

2019

KREDEX

Foundation KredEx
Annual Report
2019

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Foundation KredEx

Annual report 2019

Beginning of financial year:	01.01.2019
End of financial year:	31.12.2019

Registry code of non-profit associations and foundations:	90006012
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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 <i>Support of Enterprise and State Loan Guarantees Act</i>;– development and offering of other financing services in the enterprise and housing sector
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Auditor:	KPMG Baltics OÜ
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As at the end of 2019, KredEx was providing guarantees to the obligations of 23,202 enterprises, private persons and apartment associations in the sum of EUR 1.2 billion.



1.

CEO's statement

2019 was a successful year for KredEx. The volume of operations grew in the areas of enterprise and housing loan guarantees, private and venture capital investments, grants for the housing sector, and promotion start-up entrepreneurship. The volume decreased in the areas of direct loans granted to entrepreneurs and, as was expected, in loan guarantees for housing associations.

The volume of loans given to companies using the KredEx loan guarantee increased by 22% compared to the previous year, amounting to EUR 144.2 million. The amount of loan guarantees issued for guaranteeing enterprise loans once again saw an upturn, reaching EUR 74.5 million. Altogether, as a result of concluding and amending 600 guarantee contracts, 391 businesses obtained better access to loan capital.



In addition, in the course of the year, KredEx issued loans to 20 enterprises in the amount of EUR 2.6 million.

KredEx continued participating as an investor in the fund of funds Baltic Innovation Fund 1 and EstFund, offering private and venture capital, and the management of the fund of funds Early Fund II via the subsidiary AS SmartCap. As a new initiative, we participated as an investor in the creation of Baltic Innovation Fund 2, when its articles of association were signed on 12 July 2019. With the support of these funds, a total of nearly EUR 1.2 billion is being invested in the rapidly developing companies of the region, EUR 146 million of which is the direct contribution of either KredEx or the Republic of Estonia.

The volume of housing loans granted with the KredEx guarantee increased by 12%. With the help of the guarantees in the sum of EUR 35 million, banks financed the purchase or renovation of 3470 homes in the sum of EUR 317 million. It is remarkable that every fourth housing loan in 2019 was granted with the help of the KredEx guarantee.

The volume of loans granted to apartment associations decreased by 28% compared to the previous year, because in 2018 we ceased the issuing of reconstruction grants to apartment buildings. Thanks to guarantees in the amount of EUR 7.5 million, banks financed the renovation of 115 apartment buildings in the amount of EUR 10.3 million.

As at the end of 2019, KredEx was providing guarantees to the obligations of 23,202 enterprises, private persons and apartment associations in the sum of EUR 1.2 billion. The outstanding balance of the guarantee obligations of KredEx is EUR 237.4 million. As at the year-end, we had financed 725 apartment associations and companies in the total amount of EUR 49.5 million with loans granted by KredEx, and through Baltic Innovation Funds 1 and 2 and EstFund we financed 67 companies with private and venture capital investments in the total sum of EUR 235 million.

In the housing sector we continued with the administration of seven support measures commissioned by the state, the aim of which is to improve energy efficiency or develop the housing sector in general. All in all, we made 662 decisions on the allocation of funds in the total amount of EUR 29 million and 1077 grant disbursements in the amount of EUR 35.7 million. Altogether, we helped to improve the living conditions of about 21,000 people by issuing loan guarantees and grant disbursements in the housing field.

In 2019, the contribution of start-ups into the Estonian economy grew strongly, and the Startup Estonia programme implemented by KredEx had a part to play in this. According to the start-up database managed by us, there are already 1000 start-ups in Estonia. The Startup Visa programme, implemented with the participation of Startup Estonia, celebrated its third anniversary of operations, thanks to which 2150 people from non-European Union countries have moved to or have obtained permission to move to Estonia since the start of the programme. They have started work in Estonian start-ups or have established a start-up themselves. In addition, we continued to support start-up entrepreneurship through supporting the field's events and projects and execution of activities in priority focus areas, which are cyber defence, EdTech, and development of the regional start-up ecosystem of Ida-Viru County.

The volume of assets of Early Fund II, which is managed by the subsidiary AS SmartCap, amounted to EUR 83.9 million as at 31 December 2019, and its investment portfolio included two early phase venture capital funds operating in Estonia. In the spring of 2019, Estonia invested another EUR 10 million into the fund of funds Early Fund II to improve the availability of capital for small and medium-sized high-tech companies. In addition, SmartCap, in cooperation with the Estonian start-up community, research institutions and venture capital investors, started identifying early stage investment needs and the development of new investment opportunities.

Turnover, which was insured by the associated undertaking AS KredEx Krediidikindlustus, grew by 8% in 2019, reaching EUR 648 million. Turnover from export transactions amounted to EUR 390 million of this, increasing by 12.7% compared to the previous year. KredEx Krediidikindlustus insured an estimated 2.6% of the export turnover of Estonian undertakings. As at the end of the year, the risk arising from default was insured for 4000 purchasers in 61 countries.

All in all, 2019 was a very successful year for KredEx in terms of operational volumes, satisfaction of stakeholders and financial results. The net profit for the financial year was EUR 3.9 million. Of profit, EUR 1.4 million originated from successful private and venture capital investments, and EUR 0.6 million originated from subsidiaries and associated undertakings.



Lehar Kütt
CEO of Fund KredEx

2.

Activity principles

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



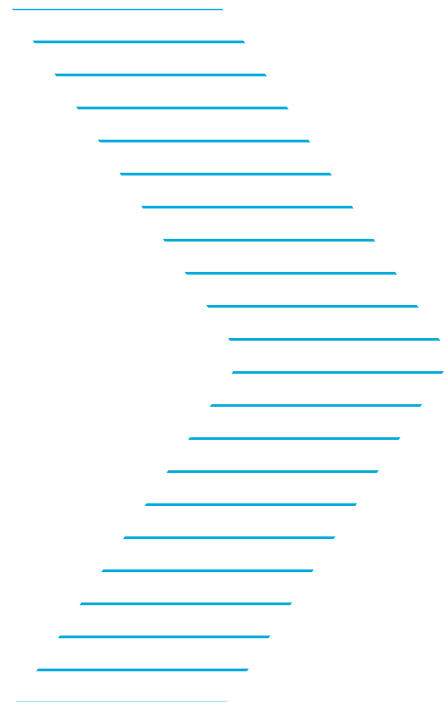
Reliability – we fulfil our promises; we are precise and prompt, and make our decisions objectively. We adhere to deadlines and confidentiality requirements. We have the courage to admit our mistakes.



Openness – 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 – 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 foundation. Even though KredEx was established by the state, which 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 2019, Chairman of the Supervisory Board Merike Saks and Pille Parind Nisula were removed. Ando Leppiman and Hele Karilaid were appointed as new members of the Supervisory Board.

At the end of 2019,
the composition of the
Supervisory Board of
KredEx was as follows:



Ando Leppiman

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

Raivo Rand

Member of the Supervisory Board,
Member of the Estonian Association on Construction Entrepreneurs

Kaido Padar

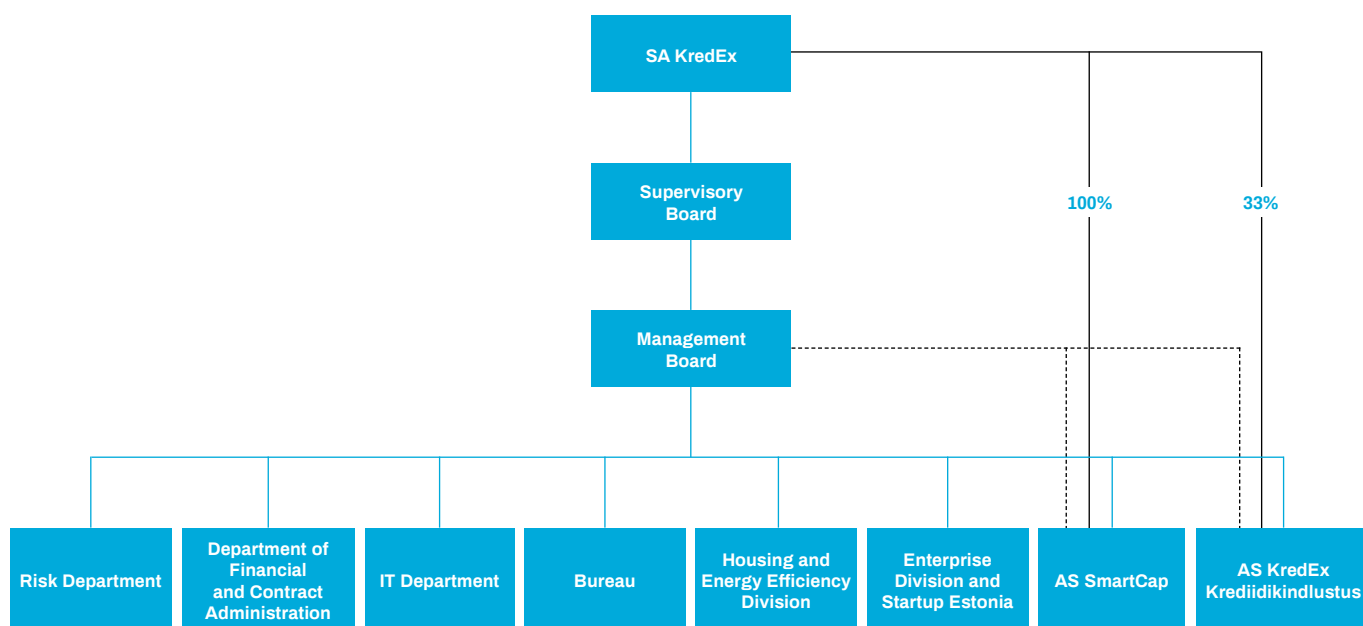
Member of the Supervisory Board,
Chairman of the Management Board of AS Eesti Talleks

Priit Värk

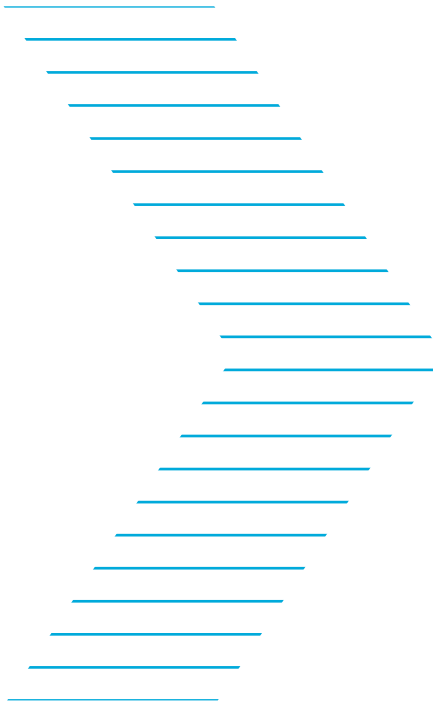
Member of the Supervisory Board,
Mayor of Paide

Hele Karilaid

Member of the Supervisory Board



Structure of KredEx



We support the self-development of our employees through interesting work, a good working environment and great training opportunities.

The team

We have achieved good work results thanks to a unified team that values long-term labour relations, which we consider important for achieving our goals and securing continuity. Our team of 40 people is stable: more than half of us have worked for KredEx for over five years and 16 people for more than ten years. The average length of employment of KredEx employees is eight 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 consider maintaining the health of our employees to be very important. To help do so, we organised a health week in 2019, the main topics of which were mental and physical health, and healthy eating. Our employees value department staff training days where, in addition to discussions on the action plans and assessment of results, they are also able to familiarise themselves with the activities of enterprises supported by a guarantee or loan from KredEx, and are able

to meet the cooperation partners. In 2019, there were 4.33 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.

We have continued to utilise the colleague feedback survey, first conducted in 2015 as a pilot project, in subsequent years. The submitted comments included a significant amount 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. We organised a family day for the first time in 2019, which is also a part of our event schedule for next year. 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.

➤ 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-eyes 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 service provider based on the principles established in the Public Procurement Act. Qualified auditors periodically examine the areas of KredEx's activities, and submit summaries of the course and results of the audit, both to the Management as well as the Supervisory Board. At the beginning of 2019, the Supervisory Board confirmed AS PricewaterhouseCoopers as the internal audit provider for the years 2019–2021.

In 2019, the activity plan of internal auditors included

- 1) the process of management and administration of loan and loan guarantee contracts;
- 2) the process and principles of outsourcing services, entering into contracts with third parties, and inspection (and monitoring) of the scope and quality of bought-in services.

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 2019, the Estonian economy grew by 4.2% year-on-year. Due to excise duties, the share of taxes had a one-time increase, and thanks to record crop yields, the agricultural sector accelerated economic growth. This sector also provided a major part of export growth; at the same time, the volume of production of the main export field – the manufacturing industry – remained at its previous year level.

Without considering temporary reasons, economic growth continued to slow down.

In Q3, the increase of domestic demand was mainly supported by investments. Capital investment grew by 8%, year-on-year, with companies and households both making a considerable contribution to this among sectors. The government sector restrained momentum.

Investments of non-financial corporations into fixed assets increased a bit over 8% in constant price in Q3, year-on-year. The main part of the growth was provided by investments in means of transport and buildings and facilities. Among fields of activity, the main part of investment growth in the business sector came from transportation and storage. Growth was mainly impeded by the energy sector, the investments of which had grown year-on-year for the past ten quarters already.

The housing investments of households increased by 25% in Q3, year-on-year, calculated in constant prices. The housing market was very active in Q3: the number of purchase and sale transactions grew by about 11%, year-on-year, according to the Land Board. Based on preliminary data, housing prices increased faster than before.

The volume of loans and leasing granted to households increased by about 7%, year-on-year, and reached EUR 10.1 billion in December. The main part of loans of households was made up of housing loans, which were taken in a total volume of EUR 8 billion. These were granted at a rate of 7% more than in 2018. The growth of the volume of new housing loans originated from both the increase in the number of loan contracts as well as the growth of the loan amount.

The credit supply capability of the banking sector and the accessibility of households and businesses to bank loans is good. The credit supply was primarily supported by the good capitalisation of the banking sector, and low financing costs.

The profitability of the banking sector is also relatively high and loan losses are low. Competition in the banking sector has decreased in recent years, and loan interest rates have risen, being higher than the average of the euro area in several loan segments. In Q3 of 2019, the average interest rate of new housing loans was 2.6% and the average interest rate of long-term company loans was 3.1%. The change in interest rates related to monetary policy will not reach the interest rates of new loans in the form of a negative tune since banks have established the lower limit of the basic interest rate for loans at 0%.

The financial situation of households improved in 2019, owing to increased earnings and low interest rates. The unemployment rate in the third quarter was at a record low, decreasing to 3.9%. Tallinn affected the decrease of the unemployment rate the most, where it decreased to 3.3%.

The growth of average wages remained fast-paced in Q3: 8.2%. In the government sector, wage growth was still quicker than in the private sector. The weighted average wages of the areas of public administration, healthcare and education increased by 10.8%, whereas those of other areas increased by 7.4%. According to the forecast by Eesti Pank, wage growth will remain close to 5% in the coming years.

While in Q1 of the year, private consumption grew at a brisk pace of 5.4%, then in Q2, we saw an increase of 2.4%, and in Q3, a relatively modest 1.2% increase. Since the disposable income of households has continued to grow in the same period, reduction of consumption has quickly increased the rate of savings of households.

Since times in the Estonian economy were good, the economic results of companies in the first half of 2019 were predominantly sufficiently strong, but companies were much more pessimistic than a year ago. Their revenue slowed down in Q3 to about 6%, and profitability remained at the level of the previous year. The increase of wage costs remained quick. Even though wage pressure is likely to decrease somewhat with the slowing down of economic growth, it will likely remain relatively high, looking forward. For this reason, the profit growth of companies slowed down to a few per cent.

The confidence of industrial and construction companies deteriorated sharply in recent quarters. In addition to these sectors, the assessments of trading and service companies on future orders have significantly deteriorated. The share of such companies who consider financial problems the most business-hindering increased slightly. At the same time, payment behaviour of companies has remained at a very good level: the share of companies with payment disorders and arrears, as well as the share of companies that have been declared insolvent, is very low.

Enterprises were still good at financing their activities in 2019. This ability was supported by accumulated buffers, relatively good access to bank loans, and the very low level of base interest rates. The balance of corporate loans and leases increased 3–4% over the year, according to preliminary data. Companies took out a similar amount of loans in 2019 as they did in the year before.

Estonian exports had withstood the cooling world economy quite well as at the end of the year. Q3 saw a 5.3% increase in the yearly export of goods and services in current prices, significantly surpassing the increase in external demand. However, exporters are increasingly pessimistic when it comes to assessing the future continuation of growth.

After the spread of the coronavirus, the shock that hit the world economy has been exceptionally unexpected and strong, both on the side of demand as well as supply. According to Swedbank's estimate, the world economy is expected to undergo a recession of 2%, but a darker scenario is also not ruled out, pursuant to which, the recession would be 5%.

