

# Annual Report

---

# 2016



# Table of contents

1. CEO's statement	4
2. Activity principles	6
3. Activities and results in 2016	14
4. Financial results and payment of losses	34
5. Plans for year 2016	36
6. Annual accounts	38



# Foundation KredEx Annual Report 2016

Beginning of financial year: 01.01.2016

End of financial year: 31.12.2016

Registry code of non-profit associations and foundations: 90006012

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

EMTAK codes: 66199, 66291, 84139

Address: Hobujaama 4, 10151 Tallinn

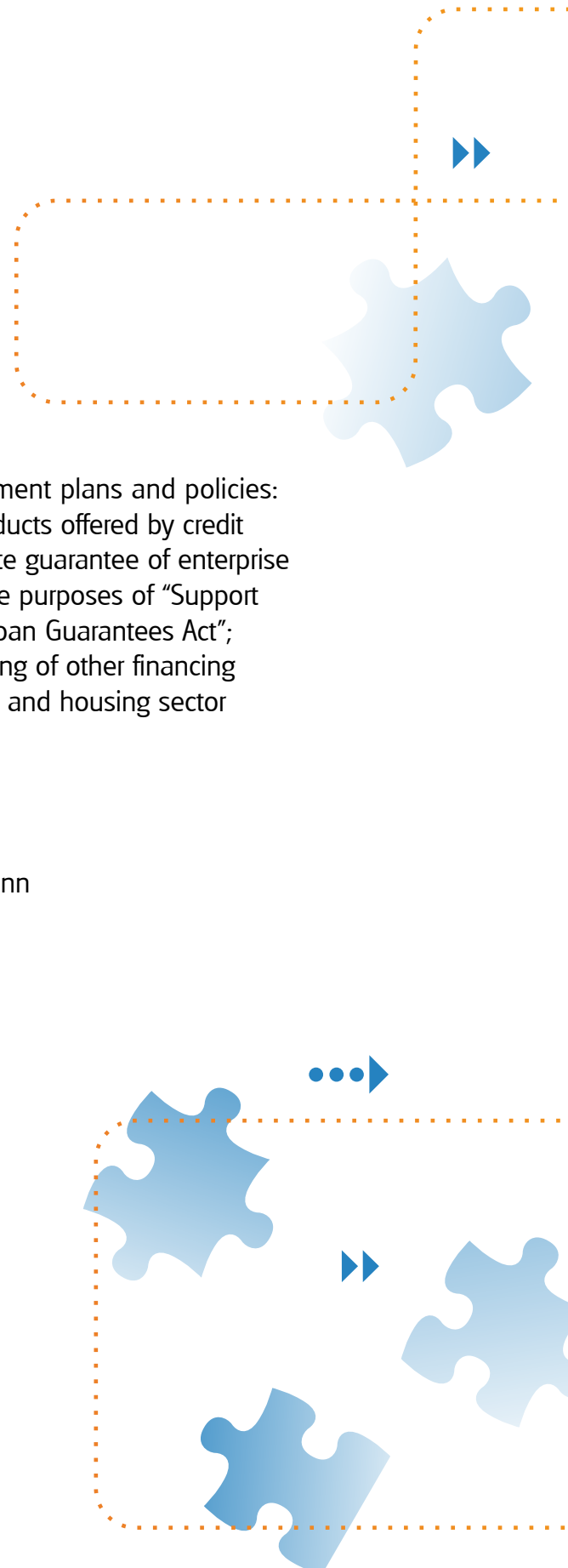
Telephone: 667 4100

E-mail: kredex@kredex.ee

Web page: www.kredex.ee

Chief Executive Officer: Lehar Kütt

Auditor: KPMG Baltics OÜ



# For KredEx, 2016 was a year of growing operational volumes

The volumes of guarantees increased significantly in relation to enterprise loans (44%), housing loans (42%) as well as apartment building loans (80%). At the same time, the guarantee volumes issued during the year in the said lines of business were the highest since the foundation of KredEx in 2001. During the year, KredEx issued guarantees in these target groups for the loans of a total of 3115 enterprises/private individuals/apartment buildings in total sum of EUR 124.4 million. This made it possible for them to include EUR 358 million of additional funding from banks. The total balance of guarantee obligations of KredEx as at the end of 2016 was EUR 207.6 million.

Also, there was a big increase in the number of applications for the reconstruction grant for apartment buildings, which opened in April 2015, and the home grant for families with many children. Compared to the previous year, the number of reconstruction applications was 2.8 times higher and home grants 2.2 times higher. Extensive growth was caused, above all, by the fact that more time was needed to prepare the applications after the opening of the reconstruction grant and the expansion of the target group for the home grant.

In 2016, several updates were made in the activities of KredEx, which definitely had an important impact on the increased operating volumes. In the enterprise area, changes were implemented; arising from the financing agreement signed at the end of 2015 with the Ministry of Economic Affairs and Communications (MoEAC) and the cooperation agreement for using the COSME counter-guarantees was signed with the European Investment Fund (EIF). These included increasing the maximum amount of guarantee per enterprise to EUR 5 million, increasing the maximum amount of start-up loan up to EUR 100,000 and the use of fixed guarantee in bigger volumes than before.

As regards the fund of funds, EstFund, a funding agreement was signed between KredEx, EIF and MoEAC, and in June, a call was announced for finding fund managers for sub-funds. Negotiations were started with co-investors for the creation of Baltic Innovation Fund II and preparations were made for the takeover of the investment activity of the Estonian Development Fund, which should be completed in the first half of 2017.

In the housing area, loan guarantees for energy efficient housing were made available in April; and in November, cooperation with Swedbank, which had been suspended in 2006, was continued for guaranteeing housing loans. As of November, KredEx started issuing grants for the reconstruction of small residential buildings. In addition, preparations were made for opening the measure for developing rental housing fund with state support in the first half of 2017.

In July, the Startup Estonia programme, having previously operated under the Estonian Development Fund, was transferred to KredEx. Thereby the scope of activities carried out by KredEx expanded and notable additions were made to the ranks of the KredEx team. When previously, KredEx improved only access to capital of starting companies by means of the

fund of funds and loan guarantees, then after involvement of the Startup Estonia programme, KredEx also began promoting the ecosystem of startups and through that, contributing even more to the founding of enterprises.

Altogether, KredEx offered eight financial services in the field of entrepreneurship in 2016; in addition, activities under the Startup Estonia programme were also implemented. In the area of housing, two financial services and six grants were offered. In addition, many activities for raising awareness were carried out in the area of energy efficiency, and procurement for standard construction projects of nearly zero energy buildings was conducted.

During the year KredEx received a total of 5392 applications in relation to all services, 1207 of which were in the field of enterprise and 4185 in the field of housing. Thanks to KredEx, the funding opportunities of 706 enterprises and the living conditions of 6684 families improved. Nineteen per cent of all housing loans issued in Estonia were granted with a KredEx guarantee.

For the efficient provision of needs, corresponding to customers' needs, the opinion of customers as well as partners and employees is what matters. This is the reason why we ask for constant feedback from these target groups and consider it when planning our activity. We ask for regular feedback about the service from all clients who have submitted an application with us. Once a year we also organise a feedback survey among our employees, to assess their mutual cooperation. We also perform a survey of content among our clients, partners and employees every two years. Based on the feedback, it may be acknowledged that KredEx still has the reputation of a reliable, proficient, open and innovative organisation and the offered services are considered important. The satisfaction with the customer service of KredEx is very high. Satisfaction of employees is demonstrated by the fact that their average seniority with KredEx is 7.2 years. This indicator has remained high despite the fact that a lot of new people joined KredEx in 2016 due to reorganisations, which lowered the average seniority.

All in all, 2016 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 1.2 million.

We are planning to continue the consistent developing of services and the organisation in 2017, to help both companies and residents find the funding that is necessary for creating a more secure future.

Lehar Kütt  
CEO



## 2. Activity principles



The KredEx foundation was founded in 2001, by the Ministry of Economic Affairs and Communications. KredEx is a financial institution helping Estonian enterprises to develop faster and securely expand into foreign markets. For this, KredEx offers loans, venture capital, credit insurance, and guarantees assured by the state. In addition, we help the Estonian people to improve their living conditions, offering them loan guarantees assured by the state for purchasing homes, as well as loans, guarantees, and grants for solutions aimed at energy efficiency.

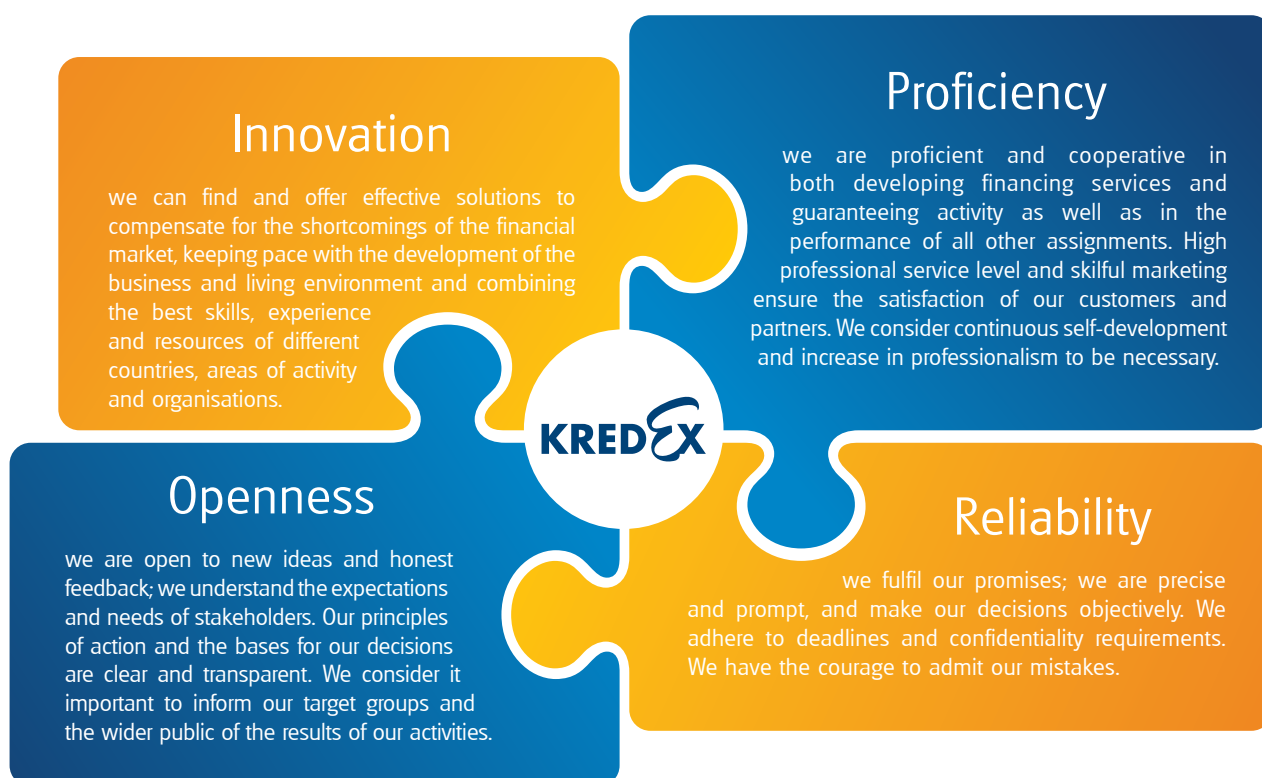
**The vision of KredEx is to offer financing solutions based on the best practices of the world.**

KredEx considers it important to be professional, reliable, open, and innovative. We value solution orientation, top quality service, and readiness for cooperation, which leads to the satisfaction of our customers and partners. We value accuracy, quick action, and objectivity in making decisions. We are open to new ideas and honest feedback, and wish to offer solutions to compensate for the shortcomings of the financial market, bringing together the best skills, experience, and resources of different countries.

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

## 2.1. Values

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



## 2.2. Main principles of the operations 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 sureties and guarantees issued by KredEx are from the state. If, despite the conservative risk management and the existence of sufficient capital, KredEx cannot fulfil its obligations arising from sureties or guarantees, the state shall fulfil the relevant liabilities according to the law. For that, the state may pay the claims directly to the recipients of the sureties or guarantees, or transfer additional amounts to the foundation capital of KredEx. On the other hand, regulatory capital and limitations on investment activities have been established in the legislation for the purposes of risk management.

KredEx is a legal person governed by private law, operating in the form of a foundation. Even though the foundation has been established by the state and the state exercises control over its activity through the Ministry of Economic Affairs and Communications, KredEx acts independently in its decisions. KredEx is a non-profit organisation and is guided above all by the public interest in its activities. However, decisions are made primarily based to their economic content and activities that clearly cause loss or are too risky are not undertaken. KredEx operates following the principles of a credit insurance 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. In addition, KredEx provides administration services to the state for grants in the housing area.

## 2.3. Management of the organisation

KredEx has a supervisory board and a management board. The task of the management board is to manage the daily activities of the foundation, ensuring the implementation of the supervisory board's decisions and taking responsibility for their fulfilment. The management board of KredEx has one member, as of 2015 the CEO of KredEx is Lehar Kütt.

The main task of the supervisory board is to make strategic decisions regarding the activity of KredEx and approve and amend documents that are most important for the activity (strategy, activity goals, action plan, budget, risk management, and principles of cooperation with credit institutions). 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 one million Euro per company.

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

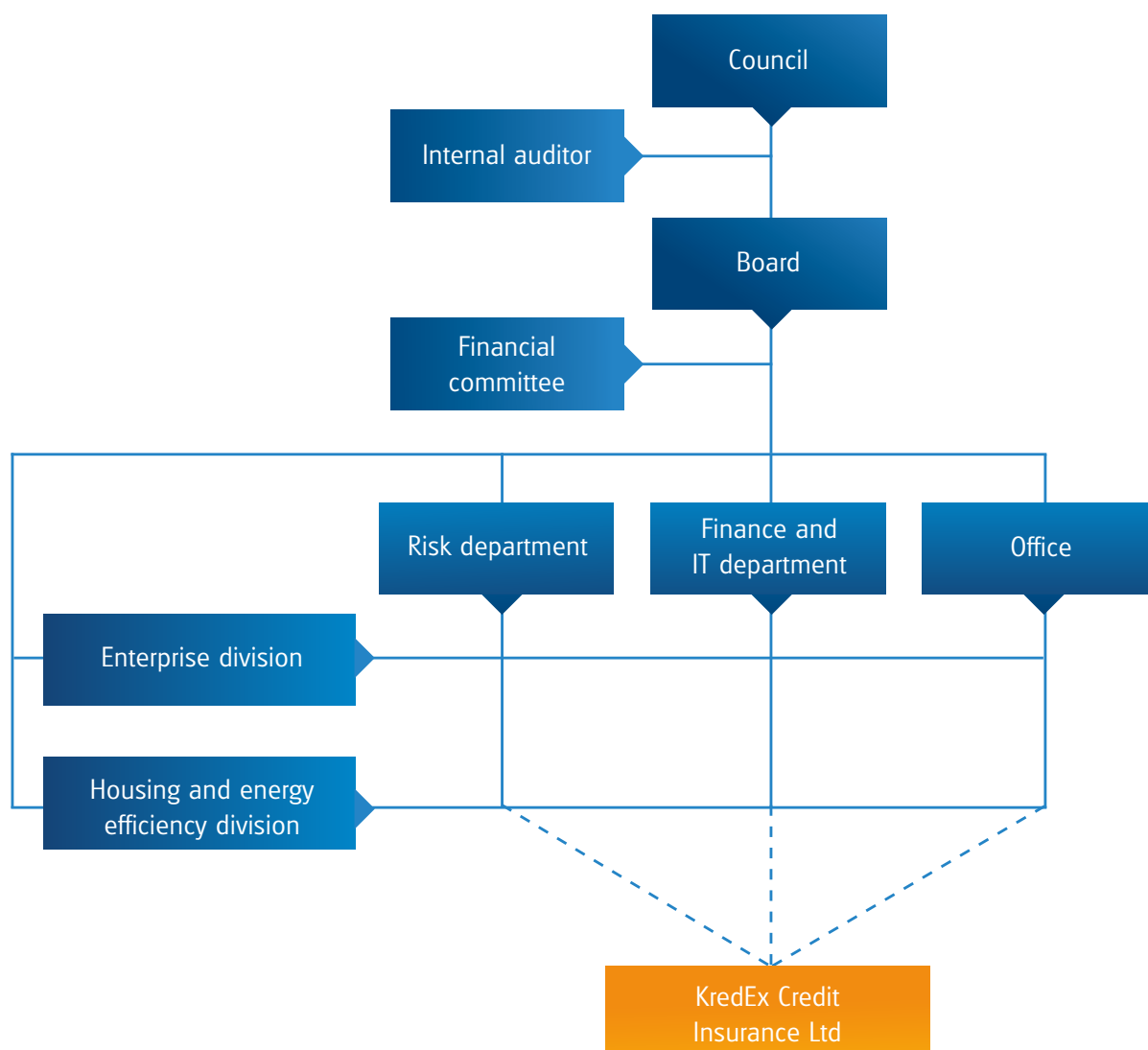




At the end of 2016, the term of authorisation of the vice chairman of the supervisory board, Valdo Randpere, ended and the supervisory board elected Rene Tammiste as vice chairman. In the course of the year, Kaia Iva, Lauri Luik and Katrin Rasmann were also elected as members of the supervisory board. Kaia Iva, Kristjan Kitvel and Lauri Luik were removed from the supervisory board.

At the end of 2016, the composition of the supervisory board of KredEx is as follows:

<b>Merike Saks</b>	Chairman of the Supervisory Board, Secretary General of the Ministry of Economic Affairs and Communications
<b>Rene Tammist</b>	Vice Chairman of the Supervisory Board, CEO of the Estonian Renewable Energy Association
<b>Marina Kaas</b>	Member of the Supervisory Board, Vice President of the Estonian Association of Small and Medium-sized Entrepreneurs
<b>Katrin Rasmann</b>	member of the Supervisory Board, Member of the Management Board of the North Estonia Medical Centre Foundation
<b>Raivo Rand</b>	member of the Supervisory Board, Member of the Management Board of the Association of Construction Entrepreneurs



## 2.4. The team

In July 2016, the team of 6 members of Startup Estonia, who previously acted under the Estonian Development Fund, joined KredEx.

Our team of 40 people is stable, 11 people have worked for KredEx for more than ten years. The average seniority of KredEx employees in office is 7.2 years. We have achieved good work results thanks to a unified team valuing long-term labour relations, which we consider important for achieving our goals and securing continuity.

