



KREDEX 2018

Fund KredEx
Annual Report
2018

Table of contents



| | |
|------------------------------------|----|
| 1. CEO'S STATEMENT | 5 |
| 2. ACTIVITY PRINCIPLES | 6 |
| 3. ACTIVITIES AND RESULTS IN 2018 | 14 |
| 4. FINANCIAL RESULTS AND PAID LOSS | 30 |
| 5. PLANS FOR 2019 | 31 |
| 6. ANNUAL REPORT | 33 |

Fund KredEx

Annual report 2018

| | |
|------------------------------|--|
| Beginning of financial year: | 01.01.2018 |
| End of financial year: | 31.12.2018 |
| Registry code of non-profit | 90006012 |
| Main area of activity: | based on state development plans and policies: <ul style="list-style-type: none">- 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 |
| EMTAK codes: | 66199, 66291, 84139 |
| Address: | Hobujaama 4, 10151 Tallinn |
| Telephone: | 667-4100 |
| E-mail: | kredex@kredex.ee |
| Homepage: | www.kredex.ee |
| CEO: | Lehar Kütt |
| Auditor: | KPMG Baltics OÜ |



»» As at the end of 2018, KredEx was providing guarantees to the obligations of 20,452 enterprises, private persons and apartment associations in the sum of EUR 1.0973 billion. ««

Lehar Kütt / CEO of Fund KredEx



1. CEO's statement

2018 was a successful year for KredEx. The volume of operations grew in the area of offering guarantees to apartment building loans, as well as in the area of private and venture capital investments, stabilised in the area of guaranteeing home loans, and decreased in the area of guarantees to enterprise loans.

When compared to the previous year, the volume of guarantees for home loans increased by 1%. With the help of KredEx guarantees in the sum of EUR 34 million, banks financed the purchase or renovation of 3337 homes in the sum of EUR 277 million. Every fifth home loan issued in Estonia used KredEx guarantees. The volume of guarantees to apartment building loans increased by 14% year-on-year. KredEx guarantees in the amount of EUR 9.8 million enabled 117 apartment buildings to acquire additional funding from banks in the sum of EUR 14.4 million.

The guarantee volume of enterprise loans decreased by 15% year-on-year. This is primarily due to the good economic outlook and the accompanying more lenient lending policies of banks as well as the changes made to service conditions at the end of 2017. Over the course of the year, 660 guarantee agreements were concluded or amended for the additional guarantee sum of EUR 72.3 million. This gave 472 enterprises access to additional funding in the sum of EUR 118 million. In addition, KredEx issued loans to 23 enterprises in the sum of EUR 4.1 million.

We also continued participating as an investor in the fund of funds Baltic Innovation Fund I and EstFund, offering private

and venture capital, and the management of the fund of funds Early Fund II via the subsidiary AS SmartCap. With the support of these funds, a total of nearly EUR 700 million is being invested in the rapidly developing companies of the region.

As at the end of 2018, KredEx was providing guarantees to the obligations of 20,452 enterprises, private persons and apartment associations in the sum of EUR 1.0973 billion. The outstanding balance of the guarantee obligations of KredEx is EUR 234.5 million. As at the year-end, we provided loans to 635 apartment associations and companies in the total amount of EUR 53.8 million, and through the Baltic Innovation Fund and EstFund we financed 43 companies with private and venture capital investments in the total sum of EUR 162 million.

In the housing sector, we continued with the administration of eight support measures, commissioned by the state, the aim of which is to improve energy efficiency or develop the housing sector in general. Reconstruction grants for apartment buildings accounted for the greatest percentage of these, for which we terminated the receipt of applications in September 2017 due to the budget having been exhausted, although we did make related payments totalling EUR 37 million in 2018. The total budget for the support programme was EUR 102 million. This enables around 400 apartment buildings, inhabited by around 34,400 people, to be fixed up.

All in all, 2018 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 1.3 million.



Lehar Kütt
CEO of Fund KredEx



2. Activity principles

Fund KredEx was established in 2001, by the Ministry of Economic Affairs and Communications. KredEx is a financial institution that helps 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 Startup 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 Estonia's financial institutions and loan applicants, exporters and foreign buyers.



2.1 Values

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

PROFICIENCY

Proficiency – we are proficient and cooperative in both developing financing services and guaranteeing activity as well as in the performance of all other assignments. High professional service level and skilled marketing ensure the satisfaction of our customers and partners. We consider continuous professional development and growth in professionalism to be necessary.

RELIABILITY

Reliability – we fulfil our promises; we are precise and prompt, and make our decisions objectively. We adhere to deadlines and confidentiality requirements. We have the courage to admit our mistakes.

OPENNESS

Openness – we are open to new ideas and honest feedback; we understand the expectations and needs of stakeholders. Our principles of action and the bases for our decisions are clear and transparent. We consider it important to inform our target groups and the wider public of the outcomes of our activities.

INNOVATION

Innovation – we are able to find and offer efficient solutions to compensate for the shortcomings of the financial market. In this, we are keeping up with the development of the business and living environment, combining the best skills, experience and resources of different countries, activity areas and organisations.



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 conservative risk management and the existence of sufficient capital, KredEx is unable to fulfil its obligations arising from guarantees, the state shall fulfil the relevant liabilities pursuant to law. To do so, the state may pay the claims directly to the recipients of the guarantees, or transfer additional amounts to the foundation capital of KredEx. On the other hand, equity requirements and limitations on investment activities have been established for the foundation in legislation, for the purposes of risk management.

KredEx is a legal person governed by private law and operating in the form of a fund. Even though KredEx was established by the state, who also 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 state with an administrative service for grants in the housing area.

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 1.5 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 2018, the term of office of the member of the Supervisory Board, Raivo Randi, was extended. Katrin Rasmann was recalled from her position as a member of the Supervisory Board and Priit Värk was appointed as the new member of the Supervisory Board.



At the end of 2018,
the composition of the
Supervisory Board of
KredEx was 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

Pille Parind-Nisula

Member of the Supervisory Board

Head of Aon Baltic Eesti filiaal

Kaido Padar

Member of the Supervisory Board

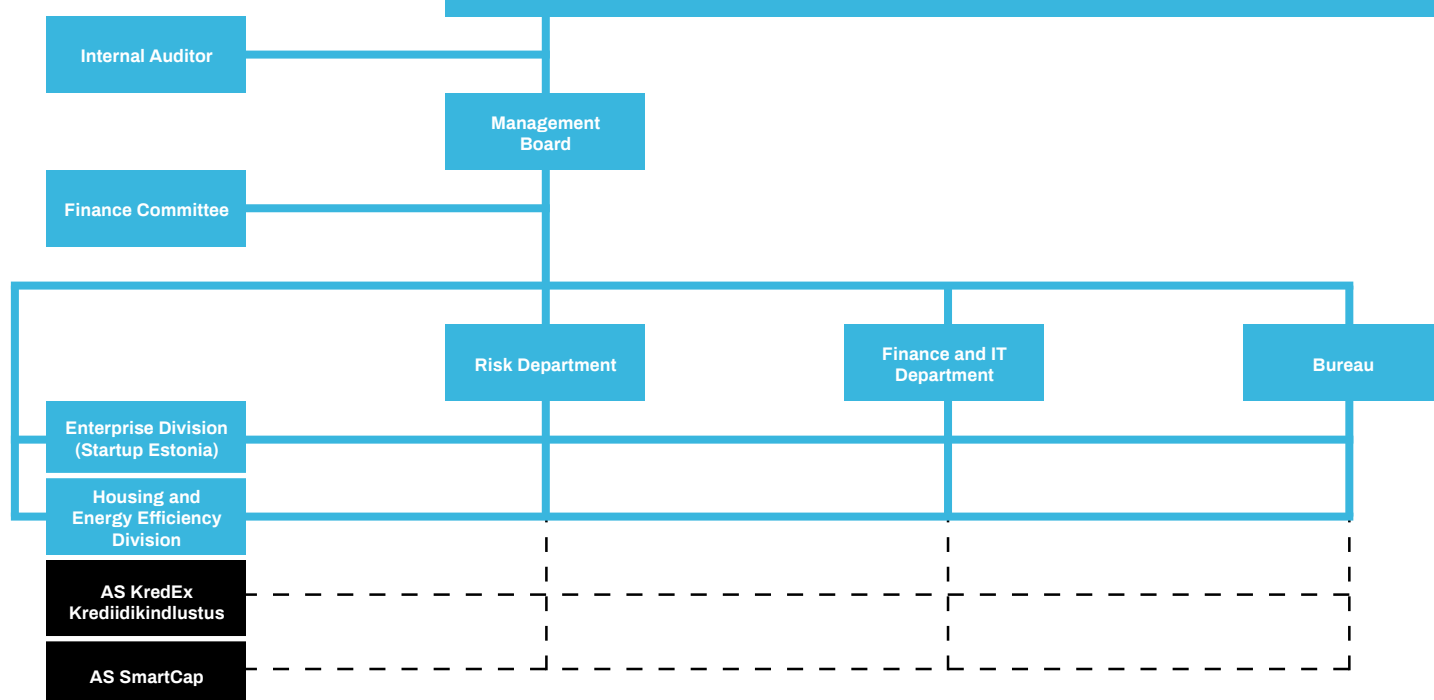
Chairman of the Management Board of AS Eesti Talleks

Priit Värk

Member of the Supervisory Board

Mayor of Paide

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 43 people is relatively constant: more than half of us have worked for KredEx for over five years and 17 people for more than 10 years. The average length of employment of KredEx employees is 7.5 years.

We support the self-development of our employees through interesting work, a good working environment and great training opportunities. Each year we attempt to find new training trends to help support the preservation of a communication and working environment within the team that gives us positive energy. We also consider it important to maintain the good physical and mental health of our employees. To do so, we organised first aid and self-management trainings in 2018. Our employees value the training days where, in addition to discussions on the action plans and assessment of results, they also able to familiarise themselves with the activities of enterprises supported by a guarantee or loan from KredEx and get to meet the cooperation partners. In 2018, there were 5.2 training days per 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.

Every two years we organise a satisfaction survey among our employees, to evaluate the achievements of our management, understand the processes going on in the organisation, and obtain feedback in order to better arrange activities. Conducted at the end of 2018, the outcome of the survey confirmed that the most important incentives for working at KredEx are still good relationships within the team, remuneration, and varied and interesting work.

We have continued to utilise the colleague feedback survey, first conducted in 2015 as a pilot project, in subsequent years. The results of the feedback survey reflect excellent cooperation. The submitted comments included a lot of useful information and valuable proposals for making the cooperation between departments even more efficient.

In addition to cooperation, we recognise the importance of traditions that help unite us 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 highly anticipated among employees.



KredEx supports maintaining a communicative working environment that provides positive energy in the team.

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.

The 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 out, with the loss from a single risk not being too large in comparison with the capital.
- All risks that have not been re-insured are covered with sufficient capital and provisions.

A core objective of risk management is to possess adequate information for service price formation. This includes estimating the volume and loss potential of each service and 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 internal audit provider via a 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 2015–2018, the internal audit service was provided by KPMG Baltics OÜ.

In 2018, the internal audit action plan included an assessment of measures implemented for the organisation of risk management and the risk of fraud.

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, the annual report issued by KredEx has been audited annually by an internationally recognised auditing firm. So far, they have approved all reports without reservations.



2.5. Economic environment

In Q3 2018, the Estonian economy grew by 4.2% year-on-year. The main driver of economic growth continued to be the growth of added value in the field of construction. This was followed by Estonia's largest sector – the processing industry – which provided the biggest contribution to economic growth over the last three years. Also, professional education, research, and technical practice, information and communications and transport and warehousing contributed greatly. In Q3, only one field had a significant negative impact on the economic growth: agriculture, forest management and fishery.

Increase in domestic demand accelerated by 6.4% in Q3 year-on-year. This was supported by an increase in private consumption and investments. The largest share of the investment growth originated from investments by companies in buildings and structures and government sector investments in machinery and equipment.

Private consumption expenditures by households increased 4.1% year-on-year, yet growth remained slower than the increase in income received from employment. Private consumption growth in Q3 was supported the most by the increase in expenditures on housing and transport. As private consumption increased at a slower rate than income received from employment, the growth of household deposit volumes also remained stable in Q3.

While a giant wave of optimism was prevalent in Europe in 2017, then in 2018, the economic climate cooled. From the 2.4% rise of a year ago, economic growth in the Eurozone slowed to only 1.7% in Q3 2018. At the same time, the slowdown in growth was caused by Germany, whose economic growth was only 1.1% year-on-year. The biggest sources of disappointment in the euro zone were industrial production and exports, which remained much more modest than expected. Estonia was impacted the most by the economies of its main trading partners – Sweden, Finland and Latvia – where growth exceeded that of the euro zone average.

According to Statistics Estonia, EUR 14.4 billion worth of goods in current prices were exported and EUR 16.2 billion were imported in 2018. Year-on-year, exports grew by 12% and imports by 8%. The relative importance of European Union (EU) countries in exports was 68% and in imports 78% in 2018. As in previous years, Estonia's main foreign trading partners were Finland (16% of total exports), Sweden (11%) and Latvia (10%). The main export articles were electrical equipment, timber and wood products, and mineral products.

Corporate profits have grown in the last few years; however, profitability is notably lower compared to the average for the last decade. On the one hand, companies have proven able to manage the settlement of assumed obligations at a lower level of profitability. On the other hand, lower profitability means that should the current rapid rate of growth of the economy and sales revenue experience a slowdown, the companies have a limited number of options available to cope with the wage pressure on the account of profit. Furthermore, the low level of profitability decreases the motivation and possibilities of companies to invest, which could inhibit their competitiveness and long-term economic growth. This, in turn, could also jeopardise the loan repayment ability of enterprises.

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 of companies started to grow in 2018. The balance of corporate loans and leases increased 5.8% over the year. Corporate lending has also supported certain increased investment activity, as well as the refinancing of loans in a greater volume than before.

In December, enterprises took 9% more new loans than a year ago. However, new long-term loans were taken nearly in the same amount. This month it was real estate and construction companies that stood out in terms of their more extensive borrowing, with the volume of their debt obligations having increased by nearly 6-7% over the past few years. The debt burden and financial leverage of enterprises is still low and liquidity high, compared to the last decade.

The payment behaviour of enterprises is good. The share of enterprises with payment problems and tax arrears was very small in the first half of 2018, which is characteristic of the last five years. Also, the number of bankruptcy and liquidation cases was very small. The share of overdue loans in the aggregate portfolio of banks has dropped below 1%.

The financial situation of households improved in 2018, owing to increased earnings and low interest rates. The annual growth of gross monthly salary was 7.5% in Q3. According to the forecast by Eesti Pank, salary growth will remain close to 6% in the coming years. The situation on the labour market was quite favourable for employees, with the unemployment rate being at a 10-year low.

Consumer confidence remained high, and the expectation of households – that unemployment could increase over the next 12 months – has been at its lowest level in recent years. The volume of private loans and leases increased in December – similarly to previous months – at a solid pace. The balance of housing loans increased 7% in a year; however, in terms of numbers, 12% fewer housing loans were taken in December year-on-year. The average loan amount is still increasing. The number of purchase-sale transactions on the housing market declined in the second half of last year. Prices did increase; however, at a slower pace than before.

Estonia's economic growth is decelerating: The economic growth forecast by Eesti Pank for 2019 is 3.2% and for 2020, 2.3%. Continued rapid growth is hindered by a labour shortage, exhaustion of capacity and deceleration of foreign demand. Over the next few years economic growth will be backed by strong domestic market, where private consumption and investments outpace economic growth. Economic growth is also supported by export growth, although the economies of our trade partners are growing at a slower pace than in 2018. According to Swedbank's estimates, in 2019 the Finnish economy will grow by 1.9%, the Swedish economy by 1.3% and the Latvian economy by 3%.

The future profitability of enterprises depends largely on the growth of exports and controlling of salary costs. Since the workforce available in the economy continues to decline, the growth will depend ever more on increasing productivity. It is hard for enterprises with low productivity to survive. With the stable economic environment of Estonia and its trade partners continuing, investments by enterprises will increase in 2019.

As interest rates still remain low in 2019 and the equity of enterprises is sufficient, they should have no problems with making the desired investments. Loan growth remains below that 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.

Private consumption growth will slightly slowdown in the coming years: according to the forecast by Eesti Pank, growth will be 3.9% in 2019 (in 2018: 4.3%). Also, the growth of housing investments will decelerate, as the area of residential buildings having been awarded building permits has dropped. The demand for new housing, however, is upheld by the rapid salary increase that has been prevailing for a long time, low interest rates, high confidence of households and a desire to own more modern housing, as well as urbanisation. On the other hand, these factors are not expected to provide a further impetus to the growth in demand. With reductions in investments, the growth of housing loans will also decelerate, which in 2018 was 7.6%.



3. Activities and results in 2018

3.1. Briefly

In January, KredEx made public the sample designs and instruction material of nearly zero-energy buildings, developed in cooperation with TalTech. These provide an overview of the technical solutions and building practice guidelines, which are necessary for building the nearly zero-energy buildings.

In the same month, the first Startup Visa programme celebrated its first anniversary. In a consolidated view for 2017 and 2018, more than 1100 companies from more than 80 countries have applied for startup status in the past two years, and 411 companies have been granted the right to apply for a Startup Visa. Most relocations to Estonia have been from Ukraine, Brazil, Russia, the USA and India. Since the establishment of Startup Visa, 931 people have moved to Estonia within the framework of the programme or been granted the right to do so.

In March, KredEx Krediidikindlustus announced the prize 'Export Deed 2017', awarded to the ship-building company Baltic Workboats, operating on Saaremaa, for its outstanding export achievements.

In the same month, the venture capital fund, Superangel One, created by Mobi Solutions OÜ and Astrec Baltic OÜ – winners of the procurement for accelerators of the KredEx subsidiary SmartCap – launched its operations. The fund, managed by entrepreneurs Veljo Otsason, Rain Rannu and Marek Kiisa, started its activity with EUR 12 million and has set a goal of EUR 20 million to be achieved during the year. SmartCap invested EUR 4.2 million in the fund.

In April, KredEx began accepting applications for the investment grant round directed at local municipalities for developing their housing stock. The grant can be used for the establishment of new buildings and reconstruction of existing buildings, with the goal to see them enter use as residential rental housing.

In addition, we ended the issuing of grants for the renewal of the heating systems of small residential buildings. Since the establishment of the measure at the end of 2014, more than 586 house owners have received aid in an amount exceeding EUR 1.7 million.

Also, we started to issue investment aid for solar panels, in April. The purpose is to increase the share of electricity produced with renewable energy sources and reduce the emissions originating from the energy production system. The aid is designed for entrepreneurs, apartment associations, local authorities and other legal persons.

In June, we changed the terms and conditions and name of the Technology Loan. The rechristened Industry Loan can be also used for investments in intangible assets, such as implementation of software and training of staff, besides the acquisition of machinery and equipment.

In July, an investment was made from the fund of funds, EstFund, created by the state of Estonia, KredEx and the European Investment Fund (EIF), into two new funds: Equity United PE I and Tera Ventures Fund II. EstFund aims at developing the Estonian capital market, enabling venture and private capital investments for early phase and expansion phase companies.

In August, Ago Haabpiht was elected the new risk manager of KredEx. He has more than 20 years of experience in banking and is a graduate of the Faculty of Applied Mathematics and Law at the University of Tartu.