Similarly to other European countries, the Estonian economy will also receive a strong blow as a result of the coronavirus. According to Swedbank's main scenario, the Estonian economy will face a downturn of 5%. On the assumption that the economic shock is temporary, economic growth should resume quickly in the next year. According to the estimate of the Bank of Estonia, which assumes that restrictions of the emergency situation last until 1 May, the economy will undergo a downturn of 5.5% in 2020, and will grow by 8.2% in 2021. In the event that restrictions last until 1 August, the economy will go down by 13.9% this year, and will grow by 16.7% in 2021.

International travel restrictions, closures of schools and shopping centres, and warnings and restrictions on spending time in public spaces have meant that there is no opportunity to consume some goods and services. This is rather a case of restrictions on consumption on the side of supply, not a decrease in demand. The economy-limiting effect of the restrictions manifests quickly and extensively. At the same time, the nature of the supply side of the shock means that once restrictions are lifted, recovery will also be relatively quick. However, the longer the restrictions are in effect, the longer the subsequent recovery will be. In the event that restrictions last until 1 May, according to the Bank of Estonia, private consumption will go down by 2.8% this year, and will grow by 10.2% in 2021. In the event that restrictions last until 1 August, the downturn will be 18.6% this year, and the growth will be 28.1% in the next year.

Although profits will take the first hit in the case of companies, causing a sharp decline in investments, the effect will also gradually carry over to the labour market. In the conditions of a decrease in turnover, wage increases are called off, or remuneration is reduced, and some companies are forced to lay people off, which is why unemployment increases. According to the Bank of Estonia's estimate, unemployment will grow to 9.8% in 2020 if restrictions are in effect until 1 May, and to 13.1% if restrictions are in effect until 1 August. Unemployment will remain higher in the coming years as well, compared to previous years.

During the crisis, state aid to the private sector is extremely important. The Government of Estonia has decided to mitigate the negative effect accompanying the crisis with extraordinary measures, and the burden on the state budget is very heavy. Aid measures increase the expenses and budget deficit of the general government.

3. Activities and results in 2019

3.1. Briefly

In February, KredEx Krediidikindlustus announced the prize Export Deed 2018, awarded to the company Cleveron, operating in Viljandi County, for its outstanding export achievements.

February saw the end of the Level11 cooperation programme between large companies and startups, which brought together more than 500 people from more than 300 organisations. It was realised in cooperation between Science Park Tehnopol and BDA Consulting.

At the end of February, the Ministry of Economic Affairs and Communications, KredEx and SmartCap entered into an agreement. On the basis thereof, EUR 10 million will be invested, through the KredEx subsidiary SmartCap and the Early Fund II managed by the latter, into high-tech start-ups whose development of a product or service and business model are largely based on research and development and the associated intellectual property. During 2020, SmartCap will announce a competition for finding a private fund manager investing in high-tech start-ups.

In April, LHV Pank started issuing home loans with the KredEx guarantee. By using the KredEx guarantee, it was possible to obtain a loan with 10% own contribution.

As of the beginning of May, the mandate of KredEx CEO Lehar Kütt was extended. He has been the CEO of KredEx since 2015.

In May, KredEx published its new website with an updated corporate style guide.

In May, KredEx began accepting applications for reconstruction grants for apartment buildings under renewed terms and conditions. However, the acceptance of applications was stopped already on the opening day of the round since the EUR 17.5 million intended for the grants was covered with applications after only a few minutes.

In the same month, KredEx published a guide intended for homeowners called Reconstruction of a Private House, which was published between the pages of the national newspaper Postimees and the six largest county newspapers that belong to

the Postimees Grupp. The guide was also made available on the KredEx website.

In July, the European Investment Fund and the three Baltic Republics signed the Baltic Innovation Fund 2 agreement. Over a period of five years, about EUR 500 million will be invested through the Fund in Baltic private and venture capital funds to encourage capital investments into small and medium-sized enterprises for the purpose of boosting their growth. KredEx will invest EUR 26 million in the fund.

In August, Rauno Mürk joined the Management Board of KredEx Krediidikindlustus. He has long-term experience in the Nordic banking group DNB. Before joining KredEx, he worked as the leading consultant at the DNB Group's regional headquarters in Northern Europe, located in Stockholm. Erki Aamer continued as the Chairman of the two-person Management Board.

From September to November, ETV aired the eight-episode fourth season of the TV series Oma kodu (Own Home) that is produced with the support of KredEx. On average, a total of 59,000 people watched each episode live and by means of catch-up.

In September, Kaarel Aus was appointed as the new Head of KredEx's Enterprise Department. He has diverse working and entrepreneurial experience from the information and communication sector. He also has banking sector experience from Swedbank, where he worked as a client executive of major clients in corporate banking and as the head of small business banking. He holds a Master's degree in Economics from the University of Tartu and has improved himself in the field of international cooperation and management at University College London (UCL).

In September, the terms and conditions of the demolition grant designed for local governments were amended, abolishing the EUR 100,000 limit that had been in effect. As the only exception, the limit was held in place for the cities of Tallinn and Tartu. In addition, the circle of subjects of the grant was expanded so that the grant could be used to demolish public buildings (non-residential buildings) that have fallen out of service, for which there was no state aid before.

In October, KredEx led the project Minu lugu (My Story) for the fifth year in a row, where more than 190 entrepreneurs and CEOs visited Estonian schools, telling young people their story. A total of over 200 meetings were organised, which is about twice as much as in previous years. The objective of the project is to get students interested in entrepreneurship.

In the same month, Elektrilevi, the Ministry of Economic Affairs and Communications and KredEx entered into a trilateral agreement under which, Elektrilevi will take over the ELMO quick charge network for electric cars from KredEx. From February 2013 until the entry into contract, the quick chargers were used about

737,000 times, and 7485 MWh of electricity was charged.

The KredEx Career Exploration Tours were held for the fifth time in November. In the course of these, 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 2019 call for applications for the home grant targeting large families with limited financial resources. There were 337 families with three or more children, raising a total of 1192 children, who received the grant. The grant sum allocated exceeded EUR 3.1 million.

➤ 3.2. Overview of the results of housing and energy efficiency in 2019

➤ 3.2.1. Most important activities in the area

In 2019, the volume of housing loan guarantees issued remained stable, rising slightly. Fewer loan guarantees were issued to apartment buildings compared to last year. We did not create new grants, although we did amend the terms and conditions of both the home grant for families with many children as well as the reconstruction grant for apartment buildings, and we discontinued issuing two types of grants.

The volume of housing loans with KredEx guarantees increased by 12% compared to 2018. The volume of these loans, out of all housing loans in Estonia, comprised an annual average of 25%. The volume of the housing loan guarantee portfolio of KredEx increased by EUR 10.9 million, reaching EUR 88.5 million by the end of 2019.

In 2019, we concluded 115 new guarantee agreements for apartment buildings in the total sum of EUR 7.5 million, which is 23% less than the previous year. The volume of this service is heavily influenced by the issuing of the reconstruction grant: the decrease in volume of guarantees is, first and foremost, due to stopping the acceptance of aid applications. At the same time, the loan guarantee portfolio of apartment buildings has already reached EUR 40 million.

In 2019, we discontinued the disbursement of grants intended for replacing oil burning boilers with a more energy-efficient heating device. Altogether, we provided grants to replace 588 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 individual 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 2019, we decided to support eight local governments in the amount of EUR 6.8 million. Altogether, we have allocated grants in the total amount of nearly EUR 20.8 million, with the help of which 582 modern and energy-efficient housing units will be constructed across Estonia.

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. Most recently, the conditions of these grants changed in September: now, local governments can ask for support from the state pursuant to need. The upper limit for a grant is only applicable to applications from Tallinn and Tartu, and the limit is EUR 100,000 per local government. In addition, we expanded the range of subjects of support to make sure that the grant could also be used to help demolish obsolete non-residential buildings, which previously fell outside of the scope of such measures. We continued to offer services related to the ELMO electrical mobility programme.

As an important activity, we continued raising awareness for implementing energy-efficient solutions and innovative projects. 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 lower energy use of residential buildings. A housing loan guarantee is intended 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 2019 that were secured by immovable property was EUR 1.29 billion (EUR 1.17 billion in 2018), of which the volume of loans with a KredEx guarantee accounted for EUR 317 million. A year before, housing loans with a KredEx guarantee were issued in the amount of EUR 282 million, i.e. at an average of EUR 23.5 million per month.

In 2019, the volume of housing loans with a KredEx guarantee accounted for 25% of the volume of housing loans issued in Estonia (24% in 2018). The largest amount of loans with a KredEx guarantee were issued in July (EUR 31 million), and the smallest amount in December (EUR 20 million).

The amount of housing loan guarantees issued in 2019 was EUR 35 million, which is EUR 1 million (3%) more than in the previous year. By the end of the year, the portfolio volume of these guarantees amounted to EUR 88.5 million (EUR 77.6 million in 2018). A total of 3470 households purchased or renovated their homes in 2019 with the help of the loan guarantee, including 1822 young specialists (EUR 17 million), 1257 young families (EUR 12 million) and 350 acquirers of energy-efficient housing (EUR 5.7 million) and 41 veterans (EUR 368,724).

Since 2000, 36,868 households have improved their living conditions with the help of KredEx.

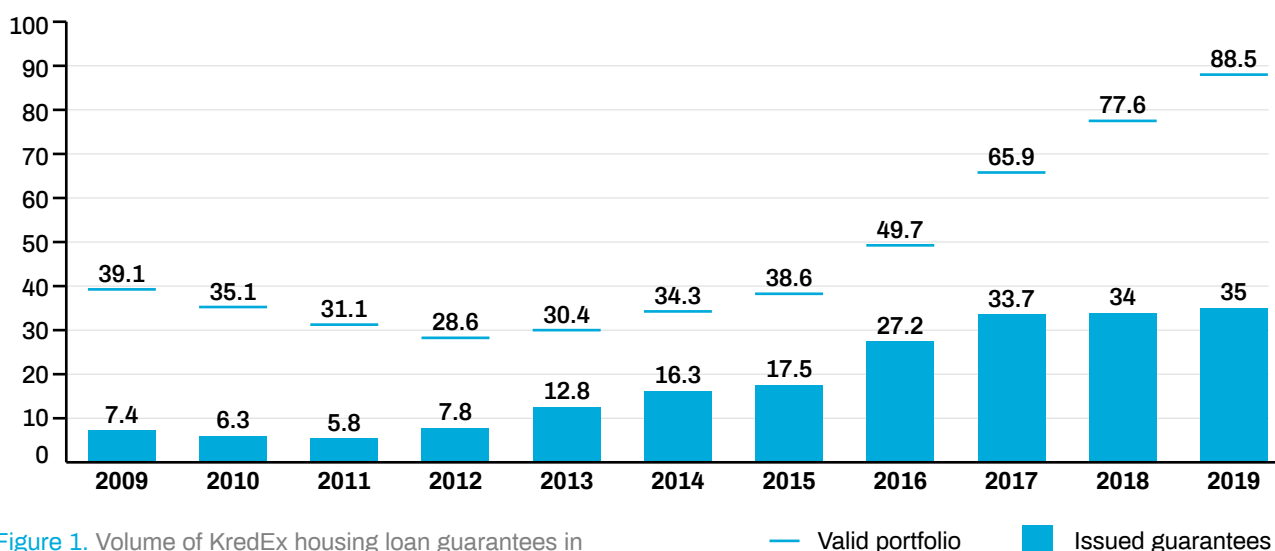


Figure 1. Volume of KredEx housing loan guarantees in 2009–2019, millions of euros

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 115 apartment loan guarantees totalling EUR 7.5 million, which is 23% less than in 2018. With the help of the guarantee, loans in the total sum of EUR 10.3 million were issued to apartment buildings. The decrease was primarily caused by the discontinuation of KredEx's apartment building reconstruction grant. In 2019, the apartment loan

guarantee portfolio reached EUR 40 million, having increased by EUR 5 million over the year.

Since 2002, 1113 guarantee contracts have been concluded with KredEx when taking a loan for the renovation of apartment buildings in the total loan amount of EUR 96.7 million.

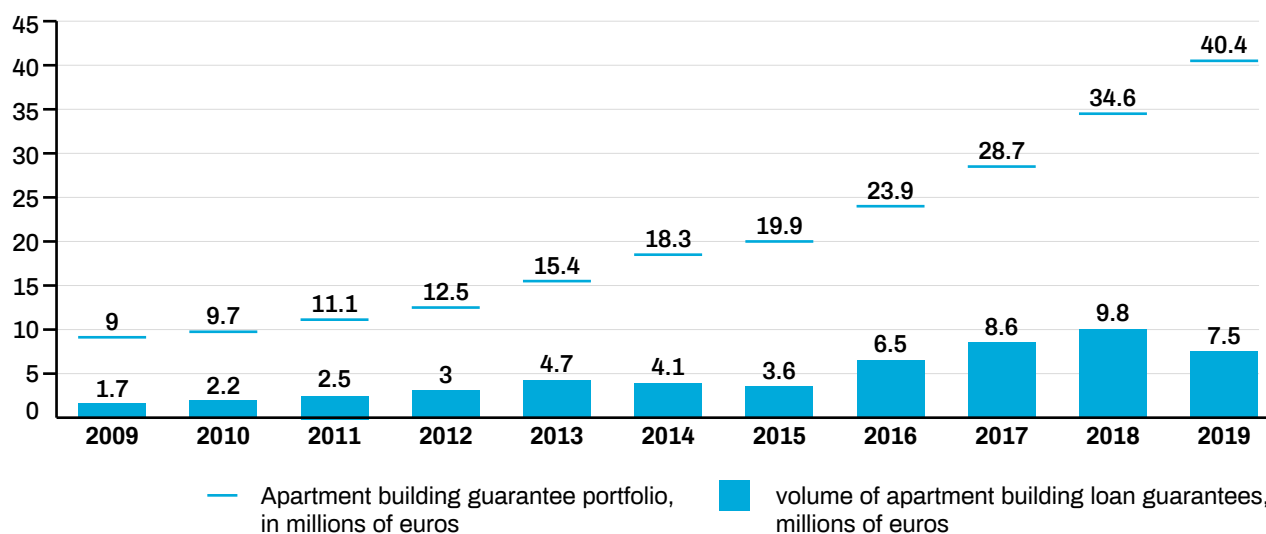


Figure 2. Volume of apartment loan guarantees in 2009–2019, in millions of euros

3.2.3. State grants for the housing sector

In 2019, KredEx provided several 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 from structural funds to apartment associations and local governments, aimed at the complete reconstruction of apartment buildings. The grants were provided with the rates of 15%, 25% and 40% until 2019, with the rate being 10% higher in Ida-Viru County.

In May 2019, conditions of the regulation were amended; the most important amendment concerned grant rates. In Tallinn and Tartu, the grant rate is 30%. The grant rate is 40% in settlements bordering these rural municipalities, where the market value of real estate exceeded 500 €/m² in the year preceding the submission of the

application according to the Land Board database of transactions, and also in the following cities, towns and small towns: Elva, Haapsalu, Keila, Kohila, Kuressaare, Maardu, Otepää, Paikuse, Pärnu, Rakvere, Rapla, Sauga, Uuemõisa and Viljandi. The rest of Estonia is eligible for a grant in the extent of 50%.

A recipient of the grant must certainly reconstruct their heating system, insulate their façade and roof, install a ventilation system with heat recovery, and replace all old windows, installing these within a plane undergoing thermal insulation or providing window jambs with additional thermal insulation. One can apply for a 10% smaller grant if not all conditions are fulfilled, for example, the

ventilation system with heat recovery is not installed, or they fail to ensure performance of the linear thermal bridge requirement. In addition, the services of technical consultancy, construction project preparation, and owner supervision are supported up to 50%.

Considering the high demand, the EUR 102 million allocated for grants had been covered with applications by September 2017. EUR 17.5 million were added in 2019. With the help of the grants, nearly 450 apartment buildings will be renovated, incl. 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 2019, 51 applications were granted; at that, a final decision for financing was made for 22 applicants in the amount of EUR 6.12 million. Payments were made in the amount of EUR 30.15 million for residential buildings undergoing renovations and in 2019, the renovation of 116 apartment buildings was completed. By the end of the year, a total of 391 apartment buildings had received a decision approving financing in the total sum of nearly EUR 102.56 million. Works had been completed on 373 residential buildings and payments were made in the sum of EUR 97.96 million.

It is estimated that most of the apartment buildings that received a positive decision will be reconstructed during 2020. This means that, on average, around 100 apartment buildings will be reconstructed per year with the support of this measure.

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 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 support, we will continue to support the reconstruction of apartment buildings in 2020 as well.