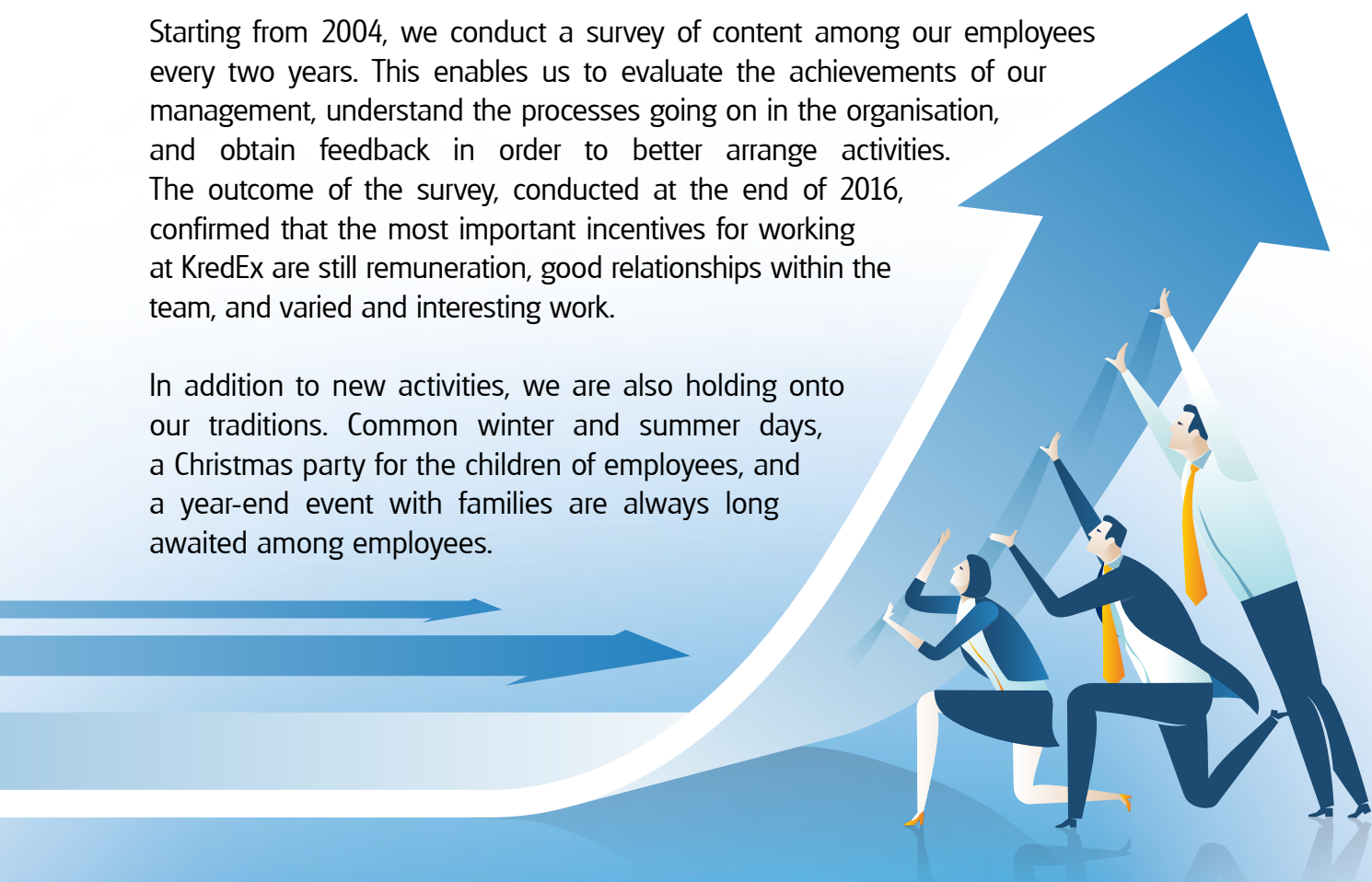
We support the development of our employees through interesting work, a good working environment, and excellent training opportunities. Each year we organise one team training, to support the preservation of a communication and working environment that gives us positive energy. Efficient team training also contributes to the functioning of important processes and fulfilment of goals, and also increases the will of employees to continue working in the same team in the future. In 2016, there were 4.9 training days per each employee.

The basis for the success of KredEx is a team, carrying common values. During the course of development interviews held once each year, we summarise the previous year and phrase the key tasks and development goals for the new period.

In 2016 we continued with the requesting of feedback from colleagues, which began in 2015. The results of the poll reflected very good cooperation. The submitted comments included a lot of positive feedback and valuable proposals for making the cooperation between departments even more efficient.

Starting from 2004, we conduct a survey of content among our employees every two years. This enables us to evaluate the achievements of our management, understand the processes going on in the organisation, and obtain feedback in order to better arrange activities. The outcome of the survey, conducted at the end of 2016, confirmed that the most important incentives for working at KredEx are still remuneration, good relationships within the team, and varied and interesting work.

In addition to new activities, we are also holding onto our traditions. Common winter and summer days, a Christmas party for the children of employees, and a year-end event with families are always long awaited among employees.



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

When it comes to the activity 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 principle we use the so-called 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.

### **Principles of risk management at KredEx are as follows:**

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

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

The goal of risk spreading is to avoid the concentration 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, we have 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 of the group of risks is limited to a part of the total solvency margin of KredEx. Generally, the amount of such an effect should not exceed 20% of net assets. Thereby, risk spreading helps to ensure a sufficient number of successful projects in the portfolio in order to guarantee the earning of the income necessary for the achievement of goals established in the strategy of KredEx.

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

In order to ensure the impartiality and efficiency of the internal control system, we select the provider of internal audit by public procurement. Qualified auditors periodically examine the various areas of KredEx activities, and submit summaries of the course and results of the audit, both to the management as well as the supervisory board. While in 2009–2014, KredEx was audited by Ernst & Young Baltic AS, then in 2015–2017 the internal audit was conducted by KPMG Baltics OÜ.

The 2016 audit plan of internal auditors also covered participation in operational risk assessment and recommendations for the risk assessment methodology; in addition, the fulfilment of the effective conditions of loan guarantees was inspected along with their correspondence to market needs.

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 MoEAC.

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

## 2.6. Economic environment

In 2016, the Estonian economy grew by 1.6%. Weaker than expected outcome resulted due to low demand from trade partners, which limited export opportunities. Furthermore, weak economic growth was caused by several sector-based problems, primarily problems in the oil shale industry and the energy sector. In recent years economic growth has been mainly supported by domestic consumption; however, in the third quarter of 2016, the unfavourable impact of the oil shale sector on economic growth decreased and the growth of the industrial sector and exports accelerated. A major contribution to economic growth came from the transport and trade sectors; however, growth was slowed by the agriculture and construction sectors.

In the third quarter of 2016, the euro zone economy grew by a modest 1.7%. Estonia was most influenced by the economies of its main trading partners: Sweden, Finland, and Latvia. According to Statistics Estonia, in 2016 goods were exported in the amount of EUR 11.9 billion in current prices and imported in the amount of EUR 13.5 billion. After a decline of three years, both exports as well as imports increased by 3%, compared to the previous year. The relative importance of European Union (EU) countries in exports was 74% and in imports 82% in 2016. Likewise to previous years, the main foreign trade partners were Sweden (18% of total exports), Finland (16%) and Latvia (9%), and the main export articles were electrical devices, timber and timber products, and mineral products.

The turnover of the business sector increased slightly over the first three months of 2016; however, labour costs increased significantly in the same time and the profit of companies decreased by approx. 5% as a result. Profit decreased the most in capital-intensive sectors and those with a relatively high debt burden, such as oil shale, energy, transport and storage. The investment activity of enterprises continued to be low in 2016. Investments dropped three years in a row and compared to the third quarter in 2015, by 7%. Despite the current low level of investment activity and capital requirements, decreased profitability has not yet had any significant impact on the financing of enterprises; however, if the trend continues in the future, it may limit the growth of companies as well as their investments.

According to Creditinfo Eesti AS, debts of enterprises to both business partners and the state remained on the same level with 2015. The sectors with the biggest tax arrears are the mining and processing industry. The share of enterprises with a negative credit rating in Creditinfo (with a probability of default over 5%) is similar to that of the year prior. The risk of default is the highest in the accommodation and catering, construction, mining and processing industry.

Enterprises are still good at financing their activities. This ability is supported by accumulated

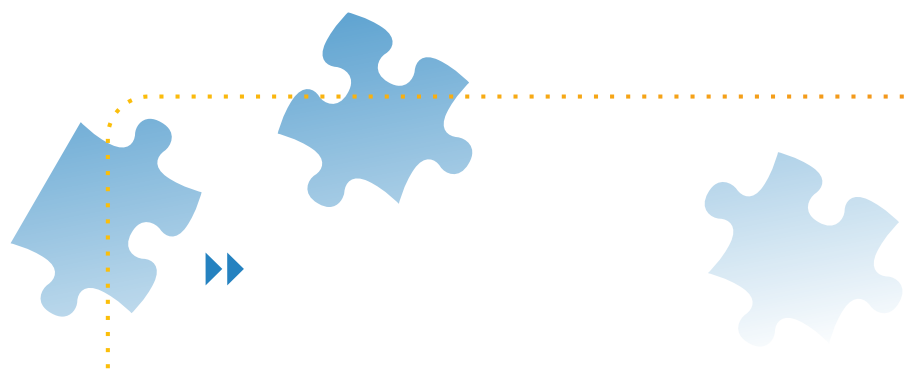
buffers, relatively good access to bank loans, and the very low level of base interest rates. The percentage of the domestic banking sector in corporate debt liabilities remained stable in 2016 and accounted for 48% of corporate debt in the third quarter. The domestic loan market in 2016 was characterised by rapid growth in the volumes of long-term loans issued to enterprises. A large portion of new loans were granted to real estate development. The volume of new long-term loans was approximately 14% higher than a year ago, while the volume of short-term loans decreased by 1%.

In 2016, the corporate loan balance with banks increased by approx. 8%. Growth was supported by loans granted to real estate, industry, and the trade sector. According to the survey on the access to finance, prepared in cooperation with the European Central Bank and the European Commission, access of Estonian small and medium-sized enterprises to funding is better than the average in the European Union. The reasons for this are the relatively sound financial position of enterprises, good capitalisation of Estonian banks and low funding costs. Entrepreneurs view a lack of collateral or a guarantee as being the main obstacle when applying for loans. The most favourable outlook for the environment of banking loans is given by enterprises from the industry and trade sector; more problematic is the situation in the construction and real estate sector.

In 2016, the share of overdue loans in the Estonian banking sector dropped, accounting for 2.3% of the total loan portfolio. Most new problem loans emerged in the primary and industry sector.

The situation of households improved last year owing to increased earnings and the decrease in prices. The increase in lending activity was modest in 2016: the annual growth of the housing loan portfolio was 5% and loan balance EUR 6.7 billion. Further growth of the housing loan volume is facilitated by increasing earnings and very low loan interest rates. Still, households are funding real estate transactions cautiously and the ratio of new housing loans to total volume of housing real estate transactions has not increased.

The prerequisite for economic growth in 2017 is improvement of the financial situation of main trade partners, which in turn offers better export opportunities for enterprises. These, in turn raise the investments and loan volume growth. Growth of private consumption will remain smaller than in 2016, while still being strong. Swedbank's economic growth estimate for this year is 2.2% (Eesti Pank: 2.6%). Estonia's economic growth is primarily supported by European countries. The economic growth expected from Estonia's primary export partners is influenced by a certain degree of instability in Europe, caused by Brexit and the resulting more modest export growth and risks related to the property markets in Sweden and Norway. According to Swedbank's forecast, the economic growth of main trade partners in 2017 will be the following: Sweden 2.6%, Finland 0.9% and Latvia 3%. The future profitability of enterprises depends largely on restoring export opportunities and controlling salary costs.



# 3. Activities and results in 2016



## 3.1. In brief

In February, KredEx celebrated its 15th anniversary.

In March, a survey, conducted in cooperation with Turu-uuringute AS was completed among entrepreneurs, the purpose of which was to ascertain the awareness of the products of SA KredEx and AS KredEx Krediidikindlustus, the reputation of the institution and the customer's opinion about the products and services. Also, other surveys were conducted in the course of the year: in November, a survey of awareness and satisfaction among the client executives of banks cooperating with KredEx was conducted in cooperation with OÜ Saar Poll. Based on feedback obtained from the surveys, it may be noted that KredEx still has the reputation of a reliable, proficient, open and innovative organisation among its customers and partners, and the offered services are considered important. The satisfaction with the customer service of KredEx is very high.

In March, the start-up loan conditions were amended, thanks to which starting companies are now able to apply for a start-up loan in the amount of up to EUR 100,000, instead of the previous EUR 64,000. At the same time, the owners suretyship requirement was decreased to 25% of the loan amount.

In March, KredEx, European Investment Fund (EIF) and MoEAC signed a financing agreement, which laid the foundation to the fund of funds, EstFund. From the fund, about EUR 60 million are to be placed in three sub-funds that invest into start-up and early-phase Estonian enterprises.

In April, KredEx also began to issue housing loan guarantees for purchases of energy-efficient housing and for the reconstruction of housing to make it energy-efficient.

In April, KredEx started to accept home grant applications from families with many children, based on new conditions, according to which the grant can be applied for if the family is raising at least three minor children. Previously, a family had to have four minor children to apply for the support.

In May, KredEx, Startup Estonia, and SmartCap announced a procurement for accelerators. The purpose is to establish accelerator funds, offering early phase venture capital to startups and an accelerator programme supporting their development. In total, EUR 11.2 million will be invested in new accelerators.

In May, KredEx finished accepting applications for the home grant for families with many children. The number of applications corresponding to formal requirements was 872 in total amount of EUR 7.9 million. Altogether 1147 applications were received, exceeding EUR 10.3 million.

In June, EIF and KredEx announce a competition to find suitable management companies for the sub-funds to be established under EstFund. The results of the competition should be revealed in the first half of 2017.

In June, the Foresight Act entered into force. According to this, the activity of the Estonian Development Fund (EDF) was reorganised in a manner that the tasks of EDF will be divided between KredEx and the Foresight Centre, which is formed under the Chancellery of the Riigikogu. The previous activity of EDF, incl. its subsidiary AS SmartCap, will be transferred to KredEx.

In July, the Startup Estonia programme joined KredEx, the goal of which is to make Estonia one of the best places in the world to create and develop start-ups.

In September, the EIF and the European national development organisations created a common cooperation platform, the purpose being to develop the private and venture capital market of the EU. The platform is operating as a counselling body and is aimed at promoting sharing of knowledge and best practice between the joined organisations. KredEx is a founding member of the platform.

In September and October, a 6-part TV series "Oma kodu" (own home) was broadcast on the ETV channel, with the support of KredEx. The programme provided an introduction to topics related to reconstruction and covered what is currently topical and important in housing. Another season will be broadcasted in 2017.

In October, KredEx participated in the project "Entrepreneurship in Schools", in the course of which more than 100 entrepreneurs and managers visited schools to tell their stories to students. The project is aimed at raising the interest of young people towards entrepreneurship.

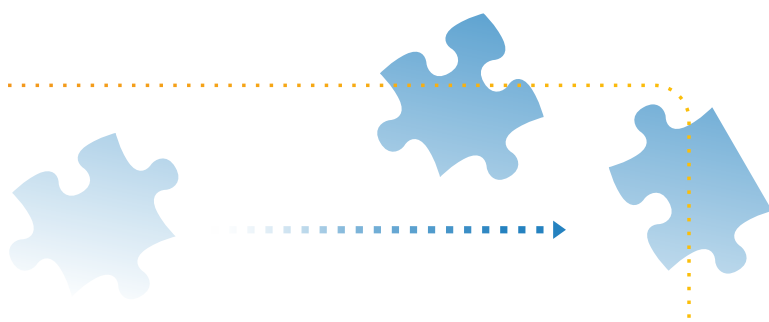
In October, Startup Estonia hosted the world's largest green technology competition of startup ideas "ClimateLaunchpad European Finals", with 90 startups from 30 countries competing. The winner was Estonian company Gleather (Gelatex).

In November, KredEx organised for the second time "Career Exploration Tours", in the course of which more than 240 students from nine counties visited enterprises operating in their county and obtained information on career opportunities in their respective region.

In November, KredEx started to issue reconstruction grants to small residential buildings. The purpose of the grant is to contribute to the increased energy efficiency of small residential buildings in order to cut energy consumption. These grant enables up to 30% of the total cost of reconstruction to be covered, with the biggest grant amount being EUR 15,000.

In November, KredEx signed a cooperation agreement with Swedbank AS, which enables their clients to use the housing loan guarantees of KredEx for purchasing a housing.

In December, changes were adopted in the Aliens Act concerning startups, which promote hiring of employees from third countries by Estonian startups as well as relocation of teams from third countries to Estonia (so-called startup-visa). The procedure for startups was developed by Startup Estonia and the Ministry of the Interior in cooperation with the organisations who represent Estonian startup companies, considering also the best practice of other countries.





## 3.2. Overview of enterprise area in 2016 results of the year

### 3.2.1. Most important improvements in the area

The biggest changes in 2016 were related to the conclusion of two agreements at the end of 2015: financing agreement with the MoEAC for the EU's new budget period and cooperation with EIF for using the COSME counter-guarantees. Changes related to the agreements were implemented in the first quarter of 2016. Thanks to these two agreements, we were able to increase the maximum amount of guarantee per enterprise to EUR 5 million, from EUR 2 million, reduce the guarantee fees of enterprises with a better risk score, and enable more favourable allocation of risks from the viewpoint of banks and lessees. We also increased the maximum amount of a startup loan to EUR 100,000, from EUR 64,000, and reduced the requirement for owner's personal suretyship to 25% of the amount of startup loan.

The purpose of the described changes was to improve access of entrepreneurs to the loan capital. The noticeably increased volume of guarantees and startup loans, compared to previous years indicates that the changes have served their purpose.

### 3.2.2. Guarantee and loan activity of the area

KredEx guaranteed and financed 430 enterprises in a total amount of EUR 95.6 million in 2016. In addition, valid guarantee agreements with 349 companies were amended. The support of KredEx made it possible for enterprises to involve additional funding in the amount of EUR 173.1 million. The supported enterprises employed a total of 8,225 people, and as a result of projects, 868 new jobs were planned to be created.

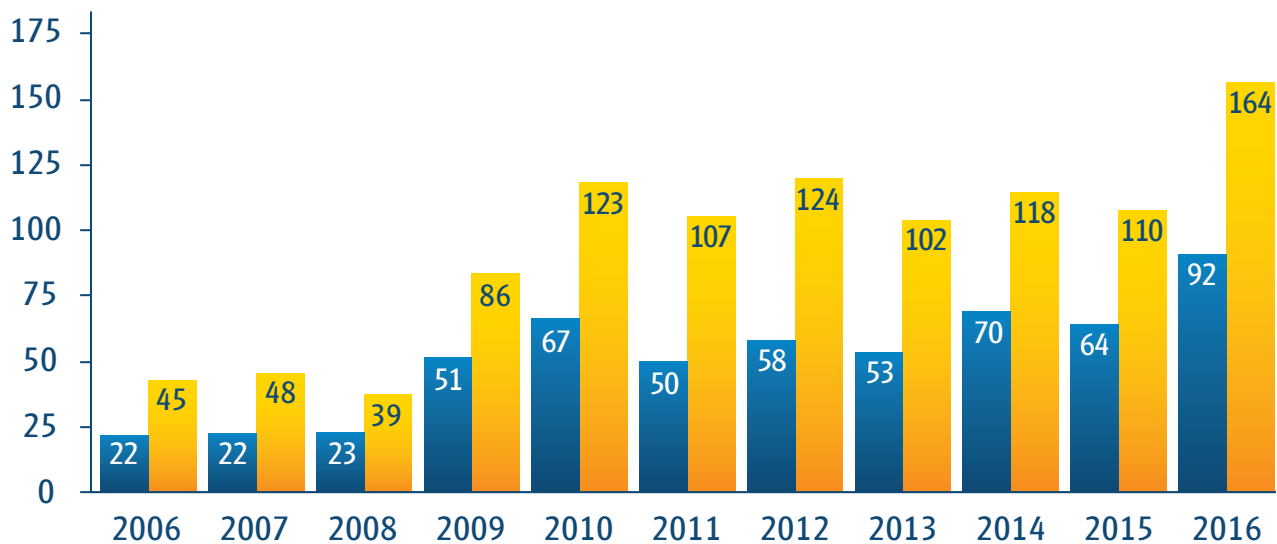
### 3.2.3. Enterprise loan guarantees

In 2016, 711 new enterprise loan guarantee applications and 440 additional applications to amend the existing guarantee agreements were submitted to KredEx; in total, 1151 applications. This is 139 applications more than in the previous year. Guarantees were applied for in the total amount of EUR 115.5 million, and the related financing in amount of EUR 188.8 million.

