacement of technical systems (214 applications). These were followed by applications for buying a home (120) and building a home (12).

In the period of 2008–2017, there were 5839 home grant applications filed in the total sum of EUR 45.4 million, of which KredEx has satisfied 3004 applications in the total sum of EUR 26.6 million. Among them, 2470 families have received the grant once, 463 families twice, 62 families three times and 9 families four times. The average grant amount per family has been EUR 7084. A total of 122 families have refrained from taking out the allocated grant or not used it.

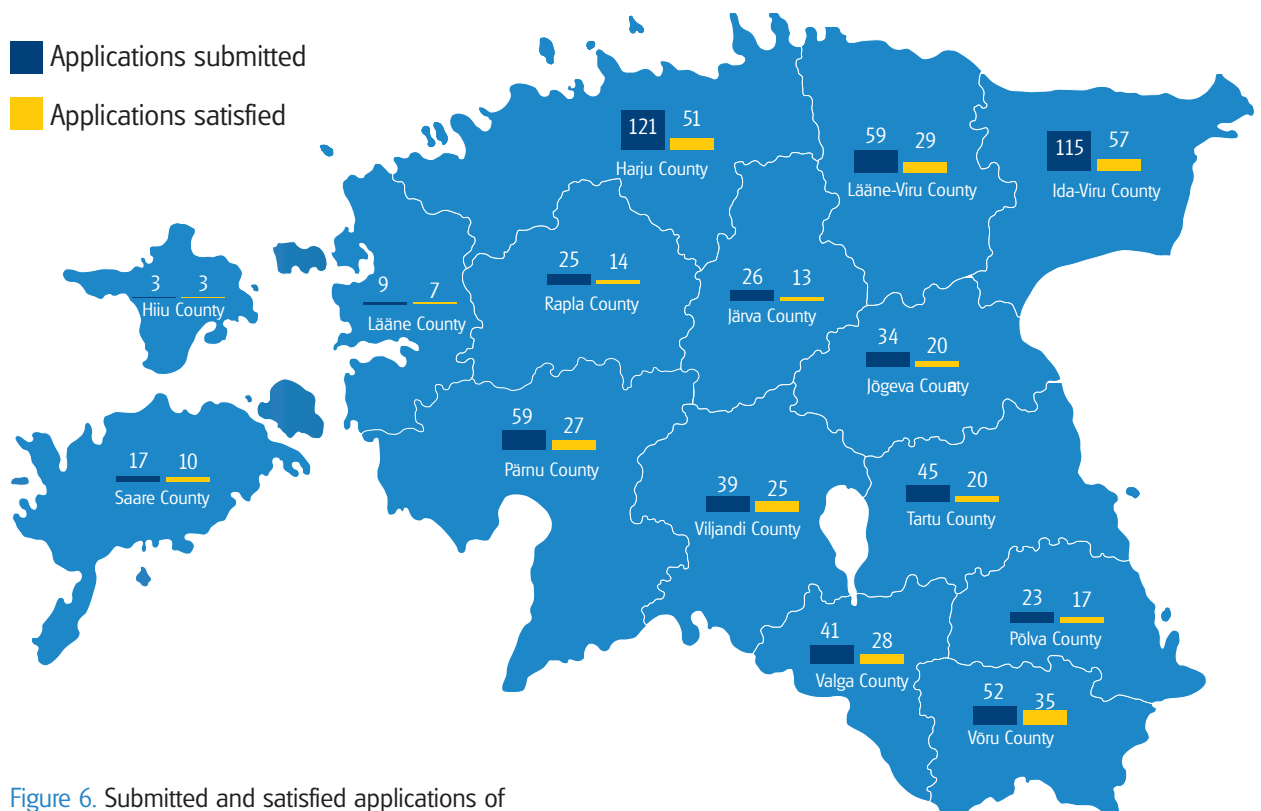


Figure 6. Submitted and satisfied applications of home grant in the 2017 round by counties

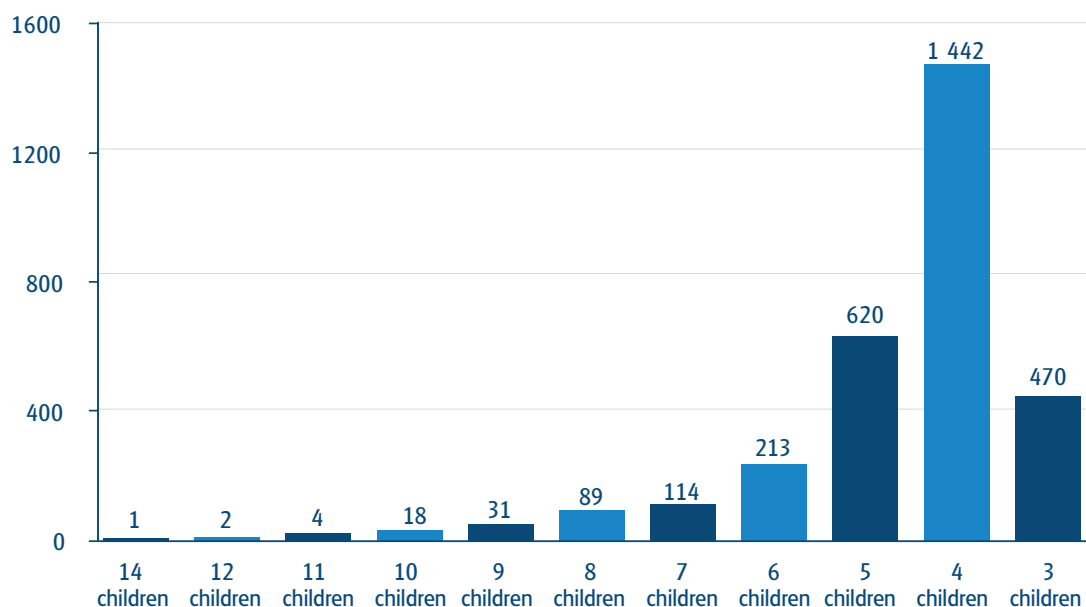


Figure 7. Number of families who received the home grant for large families, by number of children, 2008–2017

### 3.2.3.4. Grant for the renovation of electrical installations

In April 2015, the grant measure for updating electrical installations was opened. The purpose of the grant is to provide partial state support for the renovation of electrical installations in residential buildings using the old voltage system (3 x 220 V) in Tallinn so that the residential buildings are transferred to the new 3 x 230/400 V voltage system.

Applications may be submitted by apartment associations and owners of small residential buildings, and starting from 2016 also by non-profit associations in the City of Tallinn, whose residential buildings are supplied with electricity using the old voltage system.

When compared to the two previous years, in 2017 application activity increased significantly. It was certainly driven by the awareness-raising activities of 2016 and 2017, carried out by KredEx in cooperation with AS Elektrilevi, among others. When in 2015 and 2016, there were an average of three applications presented each month, then in 2017 there were five applications each month. The average application sum remained on the level of 2016, slightly exceeding EUR 2800 in 2017.

By the end of 2017, applications were submitted to renovate the electrical installations of 117 buildings in total amount of EUR 305,000. Payments have been made to 91 applicants totalling EUR 198,093.

### 3.2.3.5. Demolition grants for local governments

KredEx helps local municipalities to make the living environment safer and aesthetically more pleasing. For this, grants are supplied to them for the demolition of obsolete residential houses that are in the possession of the local municipalities. Costs associated with the demolition are supported within up to 70% of the total project cost.

In 2017, KredEx provided EUR 177,555 in grants for the demolition of 10 obsolete residential buildings. The largest number of buildings – two in each county – were demolished with the help of the grant in Järva County and Lääne-Viru County. Fewer applications were filed this year when compared to the last. The reason could be the administrative reform, due to which many local governments were instead engaged in merger issues. Also, local government elections were held in 2017.

#### 3.2.3.6. Investment grant for local municipalities for developing the local housing stock

Starting from 1 November 2017, local municipalities can apply for a grant for the construction of rental housing. Grants for the development of housing stock can be used either for the construction of new rental houses and reconstruction of existing buildings, although the goal is to take them into use as residential rental housing.

The construction and reconstruction of rental housing will ensure the mobile workforce with better access to modern residential housing in regions where the demand for housing exceeds the supply and the construction cost is higher than the market value. Starting from 2018, grants can be applied for constructing rental housing for target groups with limited financial resources, and Tartu and Tallinn will be included in the eligible regions.

In devising the criteria for the grant, great emphasis has been put on the energy efficiency of the residential building to be constructed, and among other things, how the building fits in with the urban space will be assessed.

The grant rate is up to 50%, other costs are covered by the local municipality's own resources. The maximum grant amount for all application rounds is EUR 2.5 million per each local municipality. In the first round, five local municipalities applied for the grant: Saue, Muhu, Valga, Türi and Lääne-Nigula.

### 3.2.3.7. The Estonian Electrical Mobility Programme ELMO

One of the most important activities of the Estonian Electrical Mobility Programme (ELMO) is the construction and maintenance of the quick charging network as vital infrastructure for using electric cars.

There are 167 quick chargers in Estonia, of which 103 are located in towns (most of them in Tallinn, Tartu and Pärnu) and 64 along highways outside of towns.

The quick charging service was used by 723 clients in Estonia in 2017. Since the service was launched in February 2013, by the end of 2017 the chargers had been used around 515,000 times, including 132,000 times in 2017. The average charging session lasted 34 minutes and energy consumption was 11 kWh in 2017. Their usage has decreased somewhat when compared to the year before. Also, the charging time has become

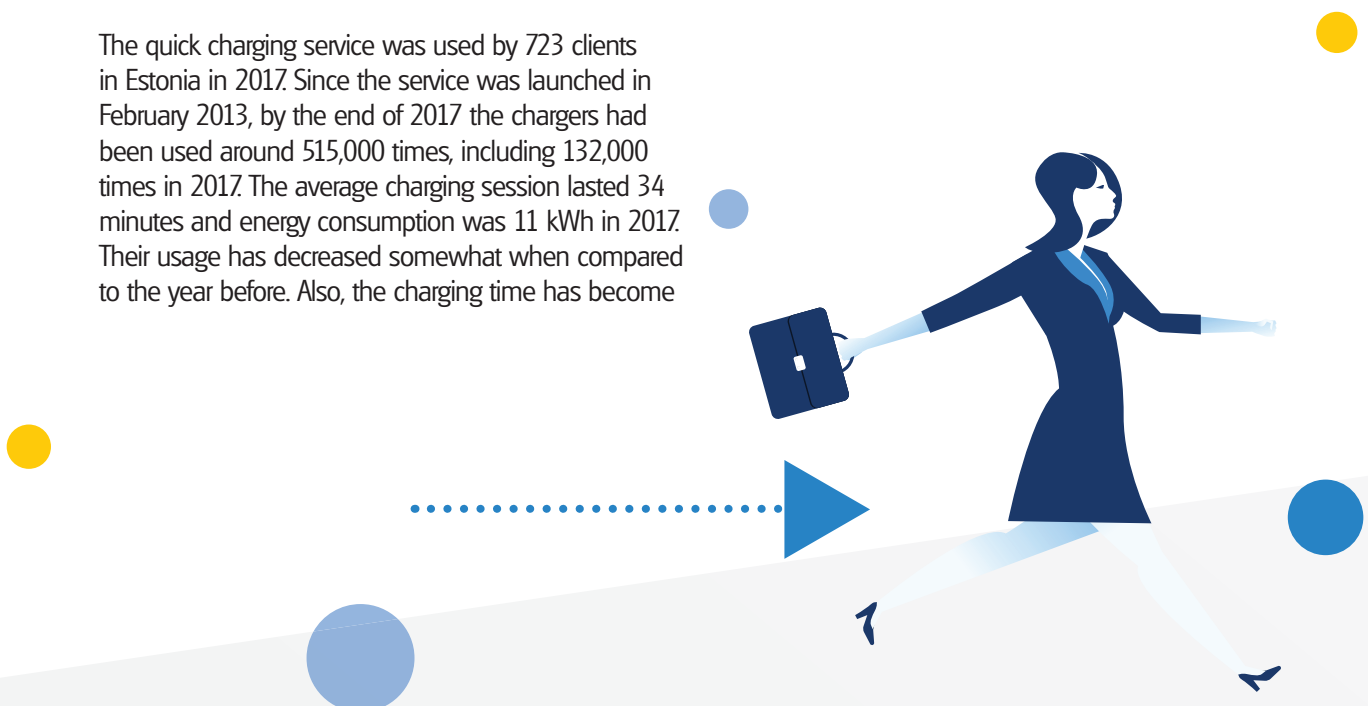
longer and the required charge amount has increased due to new cars with a larger battery capacity.

In 2017 consultations continued with the Ministry of Economic Affairs and Communications for the privatisation of the quick-charging network. As establishing the terms and conditions for the auction took more time than expected, the procurement contract with ABB AS was extended until 31 August 2018. According to the initial plan, the auction for the ELMO quick-charging network will be announced in the spring of 2018.

The provision of short-term rental service by ELMO was continued until 9 July 2017, when the procurement contract concluded with G4S Eesti AS ended. Since the provision of the rental service started in July 2013, the service was used by more than 7400 clients in a total of 35,750 instances, with more than 2.4 million kilometres travelled. The users were predominantly men (80%), with an average age of 32. A total of 80% of them used the rental cars once or twice.

In May 2017, the Ministry of Economic Affairs and Communications announced the auction for the transfer of the ELMO rental service. The winner was ELMO Rent OÜ, who revived the service in September 2017.

It was possible in 2017 to visit the electric car demo centre at the Science Centre AHHA, in Tartu. Since its opening, more than 900,000 people have visited the it and the two electric cars there have been taken on more than 800 test drives. The permanent exposition stopped being directly tied to the ELMO programme in 2017, but the exposition can also be seen in 2018.



### 3.3. Overview of the results of the year 2017 in the entrepreneurial sector

#### 3.3.1. Most important developments in the area

In order for KredEx to be able to issue guarantees on a continuous basis, the Riigikogu amended the *Support of Enterprise and State Loan Guarantees Act*. This established the new maximum amount of valid guarantee contracts of enterprise loans at EUR 220 million. The amendment provides the opportunity to increase the activity volume of KredEx significantly should it prove necessary, given that as of the end of 2017 the outstanding balance of guarantee obligations was EUR 132 million.

During the year, we also made changes in the terms and conditions of the loan guarantee. The main change implemented is that we stopped offering fixed-sum guarantees and only continued with the provision of guarantees based on the division of damages. This may result in the volume of guarantees decreasing in 2018 when compared to the previous years. We also reduced the maximum guarantee rate offered to enterprises within the construction sector and changed our pricing, to make sure that the risk taken and the reward received for it would be balanced.

#### 3.3.2. Provision of guarantees and loans in the area

KredEx guaranteed and financed 372 enterprises in a total amount of EUR 69.5 million in 2017. In addition to this, valid guarantee agreements with 336 companies were amended.

The support of KredEx made it possible for enterprises to involve additional funding in the amount of EUR 118 million. The supported enterprises employed a total of 9655 people, and the projects resulted in 610 prospective new jobs.

#### 3.3.3. Enterprise loan guarantees

In 2017, 566 new enterprise loan guarantee applications and 371 additional applications to amend the existing guarantee agreements were submitted to KredEx; in total, 937 applications. This is 214 applications more than in the previous year. Guarantees were applied for in the total amount of EUR 72.8 million, and the related financing in amount of EUR 116 million.

Also, 477 new guarantee agreements were concluded to guarantee the liabilities of 351 enterprises, and 336 current guarantee agreements securing the obligations of 324 enterprises were amended. There were 58 more customers than the year before. Enterprises that used the guarantees had together about 9600 employees and the support of KredEx guarantees resulted in 482 more prospective jobs.

KredEx guarantees in the amount of EUR 65.8 million made it possible for enterprises to involve additional financing from banks in the amount of EUR 114.3 million. Compared to the previous year, the volume of guarantees decreased by 29%. When compared to the previous years, the volume of guarantees and the volume of loans that became



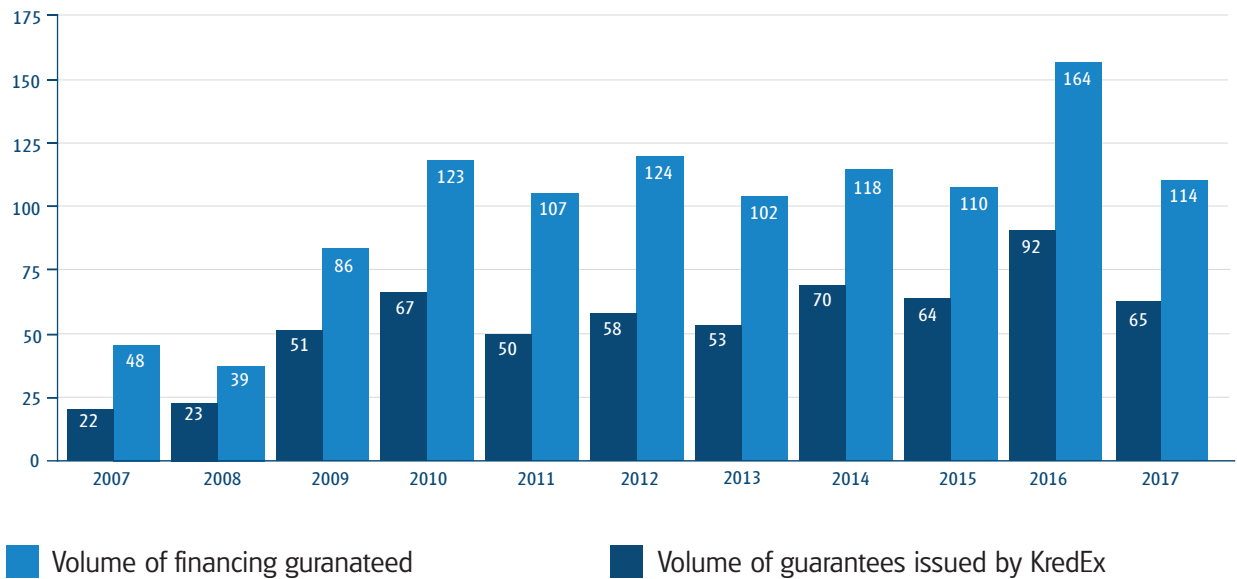


Figure 8. Volume of guarantees issued and funding received with the guarantees, 2007–2017, in millions of euros

accessible as a result of them was at the level of 2014 and 2015.