In September and October, ETV aired the third season of the TV series "Oma kodu" (Own Home), consisting of eight parts. There will be a fourth season of the series in 2019.

In October, KredEx led the project "Minu lugu" (My Story, previously "Ettevõtlus kooli" - 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, KredEx organised the Career Exploration Tours event for the fourth time, in the course of which nearly 240 students from nine counties visited their local enterprises and obtained information on local career opportunities.

In the same month, we published the results of the 2018 call for applications for the home grant targeting large families with limited financial resources. There were 344 families with three or more children, raising a total of 1218 children, who received the grant. The grant sum allocated exceeded EUR 3.1 million.

Also, in November, the terms and conditions of the demolition grant designed for local governments, were amended. Instead of the previous EUR 60,000, it is now possible to request EUR 100,000 per local government in the form of support for the demolition of uninhabitable residential buildings.

In December, we once again began accepting applications for investment aid directed at local municipalities for developing their housing stock.

3.2. Overview of the results of housing and energy efficiency in 2018

3.2.1. Most important activities in the area

In 2018, the volume of housing loan guarantees issued remained stable. More loan guarantees were issued to apartment buildings compared to last year. One new grant was added and we discontinued another grant.

The volume of housing loans with KredEx guarantees remained on the same level (growth 1%) when compared to 2018. The volume of these loans, out of all housing loans in Estonia, comprised an annual average of 20%. The volume of the housing loan guarantee portfolio of KredEx increased by EUR 11.7 million, reaching EUR 77.6 million by the end of 2018.

In 2018, 117 new guarantee agreements for apartment buildings were concluded in the total sum of EUR 9.8 million, which is 14% more than the previous year. The volume of this service is heavily influenced by the issuing of the reconstruction grant: the growth in volume of guarantees is, first and foremost, due to the large number of aid applications. The loan guarantee portfolio of apartment buildings is already approaching EUR 35 million.

In 2018, we discontinued allocating grants for replacing oil burning boilers with a more energy-efficient heating device. Altogether, we provided grants to replace 586 boilers. The reconstruction grant for small residential buildings continues to be used quite often. It is used to carry out complete renovations as well as single works that improve the energy-efficiency, preservation and user convenience of the house.

In addition to the grants to apartment buildings and small residential buildings, we began to provide grants to municipalities for the construction and reconstruction of rental houses in 2017. In 2018, we were able to make the first decisions on allocating the grant and, from April to August, it was once again possible to apply for the grant. During those years we allocated grants in a total amount of nearly EUR 16 million, with the help of which 515 modern and energy-efficient housing units were established throughout Estonia.

Starting in April, entrepreneurs, apartment associations and local governments may ask for support from KredEx for the installation of solar panels. The purpose is to increase the share of electricity produced with renewable energy sources and reduce the emissions originating from the energy production system.

We continued issuing home grants for large families, grants for the renovation of electrical installations and grants to local governments for the demolition of residential buildings. The conditions of these grants changed in November, according to which local governments can, instead of the previous EUR 60,000, now ask for EUR 100,000 per local government in the form of support from the state. In addition, we expanded the range of objects of support, to make sure that the grant can also be used to help demolish obsolete public buildings, which previously fell outside of the scope of such measures. We continued to offer services related to the ELMO electrical mobility programme.

We continued with the compelling activity of introducing and directing into use instructional materials and sample designs for near-zero energy residential buildings, which have a significant impact on the development of energy-efficient construction. 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. A housing loan guarantee is designed for specific target groups: these are young families and young specialists, buyers of energy-efficient housing, tenants of restituted houses and veterans of the Defence Forces or Defence League. With the help of the guarantee, it is possible to take a loan for the acquisition or renovation of housing with a lower rate of self-financing. Residents of apartment buildings can also use the apartment loan guarantee to make their home energy-efficient and guarantee its preservation for decades to come.

The total amount of housing loans issued by banks in 2018 that were secured by immovable property was EUR 1.17 billion (EUR 1 billion in 2017), of which the volume of loans with a KredEx guarantee accounted for EUR 277 million. A year before, housing loans with a KredEx guarantee were issued in the amount of EUR 267 million, i.e. at an average of EUR 22 million per month. In 2018, the volume of housing loans with a KredEx guarantee accounted for 20% of the volume of housing loans issued in Estonia (21% in 2017). The largest loans with a KredEx guarantee were issued in October (EUR 26 million), and the smallest in February (EUR 16 million).

The amount of housing loan guarantees issued in 2018 was



EUR 34 million, which is EUR 0.3 million (1%) more than in the previous year. By the end of the year, the portfolio volume of these guarantees amounted to EUR 77.6 million (EUR 65.9 million in 2017). A total of 3337 households purchased or

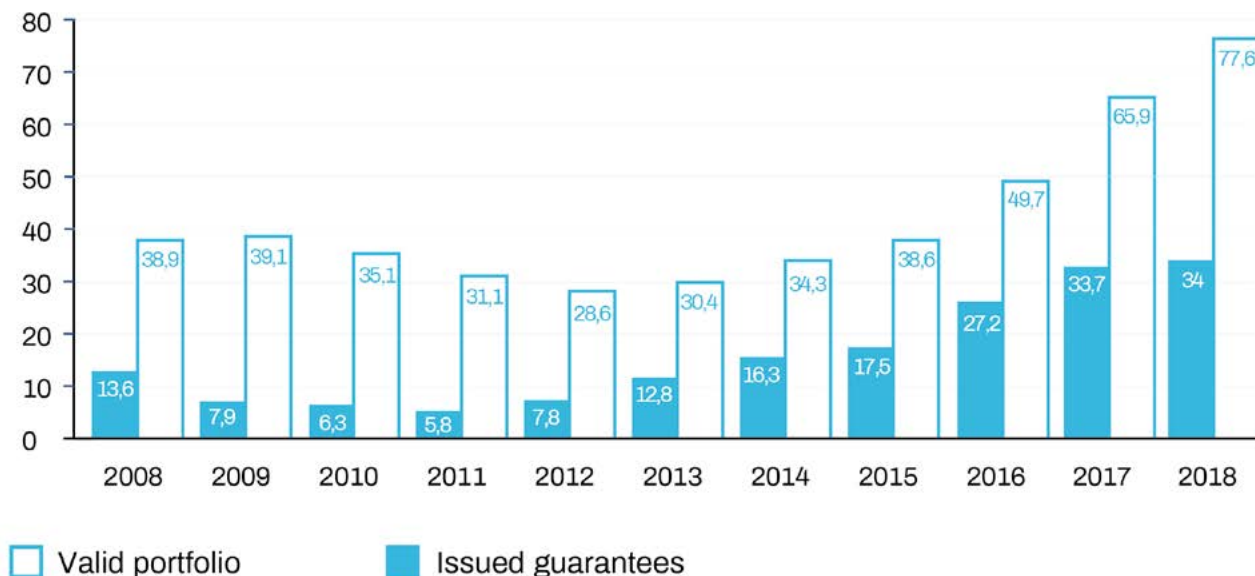


Figure 1. Volume of KredEx housing loan guarantees in 2008–2018, millions of euros

renovated their homes in 2018 with the help of the loan guarantee, including 1699 young specialists (EUR 15 million), 1316 young families (EUR 12.6 million) and 299 acquirers of energy-efficient housing (EUR 6.2 million) and 23 veterans (EUR 183,958). Since 2000, 33,398 households have improved their living conditions with the help of KredEx.

Apartment associations seeking loans from banks to renovate their building can apply for an apartment loan guarantee from KredEx. This is suitable for apartment buildings rated at a higher-than-average risk by banks due to their geographical

location, size, or number of debtors, or who wish to use the KredEx guarantee to insure their solvency risk.

During the year, KredEx issued 117 apartment loan guarantees totalling EUR 9.8 million, which is 14% more than in 2017. With the help of the guarantee, loans in the total sum of EUR 14.4 million were issued to the apartment buildings. The growth was primarily based on the extensive use of the apartment building reconstruction grant issued by KredEx. In 2018, the apartment loan guarantee portfolio reached EUR 34.6 million, having increased by EUR 5.9 million over the year.

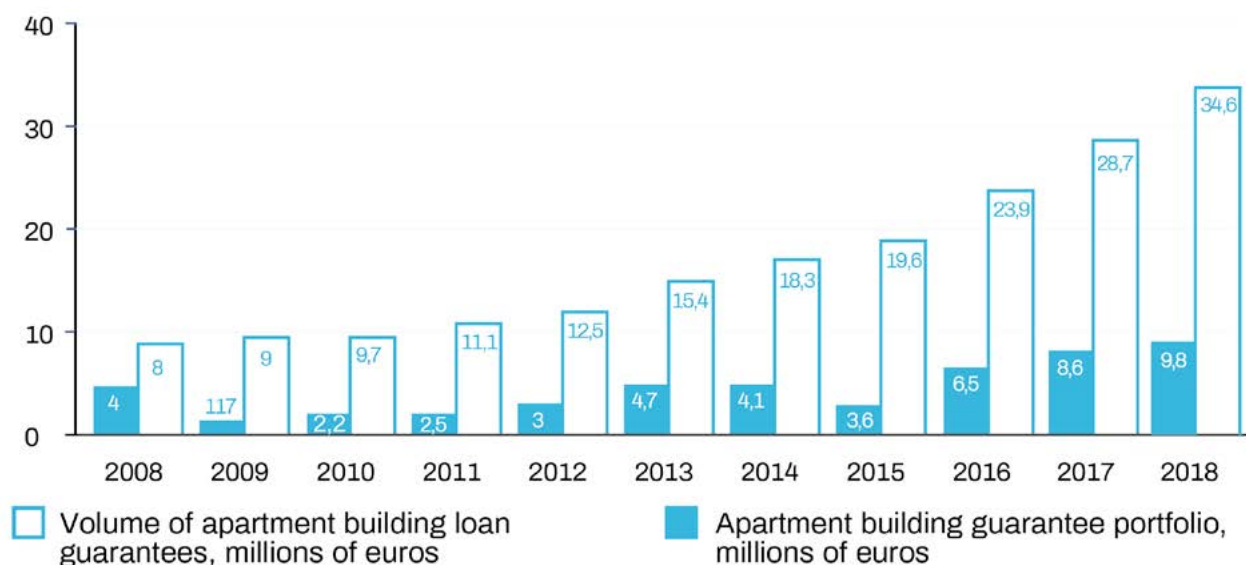


Figure 2. Volume of apartment loan guarantees in 2008–2018, in millions of euros

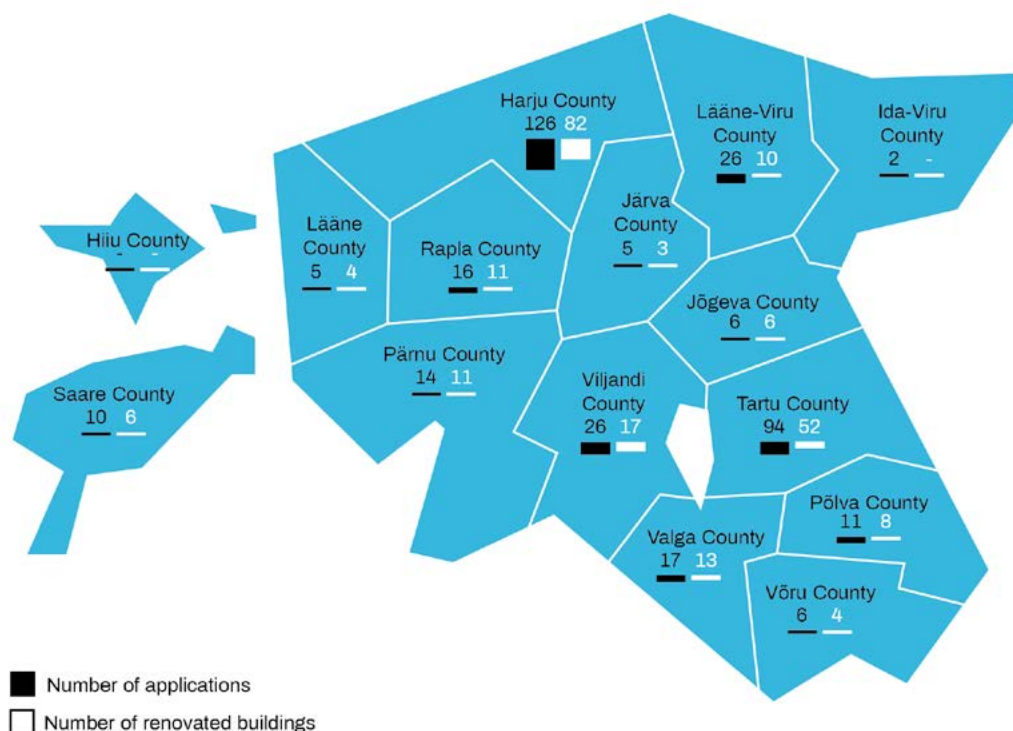


Figure 3. The number of applications and apartment buildings with renovation works completed, by county

Since 2002, 998 guarantee contracts have been concluded with KredEx when taking a loan for the renovation of apartment buildings in the total loan amount of EUR 71.6 million.

3.2.3. State grants for the housing sector

In 2018, KredEx provided eight types of grants to improve energy efficiency or develop the housing sector in general. Grants could be applied for by housing associations for the renovation of the technical systems of the building or full reconstruction; by private persons for full or partial reconstruction; by local municipalities for the construction of rental housing or the demolition of dilapidated houses that have fallen out of use; and entrepreneurs and apartment associations for the installation of solar panels.

3.2.3.1. Reconstruction grant

Since April 2015, KredEx has been issuing 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%.

Considering the strong interest in the measure, the EUR 102 million allocated for that purpose had been covered with applications by September 2017. With the help of the grants, nearly 400 apartment buildings will be renovated and almost 90% of them in full, which also means renovation of the heating system, replacement of windows and construction of ventilation with heat recovery, in addition to the insulation of walls and the roof. Also, solar panels will be installed on many residential buildings, which increases their energy-efficiency even more.

In 2018, 115 applications in the amount of EUR 36.5 million were satisfied. Payments were made in the same amount for residential buildings undergoing renovations and, in 2018, the renovation of 128 apartment buildings was completed. Altogether, 372 apartment buildings in the total sum of nearly EUR 96.5 million had been awarded a positive grant decision. Works had been completed on 255 residential buildings and payments were made in the sum of EUR 67.8 million. According to estimates, most of the apartment buildings that received a positive decision will be renovated in the course of 2019, which means that at about 100 apartment buildings per year, on average, are being renovated.

Most of the apartment buildings being renovated are located in counties with a higher population (Harju County and Tartu County); however, a significant portion of the residents of

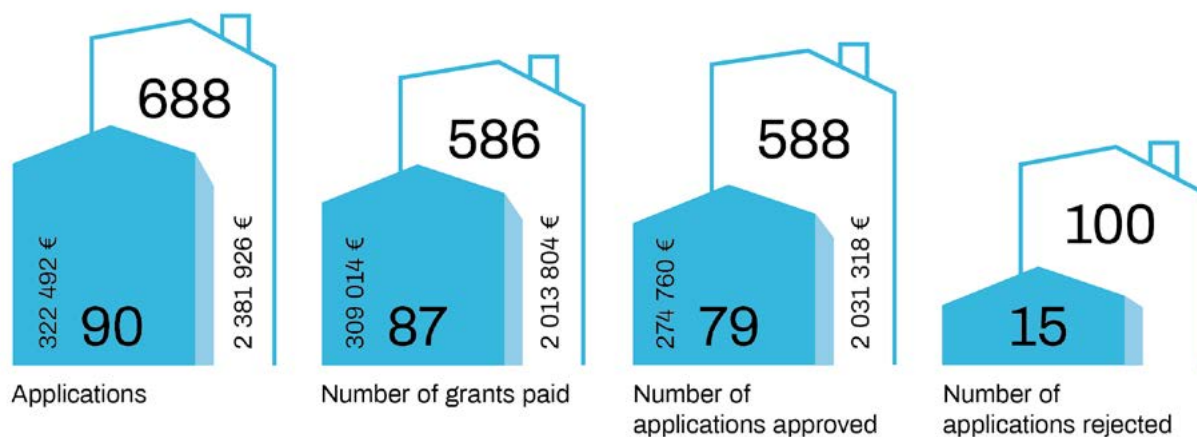


Figure 4. General data of the grants for the updating of heating systems

■ 2018 □ 2014 - 2018

Lääne-Viru County, in particular Rakvere, are also renovating their apartment buildings.

The number of apartments in the 400 residential buildings to be renovated is 15,500 and the closed net area of these houses totals 1.03 million square metres. The average cost of renovation is EUR 250-300 per square metre, which together with the 40% support means approx. EUR 10,000 for an apartment of 50 square metres in size. This sum is generally paid in the form of loan payments over an extended period of time.

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

Considering the significant number of apartment buildings requiring renovation and the constant demand for this measure, we will continue to support the apartment buildings in 2019.

3.2.3.2. Grants for small residential buildings

In 2018, KredEx issued two types of grants for small residential buildings. One of them was designed for updating oil-powered heating systems and the other for renovating housing.

Grants for updating 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 energy sources, to reduce the energy consumption of the building and make it more sustainable.