Also, 521 new guarantee agreements were concluded to guarantee the liabilities of 402 enterprises, and 349 current guarantee agreements securing the obligations of 276 enterprises were amended. The number of customers was 38 more than a year before. Enterprises which used the guarantees had in total about 8100 employees and with the support of KredEx guarantee, 831 new jobs are planned to be created.

KredEx guarantees in the amount of EUR 92 million made it possible for enterprises to involve additional financing from banks in the amount of EUR 164 million. Compared to the previous year, the growth in the volume of guarantees was 44%. We exceeded the largest volume of guarantees, issued in one calendar year in the history of KredEx (EUR 70 million in 2014) by 33% in 2016.

2016 was also a record year in terms of additional financing, which the enterprises received from the banks thanks to the support of KredEx. The last record-breaking year was 2010, when the support of KredEx enabled the enterprises to involve financing in the amount of EUR 123 million. In 2016, this result was surpassed by 32%.

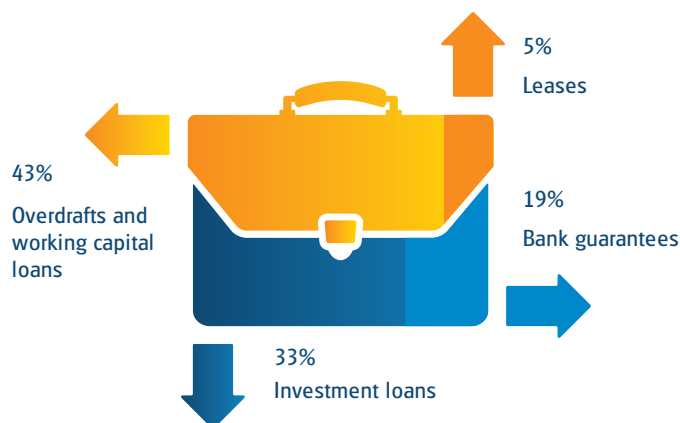


**Figure 1.** Volume of issued guarantees and funding with the support of guarantees, 2001–2016, millions of euros

■ Guarantee volume issued by KredEx

■ Volume of financing ensured by guarantees

Issued loan guarantees for overdrafts and working capital loans totalled EUR 39.5 million; with EUR 30.3 million for investment loans, EUR 17.5 million for bank guarantees, and EUR 4.6 million for leases. By types of funding, the growth was even and no major changes occurred in the proportions compared to the year prior. The share of overdrafts and working capital loans slightly decreased (to 43%, from 45%). The second largest amount originated from investment loans, the share of which was exactly the same as in 2015 (33%). The proportion of bank guarantees and leases increased 1%, to 19% and 5%, respectively.

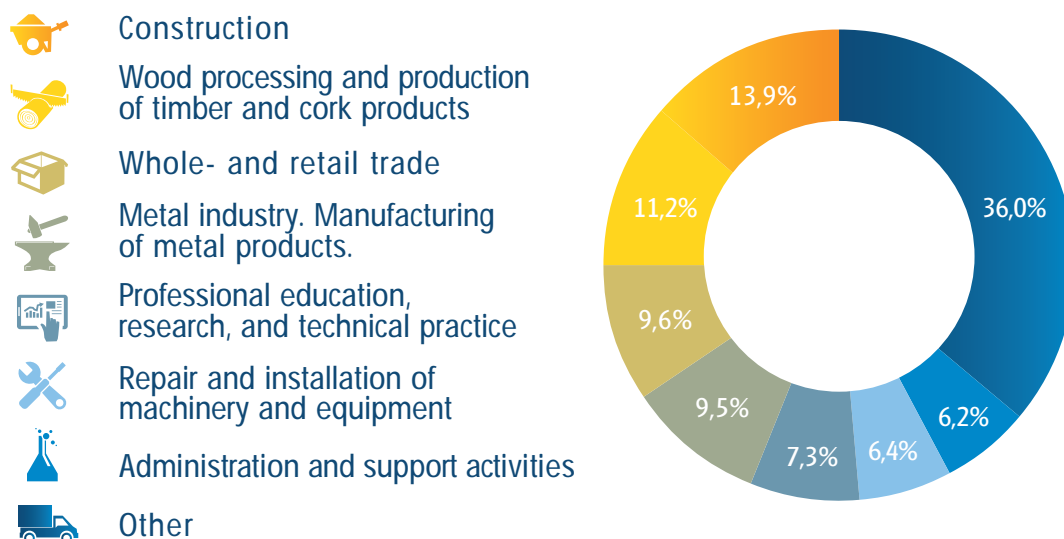


**Figure 2.** Volume of guarantees issued in 2016 by types of financing

By areas, KredEx guarantees were used most by enterprises in the area of construction (13.9%), timber (11.2%) wholesale and retail trade (9.6%), metal industry (9.5%), professional education, research, professional and technical practice (7.3%), repair and installation of machinery and equipment (6.4%) and administration and support (6.2%). The share of other areas of activity remained below 5% in the guarantee volume issued during the year.

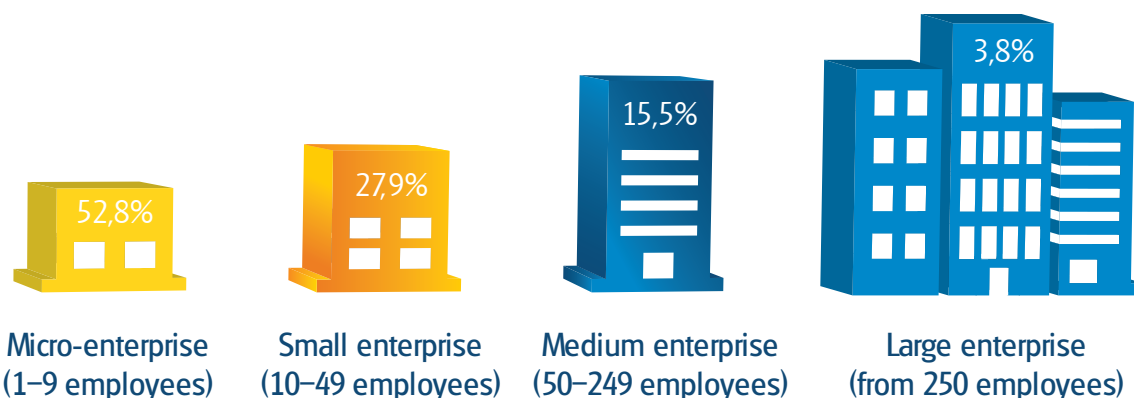
Compared to 2015, the construction sector continued to decline (to 13.9%, from 16.9%), remaining still the largest among sectors. The share of timber industry has noticeably

increased (to 11.2%, from 8%), having almost doubled over the two years (to 11.2% in 2016, from 6.4% in 2014). Major growth was experienced also in metal industry (to 9.5%, from 8%). There were no major changes in other areas of activity. The share of processing industry, however, dropped in a year to 35.6%, from 36.3%. The proportion of areas of activity remaining below 5% increased to 36%, compared to 29% in 2015.



**Figure 3.** Volume of guarantees issued in 2016 by areas of activity

In 2016, the share of small enterprises in the volume of guarantees issued by KredEx increased (to 27.9%, from 25%). The share of medium-sized enterprises continued to decrease (to 15.5%, from 18.8%). Almost no changes were noticed in the proportion of micro enterprises (increase to 52.8%, from 52.6%) and large enterprises (increase to 3.8% from 3.6%).



**Figure 4.** Division of volume of guarantees issued in 2016 by size of enterprises

A noteworthy fact is that the guarantees issued to micro and small enterprises constituted 80.7% of the total volume of guarantees, which is 3.1% more than a year before and 18.4% more than three years ago. When looking at the number of employees, then 96.2% of KredEx clients are micro, small and medium-sized enterprises.

Among loan guarantees, 27 start-up loan guarantee agreements for securing the obligations of 27 enterprises were concluded in 2016, totalling EUR 600,000. This made it possible for starting entrepreneurs to obtain financing from banks in amount of EUR 800,000 and 87 new jobs are planned to be created as a result of the funded projects.

As at the end of 2016, the portfolio of enterprise guarantees included 1274 valid guarantee agreements of 964 enterprises in the amount of EUR 134.1 million. Over the year, the number of clients in the portfolio remained practically the same and the number of agreements increased 5%. The balance of guarantee obligations increased in the annual comparison by noteworthy 16%.

Since 2001, KredEx has guaranteed bank loans, bank guarantees, and leasing transactions for 3423 companies in the total amount of EUR 1.2 billion. KredEx has issued guarantees worth EUR 632 million. The number of employees in the financed enterprises was 103,573 and as a result of the projects, 13,091 new jobs were projected to be created.

#### 3.2.4. Enterprise loans

In 2016, KredEx issued start-up loans to 20 enterprises totalling EUR 800,000. As a result of the financed projects, 68 new jobs are planned to be created.

In total, start-up loans and start-up loan guarantees allowed to finance the establishment of 47 start-up companies totalling EUR 1.6 million. As a result of the funded projects, 155 new jobs are planned to be created.

During the year, 10 technology loan and working capital loan agreements were concluded with 8 enterprises in the total amount of EUR 2.3 million. Thanks to the subordinated loans of KredEx, the entrepreneurs are planning investments totalling EUR 7.3 million. 143 people worked in the financed enterprises and as a result of the projects, 37 new jobs are projected to be created.

#### 3.2.5. Venture capital

At the beginning of 2013, the Baltic Innovation Fund (BIF), which was created in cooperation between the three Baltic States and the EIF, started its operations. Initially, the total volume of this fund of funds was EUR 100 million; however, in July 2015, it was increased to 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 investments from private investors are added to the contribution of BIF on the sub-funds' level.

The goal of BIF is to offer additional financing opportunities to Baltic enterprises with good growth potential, and develop the capital market of the Baltic States. BIF is a fund of funds investing in sub-funds, managed by private fund managers, which in turn invest in enterprises. BIF is managed by EIF.

So far, BIF has given credentials to The BaltCap Private Equity Fund II, BPM Mezzanine Fund, Livonia Partners Fund I, Karma Ventures Fund I and the BaltCap Growth Fund. Four of them have also involved the required amount of capital from private investors and started investments in enterprises. BaltCap Growth Fund is engaged in involving funds from private investors and is expected to start with its own investments in enterprises in the first half of 2017. BIF invests EUR 100 million into the said five sub-funds, to which EUR 225 million from private investors will be added. In addition to the mandated five sub-funds, it is possible to invest in another sub-fund under BIF.

In March, KredEx, EIF and MoEAC signed a financing agreement, which laid the foundation to the fund of funds, EstFund. From the fund, EUR 60 million are to be placed in three sub-funds that invest into start-up and early-phase Estonian enterprises. Almost EUR 40 million from private investors will be added to the EstFund contribution on the sub-funds' and enterprises' level.

In June, a call to find management companies for the sub-funds of EstFund was announced, the final results of which will be approved in the second quarter of 2017. After that, the mandated fund managers must also involve the required amount of capital from private investors, and investments in enterprises will probably start at the end of 2017 or in the beginning of 2018.

Preparations started for the takeover of the investment activity of the Estonian Development Fund (EDF), which should be completed in the first half of 2017. As a result of the reorganisations, the previous public limited company SmartCap owned by EDF, engaged in venture capital investments, will become a subsidiary of KredEx, taking on a new investment strategy. According to the new strategy, the fund will no longer invest directly in enterprises, however in accelerator funds, managed by private fund managers, which in turn will invest in seed stage companies. During the reorganisation, previous direct investments made by SmartCap and EDF will also be transferred to the new fund, which as a result of a call is managed by a private fund manager.

### 3.2.6. Startup Estonia and the Estonian startup ecosystem in 2016

2016 was better than previous years for Startup Estonia and the entire Estonian startup community. This way, Estonian startups raised a record number of investments this year, amounting to EUR 102.5 million. The largest were peer-to-peer money transfer service Transferwise (EUR 23.5 million); Starship Technologies, developer of delivery robots (EUR 16.5 million); sales process management tool Pipedrive (EUR 16 million); Skeleton Technologies, manufacturer of ultracapacitors (EUR 13 million); and digital banking service Monese (EUR 9.4 million).

A big step ahead in the local startup community was demonstrated by the opening of three startup co-working spaces in the second half of 2016: Spark, in Tartu's City Centre and Spring Hub, at Tondi and Lift99 (previously named Garage48 HUB) in the Telliskivi Creative City in Tallinn.

A lot of interesting things also happened in the four main activity categories of Startup Estonia – strong ecosystem, smart people, smart money and friendly regulations. To strengthen the ecosystem, we helped with organising important startup events, among others two major conferences in Estonia: “Latitude59” and “sTARTUp Day”.

Just in time for the biggest startup conference of the year, “Latitude59” at the end of May, we completed the long-awaited database of startups, which we will continue to develop in 2017.

Aimed at introducing and marketing the Estonian startup companies, over the year we managed to multiply the number of social media followers of Startup Estonia. In addition, our team participated in two major pan-European conference for startups: “Web Summit” in Portugal and “Slush” in Finland. Estonian startups and the e-residency programme attracted vast interest in the participants.

Regarding the smart people line of action, we launched our international sales and marketing training programme, which was passed by 20 early-stage startups. We plan to repeat a similar programme in the next two years. We actively prepared for the cooperation programme between startups and large enterprises starting in 2017.

The year was successful regarding our work in developing the area of clean technology. We were given the great opportunity to host Europe’s largest competition for clean technology startups, “ClimateLaunchpad”, the winner of which was Estonian startup Gleather (Gelatex).

In the area of smart money we supported the development of angel investors through training and events and initiated procurement for accelerator funds, to be finalised in 2017.

The biggest achievement in the activity line of friendly regulations was the development of a proposal for an exception from the Aliens Act together with the startup community and the Ministry of the Interior. The proposal was approved by Riigikogu at the end of 2016 and entered into force in January 2017. This way it will be easier for the startups from third countries to startuprelocate to Estonia and for Estonian startups to hire foreign employees.

### 3.3. Overview of the area of housing and energy efficiency in 2016 results of the year

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

2016 saw major developments in relation to the financial services provided in the housing area. At the beginning of the year, an opportunity opened up to use housing loan guarantee for purchasing energy-efficient housing or to make one’s existing home more energy efficient. In addition, in November we concluded a cooperation agreement with Swedbank AS for issuing housing loan guarantees, which also enables the customers of this bank to use our services. We continued issuing grants for improving living conditions and the living environment and offered the quick charging and rental service of the Estonian Electrical Mobility Programme ELMO.

The volume of housing loans with a KredEx guarantee increased by 42% compared to 2015. The volume of these loans out of all housing loans granted in Estonia made up an annual average of 19%. The portfolio volume of KredEx housing loan guarantees has increased by more than EUR 10 million, being a significant increase.

Also, the volume of apartment building loan guarantees has notably increased: in 2016, 80 new agreements within a total of EUR 6.5 million were concluded. In addition to the said guarantee, KredEx also issues apartment building reconstruction grants, which have a strong impact on the activity of the entire field. The reconstruction grant with volumes of 15%, 25% and 40%, is designed for apartment associations and local governments wishing to reconstruct their apartment buildings as comprehensively as possible. In 2016, a total of 170 applications were submitted, most of them from Harju, Tartu and Lääne-Viru counties.

At the end of 2016, we started issuing grants for the reconstruction of small residential buildings, which are useful for the owners of small residential buildings who wish to make their home more energy-efficient. In a year, 139 applications were submitted to KredEx within the framework of this support measure. Most often the owners wanted to insulate the roof and façade.

A big change was introduced in the conditions of the home grant for families with many children: starting from 2016, the grant can be applied for, if the family is raising at least three minor children. Previously, a family had to have four minor children to apply for the support. The change resulted in an upsurge in the volume of applications. Altogether 1147 applications had to be reviewed and support could be given to 358 families.

In addition, we continued with issuing grants for the renovation of electrical installations, upgrading the heating systems and grants designed for local governments for the demolition of residential buildings and offering the ELMO service.

An important part in the activity of the area was related to notification regarding the reconstruction grant for apartment buildings and expedience of the renovation of electrical installations. For this, we conducted marketing activities in outdoor media and as direct mail and in September and October, a TV programme "Oma kodu" (Own home), consisting of six episodes, was broadcast on the ETV channel with the support of KredEx. The TV series enabled the introduction of topics related to reconstruction and covered what is currently topical and important in housing. The TV series will continue in 2017.

### 3.3.2. 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 preservation of the residential buildings and energy efficiency. With housing loan guarantees, young families, young specialists, tenants of restituted houses, and veterans of the Defence Forces or the Defence League can take out loans with a lower rate of self-financing for the purchase or renovation of housing. Also,

everyone can use the guarantee to make their homes energy efficient. From autumn 2016, the guarantee can be applied for from all major credit institutions in Estonia, as we have also concluded an agreement for issuing the housing loan guarantees with Swedbank AS.

The total amount of housing loans issued by banks in 2016 was EUR 959 million (EUR 892 million in 2015), from which the volume of loans with KredEx guarantee made EUR 183 million. A year before, housing loans with KredEx guarantee were issued in the amount of EUR 137 million, i.e. at an average of EUR 11 million per month. In 2016, the volume of housing loans with a KredEx guarantee made 19% of the volume of housing loans issued in Estonia (15% in 2015). The largest amount of loans with a KredEx guarantee were issued in November (EUR 18 million), and the smallest in January (EUR 11 million).

The amount of housing loan guarantees issued in 2016 was EUR 25.4 million, which is EUR 7.5 million (42%) more than in the previous year. By the end of the year, the portfolio volume of these guarantees amounted to EUR 49.6 million (EUR 38.6 million in 2015). A total of 2605 households purchased or renovated their homes in 2016 with the loan guarantee, including 1153 young families (EUR 10.9 million), 1324 young specialists (EUR 11.6 million), 15 veterans (EUR 103,910) and 113 acquirers of energy-efficient housing (EUR 2.8 million). Since 2000, 27,155 households have improved their living conditions with the help of KredEx.