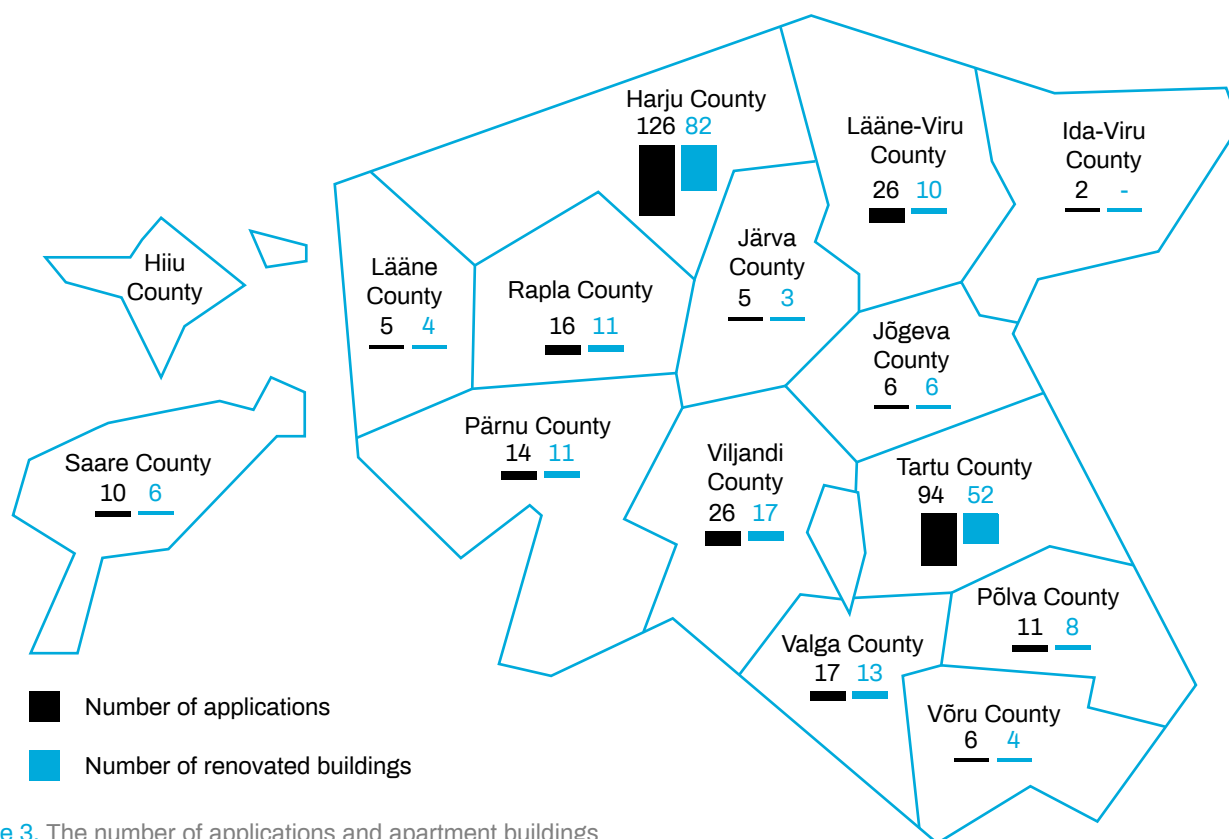


Figure 3. The number of applications and apartment buildings with renovation works completed, by county

3.2.3.2. Grants for small residential buildings

In 2019, 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 and improving the quality of the indoor climate therein. The grant also enables residents to begin using renewable energy appliances.

Since November 2016, KredEx has received 780 applications for increasing the energy efficiency of small residential buildings, in the total sum of EUR 4.57 million. A total of 487 residential buildings have been renovated, with EUR 2.49 million issued for this purpose in the form of grants.

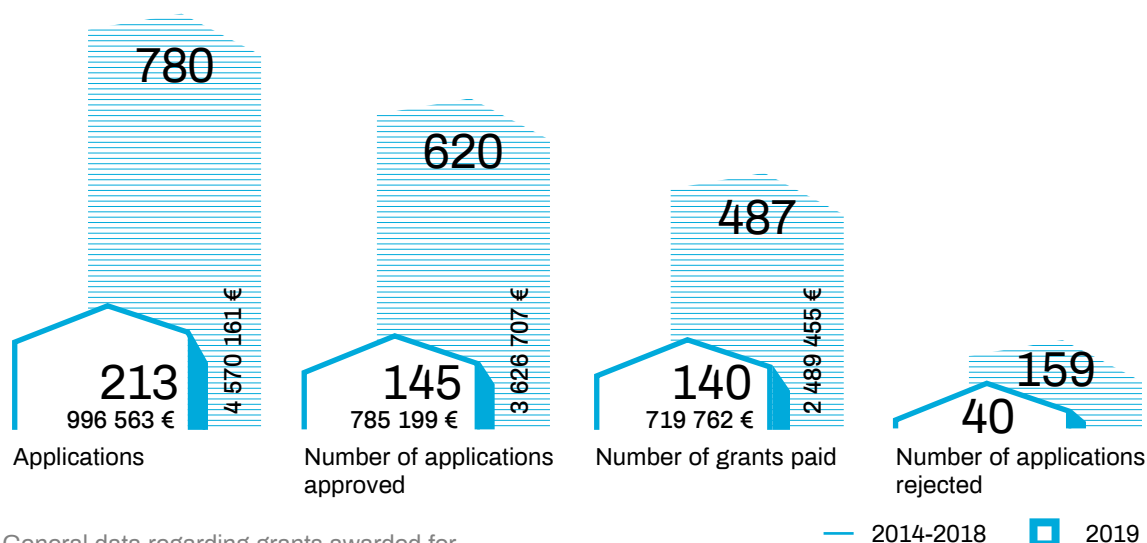


Figure 4. General data regarding grants awarded for increasing the energy efficiency of small residential buildings 2016–2019

The most common reconstruction works throughout the entire application period of the measure have been the replacement of windows (220 applications), insulation of external walls (193), and insulation of the roof, roof ceiling or attic (186). 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.

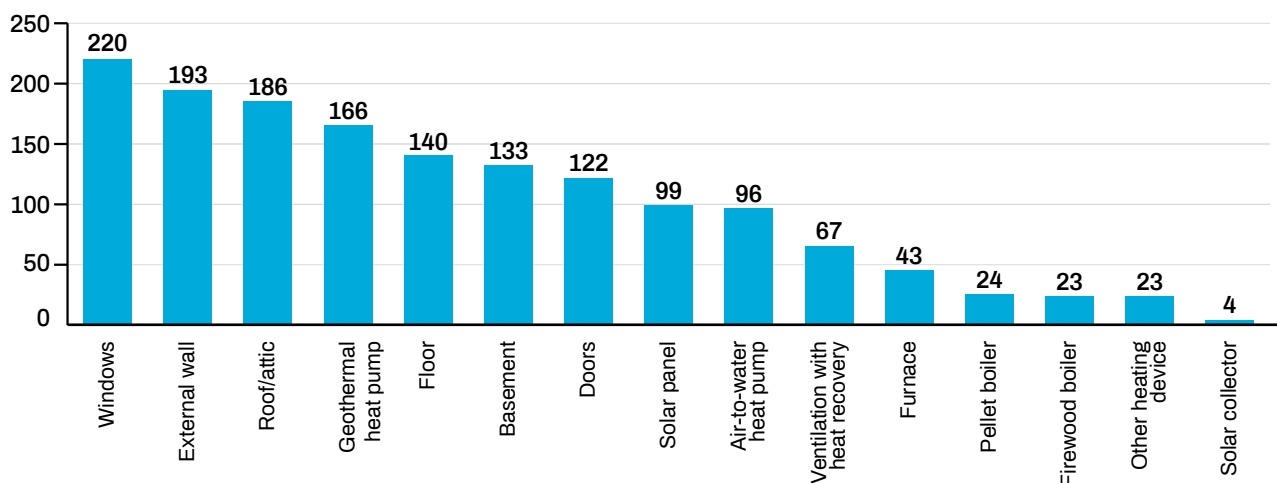


Figure 5. Number of works performed with the grant for increasing the energy-efficiency of small residential buildings throughout the whole period of implementation of the measure

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 the age of 19, whose income per family member is less than EUR 355 per month. Eligible activities include purchasing, building, reconstructing, renovating, or expanding their home and the construction, replacement, or updating of technical systems or utilities.

The grant is round-based. In 2019, the round for applications lasted from 6 May to 11 June, in the course of which, large families filed 552 applications in the total sum of EUR 4.1 million. Based on a ranking with points scored, 337 applications were satisfied. Three applicants withdrew their application, 102 applications were rejected due to the funds being exhausted, and 110 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.

	County	Applications submitted	Applications satisfied	Incl. repeated applications	Allocated amount of grant €
1.	Ida-Viru County	95	57	12	515,377.80
2.	Harju County	92	43	8	386,554.10
3.	Tartu County	49	31	5	286,132.51
4.	Lääne-Viru County	48	29	4	292,951.63
5.	Valga County	43	28	11	234,690.65
6.	Viljandi County	37	26	3	242,505.99
7.	Võru County	34	26	6	231,660.14
8.	Pärnu County	33	22	6	199,912.61
9.	Põlva County	32	17	4	159,190.99
10.	Jõgeva County	26	16	2	144,492.48
11.	Järva County	20	14	4	123,499.11
12.	Rapla County	17	13	4	103,065.45
13.	Saare County	13	8	1	76,250.00
14.	Lääne County	10	4	1	36,250.00
15.	Hiiu County	3	3	2	22,500.00
	TOTAL	552	337	73	3,055,033.45

Figure 6. Submitted and satisfied home grant applications for families with many children in the 2019 round, by counties

In total, the applications of 337 families were satisfied, of which 264 received the grant for the first time and 73 for the second time. The average grant amount per family was EUR 7252. There are 1193 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 (187 applications). These were followed by applications for buying a home (123) and

building a home or reconstructing an uninhabitable home (27). In the period of 2008–2019, there were 6852 home grant applications filed in the total sum of EUR 60.3 million, of which KredEx has satisfied 3685 applications in the total sum of EUR 32.8 million. Among them, 2991 families have received the grant once, 623 families twice, 62 families three times and nine families four times. The average grant amount per family has been EUR 7112. A total of 137 families have refrained from taking out the allocated grant or not used it.

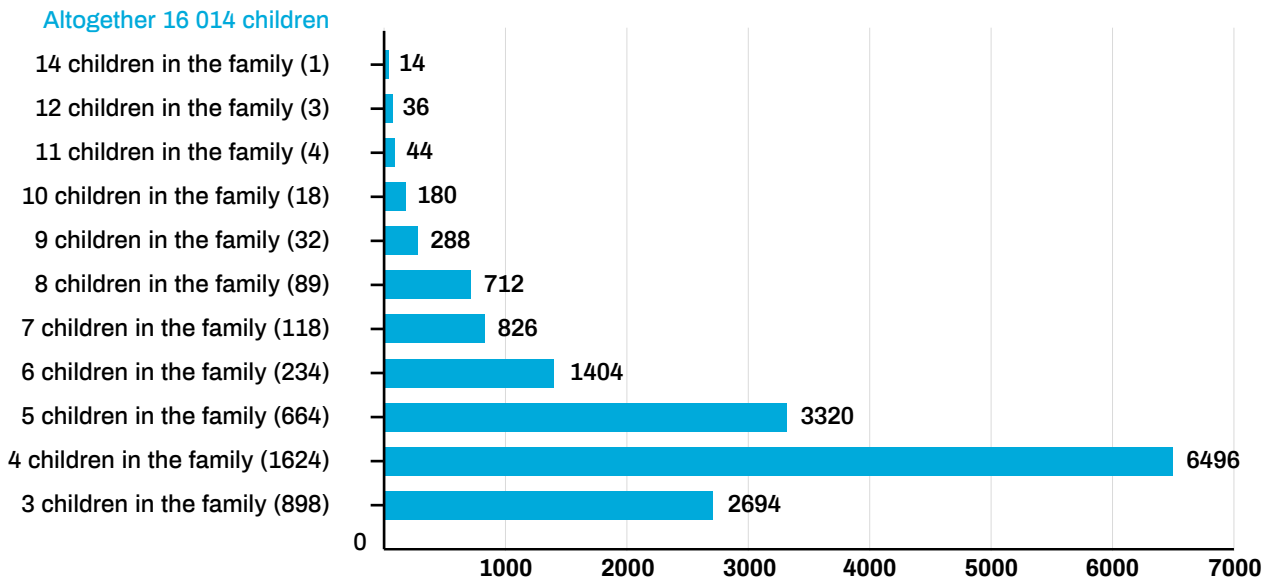


Figure 7. Number of families who received the home grant for large families in 2008–2019, by number of children

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 × 220 V) in Tallinn, so that the residential buildings are transferred to the new 3 × 230/400 V voltage system.

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

Compared to the previous situation, application activity remained at the same level in 2019: while in 2018 there were 62 applicants, then in 2019, there were 67. The average amount applied for was also at the same level as the previous year; in 2019, it was EUR 2309.

By the end of 2019, applications had been submitted to renovate the electrical installations of 246 buildings in the total amount of EUR 622,124. KredEx had made payments to 214 applicants totalling EUR 510,156.

KredEx will continue to issue the grant in 2020.

3.2.3.5. Demolition grants for local governments

KredEx helps local municipalities to make the living environment safer and aesthetically more pleasing. For this, grants are supplied to them for the demolition of obsolete residential houses and non-residential houses that are owned by local governments.

A total of 17 applications were filed in 2019. KredEx supported the demolition of 16 obsolete buildings with EUR 307,445; one application was rejected due to non-compliance. The most buildings were demolished with the help of the grant in Ida-Viru County and Pärnu County, five buildings in either.

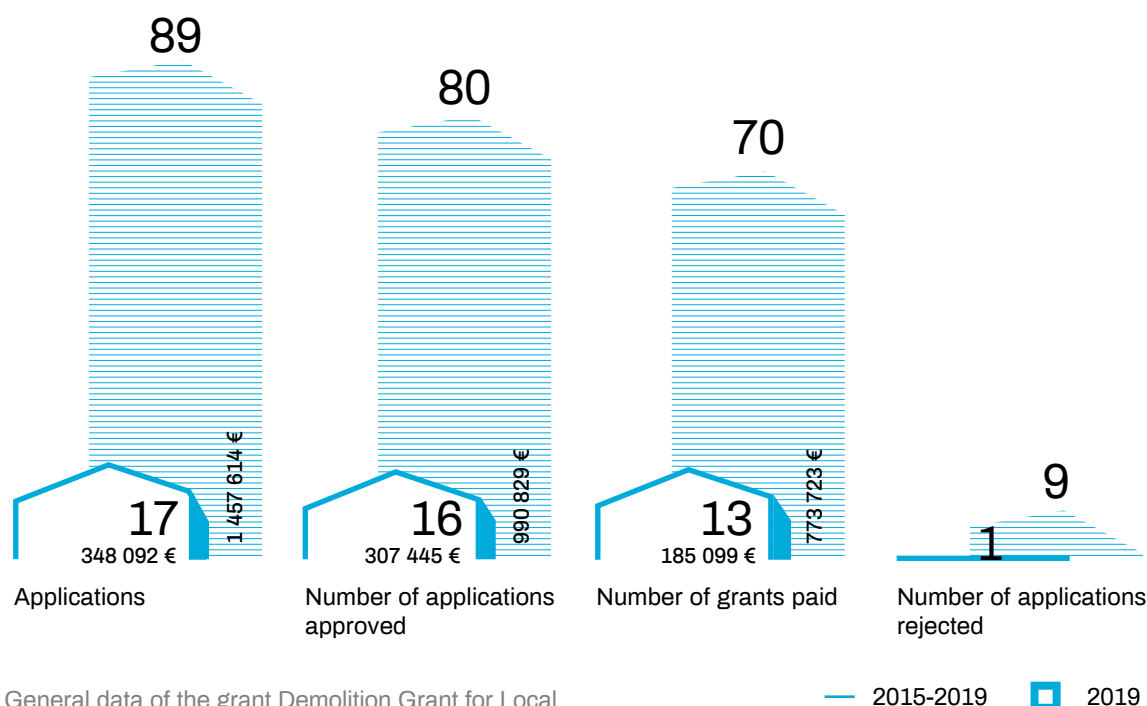


Figure 8. General data of the grant Demolition Grant for Local Governments, 2015–2019

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 rural municipalities) in the first round, then in the second round, the number of applications already reached 13. A positive decision was received by Põhja-Sakala Rural Municipality, City of Tallinn, City of Tartu, Tori Rural Municipality, Saue Rural Municipality, Rae Rural Municipality, the town of Kuressaare, the town of Haapsalu and Saku Rural Municipality. In the third round, there were 11 applications, and grants were received by Järva Rural Municipality, Võru Rural Municipality, Tori Rural Municipality, Valga Rural Municipality, Otepää Rural Municipality, Lääne-Nigula Rural Municipality, City of Pärnu and Põhja-Sakala Rural Municipality.

Over the course of the three rounds, a total of 13 rental houses are planned to be built or reconstructed for the mobile workforce and 12 houses for the socially underprivileged target group. Altogether, 582 apartments with a total area close to 21,000 m² will be built in 25 buildings. The total investment is nearly EUR 45 million, with the grant amount accounting for EUR 21 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 was EUR 1.4 million.

The grant could be applied for by a private or public legal person registered in Estonia, whose activity was 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.

Compared to the previous year, the number of applicants decreased significantly: while 30 applications were filed in 2018, then only five were filed in 2019. Three of these were granted, in the total amount of EUR 38,036. Two applications were rejected, with the main reason being the fact that the applicant failed to submit all required documents on time. The grant was paid out in eight cases, in the total amount of EUR 120,826, which was similar to the amount of the previous year.

Acceptance of applications was stopped on 18 September 2019.

› 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 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 2019, we continued to operate the quick charging network necessary for using electric cars, as the results of the auction organised by the Ministry of Economic Affairs and Communications in summer 2018 were disputed, and management of the network remained the duty of the state. In order to provide the service, the procurement contract with ABB AS was extended until 31 December 2019.