As of December 2014, 688 applications totalling EUR 2.38 million have been submitted. A total of 586 utility systems have been updated and EUR 2.01 million in grants paid for this purpose. KredEx ceased accepting applications on 30 April 2018. The most common heating appliance utilising renewable

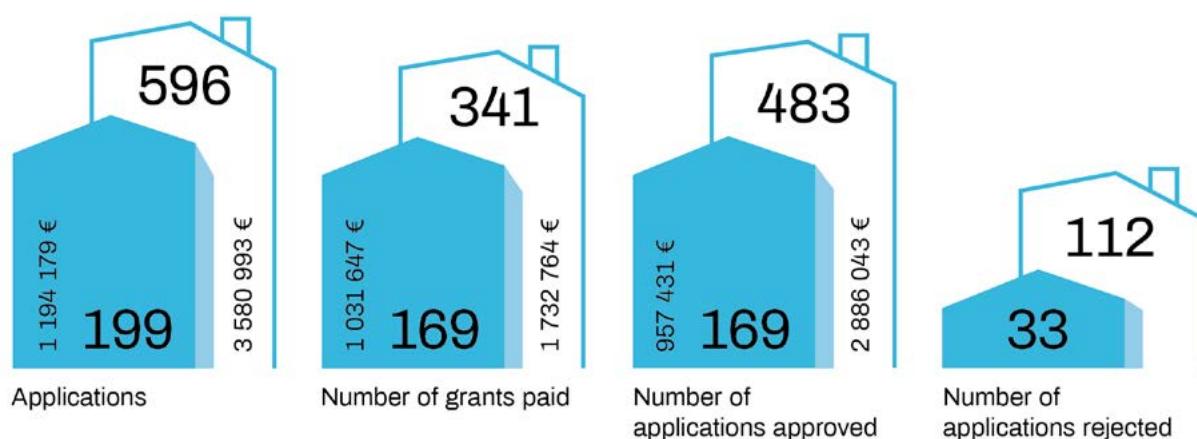
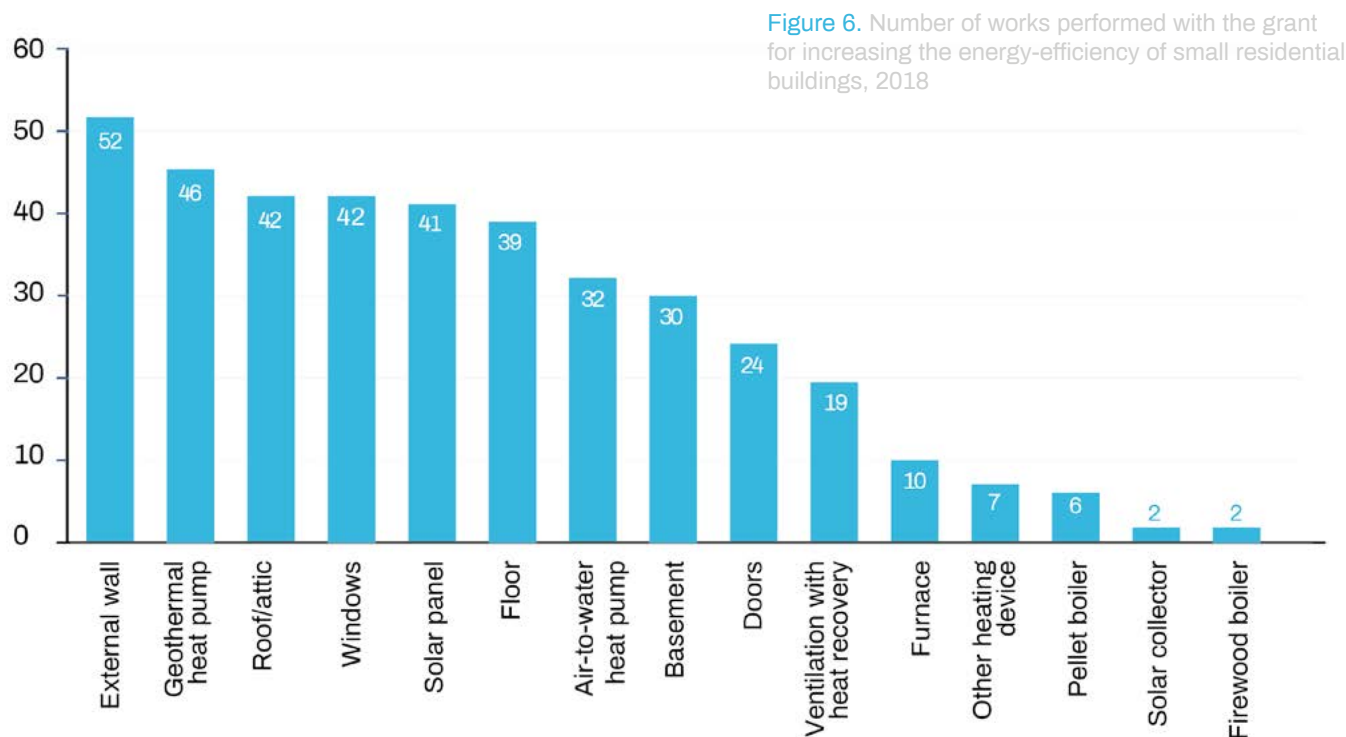


Figure 5. General data regarding grants awarded for increasing the energy efficiency of small residential buildings

■ 2018 □ 2016 - 2018



energy solutions, installed with the help of the grant, was an air to water heat pump (356 applications), followed by a geothermal heat pump (148 applications) and a pellet boiler (79 applications).

In 2018, KredEx continued to accept applications for increasing the energy-efficiency of small residential buildings. The grant is designed for natural persons, who are the owners of small residential buildings, for improving the technical condition of the building and reducing its energy consumption. Also, the support promotes the making of investments for the renovation of small residential buildings, improving the quality of the indoor climate therein and reducing their energy consumption. The grant also enables residents to begin using renewable energy appliances.

As of from November 2016, KredEx has received 596 applications, for increasing the energy efficiency of small residential buildings, in the total sum of EUR 3.6 million. A total of 341 residential buildings have been renovated, with EUR 1.7 million issued for this purpose in the form of grants. The most common reconstruction works throughout the entire application period of the measure have been the replacement of windows (168 applications), insulation of the roof, roof ceiling or attic (148) and insulation of the facade (152). In many cases, geothermal heating has been installed, the ground floor has been insulated, exterior doors and solar panels have been fitted and stoves have been renovated.

3.2.3.3. Home grant for families with many children

Within 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 low 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.

This is a grant with application rounds. In 2018, the round for applications lasted from 7 May to 11 June, in the course of which large families filed 461 applications in the total sum of EUR 4.1 million. Based on a ranking with points scored, 344 applications were satisfied. Four applicants withdrew their application, 42 applications were rejected due to the funds being exhausted, and 74 were rejected due to non-compliance. The applicants were distributed evenly all over Estonia. The most applications were submitted from Harju and Ida-Viru counties, in which the number of residents is also higher compared to the rest of the counties. In total, the applications of 344 families were satisfied, of which 270 received the grant for the first time and 74 for the second time.

| County | Applications submitted | Applications satisfied | Incl. repeated applications | Allocated amount of grant € |
|----------------------|------------------------|------------------------|-----------------------------|-----------------------------|
| 1. Harju County | 83 | 62 | 18 | 558 245 |
| 2. Ida-Viru County | 61 | 44 | 3 | 391 482 |
| 3. Tartu County | 45 | 36 | 5 | 334 510 |
| 4. Pärnu County | 42 | 30 | 7 | 252 280 |
| 5. Valga County | 39 | 27 | 12 | 241 317 |
| 6. Võru County | 33 | 25 | 7 | 218 768 |
| 7. Lääne-Viru County | 33 | 24 | 8 | 200 513 |
| 8. Viljandi County | 28 | 24 | 4 | 230 645 |
| 9. Jõgeva County | 20 | 15 | 4 | 138 743 |
| 10. Põlva County | 20 | 14 | 0 | 138 838 |
| 11. Järva County | 17 | 12 | 3 | 115 024 |
| 12. Rapla County | 14 | 12 | 1 | 99 822 |
| 13. Saare County | 15 | 11 | 1 | 100 270 |
| 14. Lääne County | 8 | 7 | 1 | 73 585 |
| 15. Hiiu County | 2 | 1 | 0 | 10 000 |
| Total | 461 | 344 | 74 | 3 104 047 |

Figure 7. Submitted and satisfied home grant applications for families with many children in the 2018 round, by counties

The average grant amount per family was EUR 7357. There are 1218 children being raised in the families that received funding; an average of 3.5 children per family.

Most of the applications were submitted for renovating or reconstructing the housing and the construction, reconstruction or replacement of technical systems (219 applications). These were followed by applications for buying a home (106) and building a home (19).

In the period of 2008–2018, there were 6300 home grant applications filed in the total sum of EUR 49.5 million, of which KredEx has satisfied 3348 applications in the total sum of EUR 29.7 million. Among them, 2740 families have received the grant once, 537 families twice, 62 families three times and 9 families four times. The average grant amount per family has been EUR 7098. A total of 124 families have refrained from taking out the allocated grant or not used it.

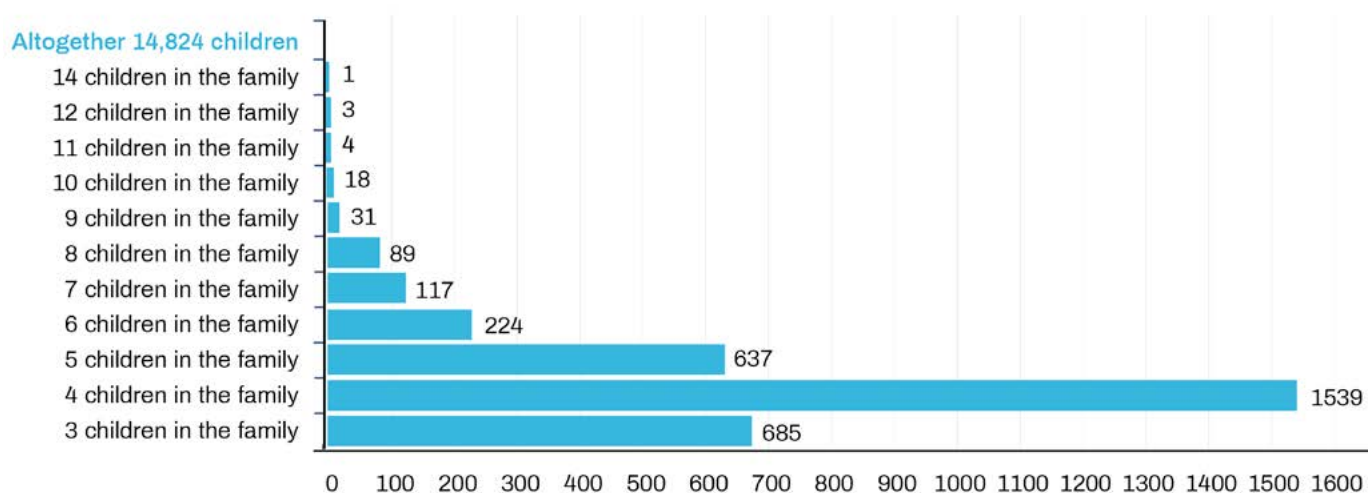


Figure 8. Number of families who received the home grant for large families, by number of children, 2008–2018

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 support for the renovation of electrical installations in residential buildings using the old voltage system (3 x 220V) in Tallinn, so that the residential buildings are transferred to the new 3 x 230/400V 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.

Compared to the previous situation, application activity remained at almost the same level in 2018. While in previous years, there were 25, 39 and 53 applicants, respectively, then in 2018 the number was 62. The average amount applied for was at the same level as previous years; in 2018, it was EUR 2602.

By the end of 2018, applications had been submitted to renovate the electrical installations of 179 buildings in the total amount of EUR 466,000. Payments have been made to 148 applicants totalling EUR 379,018. KredEx will continue to issue the grant in the coming years.

3.2.3.5. Demolition grants for local governments

KredEx helps local municipalities to make the living environment safer and aesthetically more pleasing. To do so, grants are awarded for the demolition of obsolete residential houses and educational and science buildings that are in the possession of local municipalities.

In 2018, KredEx provided EUR 219,620 in grants for the demolition of 11 obsolete residential buildings. The most buildings were demolished with the help of the grant in Lääne-Viru County (three) and Pärnu County (two).

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

Local governments have had the opportunity to apply for an investment grant to develop local housing stock by building or renovating rental houses in three application rounds: the first round lasted from 1 November to 30 December 2017; the second round from 2 April to 15 August 2018 and the third round from 3 December 2018 to 4 February 2019.

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 as well as where the construction cost is higher than the market value. As of 2018, grants can be applied for constructing rental housing for target groups with limited financial resources, with Tartu and Tallinn also being included as 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 maximum grant amount for all application rounds is EUR 2.5 million per each local municipality. While the grant was applied for by five local governments (Saue, Muhu, Valga, Türi and Lääne-Nigula) in the first round, then in the second round, the number of applications already reached 13. Positive decision was made in respect of Põhja-Sakala, Tallinn, Tartu, Tori, Narva-Jõesuu, Saue, Rae, Kuressaare, Haapsalu and Saku.

After the first two rounds, eight rental houses will be established or reconstructed for the mobile workforce and eight houses for the socially underprivileged target group. Altogether, 515 apartments with a total area close to 27,000 square metres will be built in 16 buildings. At the same time, the total investment is nearly EUR 36 million, with the grant amount accounting for EUR 16 million.

3.2.3.7. Investment support for solar panels

The goal of the support is to increase the share of electricity produced using renewable energy sources within the energy balance, thereby reducing the emissions originating from the energy production system. Traditional electricity production units operate mainly by using fossil fuel. Solar energy is considered to be one of the renewable energy resources with the highest potential.

Applications were received from 23 April 2018. The budget of the grant measure in 2018 was EUR 1.4 million.

The grant can be applied for by a private or public legal person registered in Estonia, whose activity is the area listed in the Estonian Classification of Economic Activities under C, O, P, Q and I, Group 551. The grant is awarded to compensate for the cost of the design work, acquisition and installation of energy production equipment. The grant is awarded at a rate of up to 30% of the total sum of eligible costs of supported activities; however, not more than EUR 30,000 per applicant.

In 2018, 30 applications were submitted, 18 of which were satisfied in the total sum of EUR 284,863. A total of 12 applications were rejected, with the main reason being the fact that the applicant or the planned activities failed to meet the terms and conditions. The grant was paid out on seven occasions, in the total sum of EUR 121,094.



3.2.3.8. The Estonian Electrical Mobility Programme ELMO

The aim of the Estonian Electrical Mobility Programme (ELMO) is to speed up the adoption of electric cars in Estonia and help increase the use of renewable energy in transportation by 2020.

Activities under ELMO since 2011:

- grant scheme to purchase electric cars 2011–2015;
- notification activities introducing the electric cars, incl. their short-term rental, a demonstration centre in Tartu, and notification campaigns 2011–2017;
- charging infrastructure for electric cars, covering the entire country, built during the period 2011–2013.

In 2018, we continued to operate the quick charging network necessary for using electric cars, as one of the participants disputed the results of the auction organised by the Ministry of Economic Affairs and Communications in summer 2018. In order to provide the service, the procurement contract with ABB AS was extended until 30 June 2019.

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

In 2018, the charging network was used by 844 clients, showing an increase since 2017 (there were 723 users then).

Primary users remain taxi and rental companies. Since the provision of service began in February 2013, as at the end of 2018 the chargers had been used around 645,000 times and 6400 MWh of electricity had been charged. The average charging session lasted 36 minutes and energy consumption was 12 kWh in 2018.

The use of the quick-charging service remained at the same level with previous years, with approximately 11,000 charging sessions taking place per month. On the other hand, charging time has increased and the required charge amount has increased due to cars with a larger battery capacity.

3.3. Overview of the results of the enterprise area in 2018

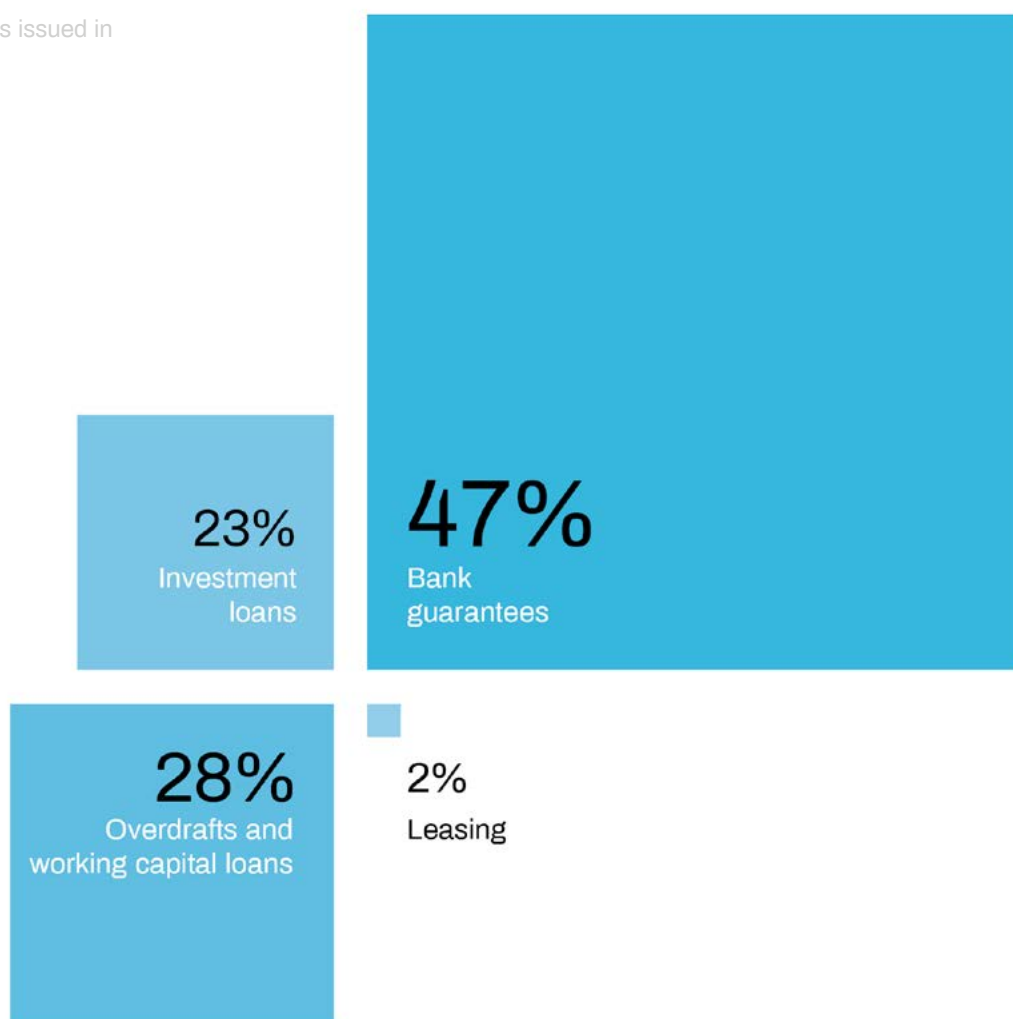
3.3.1. Most important developments in the area

As a big change, the Technology Loan was renamed the Industry Loan in the middle of the year, and possibilities to use it for making investments in fixed assets were expanded. While the Technology Loan could be used only for investing in machinery and equipment, then the Industry Loan enables one to finance all fixed asset investments (including intangible assets).



Figure 9. Volume of guarantees issued and funding received with the guarantees, 2008–2018, in millions of euros

Figure 10. Volume of guarantees issued in 2018 by types of financing



The volume of loan guarantees estimated when preparing plans for the year dropped by 15.4%. The decline was caused by the fact that we ended the issuing of fixed guarantees in September 2017.

3.3.2. Provision of guarantees and loans in the area

KredEx guaranteed and financed 315 enterprises in the total amount of EUR 76.4 million in 2018. In addition to this, we amended valid guarantee agreements with 180 companies. The support of KredEx made it possible for enterprises to involve additional funding from banks and KredEx in the amount of EUR 126.8 million. The supported enterprises employed a total of 11,678 people, and the projects resulted in 569 prospective new jobs.

3.3.3. Enterprise loan guarantees

In 2018, a total of 805 applications – 476 new enterprise loan guarantee applications and 329 additional applications to amend already existing guarantee agreements – were submitted to KredEx. This is 124 fewer applications than in the previous year.

Also, 428 new guarantee agreements were concluded to guarantee the liabilities of 292 enterprises, and 232 current guarantee agreements securing the obligations of 180 enterprises were amended. There were 203 fewer customers than the year before. Enterprises that used the guarantees had a combined total of about 10,800 employees and the support of KredEx guarantees resulted in 442 more prospective jobs.

KredEx guarantees in the amount of EUR 72.3 million made it possible for enterprises to involve additional financing from banks in the amount of EUR 118.2 million. Compared to the previous year, the volume of guarantees issued decreased by 15.4%. The main reasons were the improvement of the economic environment and amendment of guarantee conditions in September 2017. Based on the adjustments in the results for

the previous period, we have specified the data in the comparison basis. Loan guarantees for overdrafts and working capital loans provided by KredEx totalled EUR 20.4 million; with EUR 16.9 million for investment loans, EUR 33.7 million for bank guarantees, and EUR 1.3 million for leases.