Loan guarantees for overdrafts and working capital loans provided by KredEx totalled at EUR 29.9 million; with EUR 19 million for investment loans, EUR 15 million for bank guarantees, and EUR 1.9 million for leases.

By types of funding, no major changes occurred in the proportions compared to the year prior. The share of overdrafts and working capital loans increased slightly (to 45%, from 43%). The second biggest category was comprised by investment loans, with their share decreasing slightly year-on-year (from 33% to 29%). The share of bank guarantees and bank guarantee limits grew the most (from 19% to 23%). Leases were guaranteed 2% less than the year before, with their share amounting to 3%.

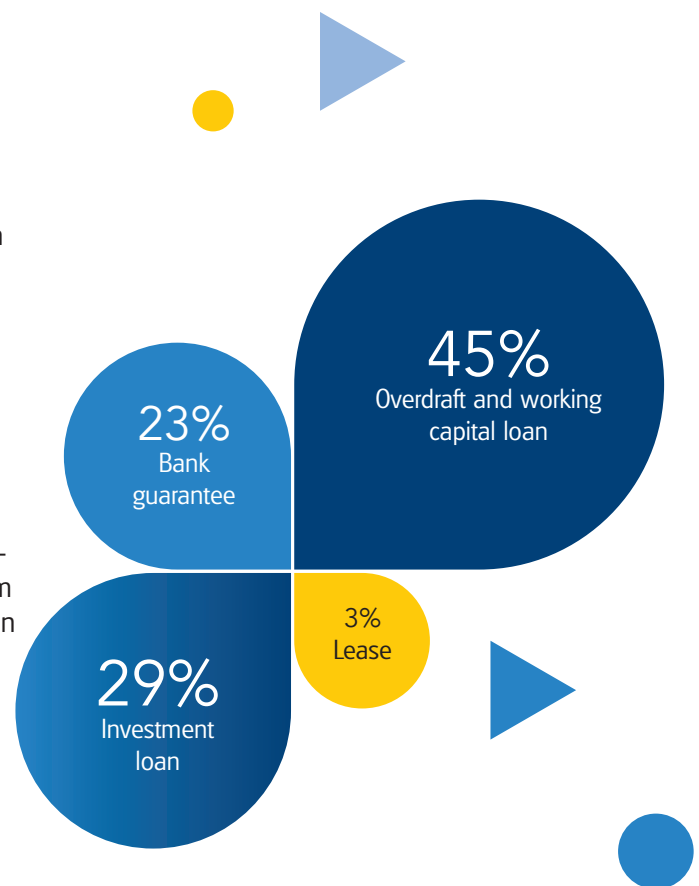


Figure 9. Volume of guarantees issued in 2017 by types of financing



By different sectors, in 2017 KredEx guarantees were used the most by enterprises engaged in construction (23%), information and communications (10.2%), metalworking (8%), the timber industry (7.4%), repairs and installation of machinery and equipment (5.8%), wholesale and retail (5.2%) and other types of production (5.2%). The share of other areas of activity remained below 5% in the guarantee volume issued during the year.

The construction sector experienced steep growth when compared to 2016 (from 13.9% to 23%). The shares of information and communications (from 2.4% to 10.2%) and the production of other means of transport (from 0.2% to 4.5%) have also grown significantly. The share of the timber industry decreased slightly (from 11.2% to 7.4%). There were no major changes in other areas of activity. The changes are greatly affected by single large transactions.

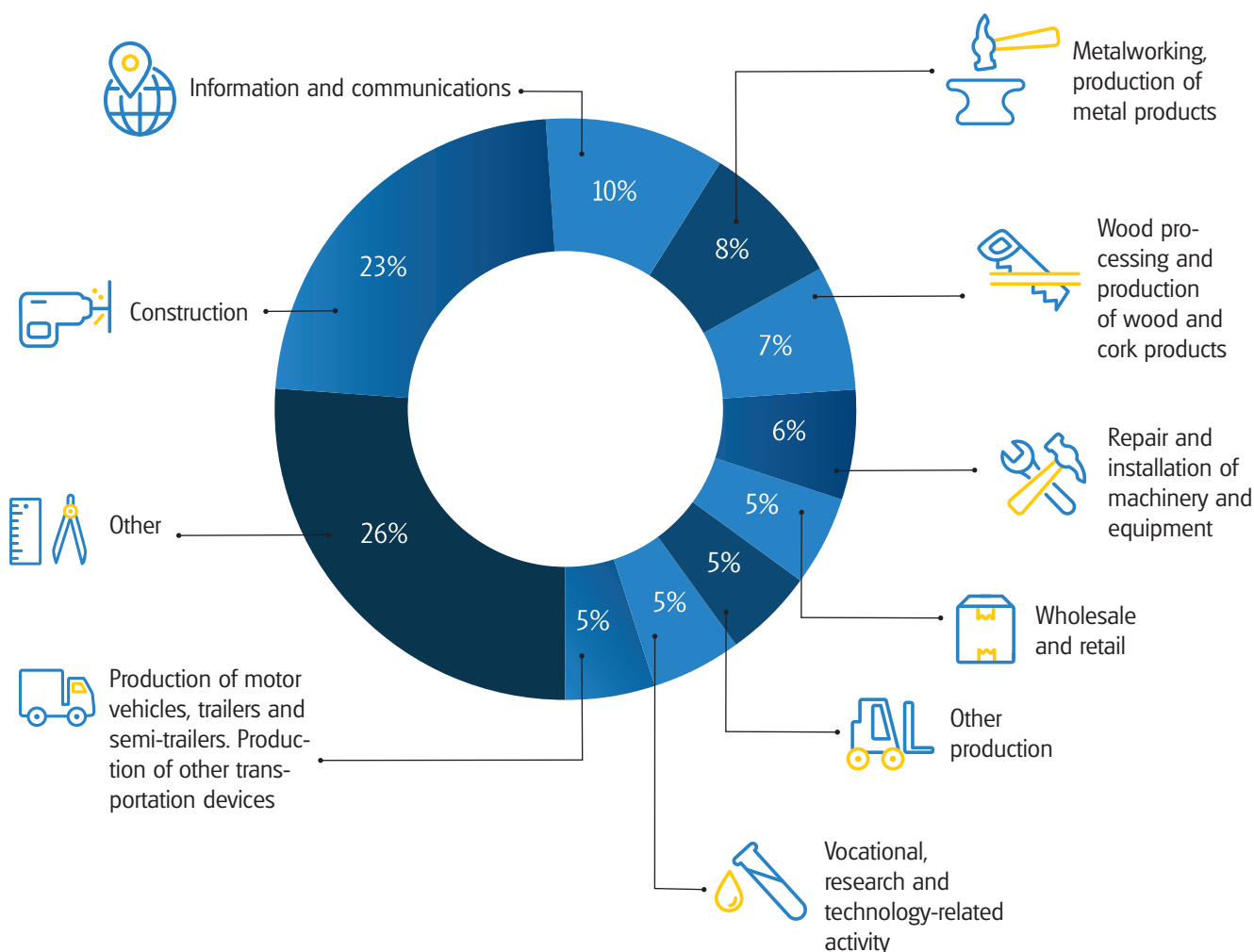


Figure 10. Volume of guarantees issued in 2017 by areas of activity

The share of the processing industry, however, increased from 35.6% to 37% year-on-year. The proportion of guarantees in areas of activity remaining below 5% increased to 40% when compared to 36% in 2016.

In 2017, the share of small enterprises in the volume of guarantees issued by KredEx increased (from 52.8% to 58.7%). The share of both small enterprises (from 27.9% to 24.6%) and medium-sized enterprises (from 15.5% to 13.1%) decreased, while the share of

large enterprises remained about the same (change from 3.8% to 3.6%).

It is noteworthy that guarantees to microenterprises and small enterprises comprised 83.3% of the total volume of guarantees, which is 2.6% more than the year before. By the number of employees 96.4% of KredEx clients are micro, small and medium-sized enterprises.

Among loan guarantees, 18 start-up loan guarantee agreements for securing the obligations of 18

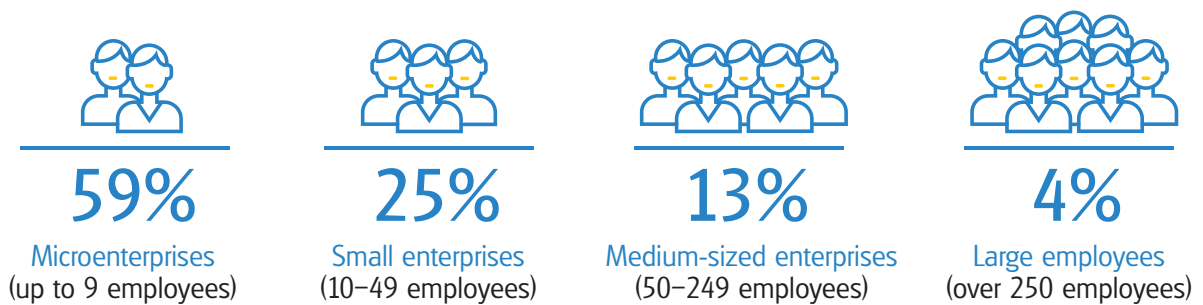


Figure 11. Distribution of volume of guarantees issued in 2017 by enterprise size

enterprises were concluded in 2017, totalling EUR 500,000. This enabled starting entrepreneurs to obtain financing from banks in amount of EUR 700,000 and 33 new jobs are planned to be created as a result of the projects funded.

As at the end of 2017, the portfolio of enterprise guarantees included 1264 valid guarantee agreements of 911 enterprises in the amount of EUR 131.7 million. Over the year, the number of clients and contracts in the portfolio remained practically the same. The balance of guarantee obligations increased in 1.8% year-on-year.

Since 2001, KredEx has guaranteed bank loans, bank guarantees, and leasing transactions for 3602 companies in the total amount of EUR 1.3 million. Guarantees have been issued in the sum of EUR 699 million. As a result of the projects financed, these enterprises have been planning to create 13,273 new jobs.

### 3.3.4. Enterprise loans

In 2017 startup loans were issued from the resources of KredEx to 13 enterprises in the amount of EUR 500,000. As a result of the financed projects, these enterprises plan to create 65 new jobs.

In total, startup loans and startup loan guarantees by KredEx allowed for the financing of the establishment of 31 startup companies in the total amount of EUR 1.2 million. As a result of the projects funded, these enterprises are planning to create 98 new jobs.

During the year, 19 technology loan and working capital loan agreements were concluded with six enterprises in the total amount of EUR 1.4 million. Thanks to the subordinated loans of KredEx, the entrepreneurs are planning investments totalling EUR 11.8 million. The financed enterprises employed a

total of 101 people, and as a result of projects, 128 new jobs would be created.

In 2017, two export loan agreements were concluded to secure the export transactions of two enterprises in the sum of EUR 1.8 million.

### 3.3.5. Venture capital

At the beginning of 2013 the Baltic Innovation Fund (BIF), created in cooperation between the three Baltic Republics and the European Investment Fund (EIF), started its operations. This fund of funds invests into private equity and venture capital funds with management companies from the private sector, that are investing into enterprises. The goal of the BIF is to offer new financing opportunities to Baltic enterprises with good growth potential, and to develop the capital market of the Baltic Republics. The BIF is managed by the EIF.

The volume of the BIF is EUR 130 million. The contribution of each country through KredEx (Estonia), ALTUM (Latvia), and INVEGA (Lithuania) is EUR 26 million, and the EIF contributes EUR 52 million. At least the same amount of capital from private investors is added to the contribution of BIF on the funds' level. So far, the BIF has invested into five funds:

- BaltCap Private Equity Fund II (volume of the fund EUR 81.5 million, of which the holding of BIF is EUR 20 million),
- BPM Mezzanine Fund (EUR 70 and 15 million, respectively),
- Livonia Partners Fund (EUR 72.7 and 20 million, respectively),
- Karma Ventures Fund I (EUR 60 and 25 million, respectively),
- BaltCap Growth Fund (EUR 40.8 and 20 million, respectively),

In the course of 2018, the BIF will make investment decisions for up to two additional funds.

On 1 March 2016, KredEx, the EIF and the Ministry of Economic Affairs and Communications signed a funding contract, creating the fund of funds EstFund. From the fund, EUR 60 million are to be placed in three sub-funds that mainly invest into startup and early-phase Estonian enterprises. Almost EUR 40 million from private investors will be added to the EstFund contribution on the fund and enterprise level.

By the end of 2017, a financing agreement has been concluded in the framework of EstFund with a business angles co-financing fund United Angels Co-investment Fund I. The financing agreements for the venture capital fund and growth capital fund will be presumably concluded in the second quarter of 2018.

In June, the takeover of the activity of the Estonian Development Fund (EDF) was completed. As a result of the reorganisations, the EDF's previous public limited company SmartCap, engaged in venture capital investments, will become a subsidiary of KredEx, taking on a new investment strategy. In accordance with this, the fund will no longer invest directly in enterprises; instead investing in accelerator funds managed by private management companies, which in turn will invest in seed stage companies. During the reorganisation, previous direct investments made by SmartCap and the EDF will also be transferred to the new fund, which, as a result of a competition, is managed by the private management company Tera Ventures.

### 3.3.6 Startup Estonia and the Estonian startups ecosystem in 2017

The year 2017 was more successful than previous years for Startup Estonia and the whole Estonian startup community and the contribution of startups to the Estonian economy grew steadily.

In total, there were around 500 startup companies in Estonia as of 2017. While in 2016, there were 3500

people working for Estonian startup companies (three fourths of them in Estonia), then in 2017 the number of such people reached 4300 (incl. 3000 of them in Estonia).

Along with the growth in the number of employees, labour tax revenue also increased: when in 2016 startup companies paid labour taxes in the amount of EUR 28 million, then in 2017 the number was already EUR 36 million. The total turnover of Estonian startup companies reached EUR 275 million in 2017.

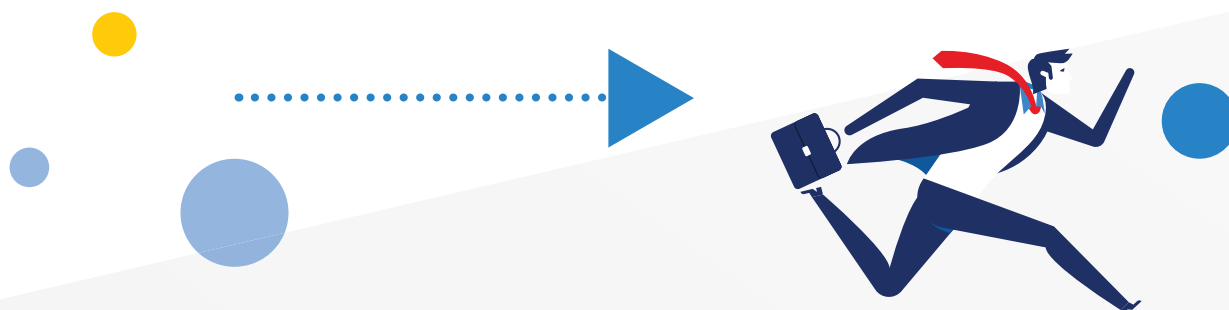
While there were many new early-stage startups added in 2017, the growth of the sector has mainly been driven by the large turnover of bigger startups and continued investments into expansion. For example, half of the employment in startups is comprised of the 10 biggest employers in the field.

In 2017 Estonian startup companies involved around EUR 270 million in investments, with, by far, the largest investment made into TransferWise (EUR 240 million). So, the overall investment volume remained at EUR 30 million (in 2016: EUR 80 million). It was followed by Skeleton Technologies, with EUR 15 million, and ZeroTurnaround and Jobbatical (both involved EUR 3.5 million). In total, 39 investments were made in 2017.

The biggest corporate sales in 2017 were Teleport, being acquired by the mobility management platform Move Guides, big data platform PlanetOS, being acquired by Silicon Valley-based Intertrust Technologies, and the Estonian Java developer tool ZeroTurnaround, being acquired by Rogue Wave Software. The transaction amounts have not been disclosed, but all of them have been considered successful and at least one of them bringing in a range of EUR 50 million.

In 2017, the development of the startup community also continued elsewhere in Estonia. In Pärnu the first co-working space, Forwardspace, was opened. Such offices are already successfully in operation in Tallinn (LIFT99 and SpringHUB) and Tartu (sTARTUP HUB).