**Figure 5.** Volume of KredEx guarantees in 2006–2016, millions of euros

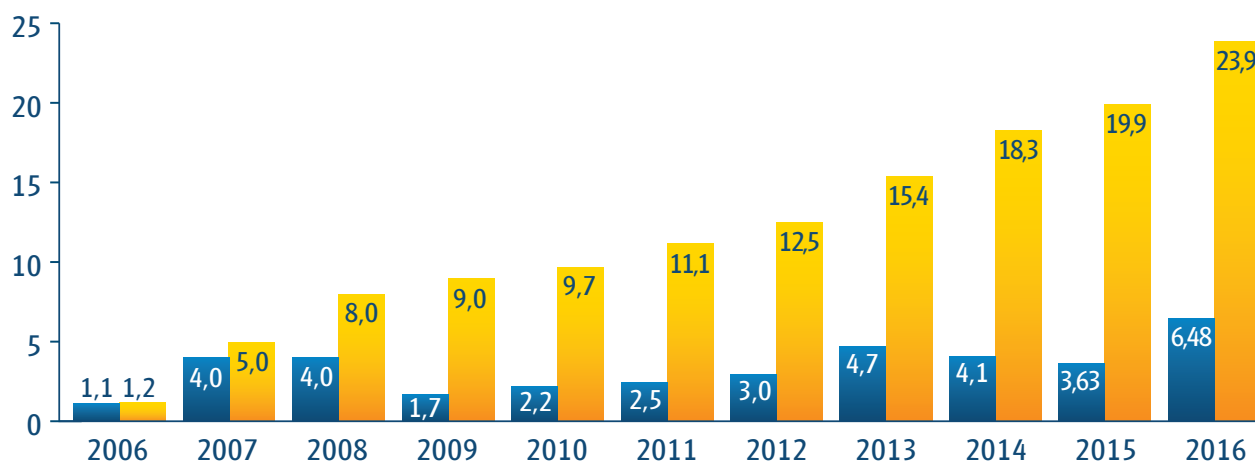
■ Issued guarantees      ■ Valid portfolio

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

During the year, KredEx issued 80 loan guarantees for apartment buildings totalling EUR 6.5 million, which is 80% more than in 2015. The increase was caused, above all, by extensive use of the apartment building reconstruction grant issued by KredEx. In 2016, the apartment building guarantee portfolio reached EUR 23.9 million, having increased by EUR 4 million over the year.

Since 2002, a total of 943 apartment buildings have taken a loan for renovation with a KredEx guarantee, totalling EUR 58.6 million.





**Figure 6.** Volume of KredEx renovation loan guarantees in 2006–2016, millions of euros

■ Volume of apartment building loan guarantees, millions of euros  
 ■ Apartment building guarantee portfolio, millions of euros

### 3.3.3. State grants for housing area

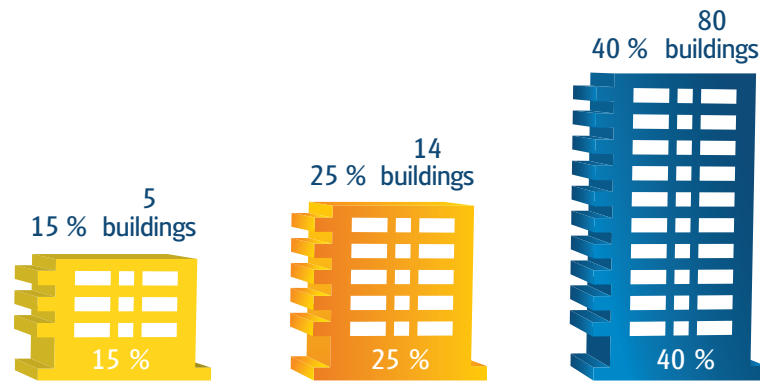
Similar to previous years, in 2016 KredEx issued several grants related to improving the energy efficiency and living conditions. As a new option, we offered a possibility to apply for grants for the reconstruction of small residential buildings, and the interest towards it was high, as expected.

Applications for the reconstruction grant for apartment buildings increased notably. The support measures for upgrading the heating systems of small residential buildings, grants for families with many children, renovation grants of electrical installations, and demolition grants for local governments were continued.

#### 3.3.3.1. Reconstruction grant

KredEx issues reconstruction grants to apartment associations and local governments, aimed at complete reconstruction of the apartment buildings. The grant volumes are 15%, 25% and 40%; in addition, the technical consultancy, construction project preparation, and owner supervision service are supported up to 50%.

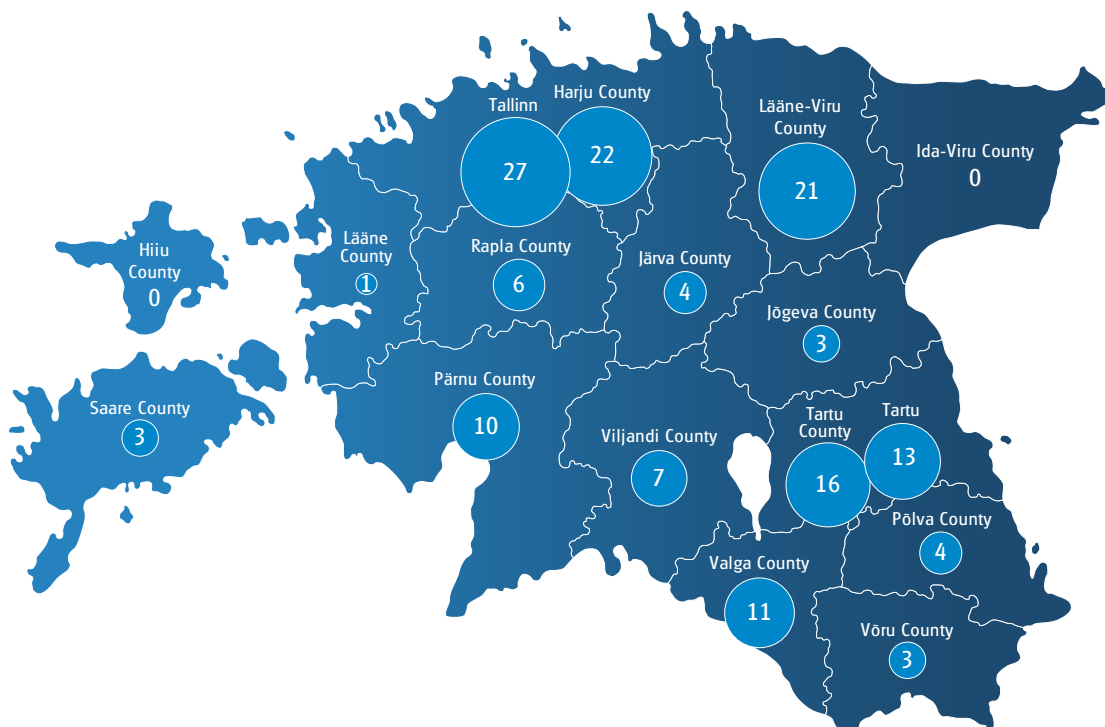
In 2016, the volume of applications increased significantly, exceeding the threshold of EUR 35 million. More than 80% of the applications were targeted on better solutions, as a result of which the buildings were completely renovated and proportion of applied grant was 40%. Most definitely, this trend helps to make an increasing number of existing apartment buildings energy-efficient and also establish a healthy inner climate in older buildings. This way the energy dependency of residential buildings and greenhouse gas emissions will decrease and it will have a favourable impact on the living environment and economy. heitkogused ning avaldatakse soodsat mõju elukeskkonnale ja majandusele.



**Figure 7.** Number of approved reconstruction grant applications of apartment buildings by rates of application in 2016

In 2016, a total of 170 apartment building reconstruction grant applications were submitted to KredEx, out of which 67 applications managed to receive an initial approval in the amount of EUR 14.1 million and 99 a final approval in the amount of EUR 19.5 million. Twenty-two applications were rejected due to incomplete documents. The number of applications disbursed was 78 and construction was finalised by 39 apartment associations.

The total volume of grants was approximately EUR 36.5 million and the average amount of applied grant approx. EUR 217,000 per building. Since the average number of apartments in these apartment buildings is 36, the grant per apartment was approximately EUR 6000. The most applications were received from Harju, Tartu and Lääne-Viru counties (49, 27 and 21 applications, respectively); Ida-Viru County and Hiiumaa have not submitted any applications yet.



**Figure 8.** Division of apartment building reconstruction grant applications by counties in 2016

### 3.3.3.2. Demolition grants for local governments

KredEx helps local governments to make the living environment safer and more aesthetical, issuing the grants, which contribute to the demolition of residential buildings in the ownership of the local governments but which have become idle. Costs associated with the demolition are supported within up to 70% of the total project cost. The purpose of the demolition grant is to assist local governments through partial compensation for demolition costs in demolishing idle residential buildings which have become aesthetically unappealing, are in danger of collapse or present a fire risk and the renovation of which is inexpedient.

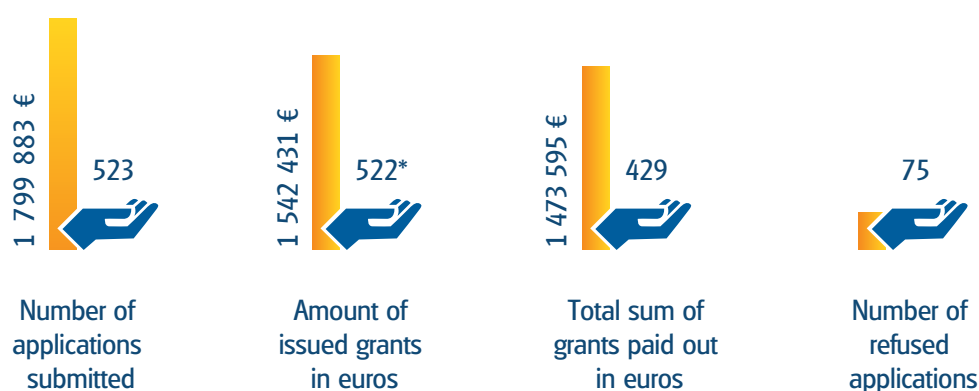
In 2016, KredEx provided EUR 198,433 in grants for the demolition of 11 idle residential buildings. The highest numbers of dwellings due for demolition were located in Lääne County (3) and Tallinn (2). Compared to 2015, the grant volume has declined. The reason could be the ongoing administrative reform, due to which many local governments were instead engaged in merger issues. Issuing of the grants shall continue in 2017.

### 3.3.3.3. Grants for small residential buildings

In 2016, small residential buildings were issued two grants, one of which is designed for renovating the heating systems of the housing and the other for the reconstruction of the housing.

The grant for renovating the heating systems is developed for private persons who own small houses and wish to replace boiler units that operate on liquid fuel with a heating device that uses renewable energy sources, to reduce the energy consumption of the building and make it more sustainable.

Since December 2014, 523 applications totalling EUR 1.8 million have been submitted. 429 buildings have been reconstructed and accordingly, a total amount of EUR 1.5 million has been paid out in the form of grants.



**Figure 9.** General data of the grants for the renewal of heating systems

\* Decisions on the applications submitted in 2014 were made at the beginning of 2015. Also, in 2014, no grants were paid out.

The most common heating device using renewable energy sources, which was installed with the grant, was an air to water heat pump (254 applications). This is followed by geothermal heat pumps (108 applications) and pellet boilers (62 applications).

KredEx started to receive applications for increasing the energy-efficiency of small residential buildings on 14 November 2016. The grant is for private persons who own small houses and wish to make their small residential building more energy-efficient.

The purpose of the grant is to improve the quality and sustainability of housing and reduce energy consumption, supporting the improvement of energy-efficiency of small houses. Also, the support contributes to the investments made to reconstruct the small residential buildings, improves the quality of inner climate and energy-efficiency of the existing housing and reduces their energy consumption. Most definitely the grant helps to use more renewable energy devices.

A total of 139 applications amounting at EUR 820,672 were submitted for the grant.



**Figure 10.** General data of grant for increasing the energy-efficiency of small residential buildings

Most common reconstruction works are insulation of the roof, roof ceiling or attic (42 applicants) and replacement of windows (42 applications) and insulation of façade (37 applications). The applications for the establishment of geothermal heating, insulation of floors of the first storey and installation of front door and solar panels are frequent as well.



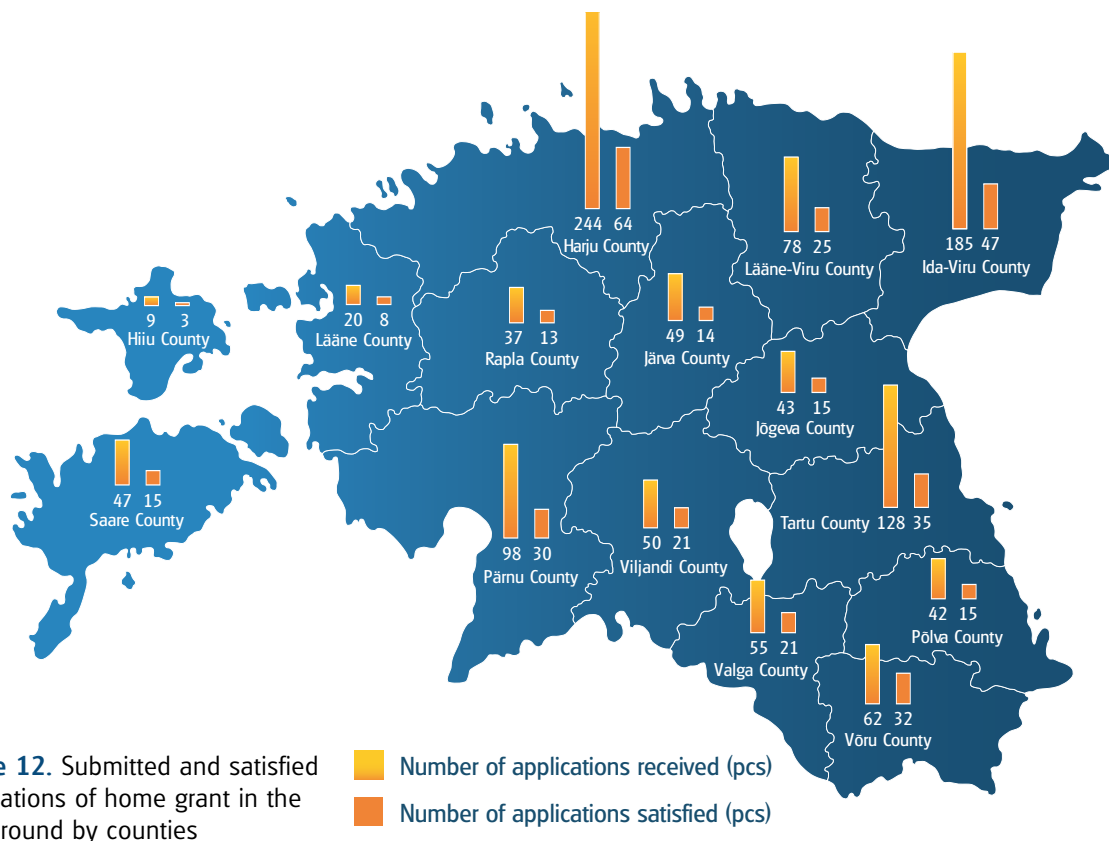
**Figure 11.** Works performed with the grant for increasing the energy-efficiency of small residential building:

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

Within the “Strategy of Children and Families 2012–2020” KredEx, in cooperation with the Ministry of Social Affairs, is implementing a measure to improve the living conditions of families with many children. The basis of this is the instruction approved by the directive of the Minister of Economic Affairs and Infrastructure, “Home Grant for Families with Many Children”. Applications are processed on the basis of agreements between MoEAC and KredEx.

The target group of the grant scheme is households with low income, with at least three children under 19 years of age. Eligible activities include decreasing the principal part of the current housing loan, purchasing, building, reconstructing, renovating, or expanding housing and the construction, replacement, or updating of technical systems or networks.

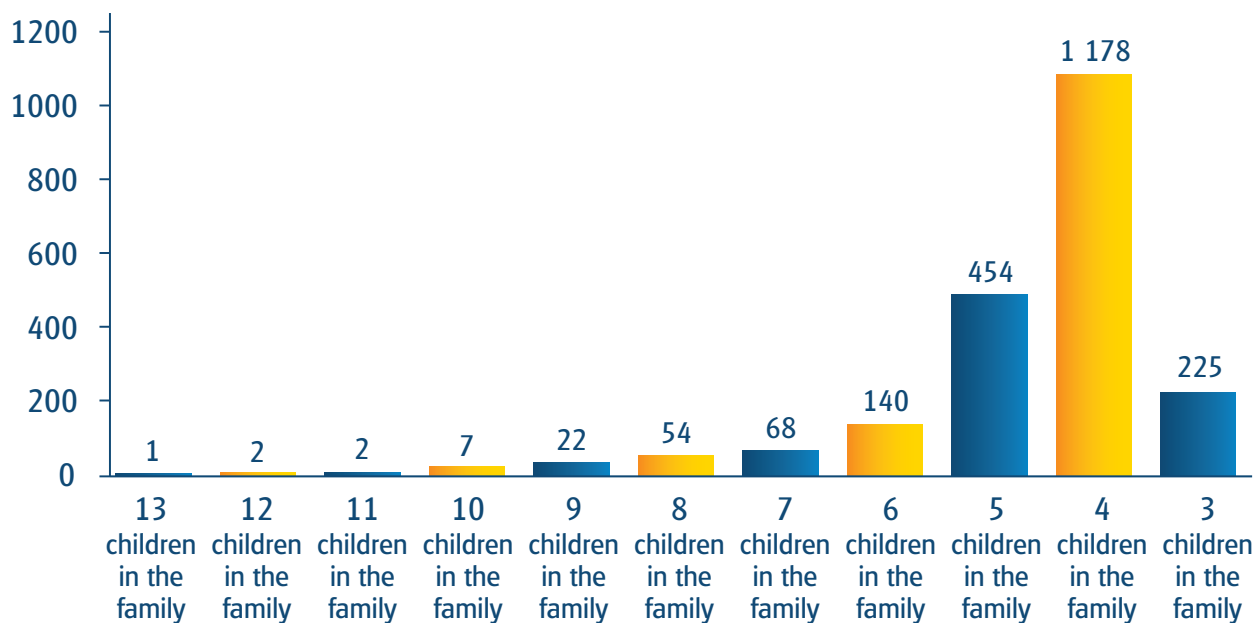
Altogether 1147 applications in total amount of EUR 10.4 million were submitted within the application round of home grants for families with many children, opened from 18 April to 16 May 2016. 358 applications of these were satisfied, 514 rejected due to lack of funds and 275 due to non-compliance to the requirements. 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.



Of the applications received, the applications of 358 families were satisfied. Out of these, 296 families were first-time applicants, 62 families received the grant for the second time. The average grant amount per family was EUR 7179. There are 1256 children growing in the families that received funding; an average of 3.5 children per family.

Most of the applications (647), were submitted for renovating/reconstructing privately owned housing and (293) for the partial repayment of the remaining principal part of loan. This was followed by applications for the acquisition of housing (156) and construction, replacement, or updating of technical systems (27), as well as for the construction of housing (24)

In 2008–2016, altogether 5,127 home grant applications totalling EUR 45.4 million were submitted, of which we satisfied 2,648 applications in total amount of EUR 23.3. In this period 2,152 families received the grant once, 425 families twice, 62 families three times and 9 families four times. The average grant amount per family is EUR 7048. 77 families have waived the allocated grant or not used it.



**Figure 13.** Number of families who received the home grant for families with many children, by the number of children, 2008–2016

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

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

Applications may be submitted by apartment associations or communities 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.

The activity of applying did not increase notably compared to 2015, despite the fact that in 2016 we extensively informed all owners of the buildings using the old voltage system. While in 2015, an average of 3.1 applications in amount of EUR 1400 were submitted, then in 2016,

the activity was 3.2 applications per month. Still, the applied amount increased significantly compared to 2015: the average applied grant in 2016 made EUR 3000.

By the end of 2016, applications were submitted to renovate the electrical installations of 64 buildings in total amount of EUR 155,000 and payments have been made to 40 applicants totalling EUR 77,630.

### 3.3.4. Estonian Electrical Mobility Programme ELMO

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

There are 167 quick chargers in Estonia, of which 103 are in towns (most of them in Tallinn, Tartu and Pärnu) and 64 by roadsides outside the towns. As at the end of 2016, the number of customers using the quick charging network was 2090, of whom 72% were private customers. Since the opening of the system in February 2013, the quick chargers have been used more than 382,500 times as at the end of 2016, with 142,000 times in 2016. The average charging session lasted 31 minutes and energy consumption was 9.4 kWh in 2016. Compared to 2015, the usage has somewhat increased and the average charging time prolonged by 3 minutes.