The biggest change in the shares of types of financing was the increased proportion of bank guarantees and bank guarantee limits, from 23% to 47%. Therefore, the share of overdrafts and working capital loans dropped (from 45% to 28%) as well as that of the investment loans (from 29% to 23%). The share of guarantees issued for leasing was 2%. In terms of sectors, the KredEx guarantee was used the most by construction (35.3%), timber industry (12.9%), professional, scientific and technical activities (7.9%) and metalworking industry (7.1%) companies in 2018. 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 2017 (from 23% to 35.3%). Also, the share of the timber industry (from 7.4% to 12.9%) and professional, scientific and technical activities (from 4.7% to 7.9%) have notably increased. The share of the information and communications sector dropped significantly (from 10.2% to 3.2%). There were no major changes in other areas of activity. The changes are greatly affected by individual large-scale transactions.

The share of processing industry, however, dropped over the year, from 37% to 34.4%. The proportion of guarantees in areas of activity remaining below 5% decreased to a level last seen in 2016 (36.7%). In 2017, their share accounted for 40.4%.

In 2018, the share of micro-enterprises in the volume of guarantees issued by KredEx increased (from 58.7% to 65.8%). The share of small enterprises (from 24.6% to 23.3%) medium-sized enterprises (from 13.1% to 10.7%) as well as large corporations (from 3.6% to 0.1%) all shrank. It is worth noting that guarantees to micro-enterprises and small enterprises comprised 89.2% of the total volume of guarantees, which is 5.9% more than the year before. In terms of the number of employees 99.9% of KredEx's clients are micro-, small and medium-sized enterprises.

Among loan guarantees, five start-up loan guarantee agreements for securing the obligations of five enterprises were concluded in 2018, totalling EUR 300,000. This enabled starting entrepreneurs to obtain financing from banks in amount of EUR 400,000 and 13 new jobs are planned to be created as a result of the projects funded.

As at the end of 2018, the portfolio of enterprise guarantees included 1216 valid guarantee agreements for 833 enterprises in the amount of EUR 111.2 million. Over the year, the number of customers and agreements as well as the balance of guarantee commitments decreased. The latter dropped 15.6% year-on-year.

Since 2001, KredEx has guaranteed bank loans, bank guarantees, and leasing transactions for 3735 companies in the total amount of EUR 1.4 billion. Guarantees have been issued in the sum of EUR 771 million. As a result of the projects financed, these enterprises have been planning to create 13,693 new jobs.

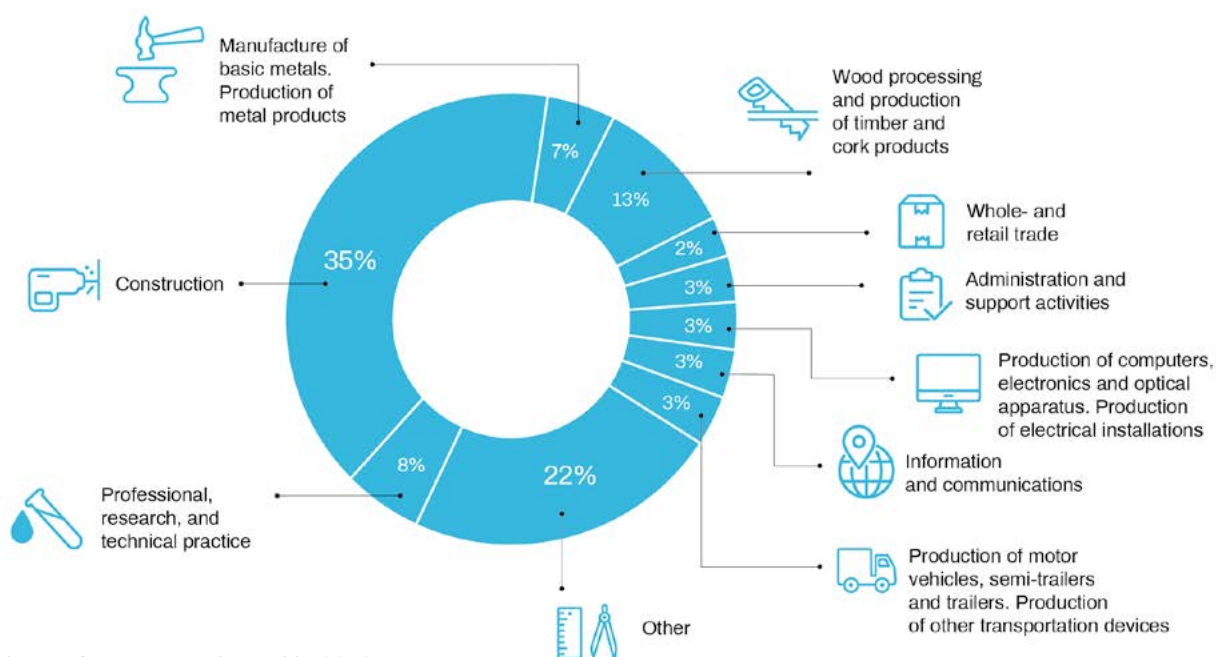


Figure 11. Volume of guarantees issued in 2018 by areas of activity

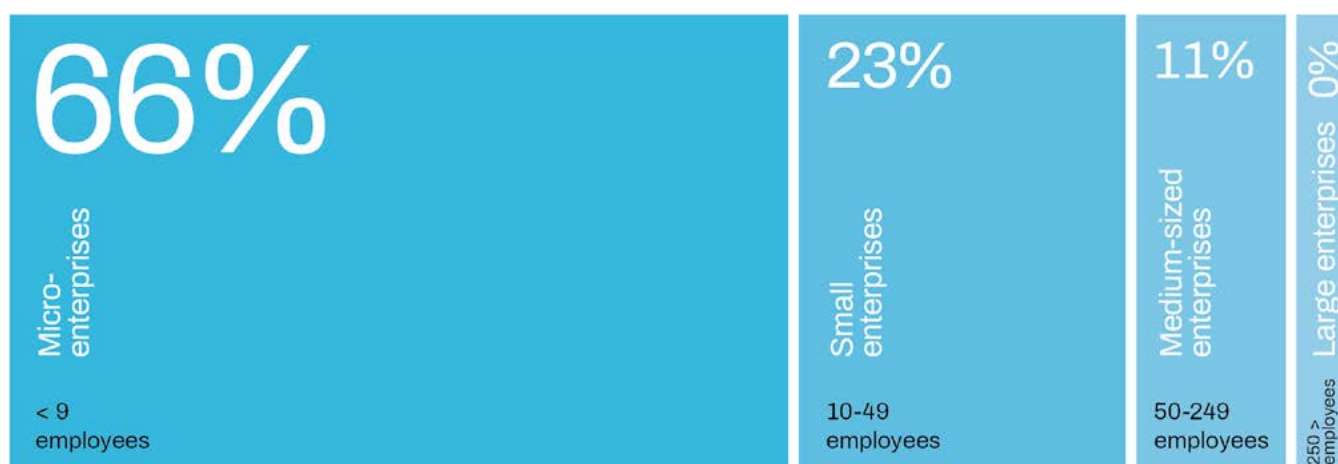


Figure 12. Distribution of volume of guarantees issued in 2018 by enterprise size

3.3.4. Enterprise loans

In 2018 startup loans were issued from the capital of KredEx to 12 enterprises in the amount of EUR 500,000. As a result of the financed projects, these enterprises plan to create 26 new jobs.

Via startup loans and their guarantees, KredEx financed the establishment of 17 startup companies in the total amount of EUR 900,000. As a result of the financed projects, these enterprises plan to create 39 new jobs. It is important to note that in addition to the startup loan and startup loan guarantees, the projects of newly established companies are also supported with a loan guarantee from KredEx.

The Technology Loan became the Industry Loan in the middle of the year, with this significant change serving to expand the opportunities available for making fixed asset investments funded with it. While the Technology Loan could only be used for investing in machinery and equipment, then the Industry Loan enables one to finance all fixed asset investments (including intangible assets).

Over the course of the year, 13 industry loan agreements were concluded with nine companies in total sum of EUR 1.6 million. Thanks to the subordinated loans from KredEx, companies are planning investments totalling EUR 6.1 million. The funded companies employed a total of 769 people, and as a result of projects 101 new jobs were planned to be created.

In 2018, two export loan agreements were concluded to finance the export transactions of two enterprises in the sum of EUR 2.0 million.

3.3.5. Venture and private 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 places money in private equity and venture capital funds that invest in companies, which are managed by fund managers from the private sector. The goal of BIF is to offer new financing opportunities to Baltic enterprises with good growth potential, and develop the capital market of the Baltic States. BIF is managed by 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 is added to the contribution of BIF on the funds' level by private investors.

So far, the BIF has invested into seven funds:

- BaltCap Private Equity Fund II (volume of the fund EUR 81.5 million, of which BIF's holding 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 70 and 25 million, respectively),
- BaltCap Growth Fund (EUR 40.8 and 20 million, respectively),
- INVL Baltic Sea Growth Fund (the planned volume of the fund is EUR 200 million and BIF's holding is EUR 10 million),
- Change Ventures Fund II (EUR 30 and EUR 10 million, respectively).

As at the end of the year, altogether EUR 155 million has been invested from BIF in 34 enterprises. Out of these, 16 are Estonian enterprises, who have been financed with EUR 87 million. In the coming years, another EUR 350 million will be invested in regional companies with the support of BIF.

In 2018, the preparations for the establishment of Baltic Innovation Fund II continued. The planned volume of the fund is EUR 156 million. The agreements necessary for the foundation will be presumably signed in the middle of 2019.

In 2016, KredEx, the EIF and the Ministry of Economic Affairs and Communications signed a funding contract, creating the fund of funds EstFund. Its volume was EUR 48 million, to which the EIF will add EUR 12 million. EstFund invested in three funds, which finance, above all, Estonian companies with large growth potential.

These funds are:

- United Angels Co-investment Fund I (fund volume EUR 15.85 million, to which at least EUR 15.85 million will be added from private investors at the company level in the form of co-investments; EstFund's holding in the fund is EUR 12 million);
- Tera Ventures Fund II (planned volume of fund is EUR 43 million; EstFund's holding is up to EUR 24 million);
- Equity United PE1 (planned volume of fund is EUR 30 million; the EstFund's holding is up to EUR 12 million).

Approximately EUR 40 million will be added by private investors at the level of funds and companies to the contribution by EstFund, i.e. altogether nearly EUR 100 million will be invested in the enterprises. As at the end of 2018, EUR 7 million has been placed in nine enterprises within the framework of EstFund. The remaining capital will be invested over the coming years.

In addition to fund of funds BIF and EstFund, KredEx is also improving the access of enterprises to venture capital through its subsidiary, AS SmartCap, which manages the fund of funds Early Fund II. From this fund of funds, investments are made into the venture capital funds managed by private management companies, which place money in startups in the seed phase.

3.3.6. Startup Estonia and the Estonian startups ecosystem in 2018

For Startup Estonia and the entire community of Estonian startups, 2018 was a record year in terms of growth in the number

of employees, payment of labour taxes to the state and also involved investments. The contribution of startups into the Estonian economy grew steadily. A startup is a technology company with an innovative and repeatable business model that has fast and global growth ability.

There are nearly 550 startups in Estonia at the moment. While approximately 3000 people worked for local startups in Estonia in 2017, then in 2018 this number was 3800, to which 2000 people working in foreign offices were added. Together with the increased number of employees, the amount of collected labour taxes also increased: In 2017, the startups paid EUR 35.5 million in labour taxes and in 2018, already EUR 45.5 million. The total turnover of Estonian startup companies reached EUR 299 million in 2018.

Although there were many early-stage startups added in 2018, the growth of the sector has mainly been driven by the strong turnover of bigger startups and continued investments into the expansion of activity and the number of staff. Out of all of the companies that created new jobs in 2018, 20 bigger startups accounted for 62%, while the startup with the biggest growth was Veriff.

The average gross wages in the Estonian startup sector was EUR 2024 in 2018, being only 6–8% less than the overall average wages in the IT-sector. This, in turn, indicates that the Estonian startup sector is maturing and is able to pay a competitive salary in the IT-sector.

Altogether, Estonian startups involved EUR 328 million in the form of investments in 2018. In addition, we may add a calculated 10% of investment volume that was not declared publicly, meaning the total is nearly EUR 350 million. By far the biggest investment was made in Taxify, which included EUR 150 million. This was followed by Pipedrive and Monese, equally with EUR 51.6 million in investments. A total of 30 investments were made in 2018, giving EUR 10.9 million as the average amount of investment per startup.

In 2018, the development of the startup community continued. Altogether, there are 103 organisations and service providers in Estonia supporting the growth of its ecosystem (mentality programmes of startups, accelerators, incubators, worklands, etc.). The share of programmes implementing a startup mentality increased in society through the creation of such new organisations as Vivistop Telliskivi, Startup Alfa, etc. In addition, more technical meetings and conferences were launched, such as the North Star AI conference, for those interested in artificial intelligence and machine learning.

A lot of interesting things also happened in the four basic business lines of Startup Estonia – a strong ecosystem, smart people, smart money and friendly regulations. To strengthen the ecosystem, we helped with co-organising important startup conferences, including such major events in Estonia as “Latitude59”, “sTARTUp Day”, “Refresh” and “Robotex”.

For the second year in a row we organised a community festival “Startup Week Tallinn”, with more than 60 events in the field of startups in three focus areas, and the Solaris Expo. Altogether more than 3000 participants attended the festival.

Regarding the ‘smart human’ course of action, we carried out a successful syndicated investment pilot programme in cooperation with EstBAN (Estonian Business Angels’ Network), with more than 50 business angels participating. An investment worth EUR 250,000 was granted.

In 2018, the high-priority activities of focus areas continued in Startup Estonia in cooperation with the ministries of the area. The cyber security course of action, launched in 2017, continued. A two-year edtech-sector development pilot programme was added in cooperation with the Ministry of Education and Science, and a three-year pilot programme for developing the ecosystem of Ida-Viru regional startups was launched in cooperation with the Ministry of Finance.

In the field of ‘smart money’, an accelerator programme “Superangel” was opened in 2018, with the accompanying Palo Alto co-working space and club for startup entrepreneurs.

In the field of friendly regulations, we celebrated the second anniversary of the Startup Visa programme. Initiated by the local startup community, the Estonian Ministry of the Interior

and Startup Estonia, the Visa allows non-EU nationals to come and work for local startups, relocate their existing startups and found new ones in Estonia. As of the establishment of the Visa in 2017, altogether 1108 applications have been submitted for startup-status from more than 80 countries. A total of 931 people have been relocated or have received permission for relocation over a period of two years. The countries in the TOP 5 in terms of number of employees have been Ukraine, Russia, Brazil, India and the USA and in terms of startups, Russia, Turkey, India, Iran and Ukraine. At the same time, it is also interesting that the most startups apply from the following areas: fintech, medtech, consumer’s software solutions, services and general business software solutions. In 2018, we also noticed an increase in applications from startups in the agritech, energy tech and edtech sectors.

The operating 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 2016, the measure’s final beneficiary was Enterprise Estonia.

3.4. SmartCap

The company AS SmartCap was founded in 2011, operated as a management company for venture capital funds until 2017, and was also a subsidiary of the Estonian Development Fund until the middle of the same year. As of 2017, SmartCap is operating as a subsidiary of KredEx.

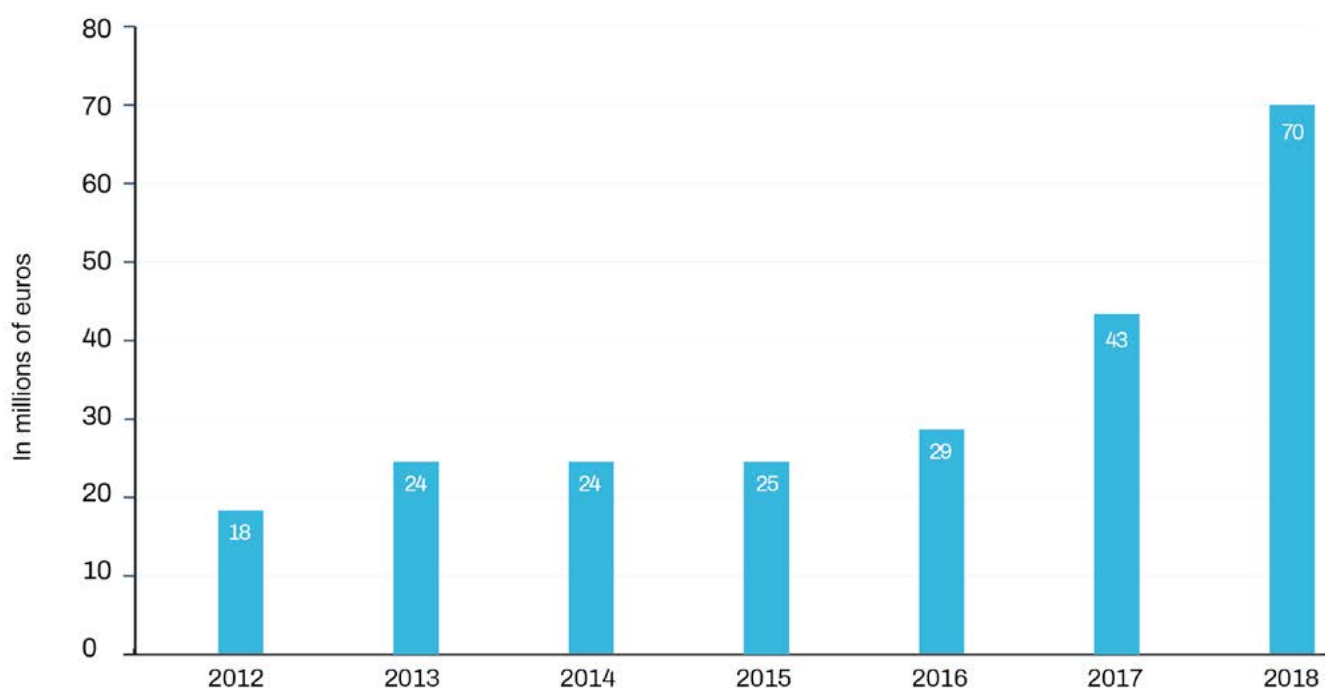


Figure 13. Volume of funds of SmartCap managed Early Fund II from foundation (2012) until 2018, in millions of euros

The management board of SmartCap has two members: Sille Pettai and Mari Vavulski. As at the end of the accounting period, the company's Supervisory Board has four members. In 2018, the mandate of Ville Jehe, the former Chairman of the Supervisory Board, was extended due to expiry of the term of office. The remaining members of the Supervisory Board are Lehar Kütt, Priit Põldoja and Mikko-Jussi Suonenlahti.

SmartCap manages a contractual non-public alternative fund Early Fund II, which, according to its strategy, is a venture capital fund of funds and the sole shareholder of which is the Republic of Estonia. Its assets are invested, in turn, in venture capital funds, which together with private investors place capital into early phase science and technology-intensive small and medium-sized companies with large international growth potential, mainly in Estonia. The investment strategy of SmartCap focuses on venture capital investments in startups through private management funds founded by entrepreneurs with long-term international experience. SmartCap aims to offer reliable cornerstone investments, by participating in the creation of a viable ecosystem for capital markets and startups in cooperation with the best international venture capital fund managers and specialists, thereby promoting the development of the Estonian economy.

Early Fund II volume of assets as at 31 December 2018 amounted to EUR 70.4 million (Figure 1) and its investment portfolio included two early phase venture capital funds operating in Estonia. In 2018, SmartCap together with KredEx concluded the public procurement for accelerator funds, as a result of which Early Fund II invested EUR 4.2 million in the venture capital fund Superangel One, the accelerator programme of which is funded in the amount of approximately EUR 1.4 million by KredEx through the Startup Estonia programme from the funds of the European Regional Development Fund. Superangel One launched its activities in March 2018.