The contract with the winner of the auction was entered into on 22 October 2019, and as of 22 November of the same year, the quick charging service for electric cars is provided by Elektrilevi OÜ.

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.

Provision of service began in February 2013, and as at the end of November 2019, the chargers had been used around 737,000 times and 7485 MWh of electricity had been charged. The average charging session lasted 41 minutes and the energy charged was 12 kWh in 2019.

The use of the quick-charging service remained at the same level in 2019 as in previous years, with approximately 10,000 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 2019

➤ 3.3.1. Most important activities in the area

2019 was stable and without significant changes in the guarantee and loan activity in the area of entrepreneurship. KredEx guaranteed and financed 411 enterprises in the total amount of EUR 77.1 million. The support of KredEx made it possible for them to involve additional funding from banks and KredEx in the amount of EUR 150.3 million. The supported enterprises employed a total of 8664 people, and the projects resulted in 208 prospective new jobs.

Even though the number of new contracts was smaller than in 2018, KredEx guaranteed and financed companies in a volume that was EUR 0.7 million higher in 2019 than in the previous year. Banks and KredEx enabled companies to involve additional financing in the amount that was EUR 23.5 million higher than in the previous year.

KredEx continued participating as an investor in the fund of funds Baltic Innovation Fund 1 and EstFund, offering private and venture capital, and the management of the fund of funds Early Fund II via the subsidiary AS SmartCap. As a new initiative, we participated as an investor in the creation of Baltic Innovation Fund 2. Its articles of association were signed on 12 July 2019. With the support of these funds, a total of nearly EUR 1.2 billion is being invested in the rapidly developing companies of the region, EUR 146 million of which is the direct contribution of either KredEx or the Republic of Estonia.

2019 was a record year in every respect for Startup Estonia and the whole Estonian start-up community, and the contribution of start-ups to the Estonian economy grew steadily. The number of Estonian start-ups reached nearly 1000, and their total turnover amounted to about EUR 400 million. They employed 5944 people and paid EUR 77 million in labour taxes.

➤ 3.3.2. Enterprise loan guarantees

In 2019, a total of 734 applications – 424 new enterprise loan guarantee applications and 310 additional applications to amend already existing guarantee agreements – were submitted to KredEx. This is 71 fewer applications than in the previous year.

Also, 372 new guarantee agreements were concluded to guarantee the liabilities of 249 enterprises, and 228 current guarantee agreements were amended. A total of 60 fewer contracts were concluded in 2019 than in the year before. Enterprises which used loan guarantees had around 8100 employees in total. The enterprises planned to create 170 new jobs with the support of the issued KredEx guarantees.

KredEx guarantees in the amount of EUR 74.5 million made it possible for enterprises to involve additional financing from banks in the amount of EUR 144.2 million in 2019. Regardless of the smaller number of applications and contracts, the volume of guarantees issued grew 3% year-on-year, and the volume

of additional financing received from banks with the support of the guarantee grew by 22%. Growth was ensured by the simultaneous growth of the average guarantee amount and the decrease of the average guarantee rate compared to the previous year.

In 2019, KredEx provided loan guarantees in EUR 34 million for bank guarantees; EUR 25.1 million for overdrafts and working capital loans; EUR 14 million for investment loans, and EUR 1.2 million for leases.

The proportion of bank guarantees in the share of guarantees issued remained at a similar level as in the previous year: 46% in 2019 and 47% in 2018. The share of overdrafts and working capital loans increased to 34% (28% in 2018), and that of investment loans decreased to 19% (23% in 2018). The share of guarantees for leasing services remained unchanged at 2%.

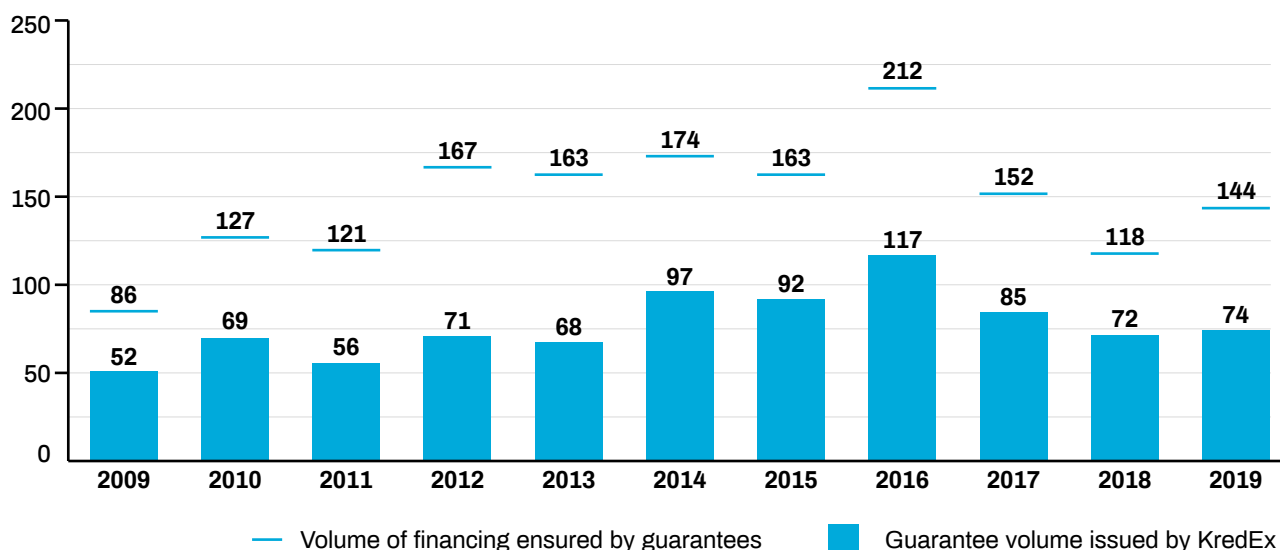


Figure 9. Volume of guarantees issued and funding received with the guarantees, 2009–2019, in millions of euros

By areas, KredEx guarantees were used most in 2019 by enterprises in the area of construction (36% of the volume of guarantees issued), wood industry (13%) manufacture of chemicals and chemical products (5%), professional education, research, and technical practice (5%), metal industry (4%), and administration and support (4%). The share of other areas of activity remained below 4% in the guarantee volume issued during the year.

The share of the construction and wood industry remained similar to 2018: in 2018, these were 35% and 13%, respectively.

Compared to the previous year, the share of the metal industry and the share of professional education, research, and technical practice decreased (from 7% to 4%, and from 8% to 5%, respectively). There were no major changes in other areas of activity. The changes are greatly affected by individual large-scale transactions.

The share of the processing industry, however, increased in 2019, to 38% (35% in 2018). The proportion of guarantees in areas of activity remaining below 5% increased to 45% (36.7% in 2018).

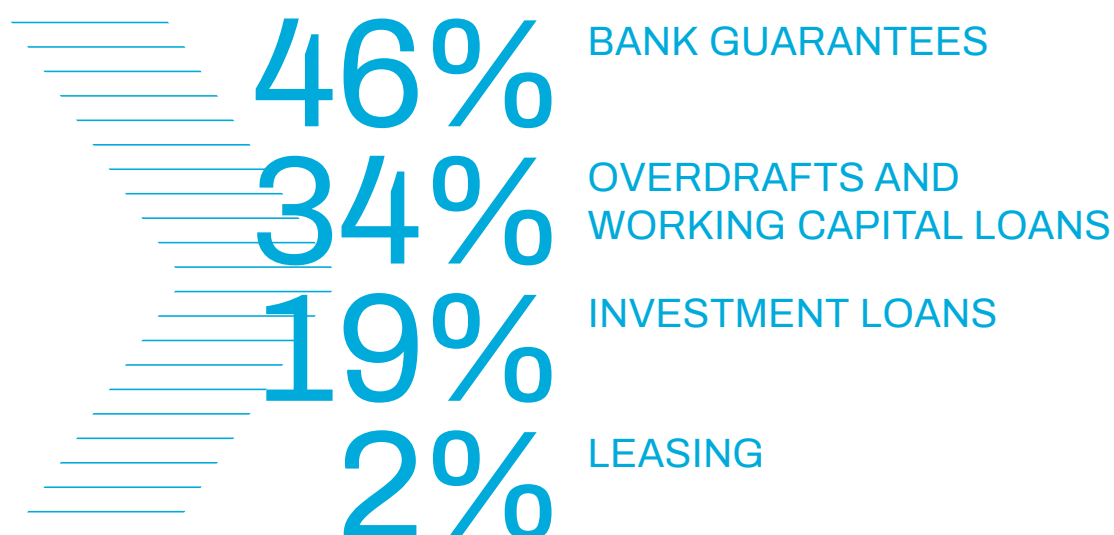


Figure 10. Volume of guarantees issued to enterprises in 2019 by types of financing

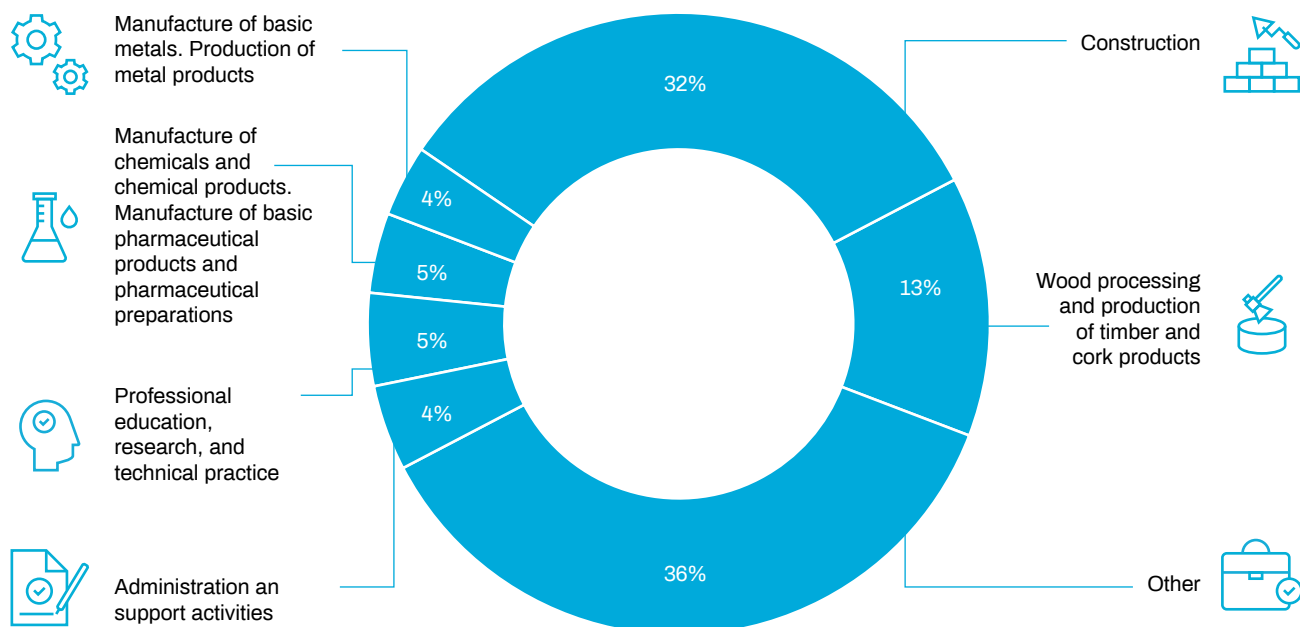


Figure 11. Volume of guarantees issued in 2019 by areas of activity

Among loan guarantees, seven new start-up loan guarantee agreements for securing the obligations of seven enterprises were concluded in 2019, totalling EUR 200,000. This enabled starting entrepreneurs to obtain financing from banks in the amount of EUR 300,000 and nine new jobs are planned to be created as a result of the projects funded.

Although the volume of guarantees issued grew year-on-year, the portfolio of enterprise guarantees continued to shrink in 2019. As at the end of the year, the portfolio included 1110 valid guarantee agreements for 742 enterprises in the amount of EUR 101.2 million. Over the course of the year the number of

customers and agreements, as well as the balance of guarantee commitments, had decreased. In a year-on-year comparison, the number of enterprise guarantee customers decreased by 11%, and the number of guarantees and the guarantee contract balance decreased by 9%.

Since 2001, KredEx has guaranteed bank loans, bank guarantees, and leasing transactions for 3845 companies in the total amount of EUR 1.6 billion. Guarantees have been issued in the sum of EUR 845 million. As a result of the projects financed, enterprises have planned to create 13,863 new jobs.

3.3.3. Enterprise loans

In 2019, KredEx continued to offer the start-up loan, the industry loan, the capital loan and the export loan. Direct loans were granted to a total of 20 enterprises in the volume of EUR 2.6 million, and the enterprises planned to create 38 new jobs with this support.

In 2019 startup loans were issued from the capital of KredEx to 11 enterprises in the amount of EUR 400,000. As a result of the financed projects, the enterprises plan to create 33 new jobs.

In total, startup loans and startup loan guarantees by KredEx allowed for the financing of the establishment of 18 startup companies in the total amount of EUR 700,000. As a result of the financed projects, these enterprises plan to create 42 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.

Over the course of the year, six industry loan agreements were concluded with six companies in total sum of EUR 1.3 million. Thanks to the KredEx industry loan, companies planned investments totalling EUR 6 million. The funded companies planned to create two new jobs as a result of the projects.

Two capital loan contracts were concluded in 2019, in the amount of EUR 600,000. Three new jobs were created as a result of these loans.

In 2019, one export loan agreement in the sum of EUR 300,000 was concluded for financing export transactions.

➤ 3.3.4. Venture and private capital

At the beginning of 2013, the Baltic Innovation Fund 1 (BIF 1), 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 management companies from the private sector. The goal of BIF 1 is to offer new financing opportunities to Baltic enterprises with good growth potential, and develop the capital market of the Baltic States. The fund of funds BIF 1 is managed by the EIF.

The volume of BIF 1 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 BIF 1 contribution at the level of the funds by private investors.

BIF 1 has invested in seven funds:

- BaltCap Private Equity Fund II (volume of the fund EUR 81.5 million, incl. BIF's holding which 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, incl. BIF's holding which is EUR 10 million),
- Change Ventures Fund II (EUR 30 and 10 million, respectively).

As at the end of the year, a total of EUR 227 million has been invested from BIF 1 into 47 enterprises. Out of these, 23 are Estonian enterprises, which have received financing in the amount of EUR 123 million. In the coming years, another EUR 300 million will be invested in regional companies with the support of BIF 1.

Baltic Innovation Fund 2 was established on 12 July 2019; its operating principles are similar to those of BIF 1. The volume of the fund of funds is EUR 156 million; the contribution of each country through KredEx (Estonia), ALTUM (Latvia), and INVEGA (Lithuania) is EUR 26 million, and the EIF contributes EUR 78 million. From BIF2, it is planned to finance six to eight venture and private capital funds that invest in enterprises.

By the end of 2019, it was managed to invest money in one fund (BaltCap Private Equity Fund III), the volume of which is EUR 126.4 million, and the contribution of BIF 2 therein is EUR 25 million.

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 (the planned volume of the fund is EUR 43 million; incl. EstFund's holding which is up to EUR 24 million);
- Equity United PE1 (the planned volume of the fund is EUR 30 million; incl. EstFund's holding which 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 2019, EUR 27 million has been placed in 20 enterprises within the framework of EstFund. The remaining capital will be invested over the coming years.

In addition to funds of funds BIF 1 and 2 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.

3.3.5. Startup Estonia and the ecosystem of Estonian startups in 2019

2019 was a record year in every respect for Startup Estonia and the whole Estonian start-up community, and the contribution of start-ups to the Estonian economy grew steadily.

In total, there were around 1000 startup companies in Estonia as at the end of the year. Compared to the previous year, when there were 550, a sharp increase has taken place. 246 new startups were established in 2018, and another 150 in 2019. Of startups, 684 are registered in Harju County, 82 in Tartu County and 15 in Pärnu County.

Startup Estonia will start compiling a database of Estonian startups in order to get a better statistical overview of such companies and of what is taking place in the startup sector. Startups which have operated for up to ten years (incl.), are directed at rapid and global growth, and the product or service and business model of which are globally scalable will be entered, on the basis of agreement, into the database. It is planned to publish the database at the beginning of 2020.

The turnover of Estonian startups reached to EUR 395.4 million in 2019 (9% increase compared to 2018).

While in 2018, Estonian startups employed about 4529 people, then in 2019, this number was already 5944, meaning a 31% increase, year-on-year. Together with the increased number of employees, the amount of collected labour taxes also increased: in 2018, startups paid these in the amount of EUR 53 million, and in 2019, in the amount of EUR 77 million (46% increase).

The 20 largest startups created 57% of all new jobs at Estonian startups in 2019. At that, Veriff had the largest increase in jobs, followed by Bolt, TransferWise, Pipedrive and Paxful.

The average monthly wages in the startup sector in 2019 were EUR 2347, which is 68% higher than the average monthly wages of Estonia (compared to Q3 average at the end of 2019). The highest average gross wages (about EUR 2840) are received by employees aged 31–50.