The provision of ELMO short-term rental service was continued also in 2016. Another 8 electric vehicles were bought: 6 Nissan Leaf and 2 Mitsubishi i-MiEV cars. Starting from the beginning of the rental service in July 2013, the service has been used more than 31,000 times and over 6900 customers have registered for that. Users are predominantly men (80%) and the average age of users is 32. 80% of the users made use of a rental car once or twice. Repeated users were a clear minority, and their number remained similar to the level in 2015. The most frequent user used the services 264 times in the year. More than 1200 new users were registered in 2016, being by 25% less than in 2015.

The average distance travelled by a car during the rental session was 54 kilometres, being somewhat shorter compared to the year prior. Most of the vehicles were rented and returned in Tallinn, with the rental station at the Viru Centre accounting for one-third of all rentals.

Since the procurement contracts for quick charging network and rental service end in 2017, KredEx has started preliminary activities and negotiations for transferring the service.

It is still possible to visit the electric car demo centre at the Science Centre AHHA, in Tartu. Since its opening, more than 744,000 people have visited the centre and over 760 test drives have been undertaken with the two electric cars there.

## KredEx Krediidikindlustus

AS KredEx Krediidikindlustus was established on 26 November 2009 Foundation KredEx (1/3 of shares) and MoEAC (2/3 of shares). The company was registered with the commercial register on 31 May 2010.

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

The company's supervisory board consists of three members: Chairman Lehar Kütt (Foundation KredEx), members Kertu Fedotov (Ministry of Finance) and Kaupo Reede (MoEAC). The management board of the insurance company has two members and assumed office at the end of 2009, with Chairman of the Management Board Meelis Tambla and member of the management board Mariko Rukholm.

Starting from its foundation, the scope of activity of the insurance company provided to the exporters has constantly increased (see Figure 14). On the one hand, it can be explained by the increasing awareness of enterprises regarding the management of payment risks associated with exports, while on the other hand, growth is caused by the business interests of exporters in new and more distant target markets (see Figure 15).

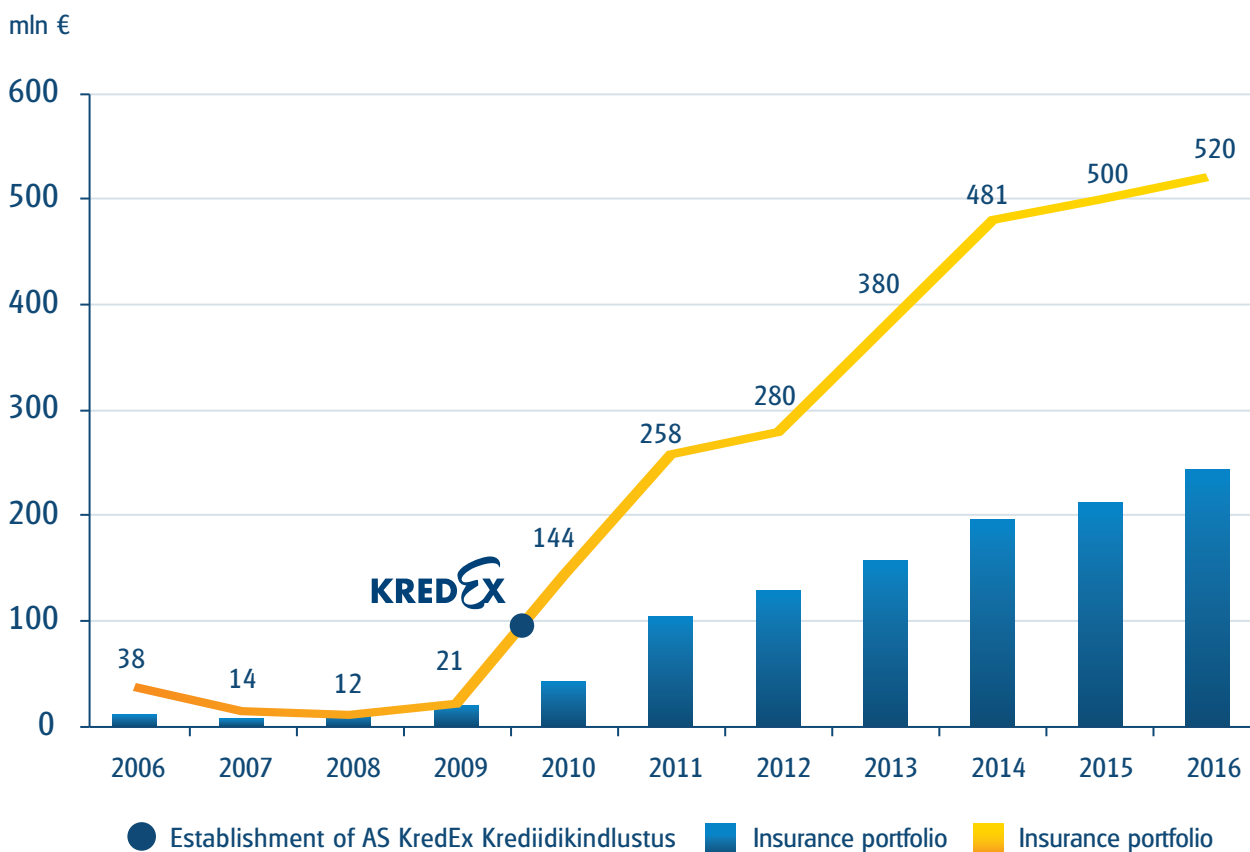
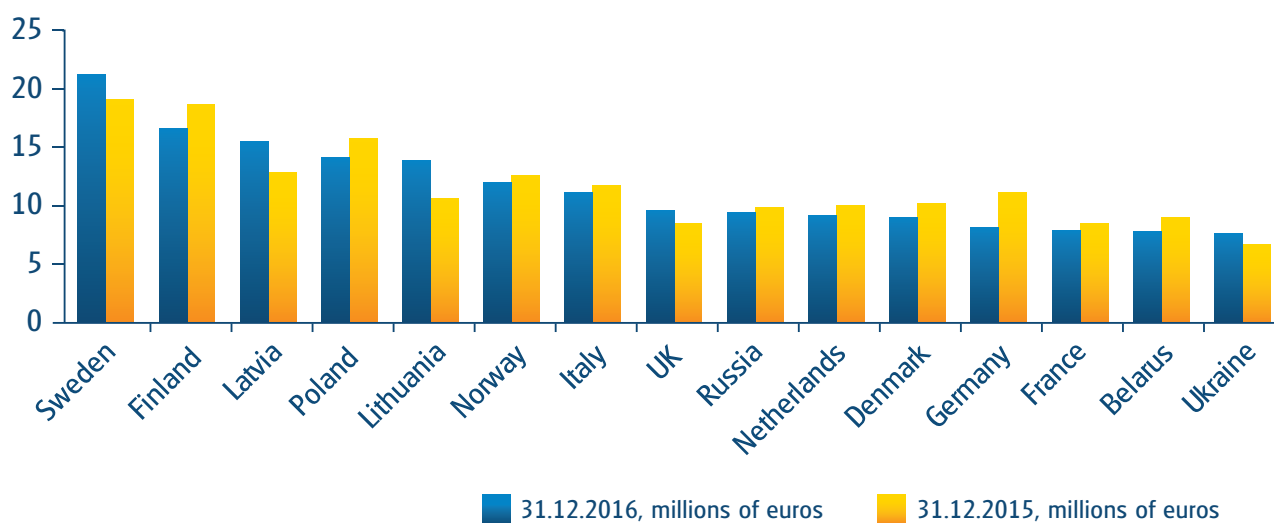


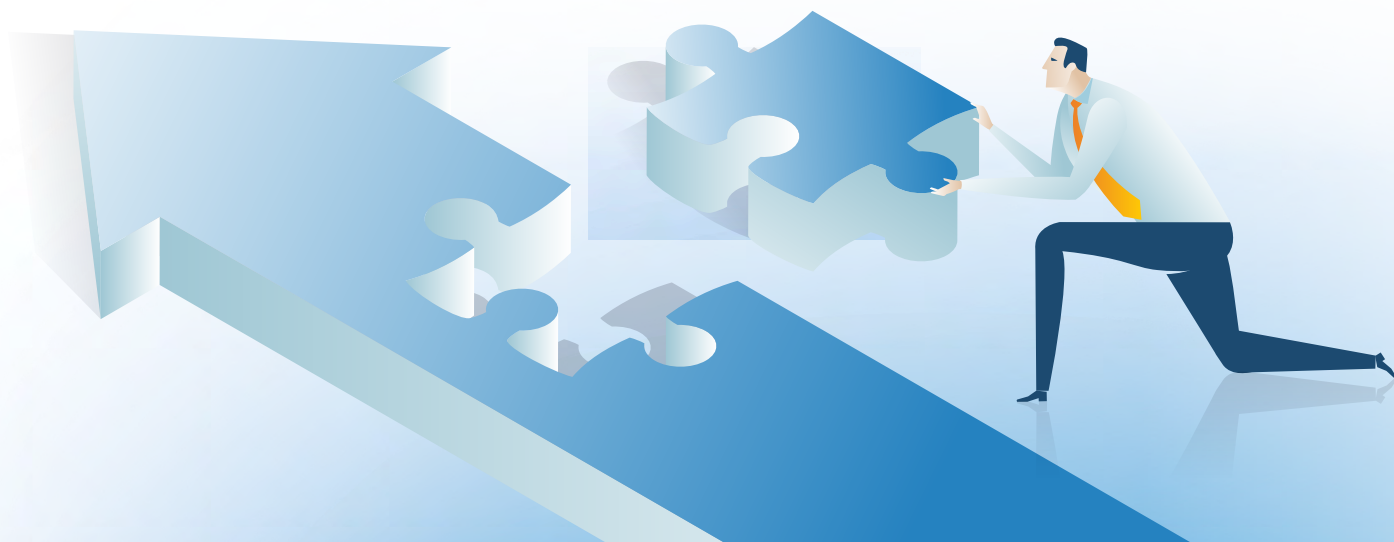
Figure 14. The operating volumes of KredEx Krediidikindlustus have constantly increased.



In 2016, the increase in AS KredEx Krediidikindlustus volumes continued. Over the year, the risk portfolio, that is, the sum of active insurance limits, grew by 6%, reaching EUR 244 million. Out of the entire risk portfolio volume, the risks related to foreign buyers made 66% (EUR 161 million). The volume of credit risks insured with a state guarantee was EUR 24 million (10% of the total risk portfolio) and covered insured buyers from countries outside the European Union. As at the yearend, the insured credit risks covered 4240 enterprises in 65 foreign countries. The largest credit insurance volumes are related to the most important target countries of Estonia's export: Sweden, Finland, Latvia and Poland (see Figure 15). Collected insurance premiums totalled EUR 1.48 million in the year and the turnover of Estonian enterprises related to the insurance contracts in 2016 exceeded EUR 500 million.



**Figure 15.** 15 major export target countries in the KredEx Krediidikindlustus portfolio



# 4. Financial results and payment of losses



Thousands of euros	2016	2015
Income from core activity (gross)	7,116	6,097
Guarantee activity	4,094	3,294
Crediting activity	1,873	1,942
Targeted financing of operational expenses from the state budget	1,149	861
Paid losses	-1,774	-2,875
Loss provisions formed for guarantees (gross)	-2,518	-2,494
Impairment of subordinated loans (gross)	-1,423	-702
Administrative expenses	-3,198	-2,160
<b>Profit of the reporting period</b>	<b>1,176</b>	<b>1,021</b>

	31.12.2016	31.12.2015
Loan receivables	59,135	63,126
Technical provisions	7,243	6,111
Foundation capital	74,020	72,999
Total balance sheet	191,379	173,642
<b>Off-balance-sheet liabilities (guarantee portfolio)</b>	<b>207,620</b>	<b>174,453</b>

Income related to the guarantee activity increased by areas of activity in both the enterprise and housing sector. Income related to crediting activity decreased due to an overall decline in the portfolio volume.

In 2016, fewer losses were paid out than a year before. Losses were smaller in both the enterprise and housing sector. The expenses of loss events were mainly covered with guarantee fees. No additional expenses were made (in 2015, the additional provision was 212,366 euros). Impairment of subordinated loans amounted to EUR 1,423,332 (in 2015 impairment amounted to EUR 701,795).

The total profit of year was 1.2 million euros. Since 2001, KredEx has earned a total profit of EUR 8.4 million.

# 5. Plans for year 2017



In 2017, KredEx continues offering guarantees, loans, venture capital and grants in the housing area, if necessary, with the goal being to revitalise the economy, improve the living conditions of people and increase energy efficiency. KredEx is constantly seeking to expand financing opportunities and compensate for market failures in these areas.

In the enterprise area, we are expecting stabilisation of the operating volumes, based on the high reference base of 2016. We are regularly seeking possibilities to improve cooperation with banks in guaranteeing the loans and, whenever possible, simplify the procedures. Besides banks and providers of leases, possibilities for cooperation are also sought with other financiers.

In the venture capital area, the private and venture capital funds that have received a mandate from the Baltic Innovation Fund (BIF) will continue investing in enterprises. In addition to the currently operating four sub-funds and the fifth sub-fund to launch its activities soon, yet another mandate can be issued to a sub-fund from BIF. Negotiations with co-investors and preparations for the foundation of the Baltic Innovation Fund II, continue.

In the second quarter, the results of the call to find fund managers for the sub-funds of EstFund, will be approved. After that, the mandated management companies must also involve the required amount of capital from private investors, and investments in enterprises will probably start at the end of 2017 or in the beginning of 2018.

In the housing and energy efficiency area KredEx will continue to offer an integrated package of services, including raising awareness, grants and loan guarantees, to make apartment buildings more energy efficient. Since apartment building reconstruction grants were launched in April 2015, we expect that the number of grant applications, as well as the volume of use of apartment building loan guarantees, will increase. The volume of housing loan guarantees will increase primarily with the introduction of a loan guarantee for energy efficient housing in 2016 and restoring cooperation with Swedbank in November 2016.

As a new activity, the measure of developing local government housing will be added, the purpose of which is to ensure better availability of modern rental premises. The total amount allocated for the programme budget in 2017–2020 is EUR 62.5 million.

KredEx will end the implementation of the Estonian Electromobility Programme ELMO. Since the procurement contracts related to the quick charging network and rental service end in 2017, it is important to find a way to continue with these activities in a suitable manner.

The operations of KredEx have a strong basis, and there is no need for major organisational changes in 2017. Still, different possibilities are considered in order to improve the funding of target groups, work processes are constantly being enhanced and internal regulations updated. An important direction is finding synergy between the Startup Estonia programme (joined KredEx in 2016), SmartCap (joining in 2017) and the rest of the activities of KredEx. Activities for replacing guarantee and loan administration software are continuing, in order to enhance the issuing of guarantees and loans, and the management of risks.

# 6. Annual accounts



## 6.1. Balance sheet (in euros)

ASSETS	31.12.2016	31.12.2015	Notes
<b>Current assets</b>			
Cash and bank accounts	11,776,913	94,893,207	3
Short-term financial investments	0	4,211,894	4
Short-term loan receivables	7,307,490	6,571,805	5
Receivables and prepayments	1,140,170	1,224,242	6
<b>Total current assets</b>	<b>126,213,573</b>	<b>106,901,148</b>	
<b>Fixed assets</b>			
Long-term investments	13,159,351	9,994,172	7
Long-term loan receivables	51,827,180	56,553,935	5
Tangible fixed assets	74,921	81,700	8
Intangible fixed assets	103,815	111,237	9
<b>Total fixed assets</b>	<b>65,165,267</b>	<b>66,741,044</b>	
<b>TOTAL ASSETS</b>	<b>191,378,840</b>	<b>173,642,192</b>	
<b>LIABILITIES</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>Notes</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables and prepayments received	443,527	402,668	10
Short-term part of long-term loans	4,808,974	4,769,877	15
Short-term technical provisions	2,826,080	2,749,540	11
Other short-term provisions	84,810	84,810	11
Targeted financing for housing grants	8,420,235	5,040,676	12
Targeted financing for the application of the green investment scheme	3,720,217	3,402,051	13
Targeted financing for supporting measures of entrepreneurship	50,000	0	14
<b>Total current liabilities</b>	<b>20,353,843</b>	<b>16,449,622</b>	
<b>Long-term liabilities</b>			
Long-term technical provisions	4,416,958	3,361,086	11
Long-term loans	24,181,929	28,688,125	15
Targeted financing for supporting measures of entrepreneurship	67,229,478	49,780,518	14
Targeted financing for the application of the green investment scheme	0	1,342,517	13
<b>Total long-term liabilities</b>	<b>95,828,365</b>	<b>83,172,246</b>	
<b>Total liabilities</b>	<b>116,182,208</b>	<b>99,621,868</b>	
<b>Net assets</b>			
Foundation capital	74,020,324	72,999,083	
Total net gain for the accounting year	1,176,308	1,021,241	
<b>Total net assets</b>	<b>75,196,632</b>	<b>74,020,324</b>	
<b>TOTAL LIABILITIES</b>	<b>191,378,840</b>	<b>173,642,192</b>	

## 6.2. Income statement (in euros)

Operating income	2016	2015	Notes
Guarantee fees	3,447,989	3,246,483	16, 17
Interest income from loans	1,597,639	1,644,077	16, 17
Intermediation of targeted financing for housing grants	11,096,402	1,733,953	16
Intermediation of the targeted financing for the implementation of the green investment scheme	1,030,141	4,388,896	16
Targeted financing to cover operating expenses	1,922,406	860,983	16, 17
<b>Total operating income</b>	<b>19,094,577</b>	<b>11,874,392</b>	

Operating expenses	2016	2015	Notes
Intermediation of targeted financing for housing grants	-11,096,402	-1,733,953	16
Intermediation of the targeted financing for the implementation of the green investment scheme	-1,030,141	-4,388,896	16
Administrative expenses	-3,197,549	-2,159,994	20
Other operating income and expenses	189,181	242,970	18
<b>Total operating expenses</b>	<b>-15,134,911</b>	<b>-8,039,873</b>	

Provisions and impairment losses	2016	2015	Notes
Expenses of guarantee loss	-1,812,075	-1,851,476	16
Loan losses	-303,583	-130,371	16
<b>Total provisions and impairment losses</b>	<b>-2,115,658</b>	<b>-1,981,847</b>	

Financial income and expenses	2016	2015	Notes
Net income from securities	1,428	12,231	4
Interest income on deposits	129,718	153,084	3
Interest expenses	-864,432	-986,318	16
Profit/loss from associated undertaking	83,993	10,661	7
Other financial income and expenses	-18,407	-21,089	19
<b>Total financial income and expenses</b>	<b>-667,700</b>	<b>-831,431</b>	
<b>Net income for the reporting period</b>	<b>1,176,308</b>	<b>1,021,241</b>	



### 6.3. Cash flow statement (in euros)

Cash flows from principal activities	2016	2015	Notes
Income	1,176,308	1,021,241	16
Adjustments to income	439,092	603,376	
Change in receivables and prepayments made	-201,925	-323,563	
Change in liabilities and prepayments received	42,275	-104,537	
Change in provisions	1,132,412	-348,849	
Change in loan receivables	3,991,070	6,781,440	
Change in loan obligations	-4,467,099	-5,510,508	
Change in targeted financing	19,852,752	2,055,358	
<b>Total cash flows from principal activities</b>	<b>21,964,885</b>	<b>4,173,958</b>	
Cash flows from investment activities	2016	2015	Notes
Sale of short-term financial investments	4,200,000	9,200,000	
Acquisition of long-term financial investments	-3,480,000	-1,760,000	
Interest income received	285,997	669,650	
Acquisition of fixed assets	-98,176	-90,847	8, 9
Sale of fixed assets	0	26,250	
<b>Total cash flows from investing activities</b>	<b>907,821</b>	<b>8,045,053</b>	
<b>Total cash flows</b>	<b>22,872,706</b>	<b>12,219,011</b>	
Cash and cash equivalents at the beginning of the period	94,893,207	82,674,196	
Change in cash and cash equivalents	22,872,706	12,219,011	
<b>Cash and cash equivalents at the end of the period</b>	<b>117,765,913</b>	<b>94,893,207</b>	<b>3</b>

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

	Enterprise trust funds	Export trust funds	Housing trust funds	Undistributed income	Net assets Total
<b>Balance 31.12.2014</b>	<b>31,818,467</b>	<b>6,121,543</b>	<b>33,825,971</b>	<b>1,233,102</b>	<b>72,999,083</b>
Distribution of income into trust funds	357,213	0	875,889	-1,233,102	0
Total net gain for the accounting year	0	0	0	1,021,241	1,021,241
<b>Balance 31.12.2015</b>	<b>32,175,680</b>	<b>6,121,543</b>	<b>34,701,860</b>	<b>1,021,241</b>	<b>74,020,324</b>
Distribution of income into trust funds	433,447	0	587,794	1,021,241	0
Total net gain for the accounting year	0	0	0	1,176,308	1,176,308
<b>Balance 31.12.2016</b>	<b>32,609,127</b>	<b>6,121,543</b>	<b>35,289,654</b>	<b>1,176,308</b>	<b>75,196,632</b>

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 2016 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 accounting principles generally accepted in Estonia 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 2016 and ended on 31 December 2016.