A lot of interesting things also happened in the four



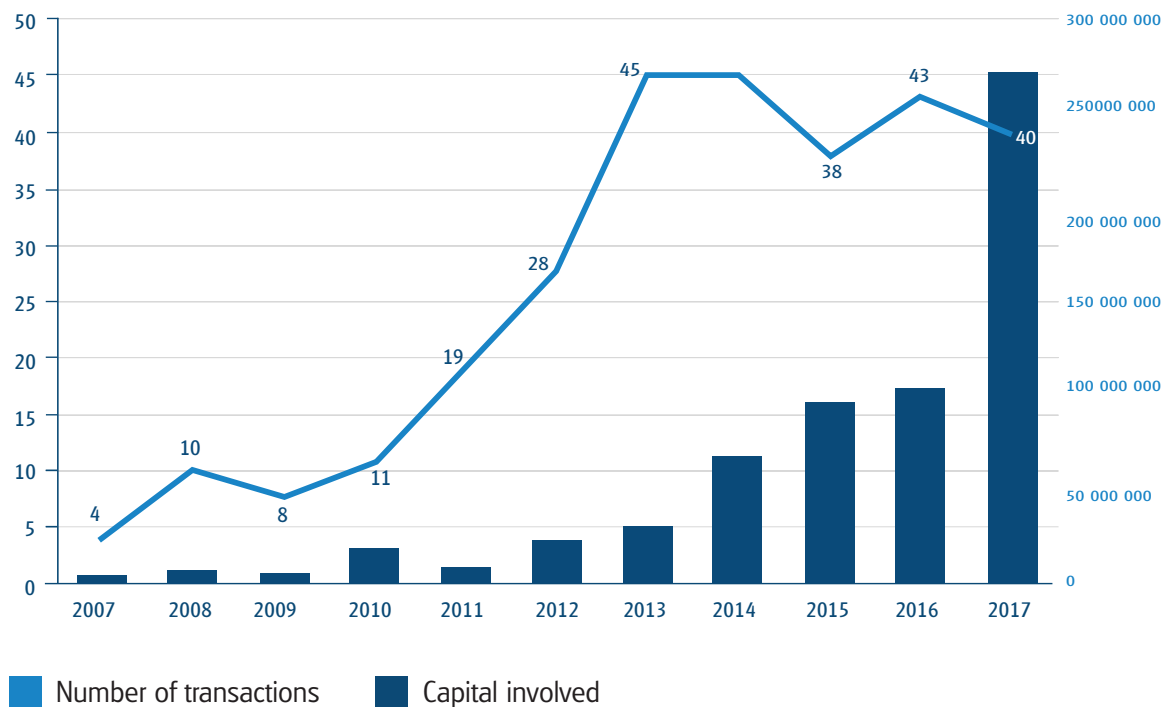


Figure 12. Capital involved by Estonian start-ups (in euros) and change in the number of transactions, 2007–2017

basic business lines of Startup Estonia – a strong ecosystem, smart people, smart money and friendly regulations.

To strengthen the ecosystem, we helped with organising important events for the startups, among other things, two major conferences in Estonia with startups also being the target group: *Latitude59* and *STARTUp Day*. The latter event saw a record attendance of more than 2500 visitors. Robotex, the biggest European robotics festival, hosted a record number of 3195 teams from 26 countries. In 2017 the vision established for the event was one of developing a strong deep-tech robotics and artificial intelligence conference alongside the robotics festival, one that would become an annual meeting place for all specialists in the field.

With the aim of promoting and marketing Estonian startup companies, during the Estonian Presidency of the Council of the European Union we engaged in cooperation with the Ministry of Economic Affairs and Communications to organise the conference Startup Nations Summit, with more than 250 participants from the startup community. For the first time, we also organised the event Tallinn Startup Week with around 50 field related workshops, office tours and mentoring sessions held all over Tallinn. They were visited by more than 1000 people.

Regarding the ‘smart human’ line of action, we carried

out a successful syndicated investment pilot programme in cooperation with the Estonian Business Angels Network EstBAN. Its participants included 33 business angels and an investment of EUR 160,000 was made. We also started the two-year cooperation programme Level11 for startups and major companies, to achieve a new level of innovation together. The programme includes awareness-raising activities, a programme for innovation leaders, activities facilitating the identification of cooperation programmes and networking, and a cooperation project accelerator. The innovation leaders club has been functioning successfully as a result of Level11 with 87 leaders meeting regularly.

Starting from 2017, the sector of cybersecurity became one of the focus areas for Startup Estonia as a field with great growth potential. The aim of the activities is to strengthen the startup ecosystem of cyber defence and to grow the number of startups in the field. An overview was given of all startups engaged with cyber defence in Estonia and parties in the cyber defence ecosystem, cooperation relationships were founded with the most important support organisations and a contribution was made to two international project applications.

In the area of ‘smart money’, we organised a procurement of accelerator funds that was won by the joint

tender of Mobi Solutions OÜ and Astrec Baltic OÜ. The accelerator programme will launch in the first half of 2018.

In the field of 'friendly regulation', the greatest achievement was the so-called startup visa approved in the Riigikogu and entered into force on 18 January 2017. It was conceived in cooperation between the Estonian startup community, the Ministry of Internal Affairs and Startup Estonia, enabling the citizens of non-EU countries to work for Estonian startups, move their existing startups to Estonia, and establish new ones here.

During the year, 325 startup visa applications were filed from 47 countries. As a joint application is filed for each team, the actual number of people moving to Estonia with their people may be several times higher. The majority of applications for the visa were made by startup teams from India, Russia, Ukraine, Pakistan and Turkey. Whereas the average acceptance rate is around 45%, applicants from some countries (e.g. Belarus, Ukraine and Russia) are performing considerably better than that.

The activity costs of Startup Estonia are covered with the resources of the supported activity *Enlivening Startup Entrepreneurship under the priority axis Growth-capable Entrepreneurship and the Research and Development Activity Supporting it* of the Cohesion Fund's development plan 2014–2020. In 2017, the measure's final beneficiary was Enterprise Estonia.

### 3.4. SmartCap

AS SmartCap is an enterprise founded in 2011, operating as a management company of venture capital funds until 2017 and having been a subsidiary of the Estonian Development Fund (EDF) until the middle of the same year. The development of the local capital market brought about the need to change the strategy of the EDF and to continue with more passive state interventions in the investment activities of early-stage enterprises. This is why 2017 was a year of great changes for AS SmartCap, as the planned reorganisation was completed.

On 27 January 2017, SmartCap started its activity as a small-scale fund manager. Due to the company's shareholder, the EDF, being liquidated in the middle of the same year, Fund KredEx acquired 100% of the shares of AS SmartCap.

The management board of AS SmartCap had two members: Sille Pettai and Mari Vavulski. As at the end of the accounting period, the company's Supervisory Board has four members. The members of the Supervisory Board are Ville Jehe (Chairman), Lehar Kütt, Priit Põldoja and Mikko-Jussi Suonenlahti.

Due to the reorganisation of the activities of the EDF, SmartCap started preparations for overhauling its investment strategy already in 2016. In August of the same year, a competition was announced, in cooperation with the European Investment Bank, to find a private management company for the direct investments made so far, whose prospective fund could take them over. There were six teams participating in the competition and in December the offer of Tera Ventures was established as the best one. Assets designated in the competition were handed over to Tera Ventures I Trust Fund in May 2017.

SmartCap is managing the contractual closed alternative fund Early Fund II. Its assets are invested into knowledge and technology intensive small and medium-sized enterprises mainly in Estonia. Along with the changes in the fund's investment activities, instead of direct investments into enterprises the new strategy will be focused on investing into holdings in other venture capital funds. So, Early Fund II is a fund of funds in its nature now.

One of the aspects of adopting the fund of funds model is the realisation of the new investment strategy, i.e. investments into accelerator funds. In the years 2016–2017, SmartCap organised the first joint procurement with KredEx to find a management company for the accelerator fund. Seven teams participated in the process, of which the accelerator fund solution proposed by Marek Kiisa, Veljo Otsason and Rain Rannu was deemed successful. The accelerator fund formed by them is planning to start investing in the first half of 2018. Early Fund II has invested EUR 4.2 million into the future fund and KredEx will fund accelerator services offered by the fund through the Startup Estonia programme in the sum of up to EUR 1.4 million.

As of the end of 2017, the volume of the assets of Early Fund II is EUR 43.7 million.

In addition to the management of the existing investment, in 2018 there are plans to devise opportunities for investing into new early-stage funds.

### 3.5. AS KredEx Krediidikindlustus

AS KredEx Krediidikindlustus was founded on 26 November 2009, by Fund KredEx (one third of the shares) and the Ministry of Economic Affairs and Communications (two thirds of the shares). The company was registered with the commercial register on 31 May 2010.

The aim of the insurance company is to offer credit insurance, to enable the managing of commercial risks arising from buyers as well as the political risks of the buyer's home country. Krediidikindlustus compensates for the damages, arising from the outstanding invoices of the buyer for the sold goods or services. The wider purpose of the activity is to increase the awareness of Estonian enterprises about credit management, assist in performing the screening of foreign partners and increase export capability. When providing the service, the principle of profitability is taken as the basis.

In 2017 there were changes in both the Supervisory Board and Management Board of the company. With the shareholder's decision, the Supervisory Board was expanded to four members, with Kristjan Värton and Ivo Karilaid appointed as the new members. Lehar Kütt (Fund KredEx) will continue as the Chairman of

the Supervisory Board and Kertu Fedotov (Ministry of Economic Affairs) as its member. The Management Board of the insurance company has two members, with Erki Aamer starting on 1 December as a new member. The Supervisory Board extended the authorities of Mariko Rukholm as a member of the Management Board for the next four years.

Starting from its foundation, the scope of activity of the insurance company provided to the exporters has constantly increased. The reason behind it is the increasing awareness of entrepreneurs regarding the management of payment risks primarily related to exports, but also exporters' new business interests on new and increasingly remote target markets.

The volume of the operations of AS KredEx Krediidikindlustus also grew in 2017. Over the year, the risk portfolio, that is, the sum of active insurance limits, grew by 10% during the year, reaching EUR 268 million (growth in 2016: 8%). Risks related to foreign buyers accounted for 63% of the volume of the risk portfolio, reaching EUR 168 million (at the end of 2016, 66% or EUR 161 million). The volume of credit risks insured with a state guarantee shrank by 4%, reaching EUR 23 million (8.2% of the risk portfolio) and covered insured buyers in non-EU states. As at the end of the year, the credit risks of 4843 enterprises in 61 countries of residence were insured (4240

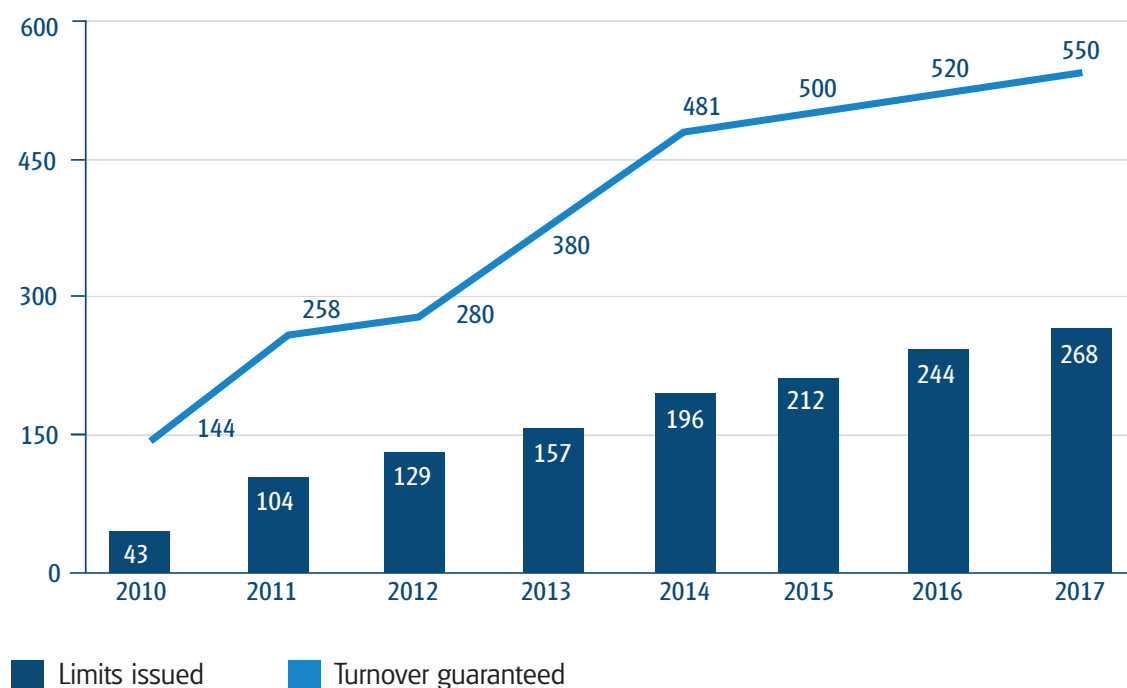


Figure 13. Continued growth in the volume of operations of KredEx Krediidikindlustus in 2010–2017, in millions of euros



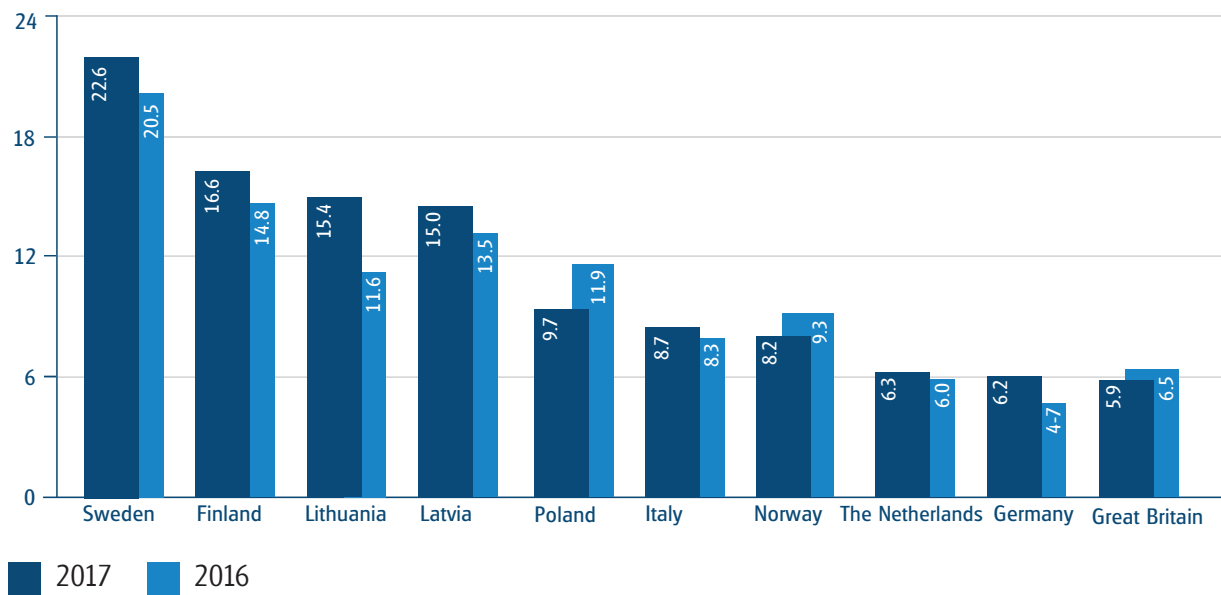


Figure 14. The ten biggest destination countries for exports in the portfolio of KredEx Krediidikindlustus and the volume of insurance limits issued for these countries, in millions of euros

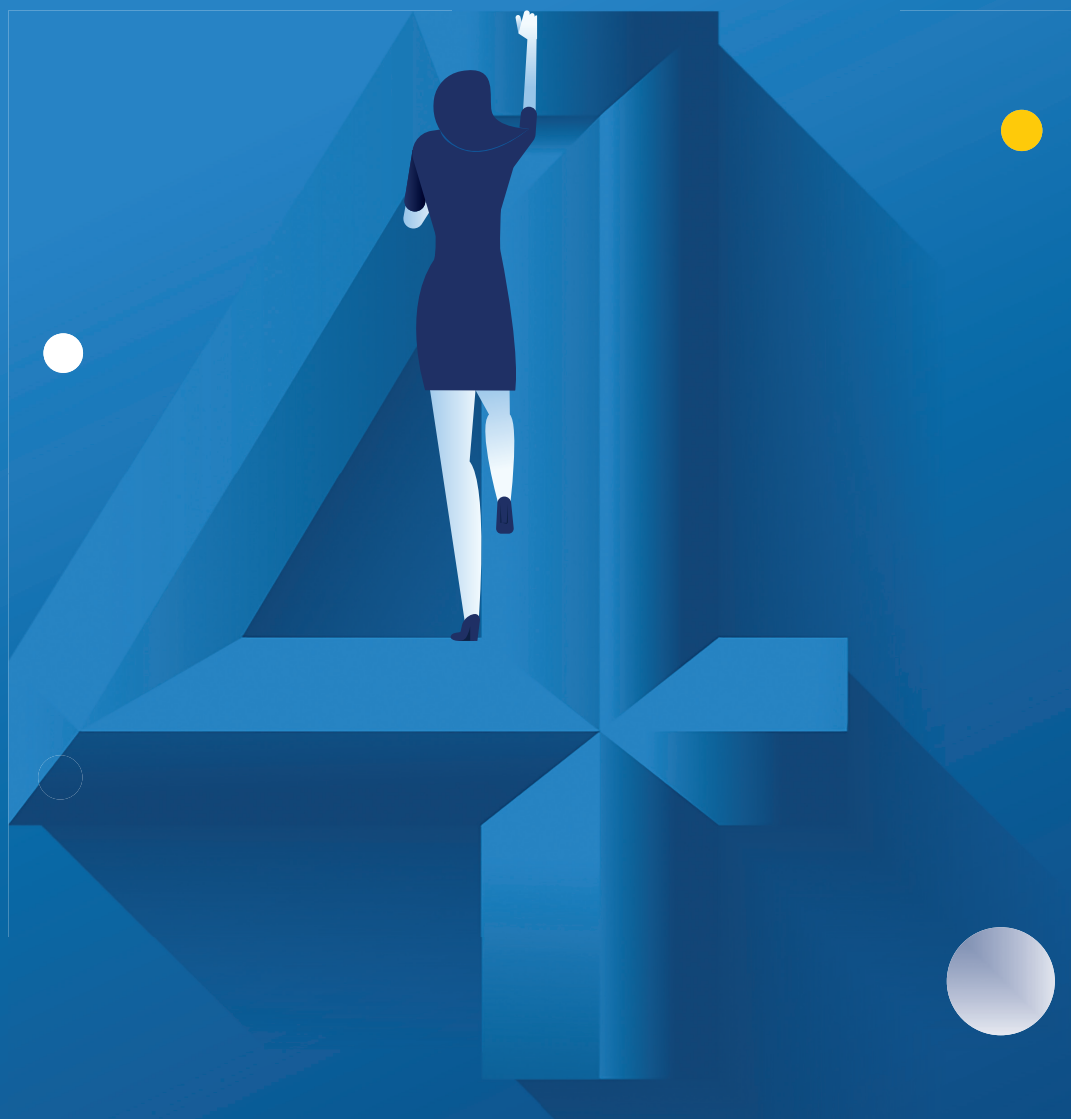
enterprises in 66 countries in 2016). The largest cases of the credit insurance volume of export transactions are related to the main destination countries of export, i.e. Sweden, Finland, Lithuania and Latvia.