In 2018, in cooperation with the Estonian startup community and venture capital investors, we began searching for new early phase investment possibilities and developing conditions for that.

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.

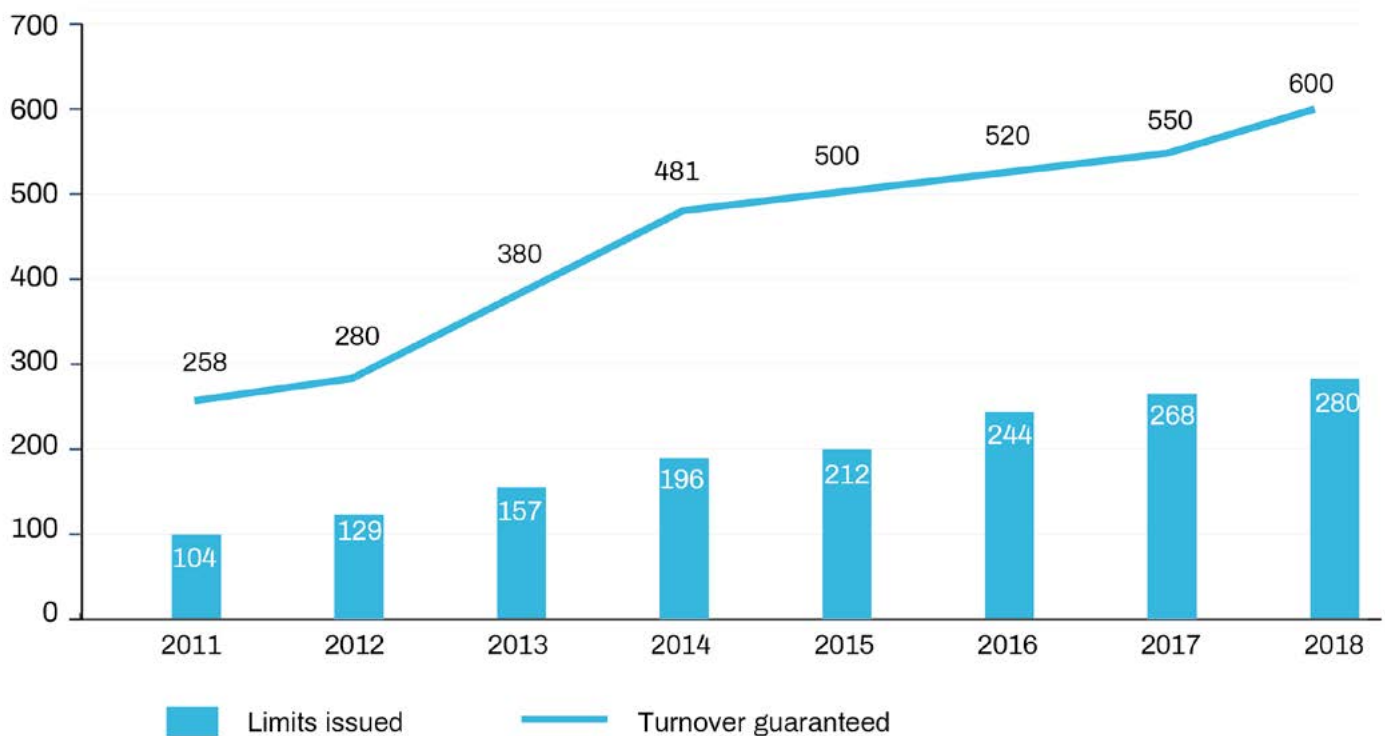


Figure 14. Continued growth in the volume of operations of KredEx Krediidikindlustus in 2011–2018, in millions of euros

The task of KredEx Krediidikindlustus is to offer insurance services to Estonian entrepreneurs, which enable them to mitigate credit risks relating to purchase and sale transactions, as well as political risks arising from the country of location of the buyers. The enterprise compensates for the damages, arising from the outstanding invoices of the buyer for the sold goods or services.

The services are designed primarily for Estonian exporters. A wider goal of KredEx Krediidikindlustus is to improve the export capability of Estonian enterprises by encouraging them to enter new markets and raise their awareness about credit management. When providing the service, the principle of profitability is taken as the basis.

In 2018, a change was made in the Supervisory Board of the public limited company. Ivo Karilaid was recalled from the Supervisory Board at his own request and Kaido Kepp, with long-term experience in managing an insurance firm, was appointed as a member of the Supervisory Board. Lehar Kütt (Chairman, Fund KredEx), Kertu Fedotov (Ministry of Finance) and entrepreneur Kristjan Värton continued as members of the Supervisory Board.

No changes were made to the Management Board. The Management Board continued with two members: Erki Aamer (Chairman) and Mariko Rukholm (member of the Management Board).

The central key word in 2018 was organising the activity of KredEx Krediidikindlustus, with the goal being to bring it into conformity with the applicable requirements for an insurer. Organising included the governance system as well as internal rules regulating the activity. In the governance system, the public limited company adopted the system of three lines of defence, common to financial institutions.

Ever since it was established, the scope of the services offered by KredEx Krediidikindlustus to exporters has constantly increased. We believe that the reason for this is the heightened level of awareness of entrepreneurs when it comes to the management of payment risks primarily related to exports, but also the desire of exporters to exercise their business interests on new and increasingly remote target markets. No major

structural changes occurred in the portfolio of credit limits in 2018; modest organic growth continued. The amount of insured limits increased by 4% (to EUR 280 million), covering the risk arising from insolvency of more than 3900 buyers. Out of the issued credit limits, 65% are related to insuring foreign buyers in 56 countries. Based on the State Export Guarantees Act, 6.8% of issued limits are insured; to mitigate the residual risk of the rest of the credit limits, KredEx Krediidikindlustus uses market-based re-insurance.

Insured turnover increased by nearly 10% year-on-year, reaching EUR 600 million. The largest volume of credit insurance for export transactions is still associated with the main destination countries for Estonia's exports, i.e. Sweden, Finland, Lithuania and Latvia.

Total insurance premiums collected during the year amounted to about EUR 1.7 million. The collected insurance premiums declined 4% compared to 2017.

Two long-term insurance contracts were concluded in 2018 with insurance premiums amounting to EUR 120,000 (in 2017, three contracts with insurance premiums of EUR 140,000). Based on these contracts, Estonian manufacturers exported almost EUR 2 million worth of machinery and equipment to Sweden and Hungary.

Damages were reimbursed in the sum of EUR 600,000 (in 2017, EUR 900,000). A total of 34% of compensation for damages were related to Estonian buyers (in 2017: 46%).



4. Financial results and paid loss

| Thousands of euros | 2018 Consolidated | 2017 Consolidated |
|--|----------------------|----------------------|
| Income from core activity (gross) | 7 362 | 7 502 |
| Guarantee activity | 4 144 | 4 311 |
| Crediting activity | 1 710 | 1 784 |
| Fund management fees | 517 | 224 |
| Targeted financing of operational expenses from the state budget | 991 | 1 183 |
| | -561 | -1 168 |
| Paid losses | -2 242 | -3 006 |
| Loss provisions formed for guarantees (gross) | -906 | -358 |
| Discounts of subordinated loans (gross) | | |
| | -3 836 | -3 451 |
| Administrative expenses | | |
| | 1 327 | 1 223 |
| Profit for the accounting period | | |
| | 31.12.2018 | 31.12.2017 |
| | 50 255 | 55 978 |
| Loan receivables | 15 390 | 13 400 |
| Technical provisions | 77 839 | 76 616 |
| Foundation capital | 207 625 | 194 550 |
| Balance sheet total | 223 261 | 224 860 |
| Off-balance-sheet liabilities (guarantee portfolio) | | |

Income related to the guarantee activity increased by areas of activity in the housing sector. Income in the enterprise area declined due to ending the issue of fixed guarantees. Income from crediting activity decreased due to depreciation of the loan portfolio relating to the housing area. The loan portfolio for the enterprise area increased, also resulting in an increase in interest income.

In 2018, fewer losses were covered than the year before. The expenses of loss events were covered with guarantee fees and no additional allowances had to be made (in 2017: EUR

1,026,628). Allowances for subordinated loans were made in the amount of EUR 906,184 (in 2017: EUR 358,441).

The total profit of year was EUR 1.3 million. Since 2001, KredEx has earned a total profit of EUR 10.9 million.

5. Plans for 2019

In 2019, KredEx will continue offering grants in the guarantee, loan, venture capital and housing areas and implementation of the Startup Estonia programme, 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 enterprise area we are working towards increasing the collateral and loan volumes. To do so, we will improve user experience with services, by simplifying, if possible, the service conditions and processes and by also implementing digitalisation.

In the venture capital area, private and venture capital funds, financed from the fund of funds Baltic Innovation Fund I (BIF I) and EstFund, will continue investing in enterprises. Together with co-investors, the Baltic Innovation Fund II will be established, the aim of which is to repeat the success of BIF I.

In the area of housing and energy efficiency we will continue to offer an integrated package of services, including information activities, grants and loan guarantees, to make apartment buildings more energy efficient. We will once again begin issuing reconstruction grants for apartment buildings.

KredEx will continue the process of exiting from activities related to the Estonian electromobility programme ELMO. As the rental service for electrical cars was privatised in 2017, then in 2019 transfer of the quick-charging network for electrical cars covering the whole Estonia will hopefully come to an end.

It is the goal of KredEx to help improve the competitiveness of Estonian enterprises and the living conditions of 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.



Annual
report

KREDEX 2018



6. Annual report

6.1 Balance sheet (consolidated)

(in euros)

| Assets | 31.12.2018 | 31.12.2017 | Notes |
|-----------------------------|--------------------|--------------------|-------|
| Current assets | | | |
| Cash and cash equivalents | 130 433 370 | 118 896 224 | 3 |
| Short-term loan receivables | 7 834 317 | 8 757 406 | 4 |
| Receivables and prepayments | 8 360 294 | 4 360 659 | 5 |
| Total current assets | 146 627 981 | 132 014 289 | |
| Fixed assets | | | |
| Long-term investments | 18 361 002 | 15 139 270 | 6 |
| Long-term loan receivables | 42 420 794 | 47 221 034 | 4 |
| Tangible fixed assets | 38 363 | 73 916 | 7 |
| Intangible fixed assets | 176 792 | 101 593 | 8 |
| Total fixed assets | 60 996 951 | 62 535 813 | |
| TOTAL ASSETS | 207 624 932 | 194 550 102 | |

| Liabilities | | | |
|---|--------------------|--------------------|----|
| Liabilities | | | |
| Current liabilities | | | |
| Debts and prepayments | 787 313 | 493 946 | 9 |
| Short-term part of long-term loans | 4 888 881 | 4 848 539 | 14 |
| Short-term technical provisions | 8 786 168 | 3 709 796 | 10 |
| Targeted financing for housing grants | 23 493 805 | 9 118 100 | 11 |
| Targeted financing for the application of the green investment scheme | 2 056 311 | 2 860 852 | 12 |
| Targeted financing for supporting measures of entrepreneurship | 260 000 | 61 709 | 13 |
| Total current liabilities | 40 272 478 | 21 092 942 | |
| Long-term liabilities | | | |
| Long-term technical provisions | 6 603 726 | 9 690 244 | 10 |
| Long-term loans | 14 887 092 | 19 582 502 | 14 |
| Targeted financing for supporting measures of entrepreneurship | 66 696 178 | 66 345 687 | 13 |
| Total long-term liabilities | 88 186 996 | 95 618 433 | |
| Total liabilities | 128 459 474 | 116 711 375 | |

| Net assets | | | |
|--------------------------------------|--------------------|--------------------|--|
| Foundation capital | 77 838 757 | 76 615 810 | |
| Total net gain of the reporting year | 1 326 701 | 1 222 917 | |
| Total net assets | 79 165 458 | 77 838 727 | |
| TOTAL LIABILITIES | 207 624 932 | 194 550 102 | |



6.2. Income statement (consolidated)

(in euros)

| Operating income | 2018 | 2017 | Notes |
|--|--------------------|--------------------|--------|
| Guarantee fees | 3 711 679 | 4 675 937 | 15, 16 |
| Interest income from loans | 1 153 556 | 1 346 948 | 15, 16 |
| Intermediation of targeted financing for housing grants | 42 452 593 | 25 425 885 | 15 |
| Intermediation of targeted financing for the implementation of the green investment scheme | 1 045 733 | 776 850 | 15 |
| Targeted financing to cover operating expenses | 2 385 616 | 1 796 456 | 15, 16 |
| Fund management fees | 517 158 | 224 315 | 16 |
| Total operating income | 51 266 335 | 34 246 391 | |
| Operating expenses | | | |
| Intermediation of targeted financing for housing grants | -42 452 593 | -25 425 885 | 15 |
| Intermediation of targeted financing for the implementation of the green investment scheme | -1 045 733 | -776 850 | 15 |
| Administrative expenses | -3 836 352 | -3 451 077 | 19 |
| Other operating income and expenses | 88 021 | 69 463 | 17 |
| Total operating expenses | -47 246 657 | -29 584 349 | |
| Provisions and impairment losses | | | |
| Provisions for claims from guarantee activities | -1 869 089 | -2 869 189 | 15 |
| Loan losses | -197 668 | 86 021 | 15 |
| Discounting of other claims | 3 000 | -18 200 | 15 |
| Total provisions and impairment losses | -2 063 757 | -2 801 368 | |
| Financial income and expenses | | | |
| Net income from securities | 2 324 | 2 040 | 6 |
| Interest income on deposits | 2 998 | 10 050 | 3 |
| Interest expenses | -607 434 | -737 055 | 15 |
| Profit/loss from associated undertaking | -17 602 | 102 549 | 6, 15 |
| Other financial income and expenses | -9 506 | -15 341 | 18 |
| Total financial income and expenses | -629 220 | -637 757 | |
| Net income for the reporting period | 1 326 701 | 1 222 917 | |

6.3. Cashflow statement (consolidated)

(in euros)

| | 2018 | 2017 | Notes |
|---|--------------------|--------------------|-------|
| Cash flows from principal activities | | | |
| Income | 1 326 701 | 1 222 917 | 15 |
| Adjustments to income | -667 882 | -126 630 | |
| Change in receivables and prepayments made | -3 999 635 | -3 272 095 | |
| Change in liabilities and prepayments received | 293 367 | 50 419 | |
| Change in provisions | 1 989 854 | 6 072 192 | |
| Change in loan receivables | 5 723 329 | 3 156 230 | |
| Change in loan obligations | -4 655 068 | -4 559 862 | |
| Change in targeted financing | 14 119 946 | -1 033 582 | |
| Total cash flows from principal activities | 14 130 612 | 1 369 589 | |
| Cash flows from investment activities | | | |
| Acquisition of long-term financial investments | -3 000 000 | -1 800 000 | |
| Repayment of long-term financial investments | 488 684 | 0 | |
| Net cash flow on the acquisition of a subsidiary | 0 | 1 571 827 | |
| Income from interest | 5 086 | 51 606 | |
| Received dividend income | 25 500 | 10 000 | |
| Acquisition of fixed assets | -122 666 | -80 990 | 7, 8 |
| Sale of fixed assets | 9 900 | 8 279 | |
| Other cash flows from investment activities | 30 | 0 | |
| Total cash flows from investment activities | -2 593 466 | -239 278 | |
| Total cash flows | 11 537 146 | 1 130 311 | |
| Cash and cash equivalents at the beginning of the period | 118 896 224 | 117 765 913 | |
| Change in cash and cash equivalents | 11 537 146 | 1 130 311 | |
| Cash and cash equivalents at the end of the period | 130 433 370 | 118 896 224 | 3 |



6.4. Statement of changes in net assets (consolidated)

(in euros)

| | Enterprise trust funds | Export trust funds | Housing trust funds | Undistributed income | Net assets Total |
|---|---------------------------|-----------------------|------------------------|-------------------------|---------------------|
| Balance 31.12.2016 | 32 609 127 | 6 121 543 | 35 289 654 | 1 176 308 | 75 196 632 |
| 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 of the reporting year | 0 | 0 | 0 | 1 222 917 | 1 222 917 |
| Balance 31.12.2017 | 34 444 933 | 6 121 543 | 36 049 334 | 1 222 917 | 77 838 727 |
| Distribution of income into trust funds | -375 689 | 0 | 1 598 606 | -1 222 917 | 0 |
| Change of endowment funds | 6 121 543 | -6 121 543 | 0 | 0 | 0 |
| Receipt of assets in foundation capital | 30 | 0 | 0 | 0 | 30 |
| Total net gain of the reporting year | 0 | 0 | 0 | 1 326 701 | 1 326 701 |
| Balance 31.12.2018 | 40 190 817 | 0 | 37 647 940 | 1 326 701 | 79 165 458 |

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 2018 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 general requirements of the Estonian financial reporting standard have been established by the Accounting Act of the Republic of Estonia, complemented by instructions of 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 2018 and ended on 31 December 2018.

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. The change in presentation does not have any impact on the balance sheet and income statement items.

In connection with the acquisition of the shares of subsidiary AS Smartcap in 2017, the 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.

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 their 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:

- a) claims against other parties that KredEx has not acquired for the purpose of resale and financial investments, maintained until the redemption date, are recognised at adjusted acquisition cost;
- b) investments into shares and other equity capital 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:

- a) short- and long-term financial investments in equities and other equity instruments whose fair value may be reliably assessed;
- b) 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. The fair value of publicly traded securities 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". Changes 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 using the adjusted acquisition cost method, are discounted if it is likely that their covered value is lower 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 at their acquisition cost.

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 the 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 by 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 in the equity of the affiliate. Investment into related companies are recorded in the balance sheet as a 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 their initial registration, the shares are assessed 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

Depending on the degree of risk of the borrower, the overall discount on loans is 2–5% and for start-up loans 15%. In determining the amount of the special discount, the difference between the balance sheet value and the net realisable value

of the collateral or claim shall be taken into account or be based on the historical loss of similar transactions.

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. The unrecoverable loan shall be recognised as income if it is received later.

Loans that are returned within the next reporting year are recorded in the balance sheet among short-term claims. Loans, 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 loss of the asset's value.

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

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

The depreciation standard for inventory and office equipment is 20–40%, and 20% for cars. Depreciation is calculated using the linear method of calculation. Intangible fixed assets are depreciated over a period of 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 their net acquisition cost. Accounting for such assets takes place off-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 have not been realised within two years as of the loan becoming payable, the bank has the right to demand the performance of the guarantee obligation from KredEx. The bank 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 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 30–35% of the guarantee fees from 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 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, 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 calculated based on a monthly invoice presented to the entrepreneur. 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 to private individuals. The guarantee fee is calculated and paid upon the issuing of a loan in full for the entire guarantee period. The total amounts of the guarantee fee, as of the moment of calculation, are shown among income. The fee is not distributed to the guarantee period as the guarantee recipient has no right to reclaim the guarantee fee or influence the amount thereof in the future. 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 quarterly 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. Upon the receipt of information regarding the conclusion of a contract an invoice for the contract fee for loan guarantees shall be issued to the banks issuing loans, 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, under 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 is 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.