Altogether, Estonian startups reportedly raised EUR 258.3 million in investments in 2019, which is less than in 2018, but the number of transactions increased. In 2019, investments were made in a total of 71 startups and 28 investments exceeded EUR 1 million. By far the largest investment was made in Bolt

(EUR 128 million), followed by Starship Technologies (EUR 36 million), Glia (EUR 18 million), Realeyes (EUR 11 million), and Skyselect (EUR 9 million). 2019 showed the success of startups with female founders for the first time: six such companies received an investment.

Estonian Startup Awards were also organised for the first time, recognising the best startups and supporters of startup sector development in 2019. Members of the startup community put up 154 candidates for awards, with ten of the best making it to each of the nine categories. The winners were chosen by a jury consisting of 144 startup entrepreneurs. The following startups, persons and initiatives received an award: Comodule (the Hardware Comet and Revenue Hack of 2019), Reverse Resources (the Stereotype Crusher and Impact Visionary of 2019), Multilogin (the Bootstrap Badger of 2019), Salv (the Big Bang of 2019), Gerri Kodres (the Wise Wallet of 2019), startup comedy Chasing Unicorns (the Giving Back Powerhouse of 2019), and Kaarel Kotkas (the Founder of the Year 2019).

The main course of action of Startup Estonia is developing the ecosystem, and a lot of interesting events took place in this regard. We helped to co-organise important startup conferences, including major events in Estonia such as Latitude59, sTARTUp Day, and Robotex. For the third year in a row, we organised the community festival Startup Week Tallinn, with more than 76 events in the field of startups in four focus areas and six cities. Altogether more than 4000 participants attended the festival.

In 2019, the high-priority activities of focus areas continued in Startup Estonia in cooperation with the ministries of the area. One of these was the cyber security course of action, launched in 2017. 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 County startups was launched in cooperation with the Ministry of Finance.

The Startup Visa programme celebrated its third anniversary. The Visa – created as a result of cooperation between the Estonian startup community, the Ministry of the Interior, and Startup Estonia – allows citizens of countries outside of the European Union to work for Estonian startups, their startup here, and establish new startups in Estonia.

Within three years, more than 1800 applications from 100 countries have been filed for the Startup Visa, for receiving the status of a startup. A total of 2150 people have either moved to Estonia or received permission to do so. The top three most common origins of workers in 2019 were Russia, India and Brazil, and in terms of startups, the top three included Iran, Russia and India.

Recipients of a Startup Visa had created 207 startups in Estonia by the end of 2019 (about 20% of startups). A total of 199 people are employed in these, and they paid a total of EUR 1.6 million in labour taxes, and their turnover reached EUR 17.5

million. The largest employers were SaleMove and CoinMetro Group.

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. The Startup Estonia programme is financed using funds from the European Regional Development Fund (project No. EU50651).

3.4. SmartCap

The public limited company SmartCap is a small fund manager registered with the Financial Supervisory Authority, and a subsidiary of KredEx. SmartCap manages a contractual non-public alternative fund Early Fund II (SmartCap's venture capital fund), the sole shareholder of which is the Republic of Estonia. The management board of SmartCap has two members: Sille Pettai and Mari Vavulski. As at the end of 2019, the company's Supervisory Board had three members. The Chairman of the Supervisory Board is Lehar Kütt, and its other members are Priit Põldoja and Mikko-Jussi Suonenlahti.

The SmartCap venture capital fund assets are invested in venture capital funds, which together with private investors place capital into science and technology-intensive early stage small and medium-sized companies with large international growth potential, mainly located in Estonia.

SmartCap offers venture capital investments with the aim of making the Estonian capital market also work for startups, and allowing ambitious and innovative Estonian companies to grow. SmartCap is a reliable partner for the Estonian state and venture capital funds, supporting the growth of the Estonian economy and developing the Estonian capital market,

- being an anchor investor in venture capital funds with a long-term strategic view,
- investing in all economic cycles, focusing on market gaps in different stages and
- verticals of growth, offering missing investment opportunities.

The volume of assets of the SmartCap venture capital fund reached EUR 83.9 million (Figure 12) as at 31 December 2019. Its investment portfolio included two early stage venture capital

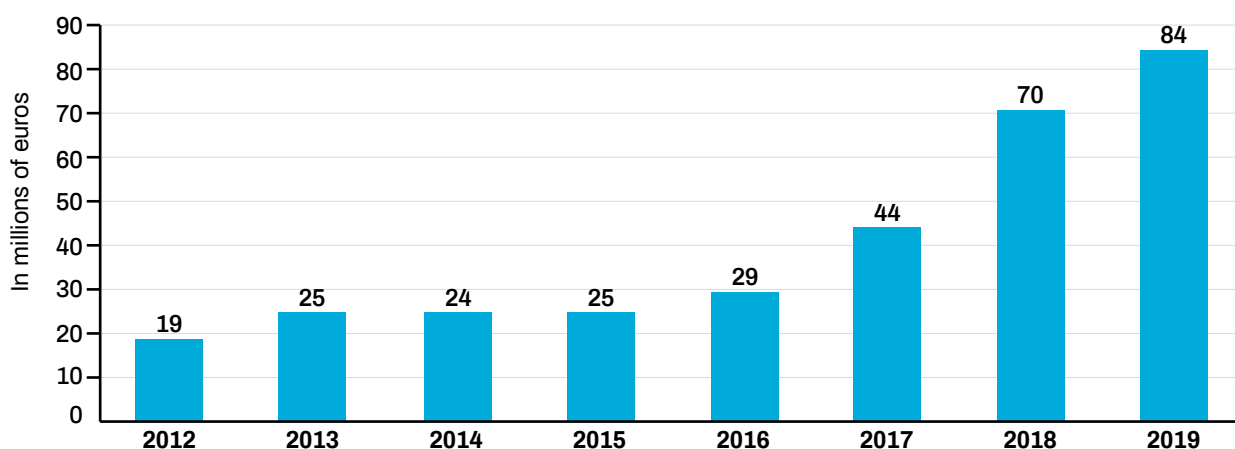


Figure 12. Volume of funds of the venture capital fund managed by SmartCap from its establishment (2012) until 2019, in millions of euros

■ Volume of funds of the venture capital fund managed by SmartCap

funds operating in Estonia as at the end of the reporting period. In 2019, the SmartCap strategy for 2019–2023 was completed, which was also approved by the SmartCap Supervisory Board. The strategy sets out the development of new investment programmes and obtaining financing for these, as well as developing the organisation for this.

In the spring of 2019, Estonia invested another EUR 10 million into the SmartCap venture capital fund to improve the availability of capital for small and medium-sized high-tech companies. In addition, SmartCap, in cooperation with the Estonian start-up community, research institutions and venture capital investors, started the development of new early-stage investment opportunities and the identification of capital needs. Since the spring of 2019, SmartCap has been designated as a partner of the Startup Estonia programme in the field of improving the availability of capital and costs. In September 2019, Civitta, at the request of AS SmartCap, commenced a survey on capital availability for startups. Its aim was to describe the capital availability issues of startups in different

development stages, to analyse the nature of these problems, and to assess the suitability of existing financial instruments for resolving the problems.

Provisional findings from the survey indicate that capital is lacking for financing research-intensive companies at every stage of development, and all sectors lack capital in the pre-seed stage and late growth stage.

Findings from the survey also make it clear that in cooperation with the existing national venture capital measures and private sector investors, there is currently enough capital on the market for financing companies in the information and communications technology (ICT) sector. This is why it is not reasonable to create the previously planned second accelerator fund next to the Superangel One accelerator fund created in 2018. It is appropriate to direct the funds released from the Startup Estonia programme to filling other market gaps, primarily in the development of research-intensive entrepreneurship, because the bottlenecks of providing capital are mapped out there.

3.5. AS KredEx Krediidikindlustus

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

The 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 insurance. When providing services, the principle of profitability is taken as the basis.

The Supervisory Board continued with four members in this financial year, and no changes were made to its composition. Members of the Supervisory Board are Lehar Kütt (Chairman, CEO of SA KredEx), Kertu Fedotov (advisor at the Insurance

Policy Department of the Ministry of Finance), Kristjan Värton (member of the Management Board of DataCatering OÜ) and Kaido Kepp (Chief Financial Officer at IIZI Kindlustusmaakler AS).

The public limited company is managed by a two-member Management Board consisting of Erki Aamer (Chairman of the Management Board) and Rauno Mürk (Member of the Management Board). A change was made to the composition of the Management Board during the financial year: the Supervisory Board removed Member of the Management Board Mariko Rukholm, as of 1 July 2019, and appointed Rauno Mürk as a Member of the Management Board, as of 14 September 2019.

The audit committee of the public limited company continued with the same composition. Its members are Members of the Supervisory Board Kertu Fedotov (Chairman) and Lehar Kütt; Erik Štarkov (Risk Management and Internal Audit Director at AS Eesti Energia) continued as the independent member.

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.

The turnover insured by the public limited company grew by 8% in 2019, amounting to a total of EUR 648 million. The turnover of insured export transactions amounted to EUR 390 million of this, increasing by 12.7% compared to the previous year. The insured turnover within Estonia decreased by 1.5% year-on-year (to EUR 258 million), and this was to be expected, because as per the strategy, the public limited company primarily supports the steps of Estonian exporters abroad.

KredEx Krediidikindlustus insured an estimated 2.6% of the export turnover of Estonian undertakings in 2019. The largest export target countries coincide with the export target countries of Estonian entrepreneurs. Invoices that Estonian exporters issued to purchasers located in Sweden, Finland and Latvia, were insured the most. In the turnover ranking, these were followed by purchasers located in Lithuania and Poland. In

terms of countries that are smaller and farther away, Estonian exporters insured payment risks with KredEx Krediidikindlustus against purchasers in Chile, Kyrgyzstan, Vietnam and Algeria.

Changes in the portfolio of established credit limits were largely in accordance with changes in insured turnover. The general credit limit portfolio assigned to purchasers grew by 11% (to EUR 311 million). At that, the whole growth originated from credit limits established for foreign buyers; the credit limit portfolio of buyers within Estonia remained at the same level.

In total, the risk arising from the default of over 4000 purchasers was insured at KredEx Krediidikindlustus by the end of 2019. Out of the issued credit limits, 69% (65% in 2018) were related to insuring foreign buyers in 61 countries (56 countries in 2018). Based on the State Export Guarantees Act, 10.6% of determined credit limits are insured (6.8% in 2018); to mitigate the residual risk of the rest of the credit limits, KredEx Krediidikindlustus uses market-based re-insurance.

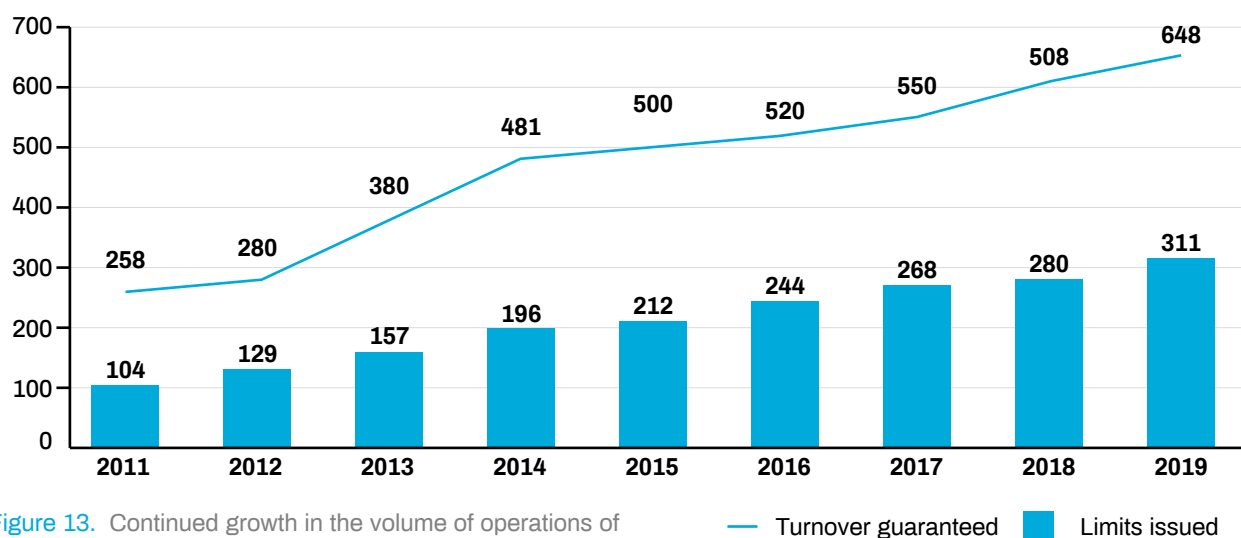


Figure 13. Continued growth in the volume of operations of KredEx Krediidikindlustus in 2011–2019, in millions of euros

Total insurance premiums collected during the year amounted to about EUR 1.6 million. These declined by 6% compared to 2018.

One long-term insurance contract was concluded in 2019 with insurance premiums amounting to EUR 60,000 (in 2018, two contracts with insurance premiums of EUR 120,000). Based

on this contract, Estonian manufacturers exported almost EUR 600,000 worth of machinery and equipment to Hungary.

Damages were reimbursed in the sum of EUR 300,000 million (in 2018, EUR 600,000). A total of 68% of this amount was related to foreign buyers (in 2018: 66%).

4. Financial results and paid loss

Thousands of euros	2019 <i>Consolidated</i>	2018 <i>Consolidated</i>
Income from core activity (gross)	9 160	8 503
Guarantee activity	3 971	4 144
Crediting activity	1 475	1 710
Fund management fees	790	517
Private and venture capital investments	1 735	753
Targeted financing of operational expenses from the state budget	1 189	1 379
 Paid losses	 -7 114	 -561
Loss provisions formed for guarantees (gross)	-1 949	-2 242
Discounts of subordinated loans (gross)	-79	-906
 Administrative expenses	 -4 639	 -3 836
 Profit for the accounting period	 3 875	 1 327
	31.12.2019	31.12.2018
Loan receivables	46 063	50 255
Technical provisions	10 358	15 390
Foundation capital	122 718	77 839
Balance sheet total	203 272	207 625
Off-balance-sheet liabilities (guarantee portfolio)	230 079	223 261

Income related to the guarantee activity increased by areas of activity in the housing sector. In the field of business, revenues declined due to a decrease in the guarantee portfolio. Income from crediting activity decreased due to depreciation of the loan portfolio relating to the housing area. The loan portfolio for the field of business also decreased, resulting in a drop in interest income. Private and venture capital investments generated EUR 1.7 million of income due to a change in the value of investments.

In 2019, significantly more losses were covered than in the year before. The expenses of loss events were covered with guarantee fees and no additional allowances had to be made (in 2018: also EUR 0). Allowances for subordinated loans were made in the amount of EUR 79,102 (in 2017: EUR 906,184).

The total profit for the year was EUR 3.9 million. Since 2001, KredEx has earned a total profit of EUR 14.8 million.

5. Plans for 2020

Pursuant to the strategy approved at the end of 2019, the aim of KredEx, as a state-owned financial institution, is to make capital available and mitigate credit risks in order for Estonian companies to develop and people's living environment to improve. The main aim of the activities of KredEx is to improve the standard of living of Estonian residents.

For the implementation of the strategy, KredEx will continue to provide guarantees, loans, venture and private capital and residential grants, and the implementation of the Startup Estonia programme in 2020. We are consistently looking for opportunities to remedy market shortages and open up financing possibilities, to support economic recovery, improve the living standards of residents, and increase energy efficiency. In 2020, we will turn special attention to improving the availability of financing for both entrepreneurs and residents outside major cities.

In the enterprise area we are working towards increasing the collateral and loan volumes. For this, we will improve the user experience of our customers, continuing to simplify our conditions and processes, including implementing opportunities opened up by digitalisation.

In the venture capital area, private and venture capital funds, financed from the fund of funds Baltic Innovation Fund 1 and EstFund, will continue investing in enterprises. Investment into funds and companies created by funds will also continue within the Baltic Innovation Fund 2 created in 2019.

We will continue to support startup entrepreneurship within the Startup Estonia programme. We will turn special attention to the fields of cyber defence and EdTech, the Startup Visa programme, and the development of the startup ecosystem in Ida-Viru County.

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 facilitate making residential buildings more energy efficient. In addition, we will implement a pilot project of reconstructing apartment buildings with prefabricated blocks, in which 30 apartment buildings will be reconstructed for EUR 17 million, using the innovative technology.

Due to the spread of coronavirus (COVID-19) and the related emergency situation, where the financial performance and liquidity of companies is deteriorating and the banks need more collateral from enterprises, we can expect a sharp increase in the volume of loans guaranteed by KredEx and of the loan portfolio in 2020.