Insurance premiums were collected during the year in the amount of around EUR 1.8 million (in 2016, around EUR 1.5 million) and the turnover of Estonian enterprises tied to the insurance contracts was more than EUR 550 million in 2017 (EUR 520 million in 2016, annual growth 8%).

After a few years' pause, three new long-term insurance contracts were concluded in 2017 with insurance premiums amounting to EUR 140,000. Based on these contracts, Estonian manufacturers exported almost EUR 2.5 million worth of machinery and equipment to Kazakhstan, Belarus and the Ukraine.

Damages were reimbursed in the sum of EUR 900,000 (in 2016, EUR 1.1 million). A total of 46% of the compensation for damages were related to Estonian buyers. The largest compensation paid was EUR 240,000 (26% of all compensations), which was paid out due to the insolvency of a buyer from Belarus.





Financial  
results and  
paid loss

Thousands of euros	2017 Consolidated	2016
Income from core activity (gross)	7 502	7 116
Guarantee activity	4 311	4 094
Crediting activity	1 784	1 873
Fund management fees	224	0
Targeted financing of operational expenses from the state budget	1 183	1 149
Paid losses	-1 168	-1 774
Loss provisions formed for guarantees (gross)	-3 006	-2 518
Discounts of subordinated loans (gross)	-358	-1 423
Administrative expenses	-3 451	-3 198
<b>Profit for the accounting period</b>	<b>1 223</b>	<b>1 176</b>
	<b>31.12.2017</b>	<b>31.12.2016</b>
Loan receivables	55 978	59 135
Technical provisions	13 400	7 243
Foundation capital	76 616	74 020
Balance sheet total	194 550	191 379
<b>Off-balance-sheet liabilities (guarantee portfolio)</b>	<b>224 860</b>	<b>207 620</b>

Income related to the guarantee activity increased by areas of activity in the housing sector. In the entrepreneurial sector, revenue from guarantee fees increased, but decreased in relation to contractual fees. Income related to crediting activity decreased due to an overall decline in the portfolio volume.

In 2017, fewer losses were covered than the year before. Losses were smaller in both the entrepreneurial and housing sector. Costs incurred from loss

events were mainly covered on the account of guarantee fees, but in the entrepreneurial sector, an additional provision of EUR 1,026,628 had to be formed (not formed in 2016). Subordinated loans were discounted in the amount of EUR 358,441 (in 2016, EUR 1,423,332).

The total profit of year was EUR 1.2 million. Since 2001, KredEx has earned a total profit of EUR 9.6 million.





In 2018, KredEx will continue offering grants in the guarantee, loan, venture capital and housing areas, if necessary, with the goal being to revitalise the economy, improve the living conditions of people and increase energy efficiency. KredEx is constantly seeking to expand financing opportunities and compensate for market deficits in these areas.

In the field of entrepreneurship, we are expecting our volume of operations decrease in relation to guarantees and increase slightly in relation to loans due to the market developments and changes in the terms and conditions of technology loan and export loan. We are continuously looking for opportunities to intensify our cooperation with banks in the area of the provision of loan guarantees and issuing of startup loans, also including opportunities to simplify the procedures. In 2018 the main focus will be put on the financing of starting enterprises.

In the venture capital area, the private and venture capital funds financed from the Baltic Innovation Fund (BIF) will continue investing in enterprises. In addition to the five funds currently in operation, in 2018 decisions will be made on investing in up to two additional funds from the BIF. Negotiations with co-investors and preparations for the foundation of the Baltic Innovation Fund II will continue.

The co-financing fund involving business angels that started its activities in 2017 will continue investing under EstFund. A financing agreement will also be concluded with the venture capital fund and growth capital fund.

In the housing and energy efficiency area KredEx will continue to offer an integrated package of services, including information activities, grants and loan guarantees, to make apartment buildings more energy efficient. While we suspended the application process for the reconstruction grants for apartment buildings due to our resources being depleted in September 2017, we will continue the disbursement of grants to the approved projects.

The volume of home loan guarantees will continue moderate growth in 2018 due to the active housing market. The volume of apartment building loan guarantees will remain at the same level as the previous year, as houses are still being reconstructed with the help of reconstruction grants allocated earlier.

KredEx will continue the process of exiting from activities related to the Estonian electromobility programme ELMO. As the rental service of electrical cars was privatised in 2017, then in 2018 the quick-charging network for electrical cars covering the whole Estonia will also change hands.

KredEx is aiming to help to improve the competitiveness of Estonian enterprises and the living conditions of the residents. To do so, it is necessary to carry on with the consistent development of the services and the organisation, to be a supportive partner to both enterprises and residents in the realisation of their plans.

An important direction is finding synergy between the Startup Estonia programme (joined KredEx in 2016), SmartCap (joining in 2017) and the rest of the activities of KredEx. To enable this, the value offer of Startup Estonia will also be updated.



The background is a solid blue color with various geometric elements. On the left, there are several concentric circles of different shades of blue, creating a tunnel-like effect. A person with long dark hair, wearing a dark suit and light blue pants, is sitting on the innermost circle, working on a laptop. To the right of the circles, there are several white and light blue circles of different sizes, and three dark blue triangles pointing in different directions. At the bottom right, there is a white dotted line ending in a white arrow pointing to the right.

# Annual report



## 6.1. Consolidated balance sheet (in euros)

ASSETS	31.12.2017	31.12.2016	Notes
<b>Current assets</b>			
Cash and bank accounts	118 896 224	117 765 913	3
Short-term loan receivables	8 757 406	7 307 490	4
Receivables and prepayments	4 360 659	1 140 170	5
<b>Total current assets</b>	<b>132 014 289</b>	<b>126 213 573</b>	
<b>Fixed assets</b>			
Long-term investments	15 139 270	13 159 351	6
Long-term loan receivables	47 221 034	51 827 180	4
Tangible fixed assets	73 916	74 921	7
Intangible fixed assets	101 593	103 815	8
<b>Total fixed assets</b>	<b>62 535 813</b>	<b>65 165 267</b>	
<b>TOTAL ASSETS</b>	<b>194 550 102</b>	<b>191 378 840</b>	
<b>LIABILITIES</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables and prepayments	493 946	443 527	9
Short-term part of long-term loans	4 848 539	4 808 974	14
Short-term technical provisions	3 709 796	2 826 080	10
Other short-term provisions	0	84 810	10
Targeted financing for housing grants	9 118 100	8 420 235	11
Targeted financing for the application of the green investment scheme	2 860 852	3 720 217	12
Targeted financing for supporting measures of entrepreneurship	61 709	50 000	13
<b>Total current liabilities</b>	<b>21 092 942</b>	<b>20 353 843</b>	
<b>Long-term liabilities</b>			
Long-term technical provisions	9 690 244	4 416 958	10
Long-term loans	19 582 502	24 181 929	14
Targeted financing for supporting measures of entrepreneurship	66 345 687	67 229 478	13
<b>Total long-term liabilities</b>	<b>95 618 433</b>	<b>95 828 365</b>	
<b>Total liabilities</b>	<b>116 711 375</b>	<b>116 182 208</b>	
<b>Net assets</b>			
Foundation capital	76 615 810	74 020 324	
Total net gain (loss) for the accounting year	1 222 917	1 176 308	
<b>Total net assets</b>	<b>77 838 727</b>	<b>75 196 632</b>	
<b>TOTAL LIABILITIES</b>	<b>194 550 102</b>	<b>191 378 840</b>	

## 6.2. Consolidated income statement (in euros)

Operating income	2017	2016	Notes
Guarantee fees	4 675 937	3 447 989	15,16
Interest income from loans	1 346 948	1 597 639	15,16
Intermediation of targeted financing for housing grants	25 425 885	11 096 402	15
Intermediation of the targeted financing for the implementation of the green investment scheme	776 850	1 030 141	15
Targeted financing to cover operating expenses	1 796 456	1 922 406	15,16
Fund management fees	224 315	0	16
<b>Total operating income</b>	<b>34 246 391</b>	<b>19 094 577</b>	
Operating expenses			
Intermediation of targeted financing for housing grants	-25 425 885	-11 096 402	15
Intermediation of the targeted financing for the implementation of the green investment scheme	-776 850	-1 030 141	15
Administrative expenses	-3 451 077	-3 197 549	19
Other operating income and expenses	69 463	189 181	17
<b>Total operating expenses</b>	<b>-29 584 349</b>	<b>-15 134 911</b>	
Provisions and impairment losses			
Cost of guarantee losses	-2 869 189	-1 812 075	15
Loan losses	86 021	-303 583	15
Discounting of other claims	-18 200	0	15
<b>Total provisions and impairment losses</b>	<b>-2 801 368</b>	<b>-2 115 658</b>	
Financial income and expenses			
Net income from securities	2 040	1 428	6
Interest income on deposits	10 050	129 718	3
Interest expenses	-737 055	-864 432	15
Profit/loss from associated undertaking	102 549	83 993	6,15
Other financial income and expenses	-15 341	-18 407	18
<b>Total financial income and expenses</b>	<b>-637 757</b>	<b>-667 700</b>	
<b>Net income for the reporting period</b>	<b>1 222 917</b>	<b>1 176 308</b>	

## 6.3. Consolidated cashflow statement (in euros)

Cash flows from principal activities	2017	2016	Notes
Income	1 222 917	1 176 308	15
Adjustments to income	-126 630	439 092	
Change in receivables and prepayments made	-3 272 095	-201 925	
Change in liabilities and prepayments received	50 419	42 275	
Change in provisions	6 072 192	1 132 412	
Change in loan receivables	3 156 230	3 991 070	
Change in loan obligations	-4 559 862	-4 467 099	
Change in targeted financing	-1 033 582	19 852 752	
<b>Total cash flows from principal activities</b>	<b>1 369 589</b>	<b>21 964 885</b>	
<b>Cash flows from investment activities</b>			
Sale of short-term financial investments	0	4 200 000	
Acquisition of long-term financial investments	-1 800 000	-3 480 000	6
Funds added during the acquisition of a subsidiary	1 571 827	0	
Interest income received	51 606	285 997	
Received dividend income	10 000	0	6
Acquisition of fixed assets	-80 990	-98 176	7,8
Sale of fixed assets	8 279	0	
<b>Total cash flows from investing activities</b>	<b>-239 278</b>	<b>907 821</b>	
<b>Total cash flows</b>	<b>1 130 311</b>	<b>22 872 706</b>	
Cash and cash equivalents at the beginning of the period	117 765 913	94 893 207	
Change in cash and cash equivalents	1 130 311	22 872 706	
<b>Cash and cash equivalents at the end of the period</b>	<b>118 896 224</b>	<b>117 765 913</b>	<b>3</b>

## 6.4. Statement of changes in net assets (in euros)

	Enterprise trust funds	Export trust funds	Housing trust funds	Und-istributed income	Net assets Total
<b>Balance 31.12.2015</b>	<b>32 175 680</b>	<b>6 121 543</b>	<b>34 701 860</b>	<b>1 021 241</b>	<b>74 020 324</b>
Distribution of income into trust funds	433 447	0	587 794	-1 021 241	0
Total net gain (loss) for the accounting year	0	0	0	1 176 308	1 176 308
<b>Balance 31.12.2016</b>	<b>32 609 127</b>	<b>6 121 543</b>	<b>35 289 654</b>	<b>1 176 308</b>	<b>75 196 632</b>
Distribution of income into trust funds	416 628	0	759 680	-1 176 308	0
Receipt of assets in foundation capital	1 419 178	0	0	0	1 419 178
Total net gain (loss) for the accounting year	0	0	0	1 222 917	1 222 917
<b>Balance 31.12.2017</b>	<b>34 444 933</b>	<b>6 121 543</b>	<b>36 049 334</b>	<b>1 222 917</b>	<b>77 847 727</b>

Additional information regarding the change in net assets has been provided in Note 20.

## 6.5. Notes to annual accounts

### Note 1. Principles of drafting the annual accounts

The 2017 annual accounts of Fund KredEx have been drafted in accordance with the good accounting practices of the Republic of Estonia, which are based on internationally approved calculation and reporting principles. The standard has been established by the Accounting Act of the Republic of Estonia and complemented with instructions issued by the Estonian Accounting Standards Board. Additionally, the Support of Enterprise and State Loan Guarantees Act, the Public Sector Financial Accounting and Reporting Guidelines and other regulations and legislation regulating the activities of Fund KredEx and listed under the relevant accounting principle in Note 2 have been followed. The financial year started on 1 January 2017 and ended on 31 December 2017.

The numeric figures of the annual accounts have been presented in euros.

If necessary, benchmark data has been adapted to the method of the presentation of reports of the current year.

In connection with the acquisition of the shares of subsidiary AS Smartcap the 2017 annual statements have been submitted as consolidated. For the sake of comparison, the main statements have also been submitted in the Notes in unconsolidated form.

### Note 2. Calculation methods and evaluation principles used in drafting the annual report

#### Cash and cash equivalents

Cash at bank, demand deposits and short-term bank deposits that can be withdrawn on short notice are recorded as cash and cash equivalents. Cash flows from business activities are recognised by the indirect method in the cash flow report. Cash flows from investment and financing activities are registered using the direct method.

#### Financial investments

##### Initial recognition of financial assets

Financial assets are initially accounted for at their acquisition cost, which is the fair value of the fee paid

or received for the financial assets. The initial acquisition cost includes all of the transaction expenses directly resulting from the acquisition of the financial assets, except for financial assets recorded at fair value, for which transaction expenses are not added when the initial acquisition cost is calculated.

All purchases and sales of financial assets taking place under ordinary market circumstances are registered on the date of those transactions, i.e. on the date when KredEx undertakes a liability (e.g. concludes a contract) for the purchase or sale of a certain financial asset. Sales and purchases taking place under ordinary market circumstances are such purchases and sales for which the transfer of the purchased or sold financial assets takes place during the period that is characteristic for the relevant market or in accordance with the relevant market regulations.

**After the initial registration all financial assets are recognised at fair value, except for:**

- claims against other parties that KredEx has not acquired for the purpose of resale and financial investments maintained until the redemption date, which are recognised at their adjusted acquisition cost;
- investments into shares and other equity instruments, the fair value of which cannot be reliably evaluated (including derivative instruments connected with such assets), are recognised at their acquisition cost.

#### Financial assets recognised at fair value

**The following financial assets are recognised at fair value:**

- short- and long-term financial investments in equities and other equity instruments whose fair value may be reliably assessed;
- short- and long-term financial investments in publicly traded bonds or other debt instruments.

Financial assets recorded at their fair value are re-evaluated on every balance sheet date into their current fair value, from which the possible transaction costs accompanying the realisation of the property have not been deducted. In the case of publicly traded securities the fair value is based on the closing prices on the balance sheet date and the official currency exchange rates of the European Central Bank. In the case of securities that are not publicly traded, the fair value is used, which is found according to all information available to KredEx regarding the value of the investment.

Profits and losses arising from the change in fair value are recorded in the income statement on the line "Net income from securities". The change in the fair value of financial assets acquired for the purpose of trade is recorded in the income statement on the line "Net income from securities". Profits and losses upon the realisation of financial assets recorded at fair value, as well as interest and dividends from the relevant securities are recorded in the income statement on the line "Net income from securities".

#### Financial assets recorded at their adjusted acquisition cost

Claims against other parties that KredEx has not acquired for the purpose of resale, and financial investments maintained until the redemption date, shall be recorded at their adjusted acquisition cost. This is calculated for the whole validity period of the financial assets, whereas any discount or premium that occurred upon the acquisition, or expenses directly connected to the transaction are taken into consideration.

Financial assets recorded by the method of adjusted acquisition cost are discounted if it is likely that the value covered by them is smaller than the book value. The discounting of financial assets connected with business activity is recorded in the income statement as an expense, and the discounting of financial assets connected with investment activities is recorded in the income statement as a financial expense.

Upon payment of a claim that was discounted earlier or other events showing that the discount is no longer justified, the cancellation of the discount shall be recorded in the income statement as a reduction of the expense for which the discount was initially recorded.

Interest income from claims is recorded in the income statement in the line "Financial income and expenses".

#### Financial assets recorded at their acquisition cost

Investments in shares or other equity capital instruments which are not traded publicly and the fair value of which cannot be reliably evaluated are recorded using the acquisition cost method.

Financial assets recorded at their acquisition cost shall be discounted to their covered value if it is lower than the book value of the financial assets. The covered value of the financial assets recorded at their acquisition cost is the cash flows likely to be obtained from the financial asset in the future, discounted by the

average profitability rate of the market in relation to similar financial assets. The discounting of financial assets is recorded in the income statement as a financial expense. The discounting of financial assets recorded at their acquisition cost shall not be cancelled later.

The recording of financial assets is terminated when KredEx loses its right to cash flows from the financial asset, or transfers the cash flows from the asset to a third party, as well as the majority of risks and benefits connected with the financial asset.