Profit and loss obtained as a result of the revaluation are shown in the income statement for the reporting period, whereas currency exchange rate profits and losses from transactions with buyers and suppliers are recorded under business income and expenses. 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 an operational lease, the lessor records the leased property in its balance sheet. Operational lease payments are recorded as cost by linear method during the lease period, regardless 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 the 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 cash equivalents

(in euros)

| | 31.12.2018 | 31.12.2017 |
|---------------------|--------------------|--------------------|
| Demand deposits | 130 401 970 | 88 946 051 |
| Fixed-term deposits | 31 400 | 29 950 173 |
| | 130 433 370 | 118 896 224 |

In 2018, demand and fixed-term deposits earned interest income in the amount of EUR 2,843 (EUR 10,050 in 2017) (see Note 15).

Note 4. Loan receivables

| Loan receivables by payment term | Term of a loan 1 year | Term of a loan 2–6 years | Term of a loan 7–18 years | Total |
|---|--------------------------|-----------------------------|------------------------------|-------------------|
| Housing loans | | | | |
| Loans to non-profit associations | 0 | 175 000 | 0 | 175 000 |
| Apartment building renovation loans through banks | 5 111 467 | 24 583 183 | 10 507 907 | 40 202 557 |
| Total | 5 111 467 | 24 758 183 | 10 507 907 | 40 377 557 |
| Capital loans to undertakings | | | | |
| Capital loans | 1 645 524 | 1 246 629 | 0 | 2 892 153 |
| including impairments | -1 477 943 | -847 103 | 0 | -2 325 046 |
| Technology loans | 303 301 | 4 379 491 | 816 997 | 5 499 789 |
| including impairments | -24 403 | -631 153 | -40 850 | -696 406 |
| Export loans | 2 516 389 | 1 712 043 | 0 | 4 228 432 |
| including impairments | -541 591 | -133 852 | 0 | -675 443 |
| Total | 2 421 277 | 5 726 055 | 776 147 | 8 923 479 |
| Loans to banks in the enterprise area | | | | |
| Start-up loans via banks | 389 905 | 829 755 | 0 | 1 219 660 |
| including impairments | -88 332 | -177 253 | 0 | -265 585 |
| Total | 301 573 | 652 502 | 0 | 954 075 |
| Other loans | | | | |
| Loans registered as a result of loss procedure | 9 984 | 236 008 | 0 | 245 992 |
| including impairments | -9 984 | -236 008 | 0 | -245 992 |
| Total | 0 | 0 | 0 | 0 |
| TOTAL | 7 834 317 | 31 136 740 | 11 284 054 | 50 255 111 |
| including the principal loan amount | 7 733 314 | 31 136 740 | 11 284 054 | 50 154 108 |
| interest payable | 101 003 | 0 | 0 | 101 003 |

As of the end of 2017, the short-term part of the issued loans was EUR 8,757,406 and the long-term part was EUR 47,221,034.



Note 4. Loans receivable (continued)

| Changes in loan portfolio | Housing loans | Enterprise loans for banks | Capital loans to undertakings | Other loans | Total loans |
|--|-------------------|----------------------------|-------------------------------|----------------|-------------------|
| Loans at acquisition cost | | | | | |
| Balance at acquisition cost 31.12.2016 | 50 397 925 | 1 238 418 | 12 199 593 | 254 131 | 64 090 067 |
| including the principal amount | 50 314 046 | 1 234 554 | 11 706 997 | 252 711 | 63 508 308 |
| interest | 83 879 | 3 864 | 492 596 | 1 420 | 581 759 |
| Issued loans, 2017 | 0 | 482 528 | 3 530 734 | 0 | 4 013 262 |
| Calculated interest and contract fees | 1 006 130 | 46 441 | 723 070 | 8 419 | 1 784 060 |
| Repaid loans, 2017 | -4 972 985 | -372 297 | -1 605 056 | -4 218 | -6 954 556 |
| Received interest and contract fees | -1 009 125 | -46 465 | -623 285 | -7 053 | -1 685 928 |
| Loans transferred off the balance sheet, 2017 | 0 | -13 665 | 0 | 0 | -13 665 |
| Balance at acquisition cost 31.12.2017 | 45 421 945 | 1 334 960 | 14 225 056 | 251 279 | 61 233 240 |
| including the principal amount | 45 341 061 | 1 331 120 | 13 632 675 | 248 493 | 60 553 349 |
| interest | 80 884 | 3 840 | 592 381 | 2 786 | 679 891 |
| Issued loans, 2018 | 75 000 | 488 122 | 3 375 600 | 0 | 3 938 722 |
| Calculated interest and contract fees | 901 025 | 46 239 | 754 868 | 8 238 | 1 710 370 |
| Repaid loans, 2018 | -5 060 227 | -427 253 | -3 462 059 | -5 226 | -8 954 765 |
| Received interest and contract fees | -960 186 | -47 148 | -604 298 | -8 299 | -1 619 244 |
| Loans transferred off the balance sheet, 2018 | 0 | -175 260 | -1 608 049 | 0 | -1 783 309 |
| Interest debts transferred off the balance sheet | 0 | 0 | -60 745 | 0 | -60 745 |
| Balance at acquisition cost 31.12.2018 | 40 377 557 | 1 219 660 | 12 620 373 | 245 992 | 54 463 582 |
| including the principal amount | 40 355 834 | 1 216 729 | 11 938 167 | 243 267 | 53 753 997 |
| interest | 21 723 | 2 931 | 682 206 | 2 725 | 709 585 |

Irrecoverable loans

| | | | | | |
|---|----------|-----------------|-------------------|-----------------|-------------------|
| Balance 31.12.2016 | 0 | -190 248 | -4 511 018 | -254 131 | -4 955 397 |
| including the principal amount | 0 | -190 248 | -4 244 519 | -252 711 | -4 687 478 |
| interest | 0 | 0 | -266 499 | -1 420 | -267 919 |
| Impairments, 2017 | 0 | -91 965 | -269 356 | 2 852 | -358 469 |
| including the principal amount | 0 | -91 965 | -81 667 | 4 218 | -169 414 |
| interest | 0 | 0 | -187 689 | -1 366 | -189 055 |
| Loans transferred off the balance sheet, 2017 | 0 | 59 066 | 0 | 0 | 59 066 |
| Receipt of previously discounted loans, 2017 | 0 | 5 705 | 22 103 | 0 | 27 808 |
| Balance 31.12.2017 | 0 | -223 147 | -4 780 374 | -251 279 | -5 254 800 |
| including the principal amount | 0 | -223 147 | -4 326 186 | -248 493 | -4 797 826 |
| interest | 0 | 0 | -454 188 | -2 786 | -456 974 |
| Impairments, 2018 | 0 | -326 158 | -585 313 | 5 288 | -906 183 |
| including the principal amount | 0 | -326 158 | -372 901 | 5 227 | -693 831 |
| interest | 0 | 0 | -212 412 | 61 | -212 351 |
| Loans transferred off the balance sheet, 2018 | 0 | 283 720 | 1 668 794 | 0 | 1 952 514 |

Irrecoverable loans (continued)

| | | | | | |
|--|----------|-----------------|-------------------|-----------------|-------------------|
| including the principal amount | 0 | 283 720 | 1 608 049 | 0 | 1 891 769 |
| interest | 0 | 0 | 60 745 | 0 | 60 745 |
| Receipt of previously discounted loans, 2018 | 0 | 22 604 | 14 915 | 0 | 37 519 |
| Balance 31.12.2018 | 0 | -265 585 | -3 696 894 | -245 992 | -4 208 471 |
| including the principal amount | 0 | -265 585 | -3 091 038 | -243 267 | -3 599 890 |
| interest | 0 | 0 | -605 856 | -2 725 | -608 581 |
| Changes in loan portfolio | | | | | |

Changes in loan portfolio

| | | | | | |
|--|-------------------|----------------|------------------|----------|-------------------|
| Balance at the adjusted acquisition cost 31.12.2017 | 50 397 925 | 1 048 170 | 7 688 575 | 0 | 59 134 670 |
| Balance at the adjusted acquisition cost 31.12.2018 | 45 421 945 | 1 111 813 | 9 444 682 | 0 | 55 978 440 |
| Balance at the adjusted acquisition cost 31.12.2018 | 40 377 557 | 954 075 | 8 923 479 | 0 | 50 255 111 |

Housing loans

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 1.7–2.7%. Interest income of EUR 896,833 was earned (EUR 1,003,088 in 2017).

Loans to non-profit associations specialising in energy saving were given by order of the Ministry of Economic Affairs and Communications, from the funds provided for housing support measures. The loan interest is 3% per year. In 2018, interest income of EUR 4192 was earned (EUR 3,042 in 2017).

Enterprise loans to banks

Funds for the measure "Guarantee programme for start-up and microloans" 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 with loans for up to five 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.

Capital loans to undertakings

Capital 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 "An additional support programme for the improvement of the availability of loan capital for entrepreneurs", and the "Subordinated loan programme". Subordinated loans have been issued with a term of up to 10 years, and interest rates ranging from 9–13%. 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 a financing institution, or 1 to 2 percentage points higher thereof, 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.

Other loans

Other loans include loans recognised as a result of claims handling. Other loans include loans recognised as a result of claims handling.



Note 5. Receivables and prepayments

| | 31.12.2018 | 31.12.2017 |
|--|------------------|------------------|
| Receivables from current settlements | 280 044 | 155 706 |
| Receivables from reinsurance providers | 3 471 070 | 3 391 312 |
| Prepaid expenses of future periods | 6 352 | 5 771 |
| Claims from targeted financing of operating expenses | 759 563 | 493 302 |
| Accrued interest | 712 | 3 360 |
| Accrued income of guarantee fees | 88 423 | 111 472 |
| Prepayments of guarantee benefits | 3 754 130 | 199 736 |
| Total | 8 360 294 | 4 360 659 |

Receivables from current settlements also include the receivable from the affiliated company in the amount of EUR 20,440 (EUR 11,488 in 2017), see Note 24.

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

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. The loss for 2018 using the equity method was EUR 17,602 (profit for 2017 was EUR 102,549) (see Note 15); dividends were paid out in the amount of EUR 25,500 and the balance of the investment by the end of the year was EUR 6,865,780 (EUR 6,908,882 in 2017).

In 2018, EUR 3,000,000 was deposited to the Baltic Innovation Fund (EUR 1,800,000 in 2017), and EUR 488,684 was received thereof. The deposits shall be used for covering both

operating expenses and fund investments. As at 31.12.2018, the fair value of funds directed to fund investments was EUR 10,988,402 (EUR 7,723,648 in 2017).

The fair value of the BIF shares is assessed based on the net value of invested assets.

The fair value of EIB bonds was EUR 506,820 (EUR 506,740 in 2017), with a maturity term in 2020. In 2018, bonds earned interest in the amount of EUR 2244 and unrealised profit in the value of EUR 80 from changes in value.

Note 7. Tangible fixed assets

| | Machinery and equipment | Inventory and tools | Buildings | Prepayments | Total |
|------------------------------------|-------------------------|---------------------|---------------|-------------|-----------------|
| Acquisition cost 31.12.2017 | 81 481 | 146 463 | 18 756 | 0 | 246 700 |
| Sold at acquisition cost | -19 169 | 0 | 0 | 0 | -19 169 |
| Acquisition cost 31.12.2018 | 62 312 | 146 463 | 18 756 | 0 | 227 531 |
| Depreciation 31.12.2017 | -50 035 | -119 983 | -2 766 | 0 | -172 784 |
| Depreciation, 2018 | -13 980 | -15 426 | -3 751 | 0 | -33 157 |
| Depreciation of sold fixed assets | 16 773 | 0 | 0 | 0 | 16 773 |
| Depreciation 31.12.2018 | -47 242 | -135 409 | -6 517 | 0 | -189 168 |
| Residual cost 31.12.2016 | 27 883 | 27 897 | 0 | 19 140 | 74 921 |
| Residual cost 31.12.2017 | 31 446 | 26 480 | 15 990 | 0 | 73 916 |
| Residual cost 31.12.2018 | 15 070 | 11 054 | 12 239 | 0 | 38 363 |

In 2018, a passenger car was sold.

Note 8. Intangible fixed assets

| | Computer programmes | Prepayments | Total |
|------------------------------------|---------------------|----------------|-----------------|
| Acquisition cost 31.12.2017 | 393 074 | 43 340 | 436 414 |
| Acquired, 2018 | 8 806 | 113 860 | 122 666 |
| Acquisition cost 31.12.2018 | 401 880 | 157 200 | 559 080 |
| Depreciation 31.12.2017 | -334 821 | 0 | -334 821 |
| Depreciation, 2018 | -47 467 | 0 | -47 467 |
| Depreciation 31.12.2018 | -382 288 | 0 | -382 288 |
| Residual cost 31.12.2016 | 92 065 | 11 750 | 103 815 |
| Residual cost 31.12.2017 | 58 253 | 43 340 | 101 593 |
| Residual cost 31.12.2018 | 19 592 | 157 200 | 176 792 |

Prepayments in the amount of EUR 157,200 have been made to establish KredEx's new information system.



Note 9. Debts and prepayments

| | 31.12.2018 | 31.12.2017 |
|---|----------------|----------------|
| Trade payables | 307 407 | 153 515 |
| Prepayments received from clients | 0 | 4 402 |
| Salary and holiday pay liabilities | 269 702 | 210 169 |
| Liabilities to reinsurance providers in respect of prepayments and recoveries | 47 896 | 5 572 |
| Tax arrears | 162 308 | 120 288 |
| Total | 787 313 | 493 946 |

Note 10. Short-term and long-term provisions

| | 31.12.2018 | 31.12.2017 |
|--|-------------------|-------------------|
| Short-term technical provisions | | |
| Short-term share of provision for outstanding claims | 8 786 168 | 3 709 796 |
| Total | 8 786 168 | 3 709 796 |
| Long-term technical provisions | | |
| Long-term share of provision for outstanding claims | 1 369 278 | 6 588 538 |
| Equalisation reserves | 5 234 448 | 3 101 706 |
| Total | 6 603 726 | 9 690 244 |
| Total | 15 389 894 | 13 400 040 |

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 31.12.2018, technical provisions correspond to the minimum rates established by law, forming 3.4% in the area of enterprise and 1.3% in the area of the housing of the Performing Guarantee Portfolio and offers. Of the Total Guarantee Exposures, technical provisions comprised 11.38% in the area of entrepreneurship and 1.31% in the area of housing. From guarantee premiums, planned provisions were allocated to the total extent of EUR 2,491,222 (EUR 2,689,022 in 2017), including EUR 1,982,693 for enterprise loan guarantees (EUR 2,114,166 in 2017) and EUR 508,529 for housing loan guarantees (EUR 574,857 in 2017). From the above amount EUR 7,911 is covered by the reserve fund (EUR 10,555 in 2017) of the measure 'Guarantee programme for start-up and microloans,' 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 234,800 (in 2017, appropriations from the fund of the measure were increased to the total extent of EUR 178,843).

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 2018, additional appropriations in the area of entrepreneurship were calculated in the amount of EUR 24,262 which was covered from the reserve fund of the measure 'The issuance of insurance for loans, guarantees and export transactions in 2014–2020'. In 2017, additional appropriations in the area of entrepreneurship were calculated in the amount of EUR 1,026,628 of which EUR 5,280 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

273,224 (EUR 710,121 in 2017) arose from the reduction in appropriations.

In 2018, the increase in appropriations for unsatisfied claims was covered from the reserve fund of the measure 'Guarantee programme for start-up and microloans,' in the amount of EUR 37,911 (EUR 39,178 in 2017) 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 61,512 (EUR 929,580 in 2017).

From the reinsurance of enterprise guarantees, EUR 143,014 was received from the European Investment Fund to cover losses in 2018 (EUR 12,882 in 2017). From the collection of guarantee losses, EUR 171,838 was recovered (EUR 310,681 in 2017). Out of these sums, EUR 27,193 (EUR 17,066 in 2017) was transferred into the reserve fund for the 'Guarantee programme for start-up and microloans,' and EUR 5631 into the reserve fund of the 'The issuance of insurance for loans, guarantees and export transactions in 2014–2020' (EUR 7149 in 2017). EUR 32,817 shall be repaid to the European Investment Fund.

Change in technical provisions

| | Change in the provision for outstanding claims | | Change in the equalisation reserve | | Change in provisions total | |
|---|---|-------------------|---------------------------------------|------------------|-------------------------------|-------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Enterprise loan guarantees | | | | | | |
| Balance on January 1 | 10 273 172 | 3 926 187 | 1 870 804 | 1 911 257 | 12 143 976 | 5 837 444 |
| Increase | 83 555 | 3 181 247 | 1 982 693 | 3 140 794 | 2 066 248 | 6 322 041 |
| Decrease | -218 296 | 3 165 739 | -77 240 | -3 181 247 | -295 536 | -15 508 |
| <i>including payment of indemnities</i> | -544 892 | -1 153 633 | -16 164 | 0 | -561 056 | -1 153 633 |
| <i>receivables from reinsurance providers</i> | 326 596 | 4 319 372 | 0 | 0 | 326 596 | 4 319 372 |
| Balance on December 31 | 10 138 431 | 10 273 172 | 3 776 257 | 1 870 804 | 13 914 688 | 12 143 976 |
| <i>including the long-term part</i> | 1 369 278 | 6 588 538 | 3 776 257 | 1 870 804 | 5 145 535 | 8 876 104 |
| Housing loan guarantees | | | | | | |
| Balance on January 1 | 25 162 | 45 846 | 1 230 902 | 1 359 747 | 1 256 064 | 1 405 593 |
| Increase | 8 017 | -6 419 | 508 529 | 574 856 | 516 546 | 568 437 |
| Decrease | -16 164 | -14 265 | -281 241 | -703 702 | -297 405 | -717 967 |
| <i>including payment of indemnities</i> | -16 164 | -14 265 | 0 | 0 | -16 164 | -14 265 |
| Balance on December 31 | 17 015 | 25 162 | 1 458 190 | 1 230 902 | 1 475 205 | 1 256 064 |
| <i>including the long-term part</i> | 0 | 0 | 1 458 190 | 1 230 902 | 1 458 190 | 1 256 064 |
| Total balance at the beginning of the period | 10 298 334 | 3 972 033 | 3 101 706 | 3 271 004 | 13 400 040 | 7 243 037 |
| Increase | 91 572 | 3 174 828 | 2 491 222 | 3 715 650 | 2 582 794 | 6 890 478 |
| Decrease | -234 460 | 3 151 474 | -358 481 | -3 884 949 | -592 941 | -733 475 |
| <i>including payment of indemnities</i> | -561 056 | -1 167 898 | 0 | 0 | -561 056 | -1 167 898 |
| <i>receivables from reinsurance providers</i> | 326 596 | 4 319 372 | 0 | 0 | 326 596 | 4 319 372 |
| Balance at the end of the period | 10 155 446 | 10 298 334 | 5 234 447 | 3 101 706 | 15 389 893 | 13 400 040 |
| <i>including short-term part</i> | 8 786 168 | 3 709 796 | 0 | 0 | 8 786 168 | 3 709 796 |
| <i>long-term part</i> | 1 369 278 | 6 588 538 | 5 234 447 | 3 101 706 | 6 603 725 | 9 690 244 |



Note 11. Targeted financing for housing support measures

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

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 provision of financial services and implementation of measures connected with energy efficiency. From 2018, the cash balance of the Climate and Energy Agency has been included in the composition of the state budget.

| Budgetary provision agreements 2012–2018 | 31.12.2018 | 31.12.2017 |
|--|-------------------|------------------|
| Balance at the beginning of the year | 8 355 487 | 7 663 948 |
| Provisions from the state budget | 20 209 840 | 5 000 000 |
| Provisions from Structural Funds | 36 463 421 | 21 600 000 |
| Transfer of funds from the creation measures of the Climate and Energy Agency | 771 151 | 0 |
| Received technical assistance from Structural Funds | 311 521 | 650 142 |
| Total grant payments: | -41 383 854 | -24 437 215 |
| <i>including reconstruction grants for apartment buildings from the state budget</i> | -180 925 | -117 864 |
| <i>reconstruction grants from Structural Funds for apartment buildings</i> | -36 616 051 | -21 301 854 |
| <i>near-zero energy building design measure grants from Structural Funds</i> | 0 | -198 000 |
| <i>grants for local governments</i> | -62 986 | -168 004 |
| <i>home grant for families with many children</i> | -3 064 797 | -2 567 851 |
| <i>reconstruction grant for small residences</i> | -1 204 185 | -963 965 |
| <i>support for the introduction of renewable energy equipment</i> | -121 094 | 0 |
| <i>for participation in housing development projects</i> | -133 816 | -119 677 |
| Total operating expenses: | -1 232 521 | -1 121 388 |
| including administrative expenses of support measures | -921 000 | -471 245 |
| technical assistance, including expenses incurred as a result of co-financing | -311 521 | -650 143 |
| Balance at the end of the year | 23 495 045 | 8 355 487 |
| <i>including short-term part</i> | 23 495 045 | 8 355 487 |

| Agreement for the foundation of the Climate and Energy Agency in 2010 | 31.12.2018 | 31.12.2017 |
|--|----------------|----------------|
| Balance at the beginning of the year | 762 654 | 751 325 |
| Total grant payments: | 8 497 | 11 329 |
| grants from Structural Funds for reconstruction projects of apartment buildings – repayments | 8 497 | 11 329 |
| transfer of funds to other state budget measures | -771 151 | 0 |
| Balance at the end of the year | 0 | 762 654 |
| <i>including short-term part</i> | 0 | 762 654 |

Funds for participation in international energy saving projects

31.12.2018

31.12.2017

| | | |
|---|---------------|--------------|
| Balance at the beginning of the year | -41 | 4 962 |
| Receipts from international energy saving projects | 0 | 2 680 |
| Payments to project partners in international energy saving projects | -1 199 | -5 729 |
| Operating expenses within the framework of international energy saving projects | 0 | -1 955 |
| Balance at the end of the year | -1 240 | -41 |
| including short-term part | -1 240 | -41 |

In 2018, KredEx participated in the following projects: CA-EPBD.