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

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

### 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 at 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 by direct method.

#### Financial investments

##### Initial recognition of financial assets

Financial assets are initially accounted for at their acquisition cost, which is the fair value of the fee paid or received for the financial assets. The initial acquisition cost includes all 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 in ordinary market circumstances are registered on the date of those transactions, i.e. on the date when KredEx undertakes a liability (e.g. concludes a contract) for the purchase or sale of a certain financial asset. Sales and purchases taking place in ordinary market circumstances are such purchases and sales for which the transfer of the purchased or sold financial assets takes place during the period 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:

- » 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;
- » investments into shares and other instruments of equity capital, the fair value of which cannot be reliably evaluated (including derivative instruments connected with such assets), are recognised at their acquisition value.

### Financial assets recognised at fair value

The following financial assets are recognised at fair value:

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

Financial assets recorded at fair value are re-evaluated on every balance sheet date into their fair value, from which the possible transaction costs accompanying the realisation of the property have not been deducted. For publicly traded securities the fair value is based on the closing prices on the balance sheet date and the official currency exchange rates of the European Central Bank. For 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 from the change in fair value are recorded in the income statement on the line "Net income from securities". The change in the fair value of financial assets acquired for the purpose of trade is recorded in the income statement on the line "Net income from securities". Profits and losses upon the realisation of financial assets recorded at fair value, as well as interest and dividends from the relevant securities are recorded in the income statement on the line "Net income from securities".

### Financial assets recorded at their adjusted acquisition cost

Claims against other parties that KredEx has not acquired for the purpose of resale and financial investments maintained until the redemption date shall be recorded at their adjusted acquisition cost. The adjusted acquisition cost 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 considered.

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

Upon payment of a claim discounted earlier or other events showing that the discount is no longer justified, the cancellation of the discount is recorded in the income statement

as a reduction of the expense in which the discount was initially recorded.

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

### Financial assets recorded at 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 acquisition value.

Financial assets recorded at acquisition cost shall be discounted to their covered value if the latter is smaller than the book value of the financial assets. The covered value of the financial assets recorded at acquisition cost is the cash flows probably obtainable 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.

### Shares in an affiliate

Shares in an affiliate are recorded using the equity method. Investments are initially registered at their acquisition cost adjusted by the holding of an investor in the changes of the equity of the affiliate. Investments into affiliates are recorded in the balance sheet as a net amount. A change in the share in an affiliate's equity is recorded in the income statement as a net amount.

### Shares in investment funds

Deposits into an investment fund, from which the trustee's fees have been deducted, are recorded on the balance sheet row as "Long-term financial investments". Shares of investment funds are recorded at fair value with a change in profit/loss. The shares are initially registered at their acquisition cost. After the initial registration, the shares are valued to 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 loan service, evaluation, and unlikely loan claims

Every loan is evaluated separately, considering the likelihood of loss and the market value of the property mortgaged in guarantee of the loan. Discounts are written off and the book value of the loan portfolio is decreased by that amount. If a loan claim has been considered as a finished loss event, the loan and the respective discount shall be written off the balance sheet.

Loans that are returned within the next reporting year are shown among short-term claims

on the balance sheet. Loans that are returned within the next reporting year are shown among long-term claims.

### Procedure for accounting fixed assets

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

Under the materiality principle, recorded fixed assets include assets with the acquisition cost exceeding EUR 5,000 and the useful life being more than one year. Objects of assets with a lower acquisition cost or a shorter useful life are written off at the moment of implementation and accounted for off the balance sheet.

If the PPE item consists of distinguishable components with different useful lives, these components are separately recorded under assets, and their depreciation rates specified separately thereof in accordance with their useful lives.

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

Fixed assets acquired by targeted financing for fulfilment of administrative tasks assigned by the state and not connected with the core activity of KredEx are registered at net acquisition cost. Such assets are accounted for off the balance sheet.

### Technical provisions

Provisions for outstanding claims, equalisation provision and provision for prepaid premiums are recorded in the report. The provision to cover the payments for known but unpaid estimated guarantee loss, or estimated guarantee loss in process, 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 being the basis for the liability and on the estimated period of realising the loan guarantees. If the guarantees are not realised within ten years from the loan becoming payable, the bank has the right to demand that KredEx fulfil the guarantee obligation.

The credit institution incurs 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 loss payable in the future but unknown at present, a separate equalisation provision is formed for every area. The share of guarantee fee calculated for covering of loss to be paid in the future is transferred to it. According to estimated long-term loss, in the past few years, 40% of the guarantee fees earned in the housing area and 87% of the guarantee fees of the enterprise area, have been transferred to the equalisation provision of the area.

Under Government of the Republic Regulation No. 91 of 5 May 2005, "The principles for setting up and the procedure for calculating technical provisions for state loan guarantees", the minimum amount of the equalisation provision shall be at least 1% of all

loan guarantee or export guarantee agreements and liabilities under guarantee offers of KredEx. Thereby, upon calculation of the volume of the liabilities, issued offers that have not been concluded as contracts are calculated by 70%.

Provisions likely to be paid out within the next reporting year are shown among short-term claims on the balance sheet. 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 loan recipient. For financial institutions, loan interests are assessed based on the schedule specified in the loan agreement.

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

### Calculation of guarantee fees

Banks authorised to issue guarantees on behalf of KredEx keep records of guarantee fees for housing loans. The guarantee fee is calculated and paid upon the issuing of a loan in full amount for the total guarantee period. The total amounts of the guarantee fee as of the moment of calculation are shown among income. As the guarantee recipient has no right to reclaim the guarantee fee or influence the amount thereof in the future, the fee is not distributed to the guarantee period. When the 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 of guarantee fees for enterprise loans and apartment associations are drafted once a quarter to banks having issued the loans, who 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 due date in the event of problematic loans; in that event the calculation of 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 is issued for contract fees for direct loan contracts upon issuing

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

### Targeted financing of operating expenses

Income received from the targeted financing of operating expenses is recorded in the income statement if the expenses related to getting those are covered and there is no substantial risk of not receiving the grant. If the targeted financing has been received but no expenses are yet covered from it, the funds received are recorded among liabilities on the line of 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 period 2007 – 2013, the Structural Aid Act of 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 on the balance sheet at the moment when the contractual right of claim arises. Received but unpaid funds of targeted financing are recorded on the balance sheet among liabilities and upon payments to grant recipients in income and expenses.

### Supporting measures for issuing or guaranteeing investment loans

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

### Calculation of foreign currency

The recording of transactions in foreign currency is based on the official currency exchange rates of the European Central Bank valid on the date of transaction. Monetary assets and obligations 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 of the reporting period, whereas the currency exchange rate profit and loss from transactions with buyers and suppliers are recorded in 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 to the lessor, and are not transferred to the lessee.

In case of 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 acquisition cost, which is the fair value of the fee received for the financial liability. Thereafter, financial liabilities are accounted for at 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 shown by the accrual method as a period expense in the income statement on the line "Financial income and expenses". Recording of a financial liability shall be ended when it has been paid, cancelled or expired.

### Events after the balance sheet date

The annual accounts record significant circumstances influencing the evaluation of assets and liabilities that were revealed between the balance sheet date and the date of drafting the report, but that 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 calculation of off-balance sheet assets

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

### Note 3. Cash and bank accounts

	31.12.2016	31.12.2015
Transferable deposits	88,736,913	65,754,207
Fixed-term deposits	29,029,000	29,139,000
<b>Kokku</b>	<b>117,765,913</b>	<b>94,893,207</b>

In 2016, demand and fixed-term deposits earned interest income in the amount of EUR 139,441, of which EUR 9,722 (EUR 153,084 in 2015), was deposited into the corresponding fund (see Note 16).

### Note 4. Short-term financial investments

	31.12.2016	31.12.2015
Bonds	0	4,211,894
<b>Total short-term investments</b>	<b>0</b>	<b>4,211,894</b>

In 2016, bonds earned an interest income of EUR 15,397 (EUR 249,797 in 2015). Unrealised loss from the change in the value of securities was EUR 13,969 (EUR 237,566 in 2015). The total net income from securities was EUR 1,428 (EUR 12,231 in 2015) (Note 16).



## Note 5. Loans receivable

Division of loans receivable by payment terms	Term of loans 1 year	Term of loans 2–6 years	Term of loans 7–18 years	Total
<b>Housing loans</b>				
Loans to non-profit associations	0	100,000	0	100,000
Apartment building renovation loans through banks	5,198,892	25,024,477	20,074,556	50,297,925
<b>Total</b>	<b>5,198,892</b>	<b>25,124,477</b>	<b>20,074,556</b>	<b>50,397,925</b>
<b>Allutatud laenu ettevõtetele</b>				
Capital loans	2,451,826	2,522,791	115,412	5,090,029
including impairments	-2,202,427	-1,417,865	-5,771	-3,626,063
Technology loans	31,829	3,478,638	363,400	3,873,867
including impairments	-6,179	-281,887	-18,170	-306,236
Export loans	1,690,402	1,545,295	0	3,235,697
including impairments	-203,595	-375,124	0	-578,719
<b>Total</b>	<b>1,761,856</b>	<b>5,471,848</b>	<b>454,871</b>	<b>7,688,575</b>
<b>Loans to banks in the enterprise area</b>				
Start-up loans through banks	409,289	829,129	0	1,238,418
including impairments	-62,547	-127,701	0	-190,248
<b>Total</b>	<b>346,742</b>	<b>701,428</b>	<b>0</b>	<b>1,048,170</b>
<b>Other loans</b>				
Loans registered as a result of loss procedure	7,360	246,771	0	254,131
including impairments	-7,360	-246,771	0	-254,131
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>	<b>7,307,490</b>	<b>31,297,753</b>	<b>20,529,427</b>	<b>59,134,670</b>
including the principal loan amount	6,993,649	31,297,753	20,529,427	58,820,829
interest payable	313,841	0	0	313,841

As of the end of 2015, the short-term part of the issued loans was EUR 6,571,805 and long-term part was EUR 56,553,935.

Changes in loan portfolio	Housing loans	Enterprise loans for banks	Subordinated loans for enterprises	Other loans	Total loans
<b>Loans at acquisition cost</b>					
<b>Balance at acquisition cost 31.12.2014</b>	<b>60,947,802</b>	<b>929,554</b>	<b>11,345,938</b>	<b>268,326</b>	<b>73,491,620</b>
Issued loans, 2015	0	211,519	1,020,119	0	1,231,638
Repaid loans, 2015	-6,003,243	-259,769	-1,342,870	-10,391	-7,616,273
Loans transferred off the balance sheet, 2015	0	-19,026	-348,215	0	-367,241

## Note 5. Loans receivable (continued)

Changes in loan portfolio	Housing loans	Enterprise loans for banks	Subordinated loans for enterprises	Other loans	Total loans
<b>Balance at acquisition cost 31.12.2015</b>	<b>54,944,559</b>	<b>862,278</b>	<b>10,674,972</b>	<b>257,935</b>	<b>66,739,744</b>
Issued loans, 2016	0	819,031	1,666,129	0	2,485,160
Repaid loans, 2016	-4,546,634	-373,704	-256,107	-3,804	-5,180,249
Capitalisation of interests, 2016	0	0	114,599	0	114,599
Loans transferred off the balance sheet, 2016	0	-69,187	0	0	-69,187
<b>Balance at acquisition cost 31.12.2016</b>	<b>50,397,925</b>	<b>1,238,418</b>	<b>12,199,593</b>	<b>254,131</b>	<b>64,090,067</b>

Irrecoverable loans	Housing loans	Enterprise loans for banks	Subordinated loans for enterprises	Other loans	Total loans
<b>Balance 31.12.2014</b>	<b>0</b>	<b>-138,951</b>	<b>-3,177,163</b>	<b>-268,326</b>	<b>-3,584,440</b>
Impairments 2015	0	-9,122	-703,989	11,115	-701,996
Loans transferred off the balance sheet, 2015	0	19,026	645,992	0	665,018
Receipt of discounted loans in 2015	0	0	7,414	0	7,414
<b>Balance 31.12.2015</b>	<b>0</b>	<b>-129,047</b>	<b>-3,227,746</b>	<b>-257,211</b>	<b>-3,614,004</b>
Impairments 2016	0	-144,339	-1,306,083	3,080	-1,447,342
Loans transferred off the balance sheet, 2016	0	81,837	0	0	81,938
Receipt of discounted loans in 2016	0	1,200	22,811	0	24,011
<b>Balance 31.12.2016</b>	<b>0</b>	<b>-190,248</b>	<b>-4,511,018</b>	<b>-254,131</b>	<b>-4,955,397</b>

Changes in loan portfolio	Housing loans	Enterprise loans for banks	Subordinated loans for enterprises	Other loans	Total loans
Balance at the adjusted acquisition cost 31.12.2014	60,947,802	790,603	8,168,775	0	69,907,180
Balance at the adjusted acquisition cost 31.12.2015	54,944,559	733,231	7,447,226	724	63,125,740
<b>Balance at the adjusted acquisition cost 31.12.2016</b>	<b>50,397,925</b>	<b>1,048,170</b>	<b>7,688,575</b>	<b>0</b>	<b>59,134,670</b>

From housing loans issued by the predecessor of KredEx, Foundation Eesti Eluase, EUR 37,388 was received in 2016 (EUR 72,753 was received in 2015); housing loan interest was 6% to 8% per year. Interest was earned in the amount of EUR 2,069 (EUR 6,052 in 2015).

The apartment building renovation loan was 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, under the measure "Apartment building renovation loan". The loan period for banks is up to 20 years and the interest rate 1.7% to 2.7%. Interest income of EUR 1,108,405 was earned (EUR 1,208,462 in 2015).

Loans to NGOs specialising in energy saving were issued by the order of the Ministry of Economic Affairs and Communications from the funds provided for housing supporting measures. The loan interest is 3% per year. In 2016, interest income of EUR 3,050 was earned (EUR 4,158 in 2015).

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

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

The income from the interest of subordinated loans in 2016 was EUR 716,274 (EUR 671,295 in 2015) and the impairment expenses of loans (incl. interest claims) was EUR -1,278,772 (EUR -703,989 in 2015). From the aforementioned amounts, EUR 274,951 of interest income and EUR -1,021,616 of impairment expenses were directed into the funds of the measure (EUR 297,887 of interest income and EUR -556,714 of impairment expenses in 2015). No fines for delay were calculated from the delayed payments of subordinated loans. EUR 22,811 of loans transferred off the balance sheet in earlier years were received, and EUR 39,430 from that were directed into the funds of the measure (EUR 7,413 in 2015) (Notes 16 and 17).

Funds for the measure "Guarantee programme for start-up and micro loans" have been received from the European Social Fund. Issuing of loan resources to banks within the framework of the given measure began in 2013. Companies in the target group are provided 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.

Interest income in the amount of EUR 38,732 was received from enterprise loans issued through banks (EUR 37,390 in 2015). The loan discount expense was EUR -143,140, of which EUR -114,512 was directed to the funds of the measure (in 2015, EUR -9,121, of which EUR -7,297 was directed to the funds of the measure). EUR 1,200 of loans transferred off the balance sheet were received, of which EUR 960 were directed to the funds of the measure (Note 16).

Loans registered as a result of processing the loss earned interest income in the amount of EUR 8,595 (EUR 4,576 in 2015). Write-downs of interest receivables decreased by EUR 1,420 (decreased by EUR 1,249 in 2015).

## Note 6. Receivables and prepayments made

	31.12.2016	31.12.2015
Receivables from current settlements	133,530	103,981
Receivables from reinsurance providers	13,179	63,032
Prepaid expenses of future periods	10,055	13,050
Claims from targeted financing of operating expenses	574,235	70,458
Accrued interest	42,167	173,326
Accrued income of guarantee fees	161,853	79,362
Prepayments of guarantee benefits	205,151	721,033
<b>Total</b>	<b>1,140,170</b>	<b>1,224,242</b>

Receivables from current settlements also include the receivable from the affiliated company in the amount of EUR 13,074 (EUR 12,508 in 2015), see Note 25.

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

Accrued income of interest and guarantee fees consist 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. The profit for 2016 using the equity method was EUR 83,993 (EUR 10,661 in 2015) (see Note 16); the balance of the investment by the end of the year was EUR 6,816,333 (EUR 6,732,340 in 2015).

In 2016, EUR 3,480,000 was deposited to the Baltic Innovation Fund (EUR 1,760,000 in 2015). The deposits are used for covering both operating expenses and fund investments. By 31.12.2016, the fair value of funds directed to fund investments was EUR 5,835,217 (EUR 2,751,957 in 2015). The fair value of the BIF shares are assessed on the basis of the net value of invested assets.

EIB bonds at their fair value were EUR 507,800 (EUR 509,875 in 2015), with the maturity term in 2020.

## Note 8. Tangible fixed assets

	Machinery and equipment	Inventory and tools	Prepayments	Total
<b>Acquisition cost 31.12.2015</b>	<b>81,514</b>	<b>257,809</b>	<b>0</b>	<b>339,323</b>
Acquired 2016	0	27,830	19,140	46,970
Written off at acquisition cost	0	-107,725	0	-107,725
<b>Acquisition cost 31.12.2016</b>	<b>81,514</b>	<b>177,914</b>	<b>19,140</b>	<b>278,568</b>
<b>Depreciation 31.12.2015</b>	<b>-41,241</b>	<b>-216,382</b>	<b>0</b>	<b>-257,623</b>
Depreciation 2016	-12,390	-27,125	0	-39,515
Depreciation of fixed assets written off in 2016	0	93,491	0	93,491
<b>Depreciation 31.12.2016</b>	<b>-53,631</b>	<b>-150,017</b>	<b>0</b>	<b>-203,647</b>

	Machinery and equipment	Inventory and tools	Prepayments	Total
Residual cost 31.12.2014	29,559	36,585	19,169	85,313
Residual cost 31.12.2015	40,273	41,427	0	81,700
<b>Residual cost 31.12.2016</b>	<b>27,883</b>	<b>27,897</b>	<b>19,140</b>	<b>74,921</b>

Information technology equipment was acquired in 2016. Prepayments for fixed assets in 2016 record the prepayment for the car registered in 2017. Pursuant to the amendments to the State's Accounting Regulation, assets with the acquisition value of less than EUR 5,000 were written off from fixed assets.