#### Holdings in subsidiaries

A company's business combinations under common influence are reflected using the adjusted acquisition cost method. The assets and liabilities of subsidiaries are reflected at their balance sheet value in the balance sheet of the acquiring undertaking (as well as in the balance sheet value of the acquired undertaking). The difference between the acquisition cost of the acquired holding and the balance sheet value of the acquired net assets is reflected as an increase or decrease in the acquired undertaking's equity capital. The financial indicators of the parent undertaking and the subsidiary are reflected in the consolidated annual accounts added together row to row, as if they originated from a single company. The subsidiary's revenues and expenditures having arisen prior to the acquisition date are not included in the consolidated income statement or the cash flow report. The parent undertaking's investments in the subsidiary, which are reflected in the balance sheet, shall be eliminated against the parent undertaking's holdings in the subsidiary's equity capital. In the event that the parent undertaking's holding in the subsidiary is less than 100%, the share belonging to the minority holder shall be removed from the subsidiary's net assets and its profit or loss for the accounting period. All intergroup receivables, liabilities, in-group transactions and the unrealised profits and losses arising therefrom shall be eliminated from the consolidated reports.

#### Holdings in related companies

Holdings in related companies are recorded using the equity method. Investments are initially registered at acquisition cost adjusted by the share of an investor in the changes of the equity of the affiliate. Investment into related companies is recorded in the balance sheet in the net amount. A change in the share in the equity of a related company is recorded in the income statement as a net amount.

### Shares in investment funds

Deposits into an investment fund, from which the fund manager's fees have been deducted, are recorded on the balance sheet row 'Long-term financial investments'. Shares of investment funds are recorded at their fair value through a change in profit/loss. The shares are initially registered at their acquisition cost. After the initial registration, the shares are valued at their fair value once per quarter. Profit/loss due to changes at fair value, as well as interest and dividends, are recorded in the period's income/expenses.

### Writing off of the loan service, evaluation, and unlikely loan claims

Every loan is evaluated separately, considering the likelihood of loss and the market value of the property used to secure the loan. Discounts are written off and the book value of the loan portfolio is decreased by that amount. If a loan claim is recognised as a finished loss event, the loan and the respective discount shall be written off the balance sheet.

Loans that are returned within the next reporting year are recorded in the balance sheet among short-term claims. Loans that are returned beyond the next reporting year are recorded among long-term claims.

### Procedure for accounting fixed assets

Fixed assets are recorded on the balance sheet, deducting the cumulative depreciation and discounts from the decrease of the asset's value.

Under the materiality principle, recorded fixed assets include assets with the acquisition cost exceeding EUR 5000 and the useful life being more than one year. Assets with a lower acquisition cost or a shorter useful life are written off at the moment of being placed into service and are accounted for off the balance sheet.

If the item of property consists of distinguishable components with different useful lives, these components shall be separately recorded as assets, and their depreciation rates specified separately therefrom in accordance with their useful lives.

The depreciation standard for inventory and office equipment is 20% to 40% and for cars 20%. Depreciation is calculated by the linear method of calculation. Intangible fixed assets are depreciated over a period of up to five years.

Non-current assets acquired by targeted financing for the fulfilment of administrative tasks assigned by the state and not connected with the core activity of KredEx

are registered at net acquisition cost. Accounting for such assets takes place off the balance sheet.

### Technical provisions

Provisions for outstanding claims, equalisation provision and provision for prepaid premiums are recorded in the report. The provision to cover the payment of estimated guarantee losses that are known, but as yet unpaid or currently in proceedings, is registered as a liability. The provision for outstanding claims is formed from the equalisation provision.

The time of probable payout of guarantee loss depends on the time of cancelling the loan contract serving as the basis for the liability and on the estimated period of realising the loan guarantees. If the guarantees are not realised within two years as of the loan becoming payable, the bank has the right to demand that KredEx fulfil the guarantee obligation. The credit institution shall incur the right to request an advance guarantee payment before the fulfilment of the guarantee obligation if the realisation of the assets within two years is not probable or if the resulting gain is insignificant.

To cover losses payable in the future, but unknown at present, a separate equalisation provision is formed for every area. The share of the guarantee fee calculated in order to cover the loss to be paid in the future is transferred to it. According to forecasts regarding the long-term loss, over the past few years 40% of the guarantee fees earned in the housing area and 87% of the guarantee fees from the enterprise area have been transferred to the equalisation provision of the area.

Under Government of the Republic Regulation No. 91 of 5 May 2005, 'The principles for setting up and the procedure for calculating technical provisions for state loan guarantees', the minimum amount of the equalisation provision must be at least 1% of KredEx's obligations arising from all of its valid loan guarantees or export guarantee agreements. Thereby, when calculating the volume of liabilities, issued offers that have not been concluded as contracts are taken into account in the extent of 70%.

Provisions that are likely to be paid out within the next reporting year are recorded in the balance sheet among short-term claims. Provisions paid out later than within one year are recorded on the balance sheet under long-term liabilities.



The maximum possible liabilities under guarantee agreements valid as of the balance sheet date are accounted for off the balance sheet.

#### Calculation of loan interests

For entrepreneurs, loan interests are assessed based on a monthly invoice presented to the loan recipient. For financial institutions, loan interests are assessed based on the schedule specified in the loan agreement.

KredEx income only records the interest actually received and interest due, the payment term of which has not been exceeded by more than three months on the balance sheet date. If a loan recipient delays the payment for over three months, interest claims are discounted proportionally to the discount of the principal part of the loan.

#### Calculation of guarantee fees

Banks authorised to issue guarantees on behalf of KredEx keep records of guarantee fees for housing loans. The guarantee fee is calculated and paid upon the issuing of a loan in full amount for the total guarantee period. The total amounts of the guarantee fee as of the moment of calculation are shown among income. As the guarantee recipient has no right to reclaim the guarantee fee or influence the amount thereof in the future, the fee is not distributed to the guarantee period. When income occurs, the whole predicted loss amount payable in the future is recorded in the equalisation provision.

The banks transfer the guarantee fees issued within the previous month to KredEx at the beginning of the following month.

Invoices for guarantee fees for enterprise loans and apartment associations are drafted on a quarterly basis for the banks having issued the loans, which shall withhold the fees from the loan recipients. The guarantee fee is recorded in income as of the date of the invoice. Guarantee fees may not be paid by the due date in the event of problematic loans. In that event, that the calculation of the guarantee fee is cancelled and the loan recipient is subject to special monitoring.

#### Calculation of contract fees

No contract fees are calculated on housing loan guarantees.

Contract fees on enterprise loans and guarantees are calculated upon the conclusion of a contract. An

invoice regarding direct loan contract fees is submitted upon the issuing of the loan. The loan recipient pays the invoice before the loan is issued, or the amount of the contract fee is deducted from the payable loan amount. An invoice for the contract fee for loan guarantees is issued to the banks issuing loans upon the receipt of information regarding the conclusion of a contract, and the banks shall debit the fees from loan recipients. Contract fees are recorded in income as of the date of the invoice.

#### Targeted financing of operating expenses

Income received from the targeted financing of operating expenses is recorded in the income statement if the expenses related to receiving targeted financing are covered and there is no substantial risk of not receiving the grant. If the targeted financing has been received but expenditures have yet to be made, the funds received shall be recorded among liabilities on the line relating to the relevant targeted financing.

#### Intermediation of targeted financing of supporting measures

Intermediation of targeted financing of supporting measures are recorded according to the Structural Aid Act of the period 2007 – 2013, the Structural Aid Act of the period 2014 – 2020, programmes of the measure, contracts under public law and the requirements of the general rules for state accounting.

Targeted financing of supporting measures is accounted for in the balance sheet at the moment when the contractual right of claim arises. Received but unpaid targeted financing funds are recorded in the balance sheet among liabilities and upon payments to grant recipients in income and expenses.

#### Supporting measures for issuing or guaranteeing investment loans

Targeted financing of support measures is accounted for among liabilities. Generally, the income earned from the means of a measure and expenses for the application of the measure are directed to the fund of the measure.

#### Calculation of foreign currency

The recording of transactions in foreign currency is based on the official currency exchange rates of the European Central Bank valid on the transaction date. Monetary assets and obligations fixed in a foreign currency are revalued into euros as of the balance sheet date according to the currency exchange rates of the

European Central Bank officially valid on the balance sheet date.

Profits-losses resulting from the revaluation are recorded in the income statement for the accounting period. Foreign exchange gains and losses, which have arisen from settlements between buyers and suppliers, are recorded under operating revenue and expenditures. Other spreads are recorded in financial income and expenses.

#### Operational lease

Operational lease is a type of lease, for which all risks and benefits connected with the lease object remain with the lessor, and are not transferred to the lessee. In the case of operational lease, the lessor records the leased property in its balance sheet. Operating lease payments during the lease period are reflected on a straight-line basis during the lease period, regardless of when the payments actually take place.

#### Financial liabilities

Financial liabilities are initially accounted for at their acquisition cost, which is the fair value of the fee received for the financial liability. Thereafter, financial liabilities are accounted for at their adjusted acquisition cost, using the effective interest rate. Transaction expenses are accounted for upon the calculation of the effective

interest rate, and are written off during the life cycle of the financial liability.

Interest expenses related to the financial liability are recorded using the accrual method as a period expense in the income statement on the line 'Financial income and expenses'. The recording of a financial liability shall be terminated when it has been paid, cancelled or expired.

#### Events after the date of the report

The annual accounts reflect significant factors influencing the evaluation of assets and liabilities, which were revealed between the balance sheet date and the date of drafting the report, but which are connected with transactions having taken place during the reporting period or earlier periods. Events after the balance sheet date that have not been considered upon the evaluation of assets and liabilities, but that significantly influence the results of the following financial year, are published in the annual accounts.

#### Procedure for the calculation of off-balance sheet assets

Assets acquired by targeted financing for fulfilment of administrative tasks assigned by the state with a balance sheet value of 0 are accounted for off the balance sheet. These assets are accounted for off the balance sheet based on their acquisition cost.

## Note 3. Cash and bank accounts

	31.12.2017	31.12.2016
Demand deposits	88 946 051	88 736 913
Fixed-term deposits	29 950 173	29 029 000
<b>Total</b>	<b>118 896 224</b>	<b>117 765 913</b>

In 2017, demand and fixed-term deposits earned interest income in the amount of EUR 10,050 (EUR 139,441 in 2016) (see Note 15).

## Note 4. Loan receivables

Division of loans receivable by payment term	Term of loans 1 year	Term of loans 2–6 years	Term of loans 7–18 years	Total
<b>Housing loans</b>				
Loans to non-profit associations	100 000	0	0	100 000
Apartment building renovation loans through banks	5 302 052	25 072 508	14 947 385	45 321 945
<b>Total</b>	<b>5 402 052</b>	<b>25 072 508</b>	<b>14 947 385</b>	<b>45 421 945</b>
<b>Capital loans to undertakings</b>				
Capital loans	3 931 479	1 744 882	45 041	5 721 402
including impairments	–2 550 893	–1 246 187	–2 252	–3 799 332
Technology loans	91 033	4 256 809	310 041	4 657 883
including impairments	–5 117	–443 889	–15 502	–464 508
Export loans	1 843 609	2 002 162	0	3 845 771
including impairments	–304 479	–212 055	0	–516 534
<b>Total</b>	<b>3 005 632</b>	<b>6 101 722</b>	<b>337 328</b>	<b>9 444 682</b>
<b>Loans to banks in the enterprise area</b>				
Start-up loans via banks	429 780	905 180	0	1 334 960
including impairments	–80 058	–143 089	0	–223 147
<b>Total</b>	<b>349 722</b>	<b>762 091</b>	<b>0</b>	<b>1 111 813</b>
<b>Other loans</b>				
Loans registered as a result of loss procedure	9 796	241 483	0	251 279
including impairments	–9 796	–241 483	0	–251 279
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>	<b>8 757 406</b>	<b>31 936 321</b>	<b>15 284 713</b>	<b>55 978 440</b>
<i>including the principal loan amount</i>	<i>8 534 490</i>	<i>31 936 321</i>	<i>15 284 713</i>	<i>55 755 524</i>
<i>interest payable</i>	<i>222 916</i>	<i>0</i>	<i>0</i>	<i>222 916</i>

As of the end of 2016, the short-term part of the issued loans was EUR 7,307,490 and the long-term part was EUR 51,827,180.

## Note 4. Loans receivable (continued)

Changes in loan portfolio	Housing loans	Enterprise loans for banks	Capital loans to undertakings	Other loans	Total loans
<b>Loans at acquisition cost</b>					
<b>Balance at acquisition cost 31.12.2015</b>	<b>54 944 559</b>	<b>862 278</b>	<b>10 674 972</b>	<b>257 935</b>	<b>66 739 744</b>
Issued loans, 2016	0	819 031	1 666 129	0	2 485 160
Repaid loans, 2016	-4 546 634	-373 704	-256 107	-3 804	-5 180 249
Loans transferred off the balance sheet in 2016	0	-69 187	0	0	-69 187
Capitalisation of interests, 2016	0	0	114 599	0	114 599
<b>Balance at acquisition cost 31.12.2016</b>	<b>50 397 925</b>	<b>1 238 418</b>	<b>12 199 593</b>	<b>254 131</b>	<b>64 090 067</b>
Issued loans, 2017	0	482 528	3 530 734	0	4 013 262
Repaid loans, 2017	-4 975 980	-372 321	-1 505 271	-2 852	-6 856 424
Loans transferred off the balance sheet, 2017	0	-13 665	0	0	-13 665
<b>Balance at acquisition cost 31.12.2017</b>	<b>45 421 945</b>	<b>1 334 960</b>	<b>14 225 056</b>	<b>251 279</b>	<b>61 233 240</b>
<b>Irrecoverable loans</b>					
<b>Balance 31.12.2015</b>	<b>0</b>	<b>-129 047</b>	<b>-3 227 746</b>	<b>-257 211</b>	<b>-3 614 004</b>
Impairments 2016	0	-144 339	-1 306 083	5 288	-1 447 342
Loans transferred off the balance sheet in 2016	0	81 837	0	0	81 938
Receipt of discounted loans in 2016	0	1 200	22 811	0	24 011
<b>Balance 31.12.2016</b>	<b>0</b>	<b>-190 248</b>	<b>-4 511 018</b>	<b>-254 131</b>	<b>-4 955 397</b>
Impairments 2017	0	-52 269	-291 459	2 852	-340 876
Loans transferred off the balance sheet, 2017	0	13 665	0	0	13 665
Receipt of previously discounted loans in 2017	0	5 705	22 103	0	27 808
<b>Balance 31.12.2017</b>	<b>0</b>	<b>-223 147</b>	<b>-4 780 374</b>	<b>-251 279</b>	<b>-5 254 800</b>
<b>Changes in loan portfolio</b>					
Balance at the adjusted acquisition cost 31.12.2015	54 944 559	733 231	7 447 226	724	63 125 740
Balance at the adjusted acquisition cost 31.12.2016	50 397 925	1 048 170	7 688 575	0	59 134 670
<b>Balance at the adjusted acquisition cost 31.12.2017</b>	<b>45 421 945</b>	<b>1 111 813</b>	<b>9 444 682</b>	<b>0</b>	<b>55 978 440</b>

The apartment building renovation loan has been issued to banks from funds received from the European Regional Development Fund, a loan taken from the Council of Europe Development Bank, a loan taken from the

Ministry of Finance, and KredEx's own funds, within the framework of the measure "Apartment Building Renovation Loan". The loan period for banks is up to 20 years, and the interest rate is 1.7% to 2.7%. Interest income of

EUR 1,003,088 was earned (EUR 1,108,405 in 2016).

Loans to NGOs specialising in energy saving were issued by order of the Ministry of Economic Affairs and Communications from the funds provided for housing supporting measures. The loan interest is 3% per year. In 2017, interest income of EUR 3042 was earned (EUR 3050 in 2016).

Subordinated loans have been issued directly to enterprises partly from KredEx's own funds and partly from the funds received from the European Regional Development Fund within the framework of the measures "Enterprise state guarantees and capital loan programme", "An additional support programme for the improvement of the availability of loan capital for entrepreneurs", and the "Subordinated loan programme". The subordinated loans have been issued with a term of up to 10 years and the interest rate ranges from 9% to 13%. Technology loans issued under the programme 'Subordinated loan programme' are an exception in regard to the interest rate; where according to the service terms the interest rate is equal to the interest rate of the loan issued by a credit or financing institution, or 1 to 2 percentage points higher, depending on the rate of financing.

As of 2016, loans are also issued from the resources of the Cohesion Fund's development plan 2014–2020 measure 'Improving the availability of capital insurance and credit insurance', pursuant to the approved terms of service.

The income from the interest of subordinated loans in 2017 was EUR 723,070 (EUR 716,274 in 2016) and the impairment expenses of loans (incl. interest claims) was EUR –269,328 (EUR –1 278,772 in 2016). From the aforementioned amounts, EUR 437,112 of interest income and EUR –371,105 of impairment expenses

were directed into the funds of the measure (EUR 274,951 of interest income and EUR –1 021,616 of impairment expenses in 2016). No fines for a delay were calculated from the delayed payments of subordinated loans. From loans written off in previous years, EUR 22,103 was received (EUR 22,811 in 2016). Out of this sum, a total of EUR 16,036 (2016 EUR 39,430) (see Notes 15 and 16) was directed into the fund of the corresponding measure.

Funds for the measure "Guarantee programme for start-up and micro loans" have been received from the European Social Fund. Issuing of loan resources to banks within the framework of the given measure began in 2013. Companies in the target group are provided for with loans for up to 5 years. The interest rate for banks is 4% + the 6 month Euribor. As of April 2016, loans are issued from the resources of the Cohesion Fund's development plan 2014–2020 measure 'Improving the availability of capital insurance and credit insurance,' pursuant to the measure's approved terms.

Interest income in the amount of EUR 46,441 was received from enterprise loans issued through banks (EUR 38,732 in 2016). The loan discount expense was EUR –91,965, of which EUR –66,150 was directed to the funds of the measure (in 2016 EUR –143 140, of which EUR –114 512 was directed to the funds of the measure). EUR 5705 of loans transferred off the balance sheet were received, of which EUR 4564 were directed to the funds of the measure (see Note 15).