Total targeted financing for housing support measures

23 493 805

9 118 100

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 were provided for apartment buildings for the performance of integrated renovation work, with the purpose being to increase the energy

efficiency of the buildings. The grant amount was 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 reconstruction of small residential buildings and commissioning 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, monitoring 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, 17.08.2010

31.12.2018

31.12.2017

| | | |
|---|----------------|----------------|
| Balance at the beginning of the year | 283 871 | 287 762 |
| Administrative expenses | -5 853 | -3 891 |
| Balance at the end of the year | 278 018 | 283 871 |
| including short-term part | 278 018 | 283 871 |

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 was used to support the introduction of renewable energy and updating the heating systems of small residential buildings.



| Budgetary provision agreement 2013 | 31.12.2018 | 31.12.2017 |
|--------------------------------------|------------|------------|
| Balance at the beginning of the year | 1 602 674 | 1 835 693 |
| Grants paid | -308 839 | -233 019 |
| Balance at the end of the year | 1 293 835 | 1 602 674 |
| <i>including short-term part</i> | 1 293 835 | 1 602 674 |

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), a national charging network for electric cars has been built and the administration thereof organised for a period of five years. Within the framework of the measure, grants of up to 50% or EUR 18,000 of the price of an electric car were issued for the purchasing of electric cars.

Out of the difference between revenue and expenditures of the ELMO programme, a reserve of EUR 428,632 has been created. It shall be used to cover the costs of the programme, and its balance shall 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.

| Contract under public law for the application of the Green Investment Scheme between the Republic of Estonia and Mitsubishi Corporation | 31.12.2018 | 31.12.2017 |
|---|------------|------------|
| Balance at the beginning of the year | 36 628 | 741 930 |
| Repayments of grants paid | 0 | 47 165 |
| Transfer of repayments to the reserve fund | 0 | -47 165 |
| Expenses for managing the charging network infrastructure for electric cars | -736 895 | -561 553 |
| Expenses for starting-up the short-term rental service for electric cars | 0 | -92 374 |
| Transfer of income and expenses for quick charging and short-term rental to the reserve fund | -13 939 | 2 957 |
| Administrative expenses | -64 016 | -54 332 |
| Covering the costs from the reserve fund | 834 048 | 0 |
| Balance at the end of the year | 55 826 | 36 628 |
| <i>including short-term part</i> | 55 826 | 36 628 |
| Reserve fund formed from ELMO revenue and expenditure | 428 632 | 937 679 |
| Total targeted financing received for the application of the green investment scheme | 2 056 311 | 2 860 852 |
| <i>including short-term part</i> | 2 056 311 | 2 860 852 |

Note 13. Targeted financing for supporting measures of entrepreneurship

As of 31.12.2018, 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 to make payments to the Baltic Innovation Fund (BIF) based on 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.

| | 31.12.2018 | 31.12.2017 |
|---|-------------------|-------------------|
| Balance at the beginning of the year | 28 691 784 | 28 525 779 |
| Change in the targeted fund from the income and expenses earned from BIF | -152 953 | -189 035 |
| Change in the value of BIF's shares | 906 390 | 277 466 |
| Change in the targeted fund from the revenue and expenditures earned from the support programme | 87 297 | 77 574 |
| Balance at the end of the year | 29 532 518 | 28 691 784 |
| <i>including short-term part</i> | <i>0</i> | <i>0</i> |

Reserve capital of the start-up loan guarantee

The intended purpose is to ensure start-up loans. The funds come from the European Social Fund based on the programme "Guarantee programme for start-up and microloans" 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. Banks began to issue start-up loans in this amount in 2013.

| | 31.12.2018 | 31.12.2017 |
|--|------------------|------------------|
| Balance at the beginning of the year | 3 527 887 | 3 557 187 |
| Increase in reserve capital from income earned from implementing the measure | 10 778 | 20 797 |
| Decrease in reserve capital from expenses from implementing the measure | -19 871 | -50 097 |
| Balance at the end of the year | 3 518 794 | 3 527 887 |
| <i>including the long-term part</i> | <i>3 518 794</i> | <i>3 527 887</i> |

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

The intended purpose is to issue the subordinated and technology loan 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".



| | 31.12.2018 | 31.12.2017 |
|--|-------------------|-------------------|
| Balance at the beginning of the year | 16 594 171 | 16 563 014 |
| Increase in reserve capital from income earned from implementing the measure | 225 576 | 255 926 |
| Decrease in reserve capital from expenses from implementing the measure | -285 730 | -224 769 |
| Balance at the end of the year | 16 534 017 | 16 594 171 |
| <i>including the long-term part</i> | <i>16 534 017</i> | <i>16 594 171</i> |

Funds of the programme of insurance for loans, guarantees and export transactions in 2014–2020

The intended purpose is to fund 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. In 2016, a state budget provision of EUR 18,875,000 to fund the measure was allocated to KredEx.

| | 31.12.2018 | 31.12.2017 |
|--|-------------------|-------------------|
| Balance at the beginning of the year | 17 531 846 | 18 583 499 |
| Increase in reserve capital from income earned from implementing the measure | 728 687 | -236 310 |
| Decrease in reserve capital from expenses from implementing the measure | -762 339 | -941 767 |
| The measure’s administrative expenses | -387 345 | 126 424 |
| Balance at the end of the year | 17 110 849 | 17 531 846 |
| <i>including the long-term part</i> | <i>17 110 849</i> | <i>17 531 846</i> |

Encouraging start-up entrepreneurship

In 2016, the Startup Estonia team came over from the Estonian Development Fund to KredEx. Its activity costs are funded with the resources of the supported activity “Encouraging 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 implementing body is Enterprise Estonia.

| | 31.12.2018 | 31.12.2017 |
|--|----------------|---------------|
| Balance at the beginning of the year | 61 709 | 50 000 |
| Funds received from Enterprise Estonia | 639 283 | 696 108 |
| Funds received from other targeted financiers | 266 192 | 190 000 |
| Operating expenses of Startup Estonia | -1 006 943 | -733 118 |
| Change in the balance of unreceived targeted financing | 299 759 | -141 281 |
| Balance at the end of the year | 260 000 | 61 709 |
| <i>including the long-term part</i> | <i>0</i> | <i>0</i> |

| | 31.12.2018 | 31.12.2017 |
|---|-------------------|-------------------|
| Total targeted financing of supporting measures for entrepreneurship | 66 955 880 | 66 407 397 |
| <i>including the long-term part</i> | <i>66 695 880</i> | <i>66 345 688</i> |
| <i>short-term part</i> | <i>260 000</i> | <i>61 709</i> |

Note 14. Long-term loans

| | Loan obligation 31.12.2018 | Term of repayment | Average interest per year |
|--|-------------------------------|----------------------|------------------------------|
| Loan from the Council of Europe Development Bank | 10 860 578 | 02.05.2022 | 2,87% |
| Loan from the Ministry of Finance | 8 915 395 | 02.02.2026 | 2,56% |

Loan from the Council of Europe Development Bank

The intended use of the loan is to perform Directive No. 137 of 07 May 2009 of the Minister of Economic Affairs and Communications, 'Apartment Building Renovation Programme'. Based on which KredEx lends 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 to apartment buildings under favourable conditions.

The Ministry of Finance has provided a state guarantee for the loan, for which the guarantee fee in 2018 was EUR 12,019 (EUR 15,259 in 2017) (see Note 18).

| | 31.12.2018 | 31.12.2017 |
|--|-------------------|-------------------|
| Balance at the beginning of the year | 13 962 530 | 17 146 240 |
| Repaid | -3 276 940 | -3 183 710 |
| Loan balance at the end of the year | 10 685 590 | 13 962 530 |
| <i>including repayable in the next reporting period</i> | <i>3 372 925</i> | <i>3 276 940</i> |
| <i>repayable from the reporting period after the next one until 2022</i> | <i>7 312 665</i> | <i>10 685 590</i> |
| Interest liability at the beginning of the year | 227 930 | 278 897 |
| Interest expense per year | 356 923 | 452 129 |
| Interest paid during the year | -409 865 | -503 096 |
| Interest liability at the end of the year | 174 988 | 227 930 |
| Total balance at the end of the year | 10 860 578 | 14 190 460 |
| <i>including short-term part</i> | <i>3 547 913</i> | <i>3 504 870</i> |
| <i>long-term part</i> | <i>7 312 665</i> | <i>10 685 590</i> |



Loan from the Ministry of Finance, pursuant to the loan agreement of 13.05.2013

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

| | 31.12.2018 | 31.12.2017 |
|---|-------------------|-------------------|
| Balance at the beginning of the year | 10 219 399 | 11 541 885 |
| Repaid | -1 322 486 | -1 322 486 |
| Loan balance at the end of the year | 8 896 913 | 10 219 399 |
| <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>7 574 427</i> | <i>8 896 913</i> |
| Interest liability at the beginning of the year | 21 181 | 23 882 |
| Interest expense per year | 250 510 | 284 926 |
| Interest paid during the year | -253 210 | -287 626 |
| Interest liability at the end of the year | 18 481 | 21 182 |
| Total balance at the end of the year | 8 915 394 | 10 240 581 |
| <i>including short-term part</i> | <i>1 340 967</i> | <i>1 343 668</i> |
| <i>long-term part</i> | <i>7 574 427</i> | <i>8 896 913</i> |
| | 31.12.2018 | 31.12.2017 |
| Total loan obligations at the end of the year | 19 775 972 | 24 431 041 |
| <i>including short-term part</i> | <i>4 888 881</i> | <i>4 848 539</i> |
| <i>long-term part</i> | <i>14 887 091</i> | <i>19 582 502</i> |

Note 15. Income statement by area of activity

| | 2018 | 2017 | Notes |
|---|------------------|------------------|-------|
| Guarantee activity | | | |
| Security and contract fees | 4 143 832 | 4 310 850 | |
| Transferred to the fund of the measure from security and contract fees | -432 153 | 365 087 | |
| Guarantee losses and a change in technical provisions | -2 242 259 | -3 005 529 | |
| Loss covered from the fund of the relevant measure | 266 973 | -163 008 | |
| Received from reinsurance from the European Investment Fund | 143 014 | 12 882 | 10 |
| Receivables from reinsurance providers, change | -143 014 | 0 | 10 |
| Received from debt collection | 171 838 | 310 681 | 10 |
| Repaid amounts transferred into the fund of the relevant measure and reinsurance provider | -65 641 | -24 215 | 10 |
| Total net gain (loss) from guarantee activity | 1 842 590 | 1 806 748 | |
| Crediting activity | | | |
| Interest, fines for delay, and contract fees | 1 710 370 | 1 784 060 | |
| Interest expense directed to the fund of the relevant measure | -556 814 | -437 112 | |
| Change in impairment losses | -906 184 | -358 441 | 4 |
| Impairment losses covered from the fund of the relevant measure | 701 339 | 437 254 | 4 |
| Written-off loans repaid | 37 519 | 27 808 | 4 |
| Repaid amounts directed into the fund of the relevant measure | -30 342 | -20 600 | 4 |
| Interest on loans taken | -607 434 | -737 055 | |
| Total net gain (loss) from crediting activity | 348 454 | 695 914 | |
| Management of funds | | | |
| Fund management fees | 517 158 | 224 315 | |
| Change in discounting of other claims | 3 000 | -18 200 | |
| Total net gain (loss) from fund management | 520 158 | 206 115 | |
| Investment activity | | | |
| Interest income from deposits | 2 998 | 10 050 | 3 |
| Net income from long-term financial investments | 2 324 | 2 040 | 6 |
| Profit/loss from related companies | -17 602 | 102 549 | 6 |
| Operating expenses of the Baltic Innovation Fund (BIF), change in the value of its shares | 753 438 | 166 005 | |
| Expense directed from a change in the value of BIF shares and from operating expenses to the fund for the establishment expenses of BIF | -753 438 | -166 005 | |
| Total income from investment activity | -12 280 | 114 639 | |



Notes 15 (continued)

| | 2 018 | 2 017 | Notes |
|---|-------------------|-------------------|--------|
| Targeted financing for operating expenses | | | |
| Targeted financing received for housing grants | 42 452 593 | 25 425 885 | |
| Paid housing grants | -42 452 593 | -25 425 885 | 11 |
| Budgetary means for managing housing support measures | 596 000 | 471 246 | 16 |
| Targeted financing received for the application of the green investment scheme | 1 045 733 | 776 850 | |
| Grants paid within the framework of the green investment scheme | -1 045 733 | -776 850 | 12 |
| Budgetary means for managing green investment scheme | 83 807 | 61 223 | 12,16 |
| Technical aid | 311 521 | 650 142 | 11,16 |
| Covering the administrative costs of entrepreneurship funding measures from the funds of the measures | 387 345 | -126 424 | 13, 16 |
| Targeted financing received for covering the costs of Startup Estonia | 1 006 943 | 733 118 | 13, 16 |
| Targeted financing received for implementing Cleantech projects | 0 | 7 151 | 13, 16 |
| Total targeted financing | 2 385 616 | 1 796 456 | 16 |
| Administrative expenses | -3 836 352 | -3 451 077 | 19 |
| Operating income | 1 248 186 | 1 168 795 | |
| Other operating income and expenses | 88 021 | 69 463 | 17 |
| Other financial income and expenses | -4 706 | -15 341 | 18 |
| Income | 1 326 701 | 1 222 917 | |

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

| | 2018 | 2017 | Notes |
|--|------------------|------------------|-------|
| Guarantee fees (EMTAK 66291) | 3 711 679 | 4 675 937 | 15 |
| Enterprise loan guarantees | 2 278 957 | 2 430 075 | |
| including, entered into the fund of the relevant measure | -280 662 | 184 769 | |
| Housing loan guarantees | 1 515 233 | 1 437 143 | |
| Contract fees for enterprise loan guarantees | 349 642 | 433 632 | |
| including, entered into the fund of the relevant measure | -151 491 | 180 318 | |
| Loan interests (EMTAK 64929) | 1 153 556 | 1 346 948 | 4 |
| Housing loans | 901 025 | 1 006 130 | |
| Interest on start-up loans | 46 239 | 46 441 | |
| Subordinated loans for enterprises | 742 551 | 716 964 | |
| including, entered into the fund of the relevant measure | -539 023 | -428 006 | 4 |
| Contract fees for subordinated loans | 20 555 | 14 525 | |
| including, entered into the fund of the relevant measure | -17 791 | -9 106 | |

| | 2018 | 2017 | Notes |
|--|------------------|------------------|--------|
| Targeted financing of operating expenses (EMTAK 84139) | 2 385 616 | 1 796 456 | |
| Administrative expenses of housing support measures | 596 000 | 471 246 | 11 |
| Technical and horizontal technical aid | 311 521 | 650 142 | 11 |
| Application expenses of green investment schemes | 83 807 | 61 223 | 12, 15 |
| Structural Funds 2014–2020; administrative expenses of supporting measures of entrepreneurship | 387 345 | -126 424 | 13, 15 |
| Operating expenses of Startup Estonia | 1 006 943 | 733 118 | 13, 15 |
| Operating expenses of Startup Estonia Cleantech | 0 | 7 151 | 13, 15 |
| Management of funds (EMTAK 66301) | 517 158 | 224 315 | |
| Fund management fees | 517 158 | 224 315 | |
| Total | 7 768 009 | 8 043 656 | |

EUR 7151 of targeted financing for the operating expenses of Startup Estonia Cleantech has been received from various European cooperation partners in 2017, and EUR 6192 from international cooperation partners in 2018. The remaining sales income has been received from Estonia.



Note 17. Other operating income and expenses

| | 2018 | 2017 |
|--|---------------|---------------|
| Profit/loss from sales and write-offs of fixed assets and stocks | 7 504 | 8 279 |
| Targeted financing of operating expenses | 84 278 | 69 553 |
| including <i>providing services to the related company</i> | 61 973 | 62 980 |
| <i>for covering participation expenses in international projects</i> | 22 305 | 6 573 |
| Other income and expenses | 10 177 | -5 463 |
| Income from the projects of the green investment scheme | 203 387 | 252 859 |
| Expenses for the projects of the green investment scheme | -217 325 | -255 765 |
| Total | 88 021 | 69 463 |

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

Income and expenses from the green investment scheme's projects include the income and expenses from the quick charging service for, and the rental of, electric cars as part of the ELMO project. In 2018, the quick charging service was provided to the government and local government authorities to the extent of EUR 26,505 (EUR 31,399 in 2017) (see Note 24).