Annual report



6.1. Balance sheet (consolidated) in euros

ASSETS	31.12.2019	31.12.2018	Notes
Current assets			
Cash and cash equivalents	130 705 891	130 433 370	3
Short-term investments	506 165	0	4
Short-term loan receivables	8 360 101	7 834 317	5
Receivables and prepayments	2 162 272	8 360 294	6
Total current assets	141 734 429	146 627 981	
Fixed assets			
Long-term investments	22 579 396	18 361 002	7
Long-term loan receivables	37 702 693	42 420 794	5
Tangible fixed assets	73 286	38 363	8
Intangible fixed assets	1 181 803	176 792	9
Total fixed assets	61 537 178	60 996 951	
TOTAL ASSETS	203 271 607	207 624 932	

LIABILITIES			
Liabilities			
Current liabilities			
Debts and prepayments	6 145 699	787 313	10
Short-term part of long-term loans	4 930 685	4 888 881	15
Short-term technical provisions	4 962 656	8 786 168	11
Targeted financing for housing grants	18 040 621	23 493 805	12
Targeted financing for the application of the green investment scheme	1 618 722	2 056 311	13
Targeted financing for supporting measures of entrepreneurship	431 531	260 000	14
Total current liabilities	36 129 914	40 272 478	
Long-term liabilities			
Long-term technical provisions	5 394 929	6 603 726	11
Long-term loans	10 092 860	14 887 092	15
Targeted financing for supporting measures of entrepreneurship	25 061 406	66 696 178	14
Total long-term liabilities	40 549 195	88 186 996	
Total liabilities	76 679 109	128 459 474	
Net assets			
Foundation capital	122 717 513	77 838 757	
Total net gain of the reporting year	3 874 985	1 326 701	
Total net assets	126 592 498	79 165 458	
TOTAL LIABILITIES	203 271 607	207 624 932	

6.2. Income statement (consolidated) in euros

Operating income	2019	2018	Notes
Guarantee fees	3 279 129	3 711 679	16, 17
Interest income from loans	1 189 894	1 153 556	16, 17
Intermediation of targeted financing for housing grants	6 261 501	42 452 593	16
Intermediation of targeted financing for the implementation of the green investment scheme	619 448	1 045 733	16
Targeted financing to cover operating expenses	2 848 327	2 385 616	16, 17
Fund management fees	790 206	517 158	17
Total operating income	14 988 505	51 266 335	
Operating expenses			
Intermediation of targeted financing for housing grants	-6 261 501	-42 452 593	16
Intermediation of targeted financing for the implementation of the green investment scheme	-619 448	-1 045 733	16
Administrative expenses	-4 638 778	-3 836 352	20
Other operating income and expenses	75 303	88 021	18
Total operating expenses	-11 444 424	-47 246 657	
Provisions and impairment losses			
Provisions for claims from guarantee activities	-1 142 833	-1 869 089	16
Loan losses	225 087	-197 668	16
Discounting of other claims	0	3 000	16
Total provisions and impairment losses	-917 746	-2 063 757	
Financial income and expenses			
Net income from securities	2 103	2 324	4
Interest income on deposits	106 626	2 998	3
Interest expenses	-476 115	-607 434	16
Profit/loss from associated undertaking	206 339	-17 602	7, 16
Profit/loss from fund investments	1 414 969	0	
Other financial income and expenses	-5 272	-9 506	19
Total financial income and expenses	1 248 650	-629 220	
Net income for the reporting period	3 874 985	1 326 701	

6.3. Cashflow statement (consolidated)

in euros

	2019	2018	Notes
Cash flows from principal activities			
Income	3 874 985	1 326 701	16
Adjustments to income	-1 902 915	-667 882	
Change in receivables and prepayments made	6 198 022	-3 999 635	
Change in liabilities and prepayments received	5 358 387	293 367	
Change in provisions	-5 032 309	1 989 854	
Change in loan receivables	4 192 316	5 723 329	
Change in loan obligations	-4 752 428	-4 655 068	
Change in targeted financing	-3 801 959	14 119 946	
Total cash flows from principal activities	4 134 099	14 130 612	
Cash flows from investment activities			
Acquisition of long-term financial investments	-4 016 667	-3 000 000	
Repayment of long-term financial investments	1 233 056	488 684	
Income from interest	4 155	5 086	
Received dividend income	0	25 500	
Acquisition of fixed assets	-1 087 872	-122 666	8, 9
Sale of fixed assets	5 750	9 900	
Other cash flows from investment activities	0	30	
Total cash flows from investment activities	-3 861 578	-2 593 466	
Total cash flows	272 521	11 537 146	
Cash and cash equivalents at the beginning of the period	130 433 370	118 896 224	
Change in cash and cash equivalents	272 521	11 537 146	
Cash and cash equivalents at the end of the period	130 705 891	130 433 370	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 31.12.2017	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
Distribution of income into trust funds	-91 339	0	1 418 040	-1 326 701	0
Transfer of targeted financing of support measures to foundation capital	43 552 055	0	0	0	43 552 055
Total net gain of the reporting year	0	0	0	3 874 985	3 874 985
Balance 31.12.2019	83 651 533	0	39 065 980	3 874 985	126 592 498

Additional information regarding the change in net assets has been provided in Note 21.

➤ 6.5. Notes to annual accounts

➤ Note 1. Principles of drafting the annual accounts

The 2019 annual accounts of Foundation 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 Foundation KredEx and listed under the relevant accounting principle in Note 2 have been followed.

The financial year started on 1 January 2019 and ended on 31 December 2019.

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

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

	31.12.2019	31.12.2018
Demand deposits	130 076 891	130 401 970
Fixed-term deposits	629 000	31 400
	130 705 891	130 433 370

In 2019, demand and fixed-term deposits earned interest income in the amount of EUR 106,626 (EUR 2843 in 2018) (see Note 16).

➤ Note 4. Short-term financial investments

The fair value of EIB bonds was EUR 506,165 (EUR 506,820 in 2018), with a maturity term in 2020. In 2019, bonds earned EUR 2758 in interest and unrealised profit from value adjustment was minus EUR 655.

➤ Note 5. Loan receivables

Loan receivables by payment term	Term of a loan 1 year	Term of a loan 2–6 years	Term of a loan 7–14 years	Total
Housing loans				
Loans to non-profit associations	100 000	75 000	0	175 000
Apartment building renovation loans through banks	5 708 848	23 014 449	6 540 511	35 263 808
Total	5 808 848	23 089 449	6 540 511	35 438 808
Capital loans to undertakings				
Capital loans	2 480 445	854 741	0	3 335 186
including impairments	–2 273 796	–43 401	0	–2 317 197
Technology loans	390 252	4 467 246	1 169 824	6 027 322
including impairments	–185 979	–402 810	–78 827	–667 616
Export loans	2 179 475	1 620 569	0	3 800 044
including impairments	–403 785	–130 541	0	–534 326
Total	2 186 612	6 365 804	1 090 997	9 643 413
Loans to banks in the enterprise area				
Start-up loans via banks	432 579	744 920	0	1 177 499
including impairments	–67 938	–128 988	0	–196 926
Total	364 641	615 932	0	980 573
Other loans				
Loans registered as a result of loss procedure	240 516	0	0	240 516
including impairments	–240 516	0	0	–240 516
Total	0	0	0	0
TOTAL	8 360 101	30 071 185	7 631 508	46 062 794
<i>including the principal loan amount</i>	<i>8 248 830</i>	<i>30 071 185</i>	<i>7 631 508</i>	<i>45 951 523</i>
<i>interest payable</i>	<i>111 271</i>	<i>0</i>	<i>0</i>	<i>111 271</i>

As at the end of 2018, the short-term part of the issued loans was EUR 7,834,317 and the long-term part was EUR 42,420,794.

➤ Note 5. 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 31.12.2017	45 421 945	1 334 960	14 225 056	251 279	61 233 240
<i>including the principal amount</i>	<i>45 341 061</i>	<i>1 331 120</i>	<i>13 632 675</i>	<i>248 493</i>	<i>60 553 349</i>
<i>interest</i>	<i>80 884</i>	<i>3 840</i>	<i>592 381</i>	<i>2 786</i>	<i>679 891</i>
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
Balance at acquisition cost 31.12.2018	40 377 557	1 219 660	13 620 373	245 992	54 463 582
<i>including the principal amount</i>	<i>40 355 834</i>	<i>1 216 729</i>	<i>11 938 167</i>	<i>243 992</i>	<i>53 753 997</i>
<i>interest</i>	<i>21 723</i>	<i>2 931</i>	<i>682 206</i>	<i>2 725</i>	<i>709 585</i>
Issued loans, 2019	0	385 242	1 947 046	0	2 332 288
Calculated interest and contract fees	775 447	48 715	646 306	6 923	1 477 391
Repaid loans, 2019	-4 934 633	-374 250	-1 265 341	-5 413	-6 579 637
Received interest and contract fees	-779 563	-48 566	-508 135	-6 986	-1 343 250
Loans transferred off the balance sheet, 2019	0	-53 302	-259 031	0	-312 333
Interest debts written off the balance sheet	0	0	-18 665	0	-18 665
Balance at acquisition cost 31.12.2019	35 438 808	1 177 499	13 162 553	240 516	50 019 376
<i>including the principal amount</i>	<i>35 421 201</i>	<i>1 174 419</i>	<i>12 360 841</i>	<i>237 854</i>	<i>49 194 315</i>
<i>interest</i>	<i>17 607</i>	<i>3 080</i>	<i>801 712</i>	<i>2 662</i>	<i>825 061</i>

Irrecoverable loans

Balance 31.12.2017	0	-223 147	-4 780 374	-251 279	-5 254 800
<i>including the principal amount</i>	<i>0</i>	<i>-223 147</i>	<i>-4 326 186</i>	<i>-248 493</i>	<i>-4 797 826</i>
<i>interest</i>	<i>0</i>	<i>0</i>	<i>-454 188</i>	<i>-2 786</i>	<i>-456 974</i>
Impairments, 2018	0	-326 158	-585 313	5 288	-906 183
<i>including the principal amount</i>	<i>0</i>	<i>-326 158</i>	<i>-372 901</i>	<i>5 227</i>	<i>-693 831</i>
<i>interest</i>	<i>0</i>	<i>0</i>	<i>-212 412</i>	<i>61</i>	<i>-212 351</i>
Loans transferred off the balance sheet, 2018	0	283 720	1 668 794	0	1 952 514
<i>including the principal amount</i>	<i>0</i>	<i>283 720</i>	<i>1 608 049</i>	<i>0</i>	<i>1 891 769</i>
<i>interest</i>	<i>0</i>	<i>0</i>	<i>60 745</i>	<i>0</i>	<i>60 745</i>
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
<i>including the principal amount</i>	<i>0</i>	<i>-265 585</i>	<i>-3 091 038</i>	<i>-243 267</i>	<i>-3 599 890</i>
<i>interest</i>	<i>0</i>	<i>0</i>	<i>-605 856</i>	<i>-2 725</i>	<i>-608 581</i>
Impairments, 2019	0	15 363	-99 941	5 475	-79 103
<i>including the principal amount</i>	<i>0</i>	<i>15 363</i>	<i>23 995</i>	<i>5 412</i>	<i>44 770</i>
<i>interest</i>	<i>0</i>	<i>0</i>	<i>-123 936</i>	<i>63</i>	<i>-123 873</i>
Loans written off the balance sheet, 2019	0	53 296	277 696	0	330 992
<i>including the principal amount</i>	<i>0</i>	<i>53 296</i>	<i>259 031</i>	<i>0</i>	<i>312 327</i>

➤ Note 5. Loans receivable (continued)

Irrecoverable loans	Housing loans	Enterprise loans for banks	Capital loans to undertakings	Other loans	Total loans
interest	0	0	18 665	0	18 665
Receipt of previously discounted loans, 2019	0	33 225	109 911	0	143 136
Balance 31.12.2019	0	-196 926	-3 519 140	-240 516	-3 956 582
<i>including the principal amount</i>	<i>0</i>	<i>-196 926</i>	<i>-2 808 012</i>	<i>-237 854</i>	<i>-3 242 792</i>
<i>interest</i>	<i>0</i>	<i>0</i>	<i>-711 128</i>	<i>-2 662</i>	<i>-713 790</i>

Changes in loan portfolio

Balance at the adjusted acquisition cost 31.12.2017	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
Balance at the adjusted acquisition cost 31.12.2019	35 438 808	980 573	9 643 413	0	46 062 794

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 770,124 was earned (EUR 896 833 in 2018).

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 2019, interest income of EUR 5,323 was earned (EUR 4,192 in 2018).

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.

➤ Note 6. Receivables and prepayments

	31.12.2019	31.12.2018
Receivables from current settlements	249 594	280 044
Receivables from reinsurance providers	398 122	3 471 070
Prepaid expenses of future periods	28 831	6 352
Claims from targeted financing of operating expenses	1 196 126	759 563
Accrued interest	712	712
Accrued income of guarantee fees	95 631	88 423
Prepayments of guarantee benefits	193 256	3 754 130
Total	2 162 272	8 360 294

Receivables from current settlements also include the receivable from the affiliated company in the amount of EUR 11,773 (EUR 20,440 in 2018), see Note 25.

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 7. 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. Using the equity method, the profit for 2019 was EUR 206,339 (in 2018, the loss was EUR 17,602) (see Note 16) and the balance of the investment by the end of the year was EUR 7,072,118 (EUR 6,865,780 in 2018).

In 2019, the contributions to the Baltic Innovation Fund amounted to EUR 3,600,000 (EUR 3,000,000 in 2018), and EUR 1,233 056 was received thereof (488,684 in 2018). The deposits shall be used for covering both operating expenses

and fund investments. As at 31.12.2019, the fair value of funds directed to fund investments was EUR 15,195,359 (EUR 10,988,402 in 2018).

In 2019, Baltic Investment Fund II was established, the contributions to which amounted to EUR 416,667. As at 31.12.2019, the fair value of funds directed to fund investments was EUR 311,919.

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

➤ Note 8. Tangible fixed assets

	Machinery and equipment	Inventory and tools	Buildings	Total
Acquisition cost 31.12.2018	62 312	146 463	18 756	227 531
Sold at acquisition cost	-19 173	0	0	-19 173
Written off the balance sheet at its acquisition cost	0	-6 900	0	-6 900
Assets acquired	19 173	50 165	0	69 338
Acquisition cost 31.12.2019	62 312	189 728	18 756	270 796
Depreciation 31.12.2018	-47 242	-135 409	-6 517	-189 168
Depreciation 2019	-13 879	-16 784	-3 752	-34 415
Depreciation of sold fixed assets	19 173	0	0	19 173
Depreciation of fixed assets written off the balance sheet	0	6 900	0	6 900
Depreciation 31.12.2019	-41 948	-145 293	-10 269	-197 510
Residual cost 31.12.2017	31 446	26 480	15 990	73 916
Residual cost 31.12.2018	15 070	11 054	12 239	38 363
Residual cost 31.12.2019	20 364	44 435	8 487	73 286

In 2019, a used passenger car was sold and a new passenger car was acquired; new computers were acquired.

➤ Note 9. Intangible fixed assets

	Computer programmes	Prepayments	Total
Acquisition cost 31.12.2018	401 880	157 200	559 080
Acquired, 2019	7 135	1 011 399	1 018 534
Written off the balance sheet at its acquisition cost	-16 844	0	-16 844
Acquisition cost 31.12.2019	392 171	1 168 599	1 560 770
Depreciation 31.12.2018	-382 288	0	-382 288
Depreciation 2019	-13 523	0	-13 523
Depreciation of fixed assets written off the balance sheet	16 844	0	16 844
Depreciation 31.12.2019	-378 967	0	-378 967
Residual cost 31.12.2017	58 253	43 340	101 593
Residual cost 31.12.2018	19 592	157 200	176 792
Residual cost 31.12.2019	13 204	1 168 599	1 181 803

Prepayments in the amount of EUR 1,168,599 have been made to establish KredEx's new information system.

➤ Note 10. Debts and prepayments

	31.12.2019	31.12.2018
Trade payables	196 107	307 407
Salary and holiday pay liabilities	261 973	269 702
Liabilities to reinsurance providers in respect of prepayments and recoveries	18 906	47 896
Repayment obligation of state budget funds	3 821 726	0
Decided but not paid grants	1 692 742	0
Tax arrears	154 246	162 308
Total	6 145 700	787 313

➤ Note 11. Short-term and long-term provisions

	31.12.2019	31.12.2018
Short-term technical provisions		
Short-term share of provision for outstanding claims	4 962 656	8 786 168
Total	4 962 656	8 786 168
Long-term technical provisions		
Long-term share of provision for outstanding claims	698 948	1 369 278
Equalisation reserves	4 695 981	5 234 448
Total	5 394 929	6 603 726
Total	10 357 585	15 389 894

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 31.12.2019, technical provisions correspond to the minimum rates established by law, forming 2.97% 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 7.98% in the area of entrepreneurship and 1.33% in the area of housing. From guarantee premiums, planned provisions were allocated to the total extent of EUR 2,292,009 (EUR 2,491,222 in 2018), including EUR 1,744,078 for enterprise loan guarantees (EUR 1,982,693 in 2018) and EUR 547,931 for housing loan guarantees (EUR 508,529 in 2018). From the above amount,

EUR 436,954 has been transferred to the reserve fund of the measure "The issuance of insurance for loans, guarantees and export transactions in 2014–2020" (in 2018, the provisions were reduced from the measure of the fund within EUR 234,800).

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 2019, additional income was earned from the reduction of provisions in the area of business in the amount of EUR 41,737 (in 2018, additional provisions in the enterprise area were calculated in the amount of EUR 24,262 which were 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 collateral, additional income of EUR 301,192 (EUR 273,224 in 2018) was generated from the reduction of provisions.