## Note 9. Intangible fixed assets

	Computer programmes	Prepayments	Total
<b>Acquisition cost 31.12.2015</b>	<b>383,595</b>	<b>0</b>	<b>383,595</b>
Acquired 2016	39,456	11,750	51,206
Written off at acquisition cost in 2016	-23,957	0	-23,957
<b>Acquisition cost 31.12.2016</b>	<b>399,094</b>	<b>11,750</b>	<b>410,844</b>

	Computer programmes	Prepayments	Total
<b>Depreciation 31.12.2015</b>	<b>-272,358</b>	<b>0</b>	<b>-272,358</b>
Depreciation 2016	-56,328	0	-56,328
Depreciation of fixed assets written off in 2016	21,657	0	21,657
<b>Depreciation 31.12.2016</b>	<b>-307,029</b>	<b>0</b>	<b>-307,029</b>
Residual cost 31.12.2014	109,593	78,495	188,088
Residual cost 31.12.2015	111,237	0	111,237
<b>Residual cost 31.12.2016</b>	<b>92,065</b>	<b>11,750</b>	<b>103,815</b>

Pursuant to the amendments to the State's Accounting Regulation, assets with the acquisition value of less than EUR 5,000 were written off from fixed assets.

## Note 10. Payables and prepayments received

	31.12.2016	31.12.2015
Trade payables	158,692	131,020
Decided but not paid grants	0	71
Salary and holiday pay liabilities	211,898	186,548
Received advances from reinsurance providers	12,882	29,761
Taxes payable	60,055	55,268
<b>Total</b>	<b>443,527</b>	<b>402,668</b>

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

	31.12.2016	31.12.2015
<b>Short-term technical provisions</b>		
Provision for outstanding claims	2,826,080	2,749,540
<b>Total</b>	<b>2,826,080</b>	<b>2,749,540</b>

## Note 11. Short-term and long-term provisions (continued)

	31.12.2016	31.12.2015
<b>Other short-term provisions</b>		
Other short-term provisions	84,810	84,810
<b>Total</b>	<b>84,810</b>	<b>84,810</b>
<b>Long-term technical provisions</b>		
Long-term share of provision for outstanding claims	1,145,953	346,597
Equalisation reserves	3,271,005	3,014,489
<b>Total</b>	<b>4,416,958</b>	<b>3,361,086</b>
<b>Total</b>	<b>7,327,848</b>	<b>6,195,436</b>

**Other short-term provisions** include the EUR 84,810 received in 2002 from ERA Bank (bankrupt) of the privatisation voucher loans that remained there upon the bankruptcy of ERA Bank. According to the Use of Privatisation Proceeds Act, funds were provided for the Foundation Eesti Eluase to forward the funds to banks for issuing of loans with a favourable interest to tenants of restituted houses. KredEx is in negotiations with the Ministry of Finance to change the intended purpose of the above described amount. By the time of preparing this annual report, the aforementioned amount has been repaid to the state treasury.

### Technical provisions

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

As at 31 December 2016, technical provisions correspond to the minimum rates established by law, forming 1.40% in the area of enterprise and 1.85% in the area of housing of the Performing Guarantee Portfolio and offers. Of the Total Guarantee Exposures, technical provisions formed 4.13% in the enterprise area and 1.91% in the housing area. From guarantee premiums, planned provisions were formed in total for EUR 2,517,727 (EUR 2,132,686 in 2015), including EUR 2,081,080 for enterprise loan guarantees (EUR 1,808,558 in 2015) and EUR 436,647 for housing loan guarantees (EUR 324,128 in 2015). From the above amount EUR 31,865 were covered from the reserve fund of the measure "Guarantee programme for start-up and micro loans" (EUR 40,629 in 2015) and EUR 278,821 from the reserve fund of the measure "The issuance of insurance for loans, guarantees and export transactions in 2014-2020".

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 2016, no additional expenses occurred from a change in unsatisfied claims (EUR 212,366 of additional expenses for enterprise loan guarantees occurred in 2015). With respect to housing loan guarantees, no additional provisions have been made and no additional expenses from the decrease of provisions have been assessed.

In 2016, losses were covered from the reserve fund formed of the funds received from the European Social Fund in the amount of EUR 37,677 (EUR 189,457 in 2015) (see Note 14) and EUR 401,153 from the reserve fund of the measure "The issuance of insurance for loans, guarantees and export transactions in 2014-2020".

From the reinsurance of enterprise guarantees EUR 30,058 was received from the European Investment Fund to cover losses in 2016 (EUR 58,109 in 2015) (Note 16).

From the collection of guarantee loss, EUR 404,247 was recovered (EUR 452,068 in 2015). From these amounts EUR 452,068 have been transferred to the reserve fund of the measure "Guarantee programme for start-up and micro loans" (EUR 57,231 in 2015).

## Change in technical provisions

	Change in the provision for outstanding claims		Change in the equalisation reserve		Change in provisions total	
	2016	2015	2016	2015	2016	2015
<b>Enterprise loan guarantees</b>						
Balance on 1 January	3,074,558	4,476,397	2,042,138	1,224,475	5,116,696	5,700,872
Increase	2,211,961	1,203,262	2,081,080	2,020,925	4,293,041	3,224,187
Decrease	-1,360,331	-2,605,101	-2,211,961	-1,203,262	-3,572,292	3,808,363
including payment of indemnities	-1,749,310	-2,786,547	0	0	-1,749,310	-2,786,547
Receivables from reinsurance providers	388,979	181,446	0	0	388,979	181,446
<b>Balance on 31 December</b>	<b>3,926,187</b>	<b>3,074,558</b>	<b>1,911,257</b>	<b>2,042,138</b>	<b>5,837,444</b>	<b>5,116,696</b>
including long-term	1,145,955	346,597	1,911,257	2,042,138	3,057,212	2,388,735
<b>Housing loan guarantees</b>						
Balance on 1 January	21,579	75,024	972,351	683,579	993,930	758,603
Increase	49,251	35,356	436,647	324,128	485,898	359,484
Decrease	-24,985	-88,801	-49,251	-35,356	-74,236	-124,157
including payment of indemnities	-24,985	-88,801	0	0	-24,985	-88,801
<b>Balance on 31 December</b>	<b>45,846</b>	<b>21,579</b>	<b>1,359,747</b>	<b>972,351</b>	<b>1,405,593</b>	<b>993,930</b>
including long-term	0	0	1,359,747	972,351	1,359,747	972,351
<b>Total balance at the beginning of the period</b>	<b>3,096,137</b>	<b>4,551,421</b>	<b>3,014,489</b>	<b>1,908,054</b>	<b>6,110,626</b>	<b>6,459,475</b>
Increase	2,261,212	1,238,618	2,517,727	2,345,053	4,778,939	3,583,671
Decrease	-1,385,316	-2,693,902	-2,261,212	-1,238,618	-3,646,528	-3,932,520
including payment of indemnities	-1,774,295	-2,875,348	0	0	-1,774,295	-2,875,348
receivables from reinsurance providers	388,979	181,446	0	0	388,979	181,446
<b>Balance at the end of the period</b>	<b>3,972,033</b>	<b>3,096,137</b>	<b>3,271,004</b>	<b>3,014,489</b>	<b>7,243,037</b>	<b>6,110,626</b>
including short-term	2,826,080	2,749,540	0	0	2,826,080	2,749,540
Long-term	1,145,953	346,597	3,271,004	3,014,489	4,416,957	3,361,086

## Note 12. Targeted financing for housing support measures

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

Budgetary provision agreements 2012–2016	31.12.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>4,291,271</b>	<b>3,370,798</b>
Provisions from the state budget	5,756,466	2,556,466
Provisions from Structural Funds	9,851,465	770,704
Total grant payments:	-11,276,230	-1,732,832
including reconstruction grants for apartment buildings from the state budget	-65,497	-18,413
reconstruction grants from Structural Funds for apartment buildings	-9,265,732	-620,783
Near-zero energy building design grants from Structural Funds for apartment buildings	-66,000	0
grants for local governments	-230,821	-94,058
home grant for families with many children	-1,465,438	-905,240
reconstruction grant for small residences	-2,442	0
for participation in housing development projects	-180,300	-94,338
Total operating expenses:	-959,024	-683,458
including administrative expenses of support measures	-482,559	-533,161
technical and horizontal technical aid, including co-financing	-476,465	-140,704
<b>Balance at the end of the year</b>	<b>7,663,948</b>	<b>4,291,271</b>
including short-term part	7,663,948	4,291,271

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

Agreement for the foundation of the Climate and Energy Agency in 2010	31.12.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>754,440</b>	<b>745,625</b>
Cost-sharing by grant recipients	0	9,936
Total grant payments:	2,702	-1,121
grants from Structural Funds for reconstruction projects of apartment buildings repayments	2,702	0
grants for owner supervision of apartment building renovation work	0	-1,121
Operating expenses	-5,817	0
<b>Balance at the end of the year</b>	<b>751,325</b>	<b>754,440</b>
including short-term part	751,325	754,440



Funds for participation in international energy saving projects	31.12.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>-5,035</b>	<b>6,708</b>
Receipts from international energy saving projects	12,780	0
Payments to project partners in international energy saving projects	-2,426	-5,129
Operating expenses within the framework of international energy saving projects	357	-6,614
<b>Balance at the end of the year</b>	<b>4,962</b>	<b>-5,035</b>
including short-term part	4,962	-5,035
KredEx participated in the CA-EPBD project in 2016.		
<b>Total targeted financing for housing support measures</b>	<b>8,420,235</b>	<b>5,040,676</b>

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

In 2012, private persons who received grants for the reconstruction of shall residences and for the acquisition of renewable energy equipment were added to the grant recipients. Additional funds were provided within the framework of measure in the amount of EUR 18,000,000 in 2013 and EUR 1,500,000 in 2014.

### Administrative agreement for application of the Green Investment Scheme between the Republic of Estonia and the Great Duchy of Luxembourg, 17 August 2010

	31.12.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>299,522</b>	<b>352,463</b>
Administrative expenses	-11,760	-52,941
<b>Balance at the end of the year</b>	<b>287,762</b>	<b>299,522</b>
including short-term part	287,762	299,522

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

In 2013, EUR 7,800,000 was provided from the budget of the Ministry of Economic Affairs and Communications for KredEx to arrange for the implementation of the green investment scheme. From this amount, grants are provided to apartment buildings for integrated renovation work, with the goal being to increase the energy efficiency of the buildings, based on the same principles as the support measure of the Ministry of Environment provided above. In 2014, an additional EUR 1,236,910 was provided for the support of apartment building renovation and EUR 3,200,000 went to support the introduction of renewable energy and updating the heating systems of small residential buildings.

## Budgetary provision agreement 2013

	31.12.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>2,154,233</b>	<b>5,158,286</b>
Grants paid	-318,540	-3,004,053
<b>Balance at the end of the year</b>	<b>1,835,693</b>	<b>2,154,233</b>
including short-term part	1,835,693	2,154,233

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. From the above funds, an all-Estonian charging network for electric cars shall be constructed and administration thereof organised for five years; furthermore, arrangements are in place for the provision of short-term rental services for electric cars in Tallinn and Tartu. Within the framework of the measure, grants of up to 50% or EUR 18,000 of the cost of an electric car are issued for the purchasing of electric cars.

Out of the value-added tax adjustment for the income earned and expenses incurred from the quick charging and short-term rental services of the ELMO project, a reserve of EUR 854,432 has been created and will be transferred to the party designated by the Ministry of Economic Affairs and Communications after the expiry of the procurement contracts concluded for the provision of the services.

<b>Contract under public law for the application of the Green Investment Scheme between the Republic of Estonia and Mitsubishi Corporation</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Balance at the beginning of the year</b>	<b>1,698,828</b>	<b>3,500,239</b>
Funds of measure received	0	300,000
Grants paid (incl. repayments received)	12,929	-209,804
Transfer of repayments to the transfer fund	-12,929	0
Expenses for construction of the charging network for electric cars	-612,603	-923,404
Expenses for starting-up the short-term rental service for electric cars	-225,656	-547,079
Transfer of income and expenses for quick charging and short-term rental to the transfer fund	-123,259	-296,541
Administrative expenses	4,620	-124,583
<b>Balance at the end of the year</b>	<b>741,930</b>	<b>1,698,828</b>
including short-term part	741,930	948,296
long-term part	0	750,532

<b>Reserve fund from ELMO income and expenses</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Reserve fund from ELMO income and expenses	854,832	591,985

	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Total targeted financing received for the application of the green investment scheme</b>	<b>3,720,217</b>	<b>4,744,568</b>
including short-term part	3,720,217	3,402,051
long-term part	0	1,342,517

## Note 14. Targeted financing for supporting measures of entrepreneurship

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

In 2016, the Startup Estonia team came from Estonian Development Fund to KredEx. Their activity costs are funded with the resources of the supported activity „Enlivening the start-up entrepreneurship” under the priority axis “Growth-capable entrepreneurship and the research and development activity supporting it” of the Cohesion Fund’s development plan 2014–2020. In 2016, the measure’s final beneficiary was Enterprise Estonia.

Startup Estonia includes the green technology programme Startup Estonia Cleantech, funded by domestic and foreign partners interested in the development of green technologies.

As of 31 December 2016, the balances of targeted financing for the support measures together with the income and expenses from the measure’s programmes are as follows.

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

The intended purpose is making payments to the Baltic Innovation Fund (BIF) pursuant to the founding and management agreement of BIF. The funds come from the “Additional support programme for improvement of the availability of loan capital for entrepreneurs” and the amount of EUR 6,000,000 allocated from the state budget in 2015.

	31.12.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>28,931,370</b>	<b>23,038,809</b>
Received from the state budget	0	6,000,000
Change in the targeted fund from the income and expenses earned from BIF	-222,668	-194,416
Change in the value of BIF’s shares	-173,998	-37,010
Income earned from BIF	-73	17
Change in the targeted fund from the income and expenses earned from the support programme	-8,852	123,970
<b>Balance at the end of the year</b>	<b>28,525,779</b>	<b>28,931,370</b>
including short-term part	0	0

## Reserve capital of the start-up loan guarantee

The intended purpose is using funds from the European Social Fund to guarantee start-up loans for the programme "Guarantee programme for start-up and micro loans" approved by the 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. From 2013, banks have also been issuing start-up loans from this amount.

	31.12.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>3,590,683</b>	<b>3,683,186</b>
Increase in reserve capital from income earned from implementing the measure	35,424	104,251
Decrease in reserve capital from expenses from implementing the measure	-68,920	-196,754
<b>Balance at the end of the year</b>	<b>3,557,187</b>	<b>3,590,683</b>
including long-term part	3,557,187	3,590,683

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

The intended purpose is the issuing of subordinated and technology loans under the "Subordinated loan programme" approved by Directive No. 11-0313 of the Minister of Economic Affairs and Communications of 21 October 2011. The programme funds come from unused funds returned upon the termination of the measure "Additional support programme for improvement of the availability of loan capital for entrepreneurs".

	31.12.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>17,258,465</b>	<b>17,641,263</b>
Increase in reserve capital from income earned from implementing the measure	268,352	250,903
Decrease in reserve capital from expenses from implementing the measure	-963,803	-633,701
<b>Jääk aasta lõpuks</b>	<b>16,563,014</b>	<b>17,258,465</b>
sh pikaajaline osa	16,563,014	17,258,465

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

The intended purpose is the funding of the supported activity "The issuance of insurance for loans, guarantees and export transactions in 2014-2020" under the priority axis "Developing small and medium enterprises and strengthening" the regional competitiveness" of the Cohesion Fund's development plan 2014–2020.

	31.12.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>0</b>	<b>0</b>
Received from the state budget	18,875,000	0
Increase in reserve capital from income earned from implementing the measure	657,257	0
Decrease in reserve capital from expenses from implementing the measure	-794,808	0

	31.12.2016	31.12.2015
The measure's administrative expenses	-153,950	0
<b>Balance at the end of the year</b>	<b>18,583,499</b>	<b>0</b>
including long-term part	18,583,499	0

### Enlivening the start-up entrepreneurship

In 2016, the Startup Estonia team came from Estonian Development Fund to KredEx. Its activity costs are funded with the resources of the supported activity „Enlivening the start-up entrepreneurship” under the priority axis “Growth-capable entrepreneurship and the research and development activity supporting it” of the Cohesion Fund's development plan 2014–2020. In 2016, the measure's final beneficiary was Enterprise Estonia.

	31.12.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>0</b>	<b>0</b>
Funds received from Enterprise Estonia	52,284	0
Funds received from other targeted financiers	50,514	0
Operating expenses of Startup Estonia	-499,983	0
Unreceived targeted financing	447,185	0
<b>Balance at the end of the year</b>	<b>50,000</b>	<b>0</b>
including long-term part	0	0

### Green technology development programme Cleantech

	31.12.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>0</b>	<b>0</b>
Operating expenses of Cleantech	-119,367	0
Targeted financing to cover operating expenses	119,367	0
<b>Balance at the end of the year</b>	<b>0</b>	<b>0</b>

	31.12.2016	31.12.2015
<b>Total targeted financing of supporting measures of entrepreneurship</b>	<b>67,279,478</b>	<b>49,780,518</b>
long-term part	67,279,478	49,780,518

### Note 15. Long-term loans

	Loan obligation 31.12.2016	Term of repayment	Interest per year
Loan from the Council of Europe Development Bank (CEB)	17,425,136	02.05.2022	Average 2.87%
Loan from the Ministry of Finance	11,565,767	02.02.2026	Average 2.56%

## Loan from the Council of Europe Development Bank

The intended purpose of the loan is the fulfilment of the “Apartment building renovation loan programme” approved with Directive No. 137 of the Minister of Economic Affairs and Communications dated 7 May 2009, according to which KredEx lends its own funds, funds received as structural support from the European Regional Development Fund, and funds received as a loan from the Development Bank of the Council of Europe to commercial banks for issuing loans with a favourable interest.

The Ministry of Finance has provided a state guarantee for the loan, for which the guarantee fee in 2016 was EUR 18,407 (EUR 21,465 in 2015) (see Note 19).