Note 18. Other financial expenses and income

| | 2018 | 2017 |
|--|---------------|----------------|
| State guarantee for the loan from the Council of Europe Development Bank (see Note 14) | -12 019 | -15 259 |
| Other financial income | 2 513 | -82 |
| Total | -9 506 | -15 341 |

Note 19. Administrative expenses

| | 2018 | 2017 |
|--|-------------------|-------------------|
| Various operating expenses | -1 879 013 | -1 761 482 |
| Rental and maintenance of office premises | -209 398 | -190 285 |
| Development, repair and maintenance of IT and office equipment | -191 883 | -161 215 |
| Personnel and training expenses | -72 009 | -48 307 |
| Economic and administrative expenses | -85 503 | -37 383 |
| Telephone, mailing and internet expenses | -6 448 | -13 423 |
| Transport expenses | -32 943 | -37 628 |
| Travel expenses | -33 449 | -21 170 |
| Marketing expenses | -887 319 | -513 252 |
| Auditing expenses | -36 859 | -36 238 |
| Legal services | -108 499 | -59 140 |
| Membership fees | -11 680 | -16 125 |
| Expert assessment | -184 893 | -510 488 |
| Other services | -17 130 | -116 828 |
| Labour costs | -1 877 715 | -1 596 360 |
| Wages and salaries | -1 405 220 | -1 198 746 |
| <i>including the salary of the supervisory board and members of the management board</i> | <i>-171 723</i> | <i>-161 335</i> |
| <i>salary of employees</i> | <i>-1 233 497</i> | <i>-1 028 392</i> |
| Social tax | -462 434 | -398 157 |
| Unemployment insurance premium | -10 061 | -8 476 |
| Depreciation of fixed assets | -80 624 | -84 216 |
| Total administrative expenses | -3 836 352 | -3 451 077 |

Along with the subsidiary AS Smartcap, the average number of employees during the year was 41.7 (39.9 in 2017).

The average number of employees working under employment contracts was 39.7, and the remuneration calculated for them was EUR 1,230 827. The average number of members of management and supervisory bodies was seven and the remuneration calculated for them was EUR 147,763. The number of employees working under a contract under the Law of Obligations was nine, and the remuneration calculated for them was EUR 6930.



Note 20. Changes in net assets

| Foundation capital | Change in net assets: increase + decrease - | Source of the change |
|--|---|--|
| Targeted fund of housing guarantees | 1 598 606 | Distribution of the income of year 2017 |
| Targeted fund of start-up loan guarantees | 10 142 | Distribution of the income of year 2017 |
| Targeted fund of loan guarantees | -542 657 | Distribution of the income of year 2017 |
| Targeted fund of subordinated loans | 128 929 | Distribution of the income of year 2017 |
| Targeted fund for the foundation of the credit insurance company | 49 190 | Distribution of the income of year 2017 |
| Investment target fund of AS SmartCap | -21 293 | Distribution of the income of year 2017 |
| Investment target fund of AS SmartCap | 30 | Issue of preferred shares |
| Targeted fund of housing guarantees | 68 963 | Reduction of the targeted fund of loans from privatisation money |
| Targeted fund for housing guarantees | 901 457 | Reduction of the targeted fund of guarantees of sitting tenants |
| Targeted fund for the foundation of the credit insurance company | 6 121 542 | Reduction of the targeted fund of the export area |
| Profit for 2018 | 1 326 701 | Retained profit for 2018 |

Note 21. Off-balance sheet assets and claims

Off-balance sheet assets

In compliance 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 in the amount of EUR 6,355,219, and in 2015, additional expenses of EUR 159,590 were incurred. 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. In 2017, 15 standard chargers with an acquisition cost of EUR 30,270 were also disposed of with the assets of the short-term rental service (read more below). The total acquisition cost at the end of 2018 for the charging network was EUR 6,484,539. Within the framework of this agreement, a short-term rental service for electric cars was also created.

In 2017, the Ministry of Economic Affairs and Communications disposed of all short-term rental service-related assets and rights.

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. However, the loan is often secured by the personal surety of the borrower or owner. In the event of a loss event, the proceedings against the debtor and the guarantor may, therefore, continue after the payment of the compensation.

Claims arising from enterprise loans and sureties are recognised as contingent assets and generally as off-balance sheet items in the notes on the accounts only to the extent that the parties have reached an agreement to initiate enforcement of execution proceedings.

Considering the fact that claims arising from housing loan guarantees are small (on average about EUR 5100) and that even in settlement or enforcement proceedings' payments are volatile, these claims are generally no longer recognised as a contingent from 2018. From the amount received during the year, the compensation of the loss, received from the apartment building manager based on the court judgment, was more than one third.

Likewise, by the end of 2018, none of the recovered grants has been recognised as contingent assets. No new recourse claims were left pending. Two claims were met fully and one in a small part.

Changes in off-balance sheet receivables

| | Enterprise loans | Housing loan guarantees | Enterprise loan guarantees | Rights of recourse for grants |
|-------------------------------------|------------------|-------------------------|----------------------------|-------------------------------|
| Balance of claims 31.12.2017 | 254 034 | 500 155 | 1 013 855 | 410 357 |
| Change in claims from 31.12.2017 | 233 676 | -500 155 | -768 873 | -410 357 |
| including received | -37 519 | -56 371 | -119 721 | -9 122 |
| including revaluation | 271 195 | -443 784 | -649 152 | -401 235 |
| Balance of claims 31.12.2018 | 487 711 | 0 | 244 982 | 0 |

The accounting cost of all off-balance sheet claims is EUR 0.

Note 22. Off-balance sheet and conditional liabilities

| Security liabilities | 2018 | 2017 | Change |
|---|--------------------|--------------------|-------------------|
| Enterprise loan guarantees | | | |
| Performing Guarantee Portfolio at the beginning of the year | 130 175 703 | 134 096 170 | -3 920 467 |
| Guarantee volume of concluded agreements | 72 266 306 | 85 435 037 | -13 168 731 |
| Depreciation of the portfolio and terminated agreements | -91 340 205 | -89 355 504 | -1 984 701 |
| Performing Guarantee Portfolio at the end of the year | 111 101 804 | 130 175 703 | -19 073 899 |
| Issued offers at the end of the year | 32 400 | 2 130 660 | -2 098 260 |
| Maximum security liability as at the end of the year | 122 253 973 | 144 774 254 | -22 520 281 |
| Housing loan guarantees | | | |
| Performing Guarantee Portfolio at the beginning of the year | 94 684 740 | 73 524 143 | 21 160 597 |
| Guarantee volume of concluded agreements | 43 834 628 | 43 826 091 | 8 537 |
| Depreciation of the portfolio and terminated agreements | -26 360 277 | -22 665 494 | -3 694 783 |
| Performing Guarantee Portfolio at the end of the year | 112 159 091 | 94 684 740 | 17 474 351 |
| Issued offers at the end of the year | 13 500 | 0 | 13 500 |
| Maximum security liability as at the end of the year | 112 672 570 | 94 990 608 | 17 681 962 |
| Total performing guarantee portfolio | 223 260 895 | 224 860 443 | -1 599 548 |



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 secured amount 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 amount of guarantee limits, issued by agreements as of the specified date, is recorded as export guarantee liability.

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 registered off the balance sheet. Technical provisions and equalisation provisions are written off

and registered to cover possible payments.

As at 31.12.2018, KredEx had conditional liabilities under the concluded loan agreements in the form of unused loan limits in the amount of EUR 14,820 (EUR 344,731 in 2017), of which EUR 14,820 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 six 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 2018. 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 15.03.2010, KredEx has been leasing office premises of 874.51 m² at Hobujaama 4, Tallinn. The lease contract will remain valid until 15.03.2020. The lease contract does not include the possibility of premature termination.

As of 01.11.2017, AS Smartcap leased an office of 19.7 m² at Hobujaama 4, Tallinn, to which the use of common space is added. The lease contract will remain valid until 30.10.2019. 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 2018, lease expenses were EUR 134,320 (EUR 135,074 in 2017) and the lease expenses from maintained agreements planned for 2019 are EUR 141,036. The lease income is presented as a balance and does not include the lease costs of premises on the sublease.

From the above described leased premises, 138.4 m² have been subleased to the affiliate AS KredEx Krediidikindlustus. In 2018, income from sublease was EUR 24,455 (EUR 24,164 in 2017), and the estimated income from subleasing in 2019 is EUR 25,678. 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, Ministry of the Environment and Ministry of Finance have been described in greater detail in Notes 11 to 14. Transactions with the related company AS KredEx Krediidikindlustus are detailed in Notes 6, 17 and 23.

Additionally, KredEx has mediated costs in the amount of EUR 35,690 (EUR 29,929 in 2017). With value-added tax included, KredEx has issued invoices to KredEx Krediidikindlustus in the amount of EUR 146,020 (EUR 141,305 in 2017).

With the respective indicators of the subsidiary AS SmartCap, the management fees in 2018 were EUR 127,245 and the council fees EUR 44,478 (respectively EUR 133,284 and EUR 28,051 in 2017). 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 | 2018 | 2017 |
|--|------------|------------|
| Affiliated company KredEx Krediidikindlustus (sales with value added tax) | 146 020 | 141 305 |
| Quick charging service for electric cars provided to the government and local government authorities (without value added tax) | 26 505 | 31 399 |
| Fund management service provided by AS Smartcap to Early Fund II | 517 158 | 224 315 |
| Ministry of Economic Affairs and Communications | 24 377 | 8 700 |
| Purchases | 2018 | 2017 |
| Other government and local government enterprises and authorities | 205 906 | 173 243 |
| Affiliated company KredEx Krediidikindlustus | 24 | 201 |
| Ministry of Economic Affairs and Communications | 1 199 | 2 369 |
| Targeted financing received for Startup Estonia projects | 2018 | 2017 |
| Other government and local government enterprises and authorities | 61 709 | 38 291 |
| Receivables | 31.12.2018 | 31.12.2017 |
| Affiliated company KredEx Krediidikindlustus | 20 440 | 11 488 |
| Other government and local government enterprises and authorities | 2 532 | 3 341 |
| Liabilities | 31.12.2018 | 31.12.2017 |
| Other government and local government enterprises and authorities | 25 377 | 13 850 |
| Affiliated company KredEx Krediidikindlustus | 24 | 0 |
| Ministry of Finance | 12 019 | 15 259 |

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 EUR 7,367,416 in 2019 to be used for housing support measures.

On 27.02.2019, the Ministry of Economic Affairs and Communications, SA KredEx and AS SmartCap concluded an agreement on financing equity capital investments and subscription of Early Fund II units. With this, EUR 10,000,000 shall be directed through a private fund manager, selected by competition, to the knowledge and technology-intensive small and medium-sized enterprises, based on the general principles of the Early Fund II investment policy.

In the summer of 2018, at a public auction, the Ministry of Economic Affairs and Communications organised the sale of ELMO loading infrastructure as a public asset. The results of the auction, confirmed by the Minister of Entrepreneurship and Information Technology, were contested (the dispute continues in the second instance). KredEx is involved in the dispute as a third party; the contestant is the Ministry of Economic Affairs and Communications.

At the beginning of 2019, a change was made in the composition of the Supervisory Board: On 7 February, Merike Saks was recalled as a Member of the Supervisory Board, and Secretary General of the Ministry of Economic Affairs and Communications, Ando Leppiman, was appointed as a Member of the Supervisory Board.



Note 26. Unconsolidated report

Balance sheet (unconsolidated)

in euros

| Assets | 31.12.2018 | 31.12.2017 | Notes |
|-----------------------------|--------------------|--------------------|-------|
| Current assets | | | |
| Cash and cash equivalents | 128 936 031 | 117 574 162 | 3 |
| Short-term loan receivables | 7 830 083 | 8 757 406 | 4 |
| Receivables and prepayments | 8 188 915 | 4 248 271 | 5 |
| Total current assets | 144 955 029 | 130 579 839 | |
| Fixed assets | | | |
| Long-term investments | 19 962 421 | 16 537 860 | 6 |
| Long-term loan receivables | 42 420 794 | 47 221 034 | 4 |
| Tangible fixed assets | 38 363 | 73 916 | 7 |
| Intangible fixed assets | 176 792 | 101 593 | 8 |
| Total fixed assets | 62 598 370 | 63 934 403 | |
| TOTAL ASSETS | 207 553 399 | 194 514 242 | |

Liabilities

Liabilities

Current liabilities

| | | | |
|---|-------------------|-------------------|----|
| Debts and prepayments | 715 811 | 458 086 | 9 |
| Short-term part of long-term loans | 4 888 881 | 4 848 539 | 14 |
| Short-term technical provisions | 8 786 168 | 3 709 796 | 10 |
| Targeted financing for housing grants | 23 495 045 | 9 118 100 | 11 |
| Targeted financing for the application of the green investment scheme | 2 055 071 | 2 860 852 | 12 |
| Targeted financing for supporting measures of entrepreneurship | 260 000 | 61 709 | 13 |
| Total current liabilities | 40 200 976 | 21 057 082 | |

Long-term liabilities

| | | | |
|--|--------------------|--------------------|----|
| Long-term technical provisions | 6 603 726 | 9 690 244 | 11 |
| Long-term loans | 14 887 091 | 19 582 502 | 14 |
| Targeted financing for supporting measures of entrepreneurship | 66 696 178 | 66 345 687 | 13 |
| Total long-term liabilities | 88 186 995 | 95 618 433 | |
| Total liabilities | 128 387 971 | 116 675 515 | |

Net assets

| | | | |
|--------------------------------------|--------------------|--------------------|--|
| Foundation capital | 77 838 727 | 76 615 810 | |
| Total net gain of the reporting year | 1 326 701 | 1 222 917 | |
| Total net assets | 79 165 428 | 77 838 727 | |
| TOTAL LIABILITIES | 207 553 399 | 194 514 242 | |

Income statement (unconsolidated)

in euros

| | 2018 | 2017 | Notes |
|--|--------------------|--------------------|--------|
| Operating income | | | |
| Guarantee fees | 3 711 679 | 4 675 937 | 15, 16 |
| Interest income from loans | 1 153 556 | 1 346 948 | 15, 16 |
| Intermediation of targeted financing for housing grants | 42 452 593 | 25 425 885 | 11, 16 |
| Intermediation of targeted financing for the implementation of the green investment scheme | 1 045 733 | 776 850 | 12, 16 |
| Targeted financing to cover operating expenses | 2 385 616 | 1 796 456 | 15, 16 |
| Total operating income | 50 749 177 | 34 022 076 | |
| Operating expenses | | | |
| Intermediation of targeted financing for housing grants | -42 452 593 | -25 425 885 | 11 |
| Intermediation of targeted financing for the implementation of the green investment scheme | -1 045 733 | -776 850 | 12 |
| Administrative expenses | -3 528 460 | -3 231 952 | 19 |
| Other operating income and expenses | 96 908 | 78 770 | 17 |
| Total operating expenses | -46 929 878 | -29 355 917 | |
| Provisions and impairment losses | | | |
| Provisions for claims from guarantee activities | -1 869 089 | -2 869 189 | 15 |
| Loan losses | -197 668 | 86 021 | 15 |
| Total provisions and impairment losses | -2 066 757 | -2 783 168 | |
| Financial income and expenses | | | |
| Net income from securities | 2 324 | 2 040 | 4 |
| Interest income on deposits | 2 843 | 9 026 | 3 |
| Interest expenses | -607 434 | -737 055 | 15 |
| Profit/loss from subsidiaries | 203 534 | -21 293 | |
| Profit/loss from associated undertaking | -17 602 | 102 549 | 6 |
| Other financial income and expenses | -9 506 | -15 341 | 18 |
| Total financial income and expenses | -425 841 | -660 074 | |
| Net income for the reporting period | 1 326 701 | 1 222 917 | |



Cashflow statement (unconsolidated)

in euros

| | 2018 | 2017 | Notes |
|---|--------------------|--------------------|-------|
| Cash flows from principal activities | | | |
| Income | 1 326 701 | 1 222 917 | 15 |
| Adjustments to income | -870 711 | -101 709 | |
| Change in receivables and prepayments made | -3 940 644 | -3 159 093 | |
| Change in liabilities and prepayments received | 257 725 | 22 873 | |
| Change in provisions | 1 989 854 | 6 072 192 | |
| Change in loan receivables | 5 727 563 | 3 156 230 | |
| Change in loan obligations | -4 655 069 | -4 559 862 | |
| Change in targeted financing | 14 119 946 | -1 033 582 | |
| Total cash flows from principal activities | 13 955 365 | 1 619 966 | |
| Cash flows from investment activities | | | |
| Acquisition of long-term financial investments | -3 000 000 | -1 800 000 | |
| Repayment of long-term financial investments | 488 684 | 0 | |
| Interest income received | 5 086 | 50 994 | |
| Received dividend income | 25 500 | 10 000 | |
| Acquisition of fixed assets | -122 666 | -80 990 | 7, 8 |
| Sale of fixed assets | 9 900 | 8 279 | |
| Total cash flows from investment activities | -2 593 496 | -1 811 717 | |
| Total cash flows | 11 361 869 | -191 751 | |
| Cash and cash equivalents at the beginning of the period | 117 574 162 | 117 765 913 | |
| Change in cash and cash equivalents | 11 361 869 | -191 751 | |
| Cash and cash equivalents at the end of the period | 128 936 031 | 117 574 162 | 3 |

Statement of changes in net assets (unconsolidated)

in euros

| | Enterprise trust funds | Export trust funds | Housing trust funds | Undistributed income | Net assets Total |
|---|---------------------------|-----------------------|------------------------|-------------------------|---------------------|
| Balance 31.12.2016 | 32 609 127 | 6 121 543 | 35 289 654 | 1 176 308 | 75 196 632 |
| 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 of the reporting year | 0 | 0 | 0 | 1 222 917 | 1 222 917 |
| Balance 31.12.2017 | 34 444 933 | 6 121 543 | 36 049 334 | 1 222 917 | 77 838 727 |
| Distribution of income into trust funds | -375 689 | 0 | 1 598 606 | -1 222 917 | 0 |
| Change of endowment funds | 6 121 543 | -6 121 543 | 0 | 0 | 0 |
| Increasing of foundation capital at the expense of receiving assets | 30 | 0 | 0 | 0 | 30 |
| Total net gain of the reporting year | 0 | 0 | 0 | 1 326 701 | 1 326 701 |
| Balance 31.12.2018 | 40 190 817 | 0 | 37 647 940 | 1 326 701 | 79 165 458 |

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



Signatures of the Members of the Management Board to the 2018 annual report

The Management Board has drafted the annual report and the annual accounts of Fund KredEx for the year having ended on 31 December 2018.

Lehar Kütt Chairman of the Management Board

(signed digitally)



KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117
Estonia

| | |
|-----------|----------------|
| Telephone | +372 6 268 700 |
| Fax | +372 6 268 777 |
| Internet | www.kpmg.ee |

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 2018, 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 33 to 67, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, 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.

KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Reg no: 10096082.





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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that 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, and 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 auditors' 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 or 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 remain 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, 11 April 2019

/signed digitally/

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

Licence No 17

Division of the sales income of Fund KredEx in the financial year 2018 according to the Estonian Classification of Economic Activities (EMTAK)

According to the EMTAK, the sales income of KredEx consisted of the following.

| | 2018 | 2017 |
|---|------------------|------------------|
| Guarantee fees (EMTAK 66291) | 3 711 679 | 4 675 937 |
| Loan interests (EMTAK 64929) | 1 153 556 | 1 346 948 |
| Targeted financing for operating expenses (EMTAK 84139) | 2 405 589 | 1 796 456 |
| Fund management fees (EMTAK 66301) | 517 158 | 224 315 |
| Total | 7 809 807 | 8 043 656 |





Contact us!

ph +372 667 4100
kredex@kredex.ee
Hobujaama 4, 10151 Tallinn