Loans registered as a result of processing the loss earned interest income in the amount of EUR 8419 (EUR 8595 in 2016). The discount amount for loans decreased by EUR 4218 (EUR 4450 in 2016) and the discount for interest claims by EUR 1366 (EUR 1420 in 2016).

## Note 5. Receivables and prepayments

	31.12.2017	31.12.2016
Receivables from current settlements	155 706	133 530
Receivables from reinsurance providers	3 391 312	13 179
Prepaid expenses of future periods	5 771	10 055
Claims from targeted financing of operating expenses	493 302	574 235
Accrued interest	3 360	42 167
Accrued income of guarantee fees	111 472	161 853
Prepayments of guarantee benefits	199 736	205 151
<b>Total</b>	<b>4 360 659</b>	<b>1 140 170</b>

Receivables from current settlements also include the receivable from the affiliated company in the amount of EUR 11,488 (EUR 13,074 in 2016), see Note 24.

Receivables from reinsurance providers consist of the possibly payable part of the guarantee agreements reinsured in the European Investment Fund (EIF).

Accrued income of interest and guarantee fees consists of amounts receivable under contracts based on which amounts are transferred during the next reporting period.

Prepayments of guarantee indemnities consist of guarantee indemnities paid in advance. The final amount of indemnities will be clear after the realisation of the collateral.

## Note 6. Long-term financial investments

In 2010, one-third of the shares of AS KredEx Krediidikindlustus were acquired with the acquisition price of EUR 6,391,164. Profit for 2017 according to the equity method was EUR 102,549 (Eur 83,993 in 2016) (see Note 15). Dividends were paid out in the amount of EUR 10,000 and the residual investment value at the end of the year was EUR 6,908,882 (EUR 6,816,333 in 2016).

In 2017, deposits were made into the Baltic Innovation Fund (BIF) in the amount of EUR 1,800,000 (EUR 3,480,000 in 2016), which were used to cover operating expenses as well as make fund investments. As at 31.12.2017, the fair value of funds directed to fund investments was EUR 7,723,648 (EUR 5,835,217 in 2016). The fair value of the BIF shares are assessed on the basis of the net value of invested assets.

EIB bonds at their fair value were EUR 506,740 (EUR 507,800 in 2016), with the maturity term in 2020. In 2017, bonds earned interest in the amount of EUR 3100 and unrealised loss in the value of EUR 1060 from changes in value.

## Note 7. Tangible fixed assets

	Machinery and equipment	Inventory and tools	Buildings	Prepayments	Total
<b>Acquisition cost 31.12.2016</b>	<b>81 514</b>	<b>177 914</b>	<b>0</b>	<b>19 140</b>	<b>278 568</b>
Acquired 2017	19 140	10 907	18 756	-19 140	29 663
Written off at acquisition cost	0	-42 358	0	0	-42 358
Sold at acquisition cost	-19 173	0	0	0	-19 173
<b>Acquisition cost 31.12.2017</b>	<b>81 481</b>	<b>146 463</b>	<b>18 756</b>	<b>0</b>	<b>246 700</b>
<b>Depreciation 31.12.2016</b>	<b>-53 631</b>	<b>-150 017</b>	<b>0</b>	<b>0</b>	<b>-203 647</b>
Depreciation 2017	-15 577	-12 324	-2 766	0	-30 667
Depreciation of fixed assets written off	0	42 358	0	0	42 358
Depreciation of sold fixed assets	19 173	0	0	0	19 173
<b>Depreciation 31.12.2017</b>	<b>-50 035</b>	<b>-119 983</b>	<b>-2 766</b>	<b>0</b>	<b>-172 784</b>
Residual cost 31.12.2015	40 273	41 427	0	0	81 700
Residual cost 31.12.2016	27 883	27 897	0	19 140	74 921
<b>Residual cost 31.12.2017</b>	<b>31 446</b>	<b>26 480</b>	<b>15 990</b>	<b>0</b>	<b>73 916</b>

A passenger car was acquired in 2017. In association with the expansion, reconstruction took place in office spaces and new office equipment was acquired.



## Note 8. Intangible fixed assets

	Computer programmes	Prepayments	Total
<b>Acquisition cost 31.12.2016</b>	<b>399 094</b>	<b>11 750</b>	<b>410 844</b>
Acquired 2017	19 737	31 590	51 327
Written off at acquisition cost in 2017	-25 757	0	-25 757
<b>Acquisition cost 31.12.2017</b>	<b>393 074</b>	<b>43 340</b>	<b>436 414</b>
<b>Depreciation 31.12.2016</b>	<b>-307 029</b>	<b>0</b>	<b>-307 029</b>
Depreciation 2017	-53 549	0	-53 549
Depreciation of fixed assets written off in 2017	25 757	0	25 757
<b>Depreciation 31.12.2017</b>	<b>-334 821</b>	<b>0</b>	<b>-334 821</b>
Residual cost 31.12.2015	111 237	0	111 237
Residual cost 31.12.2016	92 065	11 750	103 815
<b>Residual cost 31.12.2017</b>	<b>58 253</b>	<b>43 340</b>	<b>101 593</b>

Prepayments in the amount of EUR 43,340 have been made in order to establish KredEx's new information system.

## Note 9. Payables and prepayments

	31.12.2017	31.12.2016
Trade payables	153 515	158 692
Prepayments received from clients	4 402	0
Salary and holiday pay liabilities	210 169	211 898
Prepayments received from reinsurance providers	5 572	12 882
Tax arrears	120 288	60 055
<b>Total</b>	<b>493 946</b>	<b>443 527</b>

## Note 10. Short-term and long-term provisions

	31.12.2017	31.12.2016
<b>Short-term technical provisions</b>		
Long-term share of provision for outstanding claims	3 709 796	2 826 080
<b>Total</b>	<b>3 709 796</b>	<b>2 826 080</b>
<b>Other short-term provisions</b>		
Other short-term provisions	0	84 810
<b>Total</b>	<b>0</b>	<b>84 810</b>
<b>Long-term technical provisions</b>		
Long-term share of provision for outstanding claims	6 588 538	1 145 953
Equalisation reserves	3 101 706	3 271 005
<b>Total</b>	<b>9 690 244</b>	<b>4 416 958</b>
<b>Total</b>	<b>13 400 040</b>	<b>7 327 848</b>

### Technical provisions

Technical provisions include provisions registered as liabilities, a written off provision for outstanding claims and an equalisation provision. The principles of the calculation of provisions have been explained in Note 2.

As at 31 December 2017, technical provisions correspond to the minimum rates established by law, forming 1.41% in the area of enterprise and 1.30% in the area of housing of the Performing Guarantee Portfolio and offers. Of the Total Guarantee Exposures, technical provisions comprised 8.39% in the area of entrepreneurship and 1.32% in the area of housing.

From guarantee premiums, planned provisions were formed to the total extent of EUR 2,689,022 (EUR 2,517,727 in 2016), including EUR 2,114,166 for enterprise loan guarantees (EUR 2,081,080 in 2016) and EUR 574,857 for housing loan guarantees (EUR 436,647 in 2016). From the above amount EUR 10,555 is covered by the reserve fund (EUR 31,865 in 2016) of the measure 'Guarantee programme for start-up and micro loans,' and in connection with adjustment to the volume of the security issued via the measure 'The issuance of insurance for loans, guarantees and export transactions in 2014-2020,' the reserve fund was increased in the sum of EUR 178,843 (in 2016, appropriations from the fund of the measure were increased by EUR 278,821).

If the provision for outstanding claims increases by an amount that causes the equalisation provision to fall below the established minimum, the additional increase

in the equalisation provision is recorded in the expenses of the reporting period. In 2017, additional appropriations in the area of entrepreneurship were calculated in the amount of EUR 1,026,628, of which EUR 5280 was covered from the reserve fund of the measure 'The issuance of insurance for loans, guarantees and export transactions in 2014-2020. In association with the housing loan securities, an additional cost of EUR 710,121 (no additional expenditures or revenue arose in 2016 from unsatisfied claims) arose from the reduction in appropriations.

In 2017, the increase in appropriations for unsatisfied claims was covered from the reserve fund of the measure 'Guarantee programme for start-up and micro loans,' in the amount of EUR 39,178 (EUR 37,677 in 2016) and from the reserve fund of the measure 'The issuance of insurance for loans, guarantees and export transactions in 2014-2020,' in the amount of EUR 929,580 (EUR 401,153 in 2016).

From the reinsurance of enterprise guarantees, EUR 12,882 was received from the European Investment Fund to cover losses in 2017 (EUR 30,058 in 2016) (see Note 15).

From the collection of guarantee losses, EUR 310,681 was recovered (EUR 404,247 in 2016). Out of these sums, EUR 17,066 (EUR 39,340 in 2016) was transferred into the reserve fund for the 'Guarantee programme for start-up and micro loans,' and EUR 7149 into the reserve fund of the 'The issuance of insurance for loans, guarantees and export transactions in 2014-2020'.

Change in technical provisions	Change in the provision for outstanding claims		Change in the equalisation reserve		Change in provisions total	
	2017	2016	2017	2016	2017	2016
<b>Enterprise loan guarantees</b>						
Balance on 1 January	3 926 187	3 074 558	1 911 257	2 042 138	5 837 444	5 116 696
Increase	3 181 247	2 211 961	3 140 794	2 081 080	6 322 041	4 293 041
Decrease	3 165 739	-1 360 331	-3 181 247	-2 211 961	-15 508	-3 572 292
<i>including payment of indemnities</i>	-1 153 633	-1 749 310	0	0	-1 153 633	-1 749 310
<i>receivables from reinsurance providers</i>	4 319 372	388 979	0	0	4 319 372	388 979
<b>Balance on 31 December</b>	<b>10 273 172</b>	<b>3 926 187</b>	<b>1 870 804</b>	<b>1 911 257</b>	<b>12 143 976</b>	<b>5 837 444</b>
<i>including long term</i>	6 588 538	1 145 955	1 870 804	1 911 257	8 876 104	3 057 212
<b>Housing loan guarantees</b>						
Balance on 1 January	45 846	21 579	1 359 747	972 351	1 405 593	993 930
Increase	-6 419	49 251	574 856	436 647	568 437	485 898
Decrease	-14 265	-24 985	-703 702	-49 251	-717 967	-74 236
<i>including payment of indemnities</i>	-14 265	-24 985	0	0	-14 265	-24 985

Tehniliste eraldiste muutus	Rahuldamata nõuete eraldise muutus		Tasandusreservi muutus		Eraldiste muutus kokku	
	2017	2016	2017	2016	2017	2016
Balance on 31 December	25 162	45 846	1 230 902	1 359 747	1 256 064	1 405 593
<i>including long term</i>	0	0	1 230 902	1 359 747	1 256 064	1 359 747
<b>Total balance at the beginning of the period</b>	<b>3 972 033</b>	<b>3 096 137</b>	<b>3 271 004</b>	<b>3 014 489</b>	<b>7 243 037</b>	<b>6 110 626</b>
Increase	3 174 828	2 261 212	3 715 650	2 517 727	6 890 478	4 778 939
Decrease	3 151 474	-1 385 316	-3 884 949	-2 261 212	-733 475	-3 646 528
<i>including payment of indemnities</i>	-1 167 898	-1 774 295	0	0	-1 167 898	-1 774 295
<i>receivables from reinsurance providers</i>	4 319 372	388 979	0	0	4 319 372	388 979
<b>Balance at the end of the period</b>	<b>10 298 334</b>	<b>3 972 033</b>	<b>3 101 706</b>	<b>3 271 004</b>	<b>13 400 040</b>	<b>7 243 037</b>
<i>including short term</i>	3 709 796	2 826 080	0	0	3 709 796	2 826 080
<i>long term</i>	6 588 538	1 145 953	3 101 706	3 271 004	9 690 244	4 416 957

## Note 11. Targeted financing for housing support measures

Under the state budgetary provision agreement, the Ministry of Economic Affairs and Communications provides KredEx with funds from the Estonian state budget for housing support measures.

Budgetary provision agreements 2012–2017	31.12.2017	31.12.2016
<b>Balance at the beginning of the year</b>	<b>7 663 948</b>	<b>4 291 271</b>
Provisions from the state budget	5 000 000	5 756 466
Provisions from Structural Funds	21 600 000	9 375 000
Received technical assistance from Structural Funds	650 142	476 465
<b>Total grant payments:</b>	<b>-25 437 215</b>	<b>-11 276 230</b>
<i>including reconstruction grants for apartment buildings from the state budget</i>	-117 864	-65 497
<i>reconstruction grants from Structural Funds for apartment buildings</i>	-21 301 854	-9 265 732
<i>Near-zero energy building design measure grants from Structural Funds</i>	-198 000	-66 000
<i>grants for local governments</i>	-168 004	-230 821
<i>home grant for families with many children</i>	-2 567 851	-1 465 438
<i>reconstruction grant for small residences</i>	-963 965	-2 442
<i>for participation in housing development projects</i>	-119 677	-180 300
<b>Total operating expenses:</b>	<b>-1 121 388</b>	<b>-959 024</b>
<i>including administrative expenses of support measures</i>	-471 246	-482 559
<i>technical assistance, including expenses incurred as a result of co-financing</i>	-650 142	-476 465
<b>Balance at the end of the year</b>	<b>8 355 487</b>	<b>7 663 948</b>
<i>including short-term part</i>	8 355 487	7 663 948

In 2010, the Ministry of Economic Affairs and Communications set aside budgetary funds for the creation of the Climate and Energy Agency, yet in 2011, decided to waive the creation of such an agency as a separate office. KredEx continued the implementation of financial services and support measures connected with energy efficiency.

Agreement for the foundation of the Climate and Energy Agency in 2010	31.12.2017	31.12.2016
Balance at the beginning of the year	751 325	754 440
Total grant payments:	11 329	2 702
<i>grants from Structural Funds for reconstruction projects of apartment buildings – repayments</i>	11 329	2 702
Operating expenses	0	-5 817
<b>Balance at the end of the year</b>	<b>762 654</b>	<b>751 325</b>
<i>including short-term part</i>	762 654	751 325

Funds for participation in international energy saving projects	31.12.2017	31.12.2016
Balance at the beginning of the year	4 962	-5 035
Receipts from international energy saving projects	2 680	12 780
Payments to project partners in international energy saving projects	-5 729	-2 426
Operating expenses within the framework of international energy saving projects	-1 955	357
<b>Balance at the end of the year</b>	<b>-41</b>	<b>4 962</b>
<i>including short-term part</i>	-41	4 962

KredEx participated in the CA-EPBD project in 2017.

<b>Total targeted financing for housing support measures</b>	<b>9 118 100</b>	<b>8 420 235</b>
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## Note 12. Targeted financing for the application of the green investment scheme

### Support measures of the area of administration of the Ministry of the Environment

In 2010, EUR 14,700,000 was provided to KredEx from the budget of the area of administration of the Ministry of Environment, to organise the application of the green investment scheme according to the trade agreement concluded between the Republic of Estonia and the Grand Duchy of Luxembourg for Assigned Amount Units, permitted under Article 17 of the Kyoto protocol. From those funds, grants

are provided for apartment buildings for integrated renovation work with the purpose of increasing the energy efficiency of the buildings. The grant amount is up to 35% of the cost of the works.

In 2012, private persons were also included among the grant recipients, who were given grants for the reconstruction of small residential buildings and the acquiring of renewable energy equipment. Additional funds were provided within the framework of the measure in the amount of EUR 18,000,000 in 2013 and EUR 1,500,000 in 2014.

The issuing of grants has ended, observation of the results of the measure continues.

Administrative agreement for application of the Green Investment Scheme between the Republic of Estonia and the Grand Duchy of Luxembourg, 17 August 2010	31.12.2017	31.12.2016
Balance at the beginning of the year	287 762	299 522
Repayments of grants paid	3 000	0
Administrative expenses	-6 891	-11 760
<b>Balance at the end of the year</b>	<b>283 871</b>	<b>287 762</b>
<i>including short-term part</i>	283 871	287 762

### Supporting measures of the area of administration of the Ministry of Economic Affairs and Communications

In 2013, EUR 7,800,000 was allocated to KredEX from the budget of the Ministry of Economic Affairs and Communications to organise the implementation of the green investment scheme. From this amount, grants are provided to apartment buildings for integrated renovation work, with the goal being to

increase the energy efficiency of the buildings, based on the same principles as the support measure of the Ministry of Environment provided above. In 2014, an additional EUR 1,236,910 was provided for the support of apartment building renovation and EUR 3,200,000 went to support the introduction of renewable energy and updating the heating systems of small residential buildings.

Budgetary provision agreement 2013	31.12.2017	31.12.2016
Balance at the beginning of the year	1 835 693	2 154 233
Grants paid	-233 019	-318 540
<b>Balance at the end of the year</b>	<b>1 602 674</b>	<b>1 835 693</b>
<i>including short-term part</i>	<i>1 602 674</i>	<i>1 835 693</i>

In 2011, funds were provided to KredEx from the budget of the Ministry of Economic Affairs and Communications to organise the application of the green investment scheme according to the trade agreement concluded between the Republic of Estonia and the Mitsubishi Corporation for Assigned Amount Units, permitted under Article 17 of the Kyoto protocol. Using funds from the programme *Electromobility in Estonia* (ELMO) an all-Estonian charging network for electric cars has been constructed and the administration thereof organised for a period of five years; furthermore, arrangements have been made for the provision of short-term rental services for electric cars in Tallinn and Tartu. Within the framework of the measure, grants of up to 50% or EUR 18,000 of the cost of an

electric car are issued for the purchasing of electric cars.