In 2019, the increase in provisions for unsatisfied claims was covered 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 496,936. In 2018, the increase in provisions 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 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.

From the reinsurance of enterprise guarantees, EUR 2,714,803 was received from the European Investment Fund to cover

losses in 2019 (EUR 143,014 in 2018). From the collection of guarantee losses, EUR 357,045 was recovered (EUR 171,838 in 2018). From these sums, EUR 6933 was transferred to the reserve fund of 'The issuance of loans, guarantees and export transactions in 2014–2020. EUR 6360 was repayable to the European Investment Fund.

Out of these sums, EUR 27,193 was transferred into the reserve fund for the 'Guarantee programme for start-up and micro loans,' and EUR 5631 into the reserve fund of the 'The issuance of insurance for loans, guarantees and export transactions in 2014–2020' in 2018. EUR 32,817 was repayable 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	
	2019	2018	2019	2018	2019	2018
Enterprise loan guarantees						
Balance on January 1	10 138 431	10 273 172	3 776 257	1 870 804	13 914 688	12 143 976
Increase	2 955 203	83 555	1 744 078	1 982 693	4 699 281	2 066 248
Decrease	–7 466 443	–218 296	–2 500 003	–77 240	–9 966 446	–295 536
<i>including payment of indemnities</i>	–7 101 715	–544 892	0	–16 164	–7 101 715	–561 056
<i>receivables from reinsurance providers</i>	–364 728	326 596	0	0	–364 728	326 596
Balance on December 31	5 627 191	10 138 431	3 020 332	3 776 257	8 647 523	13 914 688
<i>including the long-term part</i>	2 929 762	1 369 278	3 020 332	3 776 257	5 145 535	5 145 535
Housing loan guarantees						
Balance on January 1	17 015	25 162	1 458 190	1 230 902	1 475 205	1 256 064
Increase	29 280	8 017	547 931	508 529	277 211	516 546
Decrease	–11 882	–16 164	–330 472	–281 241	–342 354	–297 405
<i>including payment of indemnities</i>	–11 882	–16 164	0	0	–11 882	–16 164
Balance on December 31	34 413	17 015	1 675 649	1 458 190	1 710 062	1 475 205
<i>including the long-term part</i>	0	0	1 675 649	1 458 190	1 675 649	1 458 190
Total balance at the beginning of the period	10 155 446	10 298 334	5 234 447	3 101 706	15 389 893	13 400 040
Increase	2 984 483	91 572	2 292 009	2 491 222	5 276 492	2 582 794
Decrease	–7 478 325	–234 460	–2 830 475	–358 481	–10 308 800	–592 941
<i>including payment of indemnities</i>	–7 113 597	–561 056	0	0	–7 113 597	–561 056
<i>receivables from reinsurance providers</i>	–364 728	326 596	0	0	–364 728	326 596
Balance at the end of the period	5 661 604	10 155 446	4 695 981	5 234 447	10 357 585	15 389 893
<i>including short-term part</i>	4 962 656	8 786 168	0	0	4 962 656	8 786 168
<i>long-term part</i>	698 948	1 369 278	4 695 981	5 234 447	5 394 929	6 603 725

➤ Note 12. 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 2013–2019	31.12.2019	31.12.2018
Balance at the beginning of the year	23 495 045	8 355 487
Provisions from the state budget	1 504 994	20 209 840
Provisions from Structural Funds*	0	36 463 421
Transfer of funds from the creation measures of the Climate and Energy Agency	0	771 151
Received technical assistance from Structural Funds	303 829	311 521
Total grant payments:	–6 486 073	–41 383 854
<i>incl. grant for updating the electrical installations of dwellings</i>	–131 468	–180 925
<i>reconstruction grants from Structural Funds for apartment buildings*</i>	0	–36 616 051
<i>Costs for the participation in the work of the International Energy Agency (IEA)</i>	–34 216	0
<i>grants for local governments</i>	–245 448	–62 986
<i>home grant for families with many children</i>	–2 601 731	–3 064 797
<i>reconstruction grant for small residences</i>	–979 433	–1 204 185
<i>support for the introduction of renewable energy equipment</i>	–120 826	–121 094
<i>for participation in housing development projects</i>	–277 732	–133 816
<i>Grant for developing the residential properties of local government</i>	–2 095 219	0
Total operating expenses:	–775 933	–1 232 521
<i>including administrative expenses of support measures</i>	–656 000	–921 000
<i>technical assistance, including expenses incurred as a result of co-financing</i>	–303 829	–311 521
<i>change in the prepaid expenses</i>	183 896	0
Balance at the end of the year	18 041 862	23 495 045
<i>including short-term part</i>	18 041 862	23 495 045

* Receipt of appropriations under the measure of reconstruction grants for apartment buildings and payment of grants from Structural Funds will be reflected in the accounts of the Ministry of Economic Affairs and Communications from 2019.

Agreement for the foundation of the Climate and Energy Agency in 2010	31.12.2019	31.12.2018
Balance at the beginning of the year	0	762 654
Total grant payments:	0	8 497
<i>grants from Structural Funds for reconstruction projects of apartment buildings – repayments</i>	0	8 497
transfer of funds to other state budget measures	0	–771 151
Balance at the end of the year	0	0
<i>including short-term part</i>	0	0

Funds for participation in international energy saving projects	31.12.2019	31.12.2018
Balance at the beginning of the year	-1 240	-41
Receipts from international energy saving projects	613	0
Payments to project partners in international energy saving projects	0	-1 199
Operating expenses within the framework of international energy saving projects	-613	0
Balance at the end of the year	-1 240	-1 240
<i>including short-term part</i>	<i>-1 240</i>	<i>-1 240</i>
In 2019, KredEx participated in the following projects: CA-EPBD.		
Total targeted financing for housing support measures	18 040 621	23 493 805

➤ Note 13. 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 Great Duchy of Luxembourg, 17.08.2010	31.12.2019	31.12.2018
Balance at the beginning of the year	278 018	283 871
Administrative expenses	-3 957	-5 853
Balance at the end of the year	274 061	278 018
<i>including short-term part</i>	<i>274 061</i>	<i>278 018</i>

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	31.12.2019	31.12.2018
Balance at the beginning of the year	1 293 835	1 602 674
Grants paid	0	-308 839
Balance at the end of the year	1 293 835	1 293 835
including short-term part	1 293 835	1 293 835

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.

At the end of 2019, the Ministry of Economic Affairs and Communications transferred the charging infrastructure for electric cars to OÜ Elektrilevi by way of auction.

Contract under public law for the application of the Green Investment Scheme between the Republic of Estonia and Mitsubishi Corporation	31.12.2019	31.12.2018
Balance at the beginning of the year	55 826	36 628
Repayments of grants paid	110	0
Expenses for managing the charging network infrastructure for electric cars	-619 558	-736 895
Result of quick charging operations	-904	-13 939
Administrative expenses	-37 985	-64 016
Covering the costs from the reserve fund	428 632	834 048
Covering the costs from other state budget funds	224 705	0
Balance at the end of the year	50 826	55 826
including short-term part	50 826	55 826
Reserve fund formed from ELMO revenue and expenditure	0	428 632
Total targeted financing received for the application of the green investment scheme	1 618 722	2 056 311
including short-term part	1 618 722	2 056 311

➤ Note 14. Targeted financing for supporting measures of entrepreneurship

As of 31.12.2019, the balances of targeted financing for the support measures, together with the revenues and expenditures from the measure's programmes, are as follows.

Trust 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.

In 2019, Baltic Innovation Fund II was established and the Ministry of Economic Affairs and Communications allocated an additional EUR 2 million in the form of contributions to the fund.

Considering that the programme's funds have been fully exhausted and the final report for the programme has been prepared and audited, the Supervisory Board of Foundation KredEx decided

to transfer to the foundation capital funds in the amount of EUR 23,499,244 from the 'Additional support programme for improvement of the availability of loan capital for entrepreneurs'.

	31.12.2019	31.12.2018
Balance at the beginning of the year	29 532 518	28 691 784
Change in the trust fund from the income and expenses earned from BIF	-150 422	-152 953
Change in the value of BIF's shares	470 717	906 390
Change in the trust fund from the revenue and expenditures earned from the support programme	0	87 297
Contributions to the fund from the Ministry of Economic Affairs and Communications	2 000 000	0
Transfer of funds from the Fund into foundation capital	-23 499 244	0
Balance at the end of the year	8 353 569	29 532 518
<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.

Considering that the programme's funds have been fully exhausted and the final report for the programme has been prepared and audited, the Supervisory Board of Foundation KredEx decided to transfer to the foundation capital funds in amount of EUR 3,518 794 from the 'Guarantee programme for start-up and microloans'.

	31.12.2019	31.12.2018
Balance at the beginning of the year	3 518 794	3 527 887
Increase in reserve capital from income earned from implementing the measure	0	10 778
Decrease in reserve capital from expenses from implementing the measure	0	-19 871
Transfer of funds from the Fund into foundation capital	-3 518 794	0
Balance at the end of the year	0	3 518 794
<i>including the long-term part</i>	<i>0</i>	<i>3 518 794</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".

Considering that the programme's funds have been fully exhausted and the final report of the programme has been prepared and audited, the Supervisory Board of Foundation KredEx decided to transfer to the foundation capital funds in amount of EUR 16,534 017 from the 'Subordinated loans programme'.

	31.12.2019	31.12.2018
Balance at the beginning of the year	16 534 017	16 594 171
Increase in reserve capital from income earned from implementing the measure	0	225 576
Decrease in reserve capital from expenses from implementing the measure	0	-285 730
Transfer of funds from the Fund into foundation capital	-16 534 017	0
Balance at the end of the year	0	16 534 017
<i>including the long-term part</i>	<i>0</i>	<i>16 531 017</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.

	31.12.2019	31.12.2018
Balance at the beginning of the year	17 110 849	17 531 846
Increase in reserve capital from income earned from implementing the measure	978 115	728 687
Decrease in reserve capital from expenses from implementing the measure	-1 076 952	-762 339
The measure's administrative expenses	-304 175	-387 345
Balance at the end of the year	16 707 837	17 110 849
<i>including the long-term part</i>	<i>16 707 837</i>	<i>17 110 849</i>

Enlivening start-up entrepreneurship

The project 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. The measure's final beneficiary is Enterprise Estonia.

In 2019, funds were received from the Ministry of Finance for developing start-up enterprises in Ida-Viru County and from the Ministry of Education and Science for supporting EdTech companies. The Ministry of Economic Affairs and Communications finances the Accelerate Estonia programme.

	31.12.2019	31.12.2018
Balance at the beginning of the year	260 000	61 709
Funds received from Enterprise Estonia	1 255 277	639 283
Funds received from other targeted financiers	413 000	266 192
<i>incl. from the Ministry of Finance</i>	<i>300 000</i>	<i>200 000</i>
<i>from the Ministry of Education and Science</i>	<i>30 000</i>	<i>60 000</i>
<i>Ministry of Economic Affairs and Communications</i>	<i>83 000</i>	<i>0</i>
Operating expenses of Startup Estonia	-1 725 506	-1 006 943
Change in the balance of unreceived targeted financing	228 760	-299 759
Balance at the end of the year	431 531	260 000
<i>including the long-term part</i>	<i>0</i>	<i>0</i>
Total targeted financing of supporting measures for entrepreneurship	25 492 937	66 955 880
<i>including the long-term part</i>	<i>25 061 406</i>	<i>66 695 880</i>
<i>short-term part</i>	<i>431 531</i>	<i>260 000</i>

➤ Note 15. Long-term loans

	Loan obligation 31.12.2019	Term of repayment	Average interest per year
Loan from the Council of Europe Development Bank	7 433 747	02.05.2022	2,87%
Loan from the Ministry of Finance	7 589 798	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 2019 was EUR 8,685 (EUR 12,019 in 2018) (see Note 19).

	31.12.2019	31.12.2018
Balance at the beginning of the year	10 685 590	13 962 530
Repaid	-3 372 925	-3 276 940
Loan balance at the end of the year	7 312 665	10 685 590
<i>including repayable in the next reporting period</i>	<i>3 471 746</i>	<i>3 372 925</i>
<i>repayable from the reporting period after the next one until 2022</i>	<i>3 840 919</i>	<i>7 312 665</i>
Interest liability at the beginning of the year	174 988	227 930
Interest expense per year	259 975	356 923
Interest paid during the year	-313 881	-409 865
Interest liability at the end of the year	121 082	174 988
Total balance at the end of the year	7 433 747	10 860 578
<i>including short-term part</i>	<i>3 592 828</i>	<i>3 547 913</i>
<i>long-term part</i>	<i>3 840 919</i>	<i>7 312 665</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.

	31.12.2019	31.12.2018
Balance at the beginning of the year	8 896 913	10 219 399
Repaid	-1 322 486	-1 322 486
Loan balance at the end of the year	7 574 427	8 896 913
<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>6 251 941</i>	<i>7 574 427</i>
Interest liability at the beginning of the year	18 481	21 181
Interest expense per year	216 141	250 510
Interest paid during the year	-219 251	-253 210
Interest liability at the end of the year	15 371	18 481
Total balance at the end of the year	7 589 798	8 915 394
<i>including short-term part</i>	<i>1 337 857</i>	<i>1 340 967</i>
<i>long-term part</i>	<i>6 251 941</i>	<i>7 574 427</i>
Total loan obligations at the end of the year	15 023 545	19 775 972
<i>including short-term part</i>	<i>4 930 685</i>	<i>4 888 881</i>
<i>long-term part</i>	<i>10 092 860</i>	<i>14 887 091</i>

➤ Note 16. Income statement by area of activity

	2019	2018	Notes
Guarantee activity			
Security and contract fees	3 971 989	4 143 832	
Transferred to the fund of the measure from security and contract fees	-692 860	-432 153	
Guarantee losses and a change in technical provisions	-1 949 079	-2 242 259	
Loss covered from the fund of the relevant measure	436 954	266 973	
Received from reinsurance from the European Investment Fund	2 715 397	143 014	11
Receivables from reinsurance providers, change	-2 708 220	-143 014	11
Received from debt collection	369 048	171 838	11
Repaid amounts transferred into the fund of the relevant measure and reinsurance provider	-6 933	-65 641	11
Total net gain (loss) from guarantee activity	2 136 296	1 842 590	

	2019	2018	Notes
Crediting activity			
Interest, fines for delay, and contract fees	1 475 149	1 710 370	
Interest expense directed to the fund of the relevant measure	-285 255	-556 814	
Change in impairment losses	-79 102	-906 184	5
Impairment losses covered from the fund of the relevant measure	172 677	701 339	5
Written-off loans repaid	143 136	37 519	5
Repaid amounts directed into the fund of the relevant measure	-11 624	-30 342	5
Interest on loans taken	-476 115	-607 434	
Total net gain (loss) from crediting activity	938 866	348 454	
Management of funds			
Fund management fees	790 206	517 158	
Change in discounting of other claims	0	3 000	
Total net gain (loss) from fund management	790 206	520 158	
Investment activity			
Interest income from deposits	117 684	2 998	3
transferred from interest income	-11 058	0	
Net income from long-term financial investments	2 103	2 324	4
Profit/loss from related companies	206 339	-17 602	7
Operating expenses of the Baltic Innovation Fund (BIF), change in the value of its shares	1 735 264	753 438	
Expense directed from a change in the value of BIF shares and from operating expenses to the fund for the establishment expenses of BIF	-320 295	-753 438	
Total income from investment activity	1 730 037	-12 280	
Targeted financing for operating expenses			
Targeted financing received for housing grants	6 261 501	42 452 593	
Decided and paid housing grants	-6 261 501	-42 452 593	12
Budgetary means for managing housing support measures	472 104	596 000	17
Targeted financing received for the application of the green investment scheme	619 448	1 045 733	
Grants paid within the framework of the green investment scheme	-619 448	-1 045 733	13
Budgetary means for managing green investment scheme	42 713	83 807	13,17
Technical aid	303 829	311 521	12,17
Covering the administrative costs of entrepreneurship funding measures from the funds of the measures	304 175	387 345	12, 17
Targeted financing received for covering the costs of Startup Estonia	1 659 632	1 006 943	12, 17
Targeted financing received for implementing other projects	65 874	0	12, 17
Total targeted financing	2 848 327	2 385 616	17
Administrative expenses	-4 638 778	-3 836 352	20
Operating result	3 804 954	1 248 186	
Other operating income and expenses	75 303	88 021	18
Other financial income and expenses	-5 272	-4 706	19
Income	3 874 985	1 326 701	

➤ Note 17. Sales income by areas of activity and types of income

	2019	2018	Notes
Guarantee fees (EMTAK 66291)	3 279 129	3 711 679	16
Enterprise loan guarantees	2 004 687	2 278 957	
including, entered into the fund of the relevant measure	–502 246	–280 662	
Housing loan guarantees	1 638 350	1 515 233	
Contract fees for enterprise loan guarantees	328 952	349 642	
including, entered into the fund of the relevant measure	–190 614	–151 491	
Loan interests (EMTAK 64929)	1 189 894	1 153 556	5
Housing loans	775 447	901 025	
Interest on start-up loans	46 473	46 239	
Subordinated loans for enterprises	634 358	742 551	
including, entered into the fund of the relevant measure	–267 809	–539 023	5
Contract fees for subordinated loans	18 871	20 555	
including, entered into the fund of the relevant measure	–17 446	–17 791	
Targeted financing of operating expenses (EMTAK 84139)	2 848 327	2 385 616	
Administrative expenses of housing support measures	472 104	596 000	12
Technical aid	303 829	311 521	12
Application expenses of green investment schemes	42 713	83 807	13, 16
Structural Funds 2014–2020; administrative expenses of supporting measures of entrepreneurship	304 175	387 345	14, 16
Administrative expenses of other projects	65 874	0	
Operating expenses of Startup Estonia	1 659 632	1 006 943	14, 16
Management of funds (EMTAK 66301)	790 206	517 158	
Fund management fees	790 206	517 158	
Total	8 107 556	7 768 009	

➤ Note 18. Other operating income and expenses

	2019	2018
Profit/loss from sales and write-offs of fixed assets and stocks	5 750	7 504
Targeted financing of operating expenses	72 854	84 278
<i>including providing services to the related company</i>	61 496	62 980
<i>including for covering participation expenses in international projects</i>	11 357	6 573
Other income and expenses	4 559	10 177
Income from the projects of the green investment scheme	165 800	203 387
Expenses for the projects of the green investment scheme	–173 660	–217 325
Total	75 303	88 021

SA KredEx provides the affiliated company AS KredEx Krediidikindlustus with administrative services (see Note 25).