	31.12.2016	31.12.2015
Balance at the beginning of the year	20,239,393	23,244,588
Repaid	-3,093,153	-3,005,195
<b>Loan balance at the end of the year</b>	<b>17,146,240</b>	<b>20,239,393</b>
including repayable in the next reporting period	3,183,710	3,093,153
repayable 2018 – 2022	13,962,530	17,146,240
Interest liability at the beginning of the year	328,382	382,194
Interest expense per year	544,167	627,798
Interest paid during the year	-593,652	-681,610
<b>Interest liability at the end of the year</b>	<b>278,897</b>	<b>328,382</b>
<b>Total balance at the end of the year</b>	<b>17,425,136</b>	<b>20,567,775</b>
including short-term part	3,462,606	3,421,535
long-term part	13,962,530	17,146,240

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

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

	31.12.2016	31.12.2015
Balance at the beginning of the year	12,864,371	15,308,889
Repaid	-1,322,486	-2,444,518
<b>Loan balance at the end of the year</b>	<b>11,541,885</b>	<b>12,864,371</b>
including repayable in the next reporting period	1,322,486	1,322,486
repayable 2017 – 2026	10,219,388	11,541,885
Interest liability at the beginning of the year	25,856	32,839
Interest expense per year	320,265	358,520
Interest paid during the year	-322,239	-365,503
<b>Interest liability at the end of the year</b>	<b>23,882</b>	<b>25,856</b>
<b>Total balance at the end of the year</b>	<b>11,565,767</b>	<b>12,890,227</b>
including short-term part	1,346,368	1,348,342
long-term part	10,219,399	11,541,885

	31.12.2016	31.12.2015
<b>Total loan obligations at the end of the year</b>	<b>28,990,903</b>	<b>33,458,002</b>
including short-term part	4,808,974	4,769,877
long-term part	24,181,929	28,688,125

## Note 16. Income statement by area of activity

<b>Guarantee activity</b>	<b>2016</b>	<b>2015</b>	<b>Notes</b>
Guarantee fees, contract fees	4,093,879	3,293,502	17
Transferred to the fund of the measure from the guarantee fees	-645,890	-47,019	17
Guarantee losses and a change in technical provisions	-2,517,727	-2,493,878	11
Loss covered from the fund of the relevant measure	310,687	189,457	14
Received from reinsurance from the EIF	30,058	58,109	
Received from debt collection	404,247	452,068	11
Repaid amount into the fund of the relevant measure	-39,340	-57,232	
<b>Total income from guarantee activity</b>	<b>1,635,914</b>	<b>1,395,007</b>	

<b>Crediting activity</b>	<b>2 016</b>	<b>2015</b>	<b>Notes</b>
Interest, fines for delay, and contract fees	1,872,590	1,941,964	
Interest expense directed back to the fund of the relevant measure	-274,951	-297,887	
Change in impairment losses	-1,423,332	-701,795	5
Impairment losses covered from the fund of the relevant measure	1,136,127	564,011	5
Written-off loans repaid	24,011	7,413	5
Repaid amount into the fund of the relevant measure	-40,390	0	5
Interest on loans taken	-864,432	-986,318	
<b>Total income from crediting activity</b>	<b>429,623</b>	<b>527,388</b>	

<b>Investment activity</b>	<b>2 016</b>	<b>2015</b>	<b>Notes</b>
Interest income from deposits	139,441	153,084	3
Interest expense directed back to the fund of the relevant measure	-9,722	0	
Net income from short-term financial investments	1,428	12,231	4
Profit/loss from affiliates	83,993	10,661	7
Operating expenses of the Baltic Innovation Fund and change in the value of its shares	-405,591	-231,409	
Expense directed from change in the value of BIF shares and from operating expenses to the fund for the founding expenses of BIF	405,591	231,409	
<b>Total income from investment activity</b>	<b>215,140</b>	<b>175,976</b>	

## Note 16. Income statement by area of activity (continued)

Targeted financing for operating expenses	2 016	2015	Lisad
Targeted financing received for housing grants	11,096,402	1,733,953	
Paid housing grants	-11,096,402	-1,733,953	12
Budgetary funds for administration of housing support measures	665,501	533,162	17
Targeted financing received for the application of the green investment scheme	1,030,141	4,388,896	
Grants paid within the green investment scheme	-1,030,141	-3,160,090	13
Investments made for implementation of the green investment scheme	0	-1,228,806	13
Budgetary means for the administration of the green investment scheme	7,140	177,524	13, 17
Technical and horizontal technical aid	476,465	150,297	16, 17
Covering the administrative costs of entrepreneurship funding measures from the funds of the measures	153,950	0	14, 17
Targeted financing received for covering the costs of Startup Estonia	499,983	0	14, 17
Targeted financing received for implementing the Cleantech projects	119,367	0	14, 17
<b>Total targeted financing</b>	<b>1,922,406</b>	<b>860,983</b>	<b>17</b>
<b>Administrative expenses</b>	<b>-3,197,549</b>	<b>-2,159,994</b>	<b>20</b>
<b>Operating income</b>	<b>1,005,534</b>	<b>799,360</b>	
Other operating income and expenses	189,181	242,970	18
Other financial expenses and income	-18,407	-21,089	19
<b>Income</b>	<b>1,176,308</b>	<b>1,021,241</b>	

## Note 17. Sales income by activity area and type of income

	2016	2015	Lisad
<b>Guarantee fees (EMTAK 66291)</b>	<b>3,447,989</b>	<b>3,246,483</b>	<b>16</b>
Enterprise loan guarantees	2,392,046	2,078,784	
Of which into the fund of the relevant measure	-355,908	-47,019	
Housing loan guarantees	1,091,019	810,319	
Contract fees for enterprise loan guarantees	610,814	404,399	
Of which into the fund of the relevant measure	-289,982	0	
<b>Loan interests (EMTAK 66199)</b>	<b>1,597,639</b>	<b>1,644,077</b>	<b>5</b>
Housing loans	1,113,524	1,218,671	
Start-up loan interest	38,732	37,390	
Contract fees for start-up loans	4,060	1,090	
Subordinated loans for enterprises	701,653	675,871	
Of which into the fund of the relevant measure	-264,951	-297,887	5
Contract fees for subordinated loans	14,621	8,942	
Of which into the fund of the relevant measure	-10,000	0	5
<b>Targeted financing of operating expenses (EMTAK 84139)</b>	<b>1,922,406</b>	<b>860,983</b>	<b>16</b>
Administrative expenses for housing support measures	665,501	533,162	16
Technical and horizontal technical aid	476,465	150,297	16



	2016	2015	Notes
For application expenses of green investment schemes	7,140	177,524	13, 16
For administrative expenses of supporting measures of entrepreneurship under SF 2014–2020	153,950	0	14, 16
For operating expenses of Startup Estonia	499,983	0	14, 16
For operating expenses of Startup Estonia Cleantech	119,367	0	14, 16
<b>Total</b>	<b>6,968,034</b>	<b>5,751,543</b>	

EUR 92,279 of targeted financing for operating expenses of Startup Estonia Cleantech has been received from various European cooperation partners. The remaining sales income has been received from Estonia.

## Note 18. Other operating income and expenses

	2016	2015
Profit/loss from sales and write-offs of fixed assets and stock	-16,520	11,870
Targeted financing of operating expenses	91,089	101,487
including providing services to the affiliated company	90,375	87,580
for covering participation expenses in international projects	714	13,907
Other income and expenses	-8,646	227
Income from the projects of the green investment scheme	343,050	319,485
Expenses for the projects of the green investment scheme	-219,792	-190,099
<b>Total</b>	<b>189,181</b>	<b>242,970</b>

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

Income from the projects of the green investment scheme also included the quick charging service for electric cars. In 2016, the quick charging service was provided to the government and local government authorities for EUR 31,019 (EUR 31,737 in 2015) (Note 25).

## Note 19. Other financial expenses and income

	2016	2015
State guarantee for the loan from the Council of Europe Development Bank (see Note 15)	-18,407	-21,465
Other financial income	0	376
<b>Total</b>	<b>-18,407</b>	<b>-21,089</b>

## Note 20. Administrative expenses

	2016	2015
<b>Various operating expenses</b>	<b>-1,650,839</b>	<b>-832,013</b>
Rent and maintenance of office premises	-184,642	-176,379
Development, repair, and maintenance of IT and office equipment	-127,531	-128,871
Personnel and training expenses	-47,749	-49,279
Economic and administrative expenses	-21,744	-20,294
Telephone, mailing and Internet expenses	-14,332	-13,347
Transport expenses	-39,173	-40,283
Travel expenses	-43,323	-19,352
Marketing expenses	-572,851	-173,603

## Note 20. Administrative expenses (continued)

	2016	2015
Administration of the investment portfolio	-999	-9,092
Auditing expenses	-38,275	-29,819
Legal services	-127,500	-55,317
Membership fees	-20,186	-15,265
Expert assessment	-356,881	-50,563
Other services	-55,653	-50,549
<b>Labour costs</b>	<b>-1,450,866</b>	<b>-1,244,324</b>
Wages and salaries	-1,091,542	-923,363
including the salary of the supervisory board and members of the management board	-107,393	-98,477
salary of employees	-984,149	-824,886
Social tax	-351,528	-314,130
Unemployment insurance premium	-7,796	-6,831
<b>Depreciation of fixed assets</b>	<b>-95,844</b>	<b>-83 657</b>
<b>Total administrative expenses</b>	<b>-3,197,549</b>	<b>-2,159,994</b>

In July 2016, the six-member team of Startup Estonia was merged with KredEx, after being active under Estonian Development Fund. The average number of employees during the year was 35.9 (32.8 in 2015).

The average number of the employees working under employment contracts was 34.9 and the remuneration calculated for them was EUR 963,930. The average number of the members of management and supervisory bodies was 6 and the remuneration calculated for them was EUR 107,393. The number of the employees working under a contract under the law of obligations was 25 and the remuneration calculated for them was EUR 19,086. The number of employees working under a contract under the law of obligations with a visa was 2 and the remuneration calculated for them was EUR 1,133.

## Note 21. Changes in net assets

Foundation capital	Change in net assets increase + decrease -	Source for change
Targeted fund of housing guarantees	587,794	Distribution of 2015 income
Targeted fund of start-up loan guarantees	57,105	Distribution of 2015 income
Targeted fund of loan guarantees	209,492	Distribution of 2015 income
Targeted fund of subordinated loans	166,850	Distribution of 2015 income
Profit for 2016	1,176,308	Retained profit for 2016

## Note 22. Off-balance sheet assets and claims

### Off-balance sheet assets

In accordance with the agreement of sale for Assigned Amount Units between the Republic of Estonia and Mitsubishi Corporation, according to Article 17 of the Kyoto Protocol, a charging network for electric cars has been constructed to cover all of Estonia. As at the end of 2014, expenses for the construction thereof were incurred in the amount of EUR 6,355,219, with another EUR 159,590 added in 2015 and no additional expenses on the charging network were incurred in 2016. The total cost of the charging network is EUR 6,514,809. More detailed information is provided in Note 13.

Under the above agreement, the short-term rental service of electric cars has been created. For this, electric cars were purchased in 2013 and registered off the balance sheet in the amount of EUR 906,534. In 2015, another 8 electric cars in the amount of EUR 305,401 were purchased, and one car, destroyed in an accident, was written off. In 2016, the number of cars did not change. At the end of 2016, there were cars in the amount of EUR 1,177,387 registered at their acquisition cost.

Climate surveillance loggers in the amount of EUR 23,520 acquired in 2012 with funds from the climate and energy agency, are also registered as off-balance sheet assets. The acquisition cost at the end of 2016 was EUR 23,520.

### Off-balance sheet claims

Upon the fulfilment of the guarantee obligation, KredEx shall acquire the claim from the creditor in the extent of the paid amount. As the debtor has not fulfilled the obligations during the collection of the loan, such claims have no actual value. However, loans are often also guaranteed by the personal guarantee of loan recipients or owners, and in the case of loss events the processing of claims against guarantors may continue after the payment of the benefit. Until the termination of such disputes, the receivables are registered off the balance sheet. If a dispute ends with a compromise or the claim appears to be irrecoverable during the execution procedure, the calculation of off-balance sheet claims is adjusted respectively. Similarly, recovered grants are accounted for off the balance sheet. Six recovery requests for grants were added in 2016, incl. against one apartment association and against five enterprises having received support from the ELMO programme, two of which also passed through court disputes. The requests were decreased by grant repayments pursuant to the repayment schedule agreed between the parties.

Changes in off-balance sheet receivables	Direct loans	Housing loan guarantees	Enterprise loan guarantees	Rights of recourse for grants
<b>Balance of claims on 31 December 2016</b>	<b>262,536</b>	<b>519,899</b>	<b>1,072,381</b>	<b>978,209</b>
<b>Change from 31 December 2015</b>	<b>-22,811</b>	<b>-128,028</b>	<b>-74,306</b>	<b>718,855</b>
including new	0	24,984	16,367	723,197
received	-22,811	-28,598	-85,207	-4,342
revaluation	0	-124,415	-5,466	0

### Note 23. Off-balance sheet and conditional liabilities

Guarantee liabilities	2016	2015	Change
<b>Enterprise loan guarantees</b>			
Performing Guarantee Portfolio at the beginning of the year	115,897,328	115,688,346	208,982
Guarantee volume of concluded agreements	92,543,470	64,047,350	28,496,120
Depreciation of the portfolio and terminated agreements	-74,344,628	-63,838,368	-10,506,260
Performing Guarantee Portfolio at the end of the year	134,096,170	115,897,328	18,198,842
Issued offers at the end of the year	2,123,182	426,663	1,696,519
Total Guarantee Exposure as of the end of the year	141,276,622	120,942,485	20,334,137

## Note 23. Off-balance sheet and conditional liabilities (continued)

Guarantee liabilities	2016	2015	Change
<b>Housing loan guarantees</b>			
Performing Guarantee Portfolio at the beginning of the year	58,555,943	52,582,976	5,972,967
Guarantee volume of concluded agreements	31,908,120	20,367,490	12,468,426
Depreciation of the portfolio and terminated agreements	-16,939,920	-14,394,523	-3,473,193
Performing Guarantee Portfolio at the end of the year	73,524,143	58,555,943	14,968,200
Total Guarantee Exposure as of the end of the year	73,579,813	58,645,064	14,934,749
<b>Total performing guarantee portfolio</b>	<b>207,620,313</b>	<b>174,453,271</b>	<b>33,167,042</b>

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

**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 liability of agreements with a loss event as of the moment of termination of the agreement.

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

As of 31 December 2016, KredEx had conditional liabilities under the concluded loan agreements in the form of unused loan limits in the amount of EUR 535,250 (EUR 67,600 in 2015), EUR 35,250 of which has been paid by the time of completion of the annual report.

Tax authorities have a 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 2016. 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

Since 15 March 2010, KredEx has been leasing office premises of 832.3 m<sup>2</sup>, at Hobujaama 4, Tallinn. The lease contract will be in force until 15 March 2020 and does not include a possibility of premature ending.

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 2016, lease expenses were EUR 159,419 (EUR 142,511 in 2015) and the lease expenses from

maintained agreements planned for 2017 are EUR 159,419. The lease income is presented as a balance and does not include the lease costs of premises on sublease.

From the above described leased premises, 134.8 m<sup>2</sup> have been subleased to the affiliate AS KredEx Krediidikindlustus. In 2016, income from sublease was EUR 24,031 (EUR 23,437 in 2015) and the estimated income from subleasing in 2017 is EUR 24,500. 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 council and the board, their close family members and companies under the control or significant influence of all the aforementioned persons, the affiliate AS KredEx Krediidikindlustus, ministries, state and local government institutions, state-owned companies and local governments.

Transactions with the Ministry of Economic Affairs and Communications, Ministry of the Environment and Ministry of Finance have been described in greater detail in Notes 12 to 15.

Transactions with AS KredEx Krediidikindlustus are detailed in Notes 6, 7, 18 and 24. Additionally, KredEx has mediated costs in the amount of EUR 24,211 (EUR 20,454 in 2015). With value added tax included, KredEx has issued invoices to KredEx Krediidikindlustus in the amount of EUR 165,859 (EUR 157,541 in 2015).

In 2016, salaries of the board formed EUR 84,810 and the fees of the council formed EUR 22,583. According to the management board member agreement, compensation shall be paid to the CEO in the amount of three basic salaries, if KredEx terminates the contract prematurely without good reason.

	2016	2015
<b>Sales</b>		
Affiliated company KredEx Krediidikindlustus (sales with value added tax)	165,859	157,541
Quick charging service of electric cars provided to the government and local government authorities (without value added tax)	31,019	31,373
Other government and local government enterprises and authorities (without value added tax)	2,564	0
<b>Purchases</b>		
Companies connected with members of the management	0	2,956
Other government and local government enterprises and authorities	285,676	214,443
<b>Targeted financing received for Startup Estonia projects</b>		
Other government and local government enterprises and authorities	77,052	0
<b>Receivables</b>		
Affiliated company KredEx Krediidikindlustus	13,074	12,508
Other government and local government enterprises and authorities	6,025	0
<b>Liabilities</b>		
Other government and local government enterprises and authorities	27,723	35,274

## Note 26. Events after the balance sheet date

Under the agreement for the use of targeted support from state budget, KredEx has been provided in 2017 with up to EUR 8,256,466, to be used for financing the following programmes:

- » grant for improving the dwelling conditions of large families: EUR 3,200,000,
- » grant for developing the residential properties of local government: EUR 2,500,000,
- » grant for updating the electrical installations of dwellings: EUR 100,000,
- » grant for increasing awareness about energy savings: EUR 100,000,
- » grant for demolishing abandoned residential properties: EUR 300,000,
- » grant for increasing the energy-efficiency of small residential buildings EUR 1,700,000,
- » administrative expenses EUR 356,466.

In 2017, the procurement contracts for the ELMO quick charging network and the lease service will end. KredEx has initiated preliminary activities and negotiations for handing over the services.

On 29 June 2016, the Foresight Act (ASeS) entered into force, subsection 8 (1) of which sets out the termination of the activities of Estonian Development Fund by way of liquidation. Pursuant to the ASeS, subsection 15 (4), the shares of the fund administrator AS SmartCap specified in subsection 33 (5) of the Estonian Development Fund Act shall be transferred free of charge to KredEx. AS SmartCap acts as a fund administrator registered in the Financial Supervision Authority, implementing the state's investment policy. With the acquisition of the shares, AS SmartCap will become a subsidiary of KredEx. As a result of acquisition the shares, KredEx will receive 325,000 registered ordinary voting shares of SmartCap with the nominal value of EUR 1 from Estonian Development Fund. Pursuant to the ASeS, subsection 15 (8), the state, Estonian Development Fund and KredEx AS will enter into a tripartite agreement for the handover of the shares of SmartCap to KredEx.

## Division of the sales income of Foundation KredEx in financial year 2016 according to the Estonian Classification of Economic Activities (EMTAK)

According to the EMTAK classification, the sales income of KredEx consisted of the following:

	2016	2015
Guarantee fees (EMTAK 66291)	3,447,989	3,246,483
Loan interests (EMTAK 66199)	1,597,639	1,644,077
Targeted financing for operating expenses (EMTAK 84139)	1,922,406	962,470
<b>Total</b>	<b>6,968,034</b>	<b>5,853,030</b>

## Signatures of the Members of the Management Board to the 2016 annual report

The board has drafted the annual report and the annual accounts of Foundation KredEx for the year that ended on 31 December 2016.

Lehar Kütt                      Chairman of the Management Board                      */with digital signature/*



**KPMG Baltics OÜ**  
Narva mnt 5  
Tallinn 10117  
Estonia

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

## Independent Auditors' Report

*(Translation of the Estonian original)*

*To the Council of Fund KredEx*

### Opinion

We have audited the financial statements of Fund KredEx (the Company), which comprise the balance sheet as at 31 December 2016, the income statement, the statements of cash flows and 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 financial statements presented on pages from 30 to 61 give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the accounting principles generally accepted in Estonia.

### 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 Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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 financial statements and our auditors' report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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





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

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements.

As part of an audit in accordance with 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 2017

*/signed digitally/*

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

Licence No 17

# Contact us!

ph 667 4100

e-mail: [kredex@kredex.ee](mailto:kredex@kredex.ee)

Hobujaama 4, 10151 Tallinn