Out of the difference between revenue and expenditures of the ELMO programme, a reserve of EUR 937,679 has been created, which will be transferred to the party designated by the Ministry of Economic Affairs and Communications after the expiry of the procurement contracts concluded for the provision of the services.

In 2017, the Ministry of Economic Affairs and Communications disposed of the ELMO electric car rental fleet and other associated assets and rights to a private company through an auction.

Contract under public law for the application of the Green Investment Scheme between the Republic of Estonia and Mitsubishi Corporation	31.12.2017	31.12.2016
Balance at the beginning of the year	741 930	1 698 828
Repayments of grants paid	47 165	12 929
Transfer of repayments to the transfer fund	-47 165	-12 929
Expenses for construction of the charging network infrastructure for electric cars	-561 553	-612 603
Expenses for starting-up the short-term rental service for electric cars	-92 374	-225 656
Transfer of income and expenses for quick charging and short-term rental to the transfer fund	2 957	-123 259
Administrative expenses	-54 332	4 620
<b>Balance at the end of the year</b>	<b>36 628</b>	<b>741 930</b>
<i>including short-term part</i>	<i>36 628</i>	<i>741 930</i>
Reserve fund formed from ELMO revenue and expenditure	937 679	854 832
<b>Total targeted financing received for the application of the green investment scheme</b>	<b>2 860 852</b>	<b>3 720 217</b>
<i>including short-term part</i>	<i>2 860 852</i>	<i>3 720 217</i>

### Note 13. Targeted financing for supporting measures of entrepreneurship

In 2016, a state budget provision of EUR 18,875,000 for funding the supported activity "The issuance of insurance for loans, guarantees and export transactions under the priority axis "Developing small and medium enterprises and strengthening the regional competitiveness" of the Cohesion Fund's development plan 2014–2020 was allocated to KredEx.

In 2016, the Startup Estonia team came over from the Estonian Development Fund to KredEx. This team's activity costs are funded with the resources of the supported activity "Enlivening start-up entrepreneurship" under the priority axis "Growth-capable entrepreneurship and the research and development activity

supporting it" of the Cohesion Fund's development plan 2014–2020. The measure's final beneficiary is Enterprise Estonia.

As of 31 December 2017, the balances of targeted financing for the support measures, together with the revenues and expenditures from the measure's programmes, are as follows.

#### Targeted fund for the establishment of the Baltic Innovation Fund

The intended purpose is making payments to the Baltic Innovation Fund (BIF) on the basis of the BIF articles of incorporation and management agreement. The funds come from the "Additional support programme for improvement of the availability of loan capital for entrepreneurs" and the sum of EUR 6,000,000 allocated from the state budget in 2015.

	31.12.2017	31.12.2016
<b>Balance at the beginning of the year</b>	<b>28 525 779</b>	<b>28 931 370</b>
Change in the targeted fund from the revenue and expenditures earned by BIF	–189 035	–222 741
Change in the value of BIF shares	277 466	–173 998
Change in the targeted fund from the revenue and expenditures earned from the support programme	77 574	–8 852
<b>Balance at the end of the year</b>	<b>28 691 784</b>	<b>28 525 779</b>
<i>including short-term part</i>	<i>0</i>	<i>0</i>

#### Reserve capital of the start-up loan guarantee

The intended purpose is using funds from the European Social Fund to guarantee start-up loans for the programme "Guarantee programme for start-up and micro loans" approved by Directive No. 39 of the Minister of

Economic Affairs and Communications, of 1 February 2008 and amended by Directive No. 207 of 30 June 2009. As of 2013, banks have also been issuing start-up loans from this amount.

	31.12.2017	31.12.2016
<b>Balance at the beginning of the year</b>	<b>3 557 187</b>	<b>3 590 683</b>
Increase in reserve capital from income earned from implementing the measure	20 797	35 424
Decrease in reserve capital from expenses from implementing the measure	–50 097	–68 920
<b>Balance at the end of the year</b>	<b>3 527 887</b>	<b>3 557 187</b>
<i>including the long-term part</i>	<i>3 527 887</i>	<i>3 557 187</i>

#### Reserve capital for the issuing of loans from the subordinated loan programme and the covering of losses

The intended purpose is the issuing of subordinated and technology loans under the "Subordinated loan programme" approved by Directive No. 11-0313 of the Minister of Economic Affairs and Communications of

21 October 2011. The programme's funds originate from unused funds returned upon the termination of the measure "Additional support programme for improvement of the availability of loan capital for entrepreneurs".



	31.12.2017	31.12.2016
<b>Balance at the beginning of the year</b>	<b>16 563 014</b>	<b>17 258 465</b>
Increase in reserve capital from income earned from implementing the measure	255 926	268 352
Decrease in reserve capital from expenses from implementing the measure	-224 769	-963 803
<b>Balance at the end of the year</b>	<b>16 594 171</b>	<b>16 563 014</b>
<i>including the long-term part</i>	<i>16 594 171</i>	<i>16 563 014</i>

#### Funds from the programme for insuring loans, guarantees and export transactions in 2014–2020

The intended purpose is the funding of the supported activity "The issuance of insurance for loans, guarantees and export transactions under the priority axis "Devel-

oping small and medium enterprises and strengthening" the regional competitiveness" of the Cohesion Fund's development plan 2014–2020.

	31.12.2017	31.12.2016
<b>Balance at the beginning of the year</b>	<b>18 583 499</b>	<b>0</b>
Received from the state budget	0	18 875 000
Increase in reserve capital from income earned from implementing the measure	-236 310	657 257
Decrease in reserve capital from expenses from implementing the measure	-941 767	-794 808
The measure's administrative expenses	126 424	-153 950
<b>Balance at the end of the year</b>	<b>17 531 846</b>	<b>18 583 499</b>
<i>including the long-term part</i>	<i>17 531 846</i>	<i>18 583 499</i>

#### Providing momentum to the start-up entrepreneurship

In 2016, the Startup Estonia team came over from the Estonian Development Fund to KredEx. This team's activity costs are funded with the resources of the supported activity "Enlivening start-up entrepreneur-

ship" under the priority axis "Growth-capable entrepreneurship and the research and development activity supporting it" of the Cohesion Fund's development plan 2014–2020. The measure's final beneficiary is Enterprise Estonia.

	31.12.2017	31.12.2016
<b>Total targeted financing of supporting measures for entrepreneurship</b>	<b>66 407 397</b>	<b>67 279 478</b>
<i>long-term part</i>	<i>66 345 688</i>	<i>67 229 478</i>
<i>short-term part</i>	<i>61 709</i>	<i>50 000</i>

## Note 14. Long-term loans

	Loan obligation 31.12.2017	Term of repayment	Interest per year
Loan from the Council of Europe Development Bank (CEB)	14 190 460	02.05.2022	On average 2.87%
Loan from the Ministry of Finance	10 240 581	02.02.2026	On average 2.56%

### Loan from the Council of Europe Development Bank

The intended use of the loan has been confirmed as the performance of Directive No. 137 of 07 May 2009 of the Minister of Economic Affairs and Communications, 'Apartment Building Renovation Programme'. On the basis of which KredEx lends, using its own assets, funds received from the European Regional Fund and funds

received from the Council of Europe Development Bank, to commercial banks, so that they may issue loans under favourable conditions to apartment buildings.

The Ministry of Finance has provided a state guarantee for the loan, for which the guarantee fee in 2017 was EUR 15,259 (EUR 18,407 in 2016) (see Note 18).

	31.12.2017	31.12.2016
Balance at the beginning of the year	17 146 240	20 239 393
Repaid	-3 183 710	-3 093 153
<b>Loan balance at the end of the year</b>	<b>13 962 530</b>	<b>17 146 240</b>
<i>including repayable in the next reporting period</i>	<i>3 276 940</i>	<i>3 183 710</i>
<i>repayable 2019 – 2022</i>	<i>10 685 590</i>	<i>13 962 530</i>
Interest liability at the beginning of the year	278 897	328 382
Interest expense per year	452 129	544 167
Interest paid during the year	-503 096	-593 652
<b>Interest liability at the end of the year</b>	<b>227 930</b>	<b>278 897</b>
<b>Total balance at the end of the year</b>	<b>14 190 460</b>	<b>17 425 136</b>
<i>including short-term part</i>	<i>3 504 870</i>	<i>3 462 606</i>
<i>long-term part</i>	<i>10 685 590</i>	<i>13 962 530</i>

### Loan from the Ministry of Finance, pursuant to the loan agreement of 13 May 2013

The intended purpose of the loan is the issuing of apartment building renovation loans through banks.

	31.12.2017	31.12.2016
Balance at the beginning of the year	11 541 885	12 864 371
Repaid	-1 322 486	-1 322 486
<b>Loan balance at the end of the year</b>	<b>10 219 399</b>	<b>11 541 885</b>
<i>including repayable in the next reporting period</i>	<i>1 322 486</i>	<i>1 322 486</i>
<i>repayable 2019 – 2026</i>	<i>8 896 913</i>	<i>10 219 388</i>
Interest liability at the beginning of the year	23 882	25 856
Interest expense per year	284 926	320 265
Interest paid during the year	-287 626	-322 239
<b>Interest liability at the end of the year</b>	<b>21 182</b>	<b>23 882</b>
<b>Total balance at the end of the year</b>	<b>10 240 581</b>	<b>11 565 767</b>
<i>including short-term part</i>	<i>1 343 668</i>	<i>1 346 368</i>
<i>long-term part</i>	<i>8 896 913</i>	<i>10 219 399</i>
<b>Total loan obligations at the end of the year</b>	<b>24 431 041</b>	<b>28 990 903</b>
<i>including short-term part</i>	<i>4 848 539</i>	<i>4 808 974</i>
<i>long-term part</i>	<i>19 582 502</i>	<i>24 181 929</i>

## Note 15. Income statement by area of activity

	2 017	2 016	Note
<b>Guarantee activity</b>			
Guarantee fees, contract fees	4 310 850	4 093 879	16
Transferred to the fund of the measure from security and contract fees	365 087	-645 890	16
Guarantee losses and a change in technical provisions	-3 005 529	-2 517 727	10
Loss covered from the fund of the relevant measure	-163 008	310 687	13
Received from reinsurance from the EIF	12 882	30 058	10
Received from debt collection	310 681	404 247	10
Repaid amounts transferred into the fund of the relevant measure	-24 215	-39 340	
<b>Total net gain (loss) from guarantee activity</b>	<b>1 806 748</b>	<b>1 635 914</b>	
<b>Crediting activity</b>			
Interest, fines for delay, and contract fees	1 784 060	1 872 590	16
Interest expense directed to the fund of the relevant measure	-437 112	-274 951	
Change in impairment losses	-358 441	-1 423 332	4
Impairment losses covered from the fund of the relevant measure	437 254	1 136 127	4
Written-off loans repaid	27 808	24 011	4
Repaid amounts directed into the fund of the relevant measure	-20 600	-40 390	4
Interest on loans taken	-737 055	-864 432	
<b>Total net gain (loss) from crediting activity</b>	<b>695 914</b>	<b>429 623</b>	
<b>Management of funds</b>			
Fund management fees	224 315	0	16
Discounting of other claims	-18 200	0	
<b>Total net gain (loss) from fund management</b>	<b>206 115</b>	<b>0</b>	
<b>Investment activity</b>			
Interest income from deposits	10 050	139 441	3
Interest income directed back to the fund of the relevant measure	0	-9 722	
Net income from long-term financial investments	2 040	1 428	6
Profit/loss from related companies	102 549	83 993	6
Operating expenses of the Baltic Innovation Fund and change in the value of its shares	166 005	-405 591	
Expense from change in the value of BIF shares and directed from operating expenses to the fund for the founding expenses of BIF	-166 005	405 591	
<b>Total income from investment activity</b>	<b>114 639</b>	<b>215 140</b>	
<b>Targeted financing for operating expenses</b>			
Targeted financing received for housing grants	25 425 885	11 096 402	
Paid housing grants	-25 425 885	11 096 402	11
Budgetary funds for the administration of housing support measures	471 246	665 501	16
Targeted financing received for the application of the green investment scheme	776 850	1 030 141	

	2 017	2 016	Note
Grants paid within the framework of the green investment scheme	-776 850	-1 030 141	12
Budgetary means for the administration of the green investment scheme	61 223	7 140	12,16
Technical aid	650 142	476 465	15,16
Covering the administrative costs of entrepreneurship funding measures from the funds of the measures	-126 424	153 950	13,16
Targeted financing received for covering the costs of Startup Estonia	733 118	499 983	13,16
Targeted financing received for implementing Cleantech projects	7 151	119 367	13,16
<b>Total targeted financing</b>	<b>1 796 456</b>	<b>1 922 406</b>	<b>16</b>
<b>Administrative expenses</b>	<b>-3 451 077</b>	<b>-3 197 549</b>	<b>19</b>
<b>Operating income</b>	<b>1 168 795</b>	<b>1 005 534</b>	
Other operating income and expenses	69 463	189 181	17
Other financial expenses and income	-15 341	-18 407	18
<b>Income</b>	<b>1 222 917</b>	<b>1 176 308</b>	

## Note 16. Sales income by areas of activity and types of income

	2017	2016
<b>Guarantee fees (EMTAK code 66291)</b>	<b>4 675 937</b>	<b>3 447 989</b>
Enterprise loan guarantees	2 430 075	2 392 046
with the following entered into the fund of the relevant measure	184 769	-355 908
Housing loan guarantees	1 437 143	1 091 019
Contract fees for enterprise loan guarantees	443 632	610 814
with the following entered into the fund of the relevant measure	180 318	-289 982
<b>Loan interests (EMTAK code 64929)</b>	<b>1 346 948</b>	<b>1 597 639</b>
Housing loans	1 006 130	1 113 524
Interest on start-up loans	46 441	38 732
Contract fees for start-up loans	0	4 060
Subordinated loans for enterprises	716 964	701 653
with the following entered into the fund of the relevant measure	-428 006	-264 951
Contract fees for subordinated loans	14 525	14 621
with the following entered into the fund of the relevant measure	-9 106	-10 000
<b>Targeted financing of operating expenses (EMTAK 84139)</b>	<b>1 796 456</b>	<b>1 922 406</b>
Administrative expenses for housing support measures	471 246	665 501
Technical and horizontal technical aid	650 142	476 465
For application expenses of green investment schemes	61 223	7 140
For administrative expenses of supporting measures of entrepreneurship under SF 2014–2020	-126 424	153 950
For operating expenses of Startup Estonia	733 118	499 983

	2017	2016
For operating expenses of Startup Estonia Cleantech	7 151	119 367
<b>Management of funds (EMTAK 66301)</b>	<b>224 315</b>	<b>0</b>
Fund management fees	224 315	0
<b>Total</b>	<b>8 043 656</b>	<b>6 968 034</b>

EUR 7151 of targeted financing for the operating expenses of Startup Estonia Cleantech has been received from various European cooperation partners. The remaining sales income has been received from Estonia.

## Note 17. Other operating income and expenses

	2017	2016
Profit/loss from sales and write-offs of fixed assets and stocks	8 279	-16 520
Targeted financing of operating expenses	69 553	91 089
<i>including providing services to the related company</i>	<i>62 980</i>	<i>90 375</i>
<i>for covering participation expenses in international projects</i>	<i>6 573</i>	<i>714</i>
Other income and expenses	-5 463	-8 646
Income from the projects of the green investment scheme	252 859	343 050
Expenses for the projects of the green investment scheme	-255 765	-219 792
<b>Total</b>	<b>69 463</b>	<b>189 181</b>

SA KredEx provides the related company AS KredEx Krediidikindlustus with administrative services (Note 24).

Income from the projects of the green investment scheme also included the quick charging service for and rental of electric cars as part of the ELMO project. In 2017, the quick charging service was provided to the government and local government authorities to the extent of EUR 31,399 (EUR 31,019 in 2016) (Note 24).

## Note 18. Other financial expenses and income

	2017	2016
State guarantee for the loan from the Council of Europe Development Bank (see Note 14)	-15 259	-18 407
Other financial income	-82	0
<b>Total</b>	<b>-15 341</b>	<b>-18 407</b>

## Note 19. Administrative expenses

	2017	2016
<b>Note 19. Administrative expenses</b>	<b>-1 761 482</b>	<b>-1 650 839</b>
Rent and maintenance of office premises	-190 285	-184 642
Development, repair and maintenance of IT and office equipment	-161 215	-127 531
Personnel and training expenses	-48 307	-47 749
Economic and administrative expenses	-37 056	-21 744
Telephone, mailing and internet expenses	-13 423	-14 332
Transport expenses	-37 628	-39 173
Travel expenses	-21 170	-43 323
Marketing expenses	-513 252	-572 851

	2017	2016
Administration of the investment portfolio	-327	-999
Auditing expenses	-36 238	-38 275
Legal services	-59 140	-127 500
Membership fees	-16 125	-20 186
Expert assessment	-510 488	-356 881
Other services	-116 828	-55 653
<b>Labour costs</b>	<b>-1 596 360</b>	<b>-1 450 866</b>
Wages and salaries	-1 198 746	-1 091 542
<i>including the salary of the supervisory board and members of the management board</i>	-161 335	-107 393
<i>salary of employees</i>	-1 028 392	-984 149
Social tax	-398 157	-351 528
Unemployment insurance premium	-8 476	-7 796
<b>Depreciation of fixed assets</b>	<b>-84 216</b>	<b>-95 844</b>
<b>Total administrative expenses</b>	<b>-3 451 077</b>	<b>-3 197 549</b>

In 2017, on the basis of the decision by the Ministry of Economic Affairs and Communications, shares in AS Smartcap, which had previously been in the possession of the Estonian Development Fund, were handed over to KredEx. Along with the subsidiary AS Smartcap, the average number of employees during the year was 39.9 (35.9 in 2016).

The average number of employees working under employment contracts was 37.9 and the remuneration calculated for them was EUR 1,002 388. The average number of members of management and supervisory bodies was 11.5 and the remuneration calculated for them was EUR 161,335. The number of employees working under a contract under the Law of Obligations was 20 and the remuneration calculated for them was EUR 26 004.