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 2019, the quick charging service was provided to the government and local government authorities to the extent of EUR 20,732 (EUR 26,505 in 2018) (see Note 25).

➤ Note 19. Other financial expenses and income

	2019	2018
State guarantee for the loan from the Council of Europe Development Bank (see Note 14)	-8 685	-12 019
Other financial income	3 413	2 513
Total	-5 272	-9 506

➤ Note 20. Administrative expenses

	2019	2018
Various operating expenses	-2 481 098	-1 879 013
Rental and maintenance of office premises	-209 127	-209 398
Development, repair and maintenance of IT and office equipment	-193 396	-191 883
Personnel and training expenses	-101 395	-72 009
Economic and administrative expenses	-146 403	-85 503
Telephone, mailing and internet expenses	-9 480	-6 448
Transport expenses	-27 494	-32 943
Travel expenses	-31 518	-33 449
Marketing expenses	-1 483 386	-887 319
Auditing expenses	-35 660	-36 859
Legal services	-56 964	-108 499
Membership fees	-16 901	-11 680
Expert assessment	-131 307	-184 893
Other services	-38 067	-17 130
Labour costs	-2 109 743	-1 877 715
Wages and salaries	-1 579 139	-1 405 220
<i>including the salary of the Supervisory Board and members of the management board</i>	<i>-189 699</i>	<i>-171 723</i>
<i>salary of employees</i>	<i>-1 389 440</i>	<i>-1 233 497</i>
Social tax	-519 609	-462 434
Unemployment insurance premium	-10 995	-10 061
Depreciation of fixed assets	-47 937	-80 624
Total administrative expenses	-4 638 778	-3 836 352

Along with the subsidiary AS Smartcap, the average number of employees during the year was 42.9 (41.7 in 2018).

The average number of employees working under employment contracts was 41.2, and the remuneration calculated for them was EUR 1,381,831. The average number of members of management and supervisory bodies was 10.1 and the remuneration calculated for them was EUR 189,699. The number of employees working under a contract under the Law of Obligations was three, and the remuneration calculated for them was EUR 7,609.

➤ Note 21. Changes in net assets

Foundation capital	Change in net assets: increase +, decrease -	Source of the change
Trust fund for housing guarantees	1 418 040	Distribution of the result of year 2018
Trust fund of start-up loan guarantees	-122 199	Distribution of the income of year 2018
Trust fund of loan guarantees	-131 928	Distribution of the income of year 2018
Trust fund of subordinated loans	-1 490	Distribution of the income of year 2018
Trust fund for the foundation of the credit insurance company	-39 256	Distribution of the result of year 2018
Investment trust fund of AS SmartCap	203 534	Distribution of the income of year 2018
Trust fund for housing guarantees	1 500 000	Reduction of the housing loan trust fund in foundation capital
Trust fund for contributions into the Baltic Innovation Fund	23 499 244	Reduction of the trust fund for the foundation expenses of Baltic Innovation Fund in liabilities
Trust fund of subordinated loans	16 534 017	Reduction of the trust fund for issuing of loans and covering of losses under the subordinated loan programme in liabilities
Trust fund of start-up loan guarantees	3 518 794	Reduction of the trust fund for the start-up loan guarantees
Profit for 2019	3 874 985	Retained profit for 2019

➤ Note 22. 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. The acquisition cost at the end of 2018 for the charging network was EUR 6,484,539.

In 2019, the Ministry of Economic Affairs and Communications transferred the charging network for electric cars to OÜ Elektrilevi by way of auction.

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 loans have low 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 off-balance sheet 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 the payments received in the settlement or enforcement proceedings are volatile, these claims are generally no longer reflected off-balance sheet 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, as at the end of 2019, none of the recovered grants has been recognised as off-balance sheet 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 31.12.2018	487 711	0	244 982	0
Change in claims from 31.12.2018	-150 629	0	-49 570	0
including received	-140 614	-41 452	-333 957	-3 357
including revaluation	-10 015	41 452	284 387	3 357
Balance of claims 31.12.2019	337 081	0	195 412	0

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

➤ Note 23. Off-balance sheet and conditional liabilities

Security liabilities	2019	2018	Change
Enterprise loan guarantees			
Performing Guarantee Portfolio at the beginning of the year	111 101 804	130 175 703	-19 073 899
Guarantee volume of concluded agreements	74 489 023	72 266 306	2 222 717
Depreciation of the portfolio and terminated agreements	-84 386 561	-91 340 205	6 953 644
Performing Guarantee Portfolio at the end of the year	101 204 267	111 101 804	-9 897 538
Issued offers at the end of the year	604 184	32 400	571 784
Maximum security liability as at the end of the year	108 429 420	122 253 973	-13 824 553
Housing loan guarantees			
Performing Guarantee Portfolio at the beginning of the year	112 159 091	94 684 740	17 474 351
Guarantee volume of concluded agreements	44 809 015	43 834 628	974 387
Depreciation of the portfolio and terminated agreements	-28 092 985	-26 360 277	-1 732 708
Performing Guarantee Portfolio at the end of the year	128 875 121	112 159 091	16 716 030
Issued offers at the end of the year	30 000	13 500	16 500
Maximum security liability as at the end of the year	128 989 530	112 672 570	16 316 960
Total performing guarantee portfolio	230 079 388	223 260 895	6 818 493

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 31.12.2019, KredEx had conditional liabilities under the concluded loan agreements in the form of unused loan limits in the amount of EUR 256,759 (EUR 14,820 in 2018), of which EUR 149,019 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 2019. 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 24. 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 15.03.2022. The lease contract does not include the possibility of premature termination.

AS Smartcap leased office premises at Hobujaama 4, Tallinn from 01.11.2017–31.05.2019. On 01.06.2019, AS Smartcap leased office premises at Pärnu mnt 12. The lease contract will remain valid until 31.05.2020. 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 2019, lease expenses were EUR 127,269 (EUR 134,320 in 2018) and the lease expenses from maintained agreements planned for 2020 are EUR 135,514. 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, 167.32 m² have been subleased to the affiliate AS KredEx Krediidikindlustus. In 2019, income from sublease was EUR 25,544 (EUR 24,455 in 2018), and the estimated income from subleasing in 2019 is EUR 27,106. The lease costs stated in the previous paragraph have been reduced by the sublease income.

➤ Note 25. 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, Ministry of Finance and Ministry of Education and Science have been described in greater detail in Notes 12 to 15. Transactions with the related company AS KredEx Krediidikindlustus are detailed in Notes 7, 18 and 24.

Additionally, KredEx has mediated costs in the amount of EUR 45,077 (EUR 35,690 in 2018). With value-added tax included, KredEx has issued invoices to KredEx Krediidikindlustus in the amount of EUR 152,298 (EUR 146,020 in 2018).

With the respective indicators of the subsidiary AS SmartCap, the management board fees in 2019 were EUR 138,534 and the Supervisory Board fees EUR 48,546 (respectively EUR 127,245 and EUR 44,478 in 2018). 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

	2019	2018
Affiliated company KredEx Krediidikindlustus (sales with value added tax)	152 298	146 020
Quick charging service for electric cars provided to the government and local government authorities (without value added tax)	20 732	26 505
Fund management service provided by AS Smartcap to Early Fund II	790 206	517 158
Ministry of Economic Affairs and Communications	7 017	24 377

Purchases

Other government and local government enterprises and authorities	217 160	205 906
Affiliated company KredEx Krediidikindlustus	180	24
Ministry of Economic Affairs and Communications	0	1 199

Targeted financing received for Startup Estonia projects

Other government and local government enterprises and authorities	0	61 709
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Receivables	31.12.2019	31.12.2018
Affiliated company KredEx Krediidikindlustus	11 773	20 440
Other government and local government enterprises and authorities	7 921	2 532
Liabilities		
Other government and local government enterprises and authorities	3 846	25 377
Affiliated company KredEx Krediidikindlustus	0	24
Ministry of Finance	8 685	12 019

➤ Note 26. Events after the date of the report

Coronavirus (COVID-19), which began to spread in the world at the beginning of 2020, also reached Estonia in March. In an emergency situation related to the spread of Covid-19, where the financial performance and liquidity of companies has deteriorated and the banks request more guarantees from the enterprises, the Government of the Republic approved an economic aid package on 19.03.2020. Within the aid package, KredEx will be allocated EUR 1 billion for issuing loan guarantees, EUR 500 million for issuing working capital loans, and EUR 50 million for issuing investment loans. Due to the sharp increase in the loan volumes to be secured, it is necessary to amend the 'Support of Enterprise and State Loan Guarantees Act'. The guarantee limit of enterprise loans, set out in the law, will be increased to EUR 3 billion and the beneficiaries of a state guarantee will be permitted to use the relaxations made within the temporary framework of state aid compared to the ordinary applicable state aid rules (e.g. reimbursement of credit losses within up to 90% of the loan or leasing guaranteed by KredEx compared to the ordinary 80%). Also, under the draft amendment, the self-balancing

requirement for grant of loan guarantees established to KredEx will be relaxed, as, due to the emergency situation, KredEx is assuming significantly higher than normal risks. The allocation of funds to KredEx depends on the adoption of the 2020 supplementary budget by Riigikogu.

Under the agreement for the use of targeted support from the state budget, KredEx was allocated EUR 3,278,279 in 2020 to be used for housing support measures.

From the funds received under the state grant agreements of previous years, EUR 3,821,726 has been repaid and an additional EUR 196,442 received pursuant to the 2019 amendment of the agreement.

At the beginning of 2020, a change was made in the composition of the Supervisory Board: On 1 February, Kaido Padar was removed from his post as a Member of the Supervisory Board. Starting from 20 March, Arne Randmaa was appointed as a new Member of the Supervisory Board.

➤ Note 27. Unconsolidated report

Balance sheet (unconsolidated)

in euros

ASSETS	31.12.2019	31.12.2018	Notes
Current assets			
Cash and cash equivalents	128 870 064	128 936 031	3
Short-term investments	506 165	0	4
Short-term loan receivables	8 360 101	7 830 083	5
Receivables and prepayments	1 949 233	8 188 915	6
Total current assets	139 685 563	144 955 029	
Fixed assets			
Long-term investments	24 557 996	19 962 421	7
Long-term loan receivables	37 702 693	42 420 794	5
Tangible fixed assets	73 286	38 363	8
Intangible fixed assets	1 181 803	176 792	9
Total fixed assets	63 515 778	62 598 370	
TOTAL ASSETS	203 201 341	207 553 399	

LIABILITIES

Liabilities

Current liabilities

Debts and prepayments	6 075 433	715 811	10
Short-term part of long-term loans	4 930 685	4 888 881	15
Short-term technical provisions	4 962 656	8 786 168	11
Targeted financing for housing grants	18 040 621	23 495 045	12
Targeted financing for the application of the green investment scheme	1 618 722	2 055 071	13
Targeted financing for supporting measures of entrepreneurship	431 531	260 000	14
Total current liabilities	36 059 648	40 200 976	

Long-term liabilities

Long-term technical provisions	5 394 929	6 603 726	12
Long-term loans	10 092 860	14 887 091	15
Targeted financing for supporting measures of entrepreneurship	25 061 406	66 696 178	14
Total long-term liabilities	40 549 195	88 186 995	
Total liabilities	76 608 843	128 387 971	

Net assets

Foundation capital	122 717 513	77 838 727	
Total net gain of the reporting year	3 874 985	1 326 701	
Total net assets	126 592 498	79 165 428	
TOTAL LIABILITIES	203 201 341	207 553 399	

Income statement (unconsolidated)

in euros

	2019	2018	Notes
Operating income			
Guarantee fees	3 279 129	3 711 679	16, 17
Interest income from loans	1 189 894	1 153 556	16, 17
Intermediation of targeted financing for housing grants	6 261 501	42 452 593	12, 17
Intermediation of targeted financing for the implementation of the green investment scheme	619 448	1 045 733	13, 17
Targeted financing to cover operating expenses	2 848 327	2 385 616	16, 17
Total operating income	14 198 299	50 749 177	
Operating expenses			
Intermediation of targeted financing for housing grants	-6 261 501	-42 452 593	12
Intermediation of targeted financing for the implementation of the green investment scheme	-619 448	-1 045 733	13
Administrative expenses	-4 233 426	-3 528 460	20
Other operating income and expenses	84 403	96 908	18
Total operating expenses	-11 029 972	-46 929 878	
Provisions and impairment losses			
Provisions for claims from guarantee activities	-1 142 833	-1 869 089	16
Loan losses	-225 087	-197 668	16
Total provisions and impairment losses	-917 746	-2 066 757	
Financial income and expenses			
Net income from securities	2 103	2 324	4
Interest income on deposits	105 229	2 843	3
Interest expenses	-476 115	-607 434	16
Profit/loss from subsidiaries	377 151	203 534	
Profit/loss from associated undertaking	206 339	-17 602	7
Profit/loss from fund investments	1 414 969	0	
Other financial income and expenses	-5 272	-9 506	19
Total financial income and expenses	1 624 404	-425 841	
Net income for the reporting period	3 874 985	1 326 701	

Cashflow statement (unconsolidated)

in euros

	2019	2018	Notes
Cash flows from principal activities			
Income	3 874 985	1 326 701	16
Adjustments to income	-2 280 066	-870 711	
Change in receivables and prepayments made	6 239 682	-3 940 644	
Change in liabilities and prepayments received	5 359 623	257 725	
Change in provisions	-5032 309	1 989 854	
Change in loan receivables	4 188 082	5 727 563	
Change in loan obligations	-4 752 427	-4 655 069	
Change in targeted financing	-3 801 959	14 119 946	
Total cash flows from principal activities	3 795 611	13 955 365	
Cash flows from investment activities			
Acquisition of long-term financial investments	-4 016 667	-3 000 000	
Repayment of long-term financial investments	1 233 056	488 684	
Interest income received	4 155	5 086	
Received dividend income	0	25 500	
Acquisition of fixed assets	-1 087 872	-122 666	8, 9
Sale of fixed assets	5750	9 900	
Total cash flows from investment activities	-3 861 578	-2 593 496	
Total cash flows	-65 967	11 361 869	
Cash and cash equivalents at the beginning of the period	128 936 031	117 574 162	
Change in cash and cash equivalents	-65 967	11 361 869	
Cash and cash equivalents at the end of the period	128 870 064	128 936 031	3

Statement of changes in net assets (unconsolidated)

in euros

	Enterprise trust funds	Export trust funds	Housing trust funds	Undistributed income	Net assets
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
Distribution of income into trust funds	-91 339	0	1 418 040	-1 326 701	0
Transfer of targeted financing of support measures to foundation capital	43 552 055	0	0	0	43 552 055
Total net gain of the reporting year	0	0	0	3 874 985	3 874 985
Balance 31.12.2019	83 651 533	0	39 065 980	3 874 985	126 592 498

Additional information regarding the change in net assets has been provided in Note 21.

Signature of the Member of the Management Board to the 2019 annual report

The annual report and the annual accounts of Foundation KredEx for the financial year that ended on 31 December 2019 have been prepared by the Management Board.

Lehar Kütt

Chairman of the Management Board

(signed digitally)



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Independent Auditors' Report

(Translation of the Estonian original)

To the Supervisory Board of Fund KredEx

Opinion

We have audited the consolidated financial statements of Fund KredEx (the Group), which comprise the consolidated balance sheet as at 31 December 2019, 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 34 to 70, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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, 13 April 2020

/signed digitally/

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

Licence No 17



Division of the sales income of Foundation KredEx in the financial year 2019 according to the Estonian Classification of Economic Activities (EMTAK)

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

	2019	2018
Guarantee fees (EMTAK 66291)	3 279 129	3 711 679
Loan interests (EMTAK 64929)	1 189 894	1 153 556
Targeted financing for operating expenses (EMTAK 84139)	2 848 327	2 385 616
Fund management fees (EMTAK 66301)	790 206	517 158
Total	8 107 556	7 768 009



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