## Note 20. Changes in net assets

Foundation capital	Change in net assets	Source of the change
Targeted fund of housing guarantees	759 680	Distribution of 2016 income
Targeted fund of start-up loan guarantees	13 650	Distribution of 2016 income
Targeted fund of loan guarantees	290 912	Distribution of 2016 income
Targeted fund of subordinated loans	112 066	Distribution of 2016 income
Smartcapi investment target fund	1 419 178	Transfer of Estonian Development Fund assets – AS Smartcap shares – to SA KredEx
Profit for 2017	1 222 917	Retained profit for 2017

In 2017, the Republic of Estonia transferred, without charge, the shares of AS Smartcap to KredEx, which previously belonged to the Estonian Development Fund (liquidated). As a result of the transaction, AS Smartcap has been a subsidiary of Fund KredEx since 01 July 2017. KredEx owns EUR 325,000 shares of the share capital of AS Smartcap with a nominal value of EUR 1 per share. Fund KredEx registered its subsidiary AS Smartcap at a balance sheet value of EUR 1,419,178. AS Smartcap's losses from economic activity in 2017 were -21,293 during the period 01 July – 31 December 2017. The residual value of the investment was EUR 1,397,885 at the end of 2017.



## Note 21. Off-balance sheet assets and claims

### Off-balance sheet assets

In accordance with the agreement of sale for Assigned Amount Units concluded between the Republic of Estonia and Mitsubishi Corporation, as permitted under Article 17 of the Kyoto Protocol, a charging network for electric cars has been constructed to cover all of Estonia. As at the end of 2014, expenses were incurred for the construction thereof in the amount of EUR 6,355,219. In 2015, expenditures of EUR 159,590 were added, and in 2016 and 2017 no additional expenditures were made at charging points.

At the end of 2016, the cost of assets for the charging network was EUR 6,514,809. Also disposed of with the assets of the short-term rental service, were 15 standard chargers with an acquisition cost of EUR 30,270 (read more below). The total acquisition cost at the end of 2017 for the charging network was EUR 6,484,539.

Under the above agreement, a short-term rental service for electric cars was also created. For this, electric cars were purchased in 2013 and registered off the balance sheet in the amount of EUR 906,534. In 2015, another 8 electric cars in the amount of EUR 305,401 were purchased, and one car, destroyed in an accident, was written off. In 2016, the number of cars did not change. At the end of 2016, there were cars in the amount of EUR 1,177,387 registered at their acquisition cost. In 2017, the Ministry of Economic Affairs and Communications disposed of all short-term rental service related assets and rights, in addition to 15 standard chargers with an acquisition cost of EUR 30,270.

Climate surveillance loggers in the amount of EUR 23,520, which were acquired in 2012 with funds from

the climate and energy agency, have also been registered as off-balance sheet assets. Their acquisition cost at the end of 2017 was EUR 20,462.

In association with the liquidation of the Estonian Development Fund, a total of 950,593 state owned shares in the risk capital fund Early Fund II have been placed at the disposal of KredEx, with AS Smartcap serving as the fund manager. The value of the fund, as at 31 December 2017, was EUR 43,723,428.

### Off-balance sheet claims

Upon the fulfilment of the guarantee obligation, KredEx shall acquire the claim from the creditor in the extent of the paid amount. As the debtor has not fulfilled the obligations during the collection of the loan, such claims have no actual value. Loans have frequently been secured by the borrower's or the owner's personal surety. In the case of loss events, a claim against the guarantor may continue after the payment of compensation. Until the termination of such disputes, the receivables are registered off the balance sheet. If a dispute ends with a compromise or the claim appears to be irrecoverable during the execution procedure, the calculation of off-balance sheet claims is adjusted respectively. Similarly, recovered grants are accounted for off the balance sheet.

In 2017, a claim in recovery for support was added. Claims against five companies that received support from the ELMO programme were deemed uncollectible, in the case of which the prosecutor's office refused to initiate criminal proceedings and a civil court proceeding would have been expensive and pointless. The requests were decreased through grant repayment, pursuant to the repayment schedule agreed upon between the parties. At the same time, one convicted offender paid part of the claim under public law that was satisfied by the court.

Changes in off-balance sheet receivables	Direct loans	Housing loan guarantees	Enterprise loan guarantees	Rights of recourse for grants
Balance of claims on 31 December 2017	254 034	500 155	1 013 855	410 357
Change from 31 December 2016	-8 502	-19 745	-61 304	-567 852
including new	0	14 265	24 025	2 890
received	-8 502	-34 010	-86 573	-48 742
revaluation	0	0	1 244	-522 000

## Note 22. Off-balance sheet and conditional liabilities

Security liabilities	2017	2016	Change
<b>Enterprise loan guarantees</b>			
Performing Guarantee Portfolio at the beginning of the year	134 096 170	115 897 328	18 198 842
Guarantee volume of concluded agreements	65 831 172	92 543 470	-26 712 298
Depreciation of the portfolio and terminated agreements	-69 751 639	-74 344 628	4 592 989
Performing Guarantee Portfolio at the end of the year	130 175 703	134 096 170	-3 920 467
Issued offers at the end of the year	2 130 660	2 123 182	7 478
Maximum security liability as at the end of the year	144 774 254	141 276 622	3 497 632
<b>Housing loan guarantees</b>			
Performing Guarantee Portfolio at the beginning of the year	73 524 143	58 555 943	14 968 200
Guarantee volume of concluded agreements	43 826 091	31 908 120	11 917 971
Depreciation of the portfolio and terminated agreements	-22 665 494	-16 939 920	-5 725 574
Performing Guarantee Portfolio at the end of the year	94 684 740	73 524 143	21 160 597
Maximum security liability as at the end of the year	94 990 608	73 579 813	21 410 795
<b>Total performing guarantee portfolio</b>	<b>224 860 443</b>	<b>207 620 313</b>	<b>17 240 130</b>

**Performing Guarantee Portfolio** is a guarantee liability as of the balance sheet date. If the date of commissioning of the loan has not yet arrived, the whole amount payable under the agreement is recorded as a liability. After the date of commissioning the loan, the balance of the guarantee liability is recorded according to the actual loan balance of the relevant date.

The **maximum guarantee liability** is the Performing Guarantee Portfolio, including offers issued on the balance sheet date, but not yet accepted, and the balances of guarantee liabilities at the moment of termination of the agreement, in connection with which a loss event has occurred.

Guarantee liabilities are recorded off the balance sheet. Technical provisions and equalisation provisions are written off and registered to cover possible payments.

As at 31 December 2017, KredEx had conditional liabilities under the concluded loan agreements in the form of unused loan limits in the amount of EUR 344,731 (EUR 535,250 in 2016), EUR 138,654 of which has been paid by the time of completion of the annual report.

The tax authority shall have the right to check the tax accounting of KredEx for a period of up to 6 years from

the term of submission of the tax declaration and, upon the detection of mistakes, assign an additional tax amount, interests and a penalty. The tax administrator has not performed a tax audit of KredEx between 2009 and 2017. KredEx's management finds that there are no circumstances due to which the tax administrator might set a significant additional amount of tax for KredEx.

## Note 23. Operational lease

As of 15 March 2010, KredEx has been leasing office premises of 874.51 m<sup>2</sup>, at Hobujaama 4, Tallinn. The lease contract will remain in force until 15 March 2020 and does not include the possibility of premature termination.

As of 01 November 2017, AS Smartcap leased an office of 19.7 m<sup>2</sup> at the address Hobujaama 4, Tallinn, to which the use of common space is added. The lease contract will remain valid until 30 October 2018. The lease contract does not include the possibility of premature termination. A bank guarantee has been established in favour of the lessor, with a deposit in the amount of the lease of two months' rent.

In 2017, rent was EUR 135,074 (EUR 159,419 in 2016).

Planned lease expenses for 2018 from non-interruptible contracts are EUR 142,779. The lease income is presented as a balance and does not include the lease costs of premises on sublease.

From the above described leased premises, 138.4 m<sup>2</sup> have been subleased to the affiliate AS KredEx Krediidikindlustus. In 2017, income from sublease was EUR 24,164 (EUR 24,031 in 2016) and the estimated income from subleasing in 2018 is EUR 24,589. The lease costs stated in the previous paragraph have been reduced by the sublease income.

## Note 24. Transactions with related parties

Related parties are considered to be members of the supervisory board and the management board, their immediate family members and all of the companies under their control or significant influence, as well as the related company AS KredEx Krediidikindlustus, the KredEx subsidiary AS Smartcap, ministries, state and

local public sector institutions, state-owned companies and local governments.

Transactions with the Ministry of Economic Affairs and Communications, the Ministry of the Environment and the Ministry of Finance are described in greater detail in Notes 11 to 14.

Transactions with the related company AS KredEx Krediidikindlustus are detailed in Notes 5, 6, 17 and 23. Additionally, KredEx has mediated costs in the amount of EUR 29,929 (EUR 24,211 in 2016). With value added tax included, KredEx has issued invoices to KredEx Krediidikindlustus in the amount of EUR 141,305 (EUR 165,859 in 2016).

In 2017, remuneration of the management board was EUR 133,284, while supervisory board remuneration was EUR 28,051. According to the management board member agreement, compensation shall be paid to the Chairman in the amount of three basic salaries, if KredEx terminates the contract prematurely without good reason.

Sales	2017	2016
Affiliated company KredEx Krediidikindlustus (sales with value added tax)	141 305	165 859
Quick charging service for electric cars provided to the government and local government authorities (without value added tax)	31 399	31 019
Other government and local government enterprises and authorities (net of VAT)	0	2 564
Subsidiary AS Smartcap (sales including VAT)	7 826	0
Ministry of Economic Affairs and Communications	8 700	0
Purchases	2017	2016
Subsidiary AS Smartcap	800	0
Other government and local government enterprises and authorities	173 243	285 676
Affiliated company KredEx Krediidikindlustus	201	0
Ministry of Economic Affairs and Communications	2 369	0
Targeted financing received for Startup Estonia projects	2017	2016
Other government and local government enterprises and authorities	38 291	77 052
Receivables	31.12.2017	31.12.2016
Affiliated company KredEx Krediidikindlustus	11 488	13 074
Other government and local government enterprises and authorities	3 341	6 025
Subsidiary AS Smartcap	1 062	0
Liabilities	31.12.2017	31.12.2016
Other government and local government enterprises and authorities	13 850	27 723

## Note 25. Events after the date of the report

Under the agreement for the use of targeted support from the state budget, KredEx was allocated up to EUR 17,422 840 in 2018, to be used for housing support measures.

In 2018, the procurement contracts for the ELMO quick charging network and the lease service will end. KredEx has initiated preliminary activities and negotiations for handing over the services.

## Note 26. Unconsolidated report

### Note 26.1. Unconsolidated balance sheet (in euros)

ASSETS	31.12.2017	31.12.2016
<b>Current assets</b>		
Cash and bank accounts	117 574 162	117 765 913
Short-term loan receivables	8 757 406	7 307 490
Receivables and prepayments	4 248 271	1 140 170
<b>Total current assets</b>	<b>130 579 839</b>	<b>126 213 573</b>
<b>Fixed assets</b>		
Long-term investments	16 537 860	13 159 351
Long-term loan receivables	47 221 034	51 827 180
Tangible fixed assets	73 916	74 921
Intangible fixed assets	101 593	103 815
<b>Total fixed assets</b>	<b>63 934 403</b>	<b>65 165 267</b>
<b>TOTAL ASSETS</b>	<b>194 514 242</b>	<b>191 378 840</b>
<b>LIABILITIES</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Payables and prepayments	458 086	443 527
Short-term part of long-term loans	4 848 539	4 808 974
Short-term technical provisions	3 709 796	2 826 080
Other short-term provisions	0	84 810
Targeted financing for housing grants	9 118 100	8 420 235
Targeted financing for the application of the green investment scheme	2 860 852	3 720 217
Targeted financing for supporting measures of entrepreneurship	61 709	50 000
<b>Total current liabilities</b>	<b>21 057 082</b>	<b>20 353 843</b>
<b>Long-term liabilities</b>		
Long-term technical provisions	9 690 244	4 416 958
Long-term loans	19 582 502	24 181 929
Targeted financing for supporting measures of entrepreneurship	66 345 687	67 229 478
<b>Total long-term liabilities</b>	<b>95 618 433</b>	<b>95 828 365</b>
<b>Total liabilities</b>	<b>116 675 515</b>	<b>116 182 208</b>

	31.12.2017	31.12.2016
<b>Net assets</b>		
Foundation capital	76 615 810	74 020 324
Total net gain (loss) for the accounting year	1 222 917	1 176 308
<b>Total net assets</b>	<b>77 838 727</b>	<b>75 196 632</b>
<b>TOTAL LIABILITIES</b>	<b>194 514 242</b>	<b>191 378 840</b>

## Note 26.2. Unconsolidated income statement (in euros)

	2017	2016
<b>Operating income</b>		
Guarantee fees	4 675 937	3 447 989
Interest income from loans	1 346 948	1 597 639
Intermediation of targeted financing for housing grants	25 425 885	11 096 402
Intermediation of the targeted financing for the implementation of the green investment scheme	776 850	1 030 141
Targeted financing to cover operating expenses	1 796 456	1 922 406
<b>Total operating income</b>	<b>34 022 076</b>	<b>19 094 577</b>
<b>Operating expenses</b>		
Intermediation of targeted financing for housing grants	-25 425 885	-11 096 402
Intermediation of the targeted financing for the implementation of the green investment scheme	-776 850	-1 030 141
Administrative expenses	-3 231 952	-3 197 549
Other operating income and expenses	78 770	189 181
<b>Total operating expenses</b>	<b>-29 355 917</b>	<b>-15 134 911</b>
<b>Provisions and impairment losses</b>		
Cost of guarantee losses	-2 869 189	-1 812 075
Loan losses	86 021	-303 583
<b>Total provisions and impairment losses</b>	<b>-2 783 168</b>	<b>-2 115 658</b>
<b>Financial income and expenses</b>		
Net income from securities	2 040	1 428
Interest income on deposits	9 026	129 718
Interest expenses	-737 055	-864 432
Profit/loss from subsidiaries	-21 293	0
Profit/loss from associated undertaking	102 549	83 993
Other financial income and expenses	-15 341	-18 407
<b>Total financial income and expenses</b>	<b>-660 074</b>	<b>-667 700</b>
<b>Net income for the reporting period</b>	<b>1 222 917</b>	<b>1 176 308</b>

### Note 26.3. Unconsolidated cashflow statement (in euros)

	2017	2016
<b>Cash flows from principal activities</b>		
Income	1 222 917	1 176 308
Adjustments to income	-101 709	439 092
Change in receivables and prepayments made	-3 159 093	-201 925
Change in liabilities and prepayments received	22 873	42 275
Change in provisions	6 072 192	1 132 412
Change in loan receivables	3 156 230	3 991 070
Change in loan obligations	-4 559 862	-4 467 099
Change in targeted financing	-1 033 582	19 852 752
<b>Total cash flows from principal activities</b>	<b>1 619 966</b>	<b>21 964 885</b>
<b>Cash flows from investment activities</b>		
Sale of short-term financial investments	0	4 200 000
Acquisition of long-term financial investments	-1 800 000	-3 480 000
Interest income received	50 994	285 997
Received dividend income	10 000	0
Acquisition of fixed assets	-80 990	-98 176
Sale of fixed assets	8 279	0
<b>Total cash flows from investing activities</b>	<b>-1 811 717</b>	<b>907 821</b>
<b>Total cash flows</b>	<b>-191 751</b>	<b>22 872 706</b>
Cash and cash equivalents at the beginning of the period	117 765 913	94 893 207
Change in cash and cash equivalents	-191 751	22 872 706
<b>Cash and cash equivalents at the end of the period</b>	<b>117 574 162</b>	<b>117 765 913</b>

### Note 26.4. Unconsolidated statement of changes in net assets (in euros)

	Enterprise trust funds	Export trust funds	Housing trust funds	Undistributed income	Net assets Total
<b>Balance 31.12.2015</b>	<b>32 175 680</b>	<b>6 121 543</b>	<b>34 701 860</b>	<b>1 021 241</b>	<b>74 020 324</b>
Distribution of income into trust funds	433 447	0	587 794	-1 021 241	0
Total net gain (loss) for the accounting year	0	0	0	1 176 308	1 176 308
<b>Balance 31.12.2016</b>	<b>32 609 127</b>	<b>6 121 543</b>	<b>35 289 654</b>	<b>1 176 308</b>	<b>75 196 632</b>
Distribution of income into trust funds	416 628	0	759 680	-1 176 308	0
Increasing of foundation capital at the expense of receiving assets	1 419 178	0	0	0	1 419 178
Total net gain (loss) for the accounting year	0	0	0	1 222 917	1 222 917
<b>Balance 31.12.2017</b>	<b>34 444 933</b>	<b>6 121 543</b>	<b>36 049 334</b>	<b>1 222 917</b>	<b>77 838 727</b>

Additional information regarding the change in net assets has been provided in Note 20.



## Signature of the Member of the Management Board to the 2017 annual report

The board has drafted the annual report and the annual accounts of Fund KredEx for the year that ended on 31 December 2017.

Lehar Kütt

Chairman of the Management Board

*(signed digitally)*



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## Independent Auditors' Report

*(Translation of the Estonian original)*

To the Supervisory Board of Fund KredEx

### Opinion

We have audited the consolidated financial statements of Fund KredEx (the Group), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the consolidated statement of cash flows and the consolidated statement of changes in net assets for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements presented on pages 32 to 67, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Estonian financial reporting standard.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises the activity report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Estonian financial reporting standard, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee. An audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks; obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We are solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tallinn, 12. April 2018

*/signed digitally/*

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

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