

Annual Report 2021



Estonian Business and Innovation Agency

(until 31.12.2021 Foundation KredEx)

Annual Report 2021

Beginning of financial year: 01.01.2021

End of financial year: 31.12.2021

Registry code of non-profit associations and foundations:
90006012

Main area of activity:

based on state development plans and policies:

- guarantee of credit products offered by credit institutions, including state guarantee of enterprise and housing loans for the purposes of the *Support of Enterprise and State Loan Guarantees Act*;
- development and offering of other financing services in the enterprise and housing sector

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1. Management Report

In 2021, KredEx continued to support entrepreneurs in the field of enterprise financing services, not only with the regular measures, but also with extraordinary guarantee and loan services, aimed at providing them with new financing to overcome the temporary difficulties caused by the COVID-19 outbreak. To complement our regular measures, we developed a regional loan in 2021 to finance part or all of the self-financing of investments made by entrepreneurs outside Tallinn and Tartu, if the enterprise applies for a bank loan or leasing and does not have the capital to cover the required self-financing. KredEx will start offering regional loans to entrepreneurs

in 2022. In order to identify the needs of entrepreneurs and to introduce financial instruments that are suitable for them, a systematic comprehensive advisory service for interested entrepreneurs was launched.

Altogether in 2021, KredEx provided guarantees and financing to 511 enterprises in the total amount of EUR 128 million (in 2020, to 501 enterprises in amount of EUR 373.2 million). Additional funding was made available to enterprises in total amount of EUR 183 million (in 2020, EUR 481 million).



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In the housing sector, we continued to offer our current guarantee services and grants in 2021, and provided direct loans to apartment associations, as well as continued the pilot project of factory reconstruction of apartment buildings. Together with County Development Centres, we have started to provide a more extensive advisory service and from 2021 there is a counselling centre in every county in Estonia to introduce the services for apartment buildings.

Although the impact of the corona-crisis was expected to reduce the number of applications for **housing loans** in 2021, the volume of guarantees issued was, on the contrary, exceptionally high: EUR 48.7 million. This is an increase of EUR 8.6 million (21.4%) compared to the previous year. A total of 4618 households purchased or renovated a home with the KredEx loan guarantee during the year. The total amount of housing loans issued by banks in 2021 and secured by real estate was EUR 1.78 billion (EUR 1.27 billion in 2020), of which the volume of loans with a KredEx guarantee accounted for EUR 504 million.

During the year, KredEx issued 76 loan guarantees for apartment associations, totalling EUR 8.2 million, which is 12.3% more than in 2020. With the help of the guarantee, loans in the total sum of EUR 13.7 million were issued to apartment buildings. In 2021, the portfolio of loan guarantees for apartment associations reached EUR 48.8 million, having increased by EUR 4.8 million over the year. The guarantee has been particularly helpful in rural areas where the value of the property used as collateral for the loan is low, and in situations where there are debtors in the residential building or where, due to the small size of the residential building, the apartment association's payment burden is heavily dependent on each apartment owner's ability to pay.

In the regular support measure for **apartment buildings**, mostly payments and changes to decisions were made in 2021, mainly affected by a very intensive change in the source of funding: emergency state budget funds were exchanged for REACT-EU and the European Recovery and Resilience Facility. This will allow the associations to renovate the apartment buildings over a much longer period. In the pilot project for factory reconstruction, we managed to conclude cooperation agreements with five groups of entrepreneurs and to find partners for all of the apartment associations that applied for the grant through a public competition. The success of the project would mean a technological breakthrough in the current reconstruction practice, and would allow residential buildings to be renovated much more quickly and comfortably for residents in the future. A total of 18 apartment associations will start renovating their residential buildings in this way between 2022 and 2024.

Interest was particularly strong in 2021 towards the reconstruction grant for **small residential buildings**, the grant amount of which essentially ran out in minutes. The important thing is that after five

years this grant measure is also working well, and hopefully funding will keep pace with demand in the coming years.

Most of the subsidised residential buildings under the **rental housing** measure were completed by the end of 2021. In total, 15 buildings and 374 rental apartments have been built or renovated. A total of EUR 13.53 million has been paid out in the form of grants.

We continued issuing home grants for **large families**, grants for the renovation of electrical installations and grants to local governments for the demolition of residential buildings. In total, we provided EUR 63.5 million in grants in 2021, which led to investments of EUR 156.6 million. Together with the financial services provided, the impact of the sector on the market amounted to EUR 679.3 million and the living conditions of around 31,000 people improved with the help of several services. From the subsidised construction works, around EUR 50 million were recovered by the state.

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KredEx continued as an investor in the funds of funds Baltic Innovation Fund 1, EstFund, and Baltic Innovation Fund 2, offering private and venture capital, and the management of the fund of funds SmartCap Venture Capital Fund (former Early Fund II) via its subsidiary AS SmartCap. With the support of these funds of funds, a total of approximately EUR 1 billion has already been invested and will continue to be invested in the fast-growing companies of the Baltic region, of which EUR 146 million is a contribution from KredEx or directly from the Estonian state.

The turnover of Estonian companies insured by KredEx's affiliate AS KredEx Krediidikindlustus increased by 26% in 2021, reaching EUR 964 million. Of this, export turnover amounted to EUR 616 million, having increased by 26.9% compared to the previous year. KredEx Krediidikindlustus insured an estimated 3.4% of the export turnover of Estonian undertakings. Of the export of goods and services of Estonian origin, the turnover insured by KredEx Krediidikindlustus was estimated at 4.8%. Overall, more than 4,000 buyers' payment risks were insured by the end of the year (in 70 countries).

Startup Estonia continued to support the startup sector by strengthening the community, launching the necessary services, improving access to early-phase capital and talent, and addressing

the legal bottlenecks. By the end of 2021, 1,300 start-ups had been registered in the Estonian start-up database, created by Startup Estonia. Last year was another record year for the start-up sector in all respects, with a total turnover of EUR 1.4 billion, EUR 125 million were paid in labour taxes and enterprises attracted around EUR 1 billion in investments. Wise went to the London Stock Exchange, being the first direct listing of a technology company in the history of this exchange. During the year, another four start-ups were successfully sold to other companies (*exit*).

As an important direction, we started in 2021 preparing **the merger of KredEx and Enterprise Estonia (EE)**. Legal merger took place on 04 January 2022. During the commencing transition phase, a new structure and brand will be created for the joint agency and the substantive merger will be completed in the course of 2022. Until then, services will be provided under the existing brands (KredEx and Enterprise Estonia).

From 04 January 2022, the legal name of the new organisation is the Estonian Business and Innovation Agency.



2. Activity Principles

➤ KredEx works for the sake of improving the standard of living of the people in Estonia.

Foundation KredEx was established in 2001, by the Ministry of Economic Affairs and Communications. KredEx is the leading state-owned financial institution that makes capital available and hedges credit risks so that Estonian companies can develop and people's living environments improve. For this purpose, KredEx offers loans, venture capital, credit insurance, and guarantees secured by the state, and carries out the Startup Estonia programme. We also help the residents of Estonia to improve their living conditions, offering them loan guarantees secured by the state for purchasing homes, as well as loans, guarantees, and grants for activities aimed at energy efficiency.

For KredEx, it is important to be statesmanlike, ambitious, and have team spirit. We value solution-mindedness, top quality service, and readiness for cooperation, which leads to the satisfaction of our customers and partners. When making our decisions, we value accuracy, quick action and objectivity. We are open to new ideas and honest feedback. We wish to offer solutions to compensate for the shortcomings of the financial market, bringing together the best skills, experience, and resources of different countries.

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

2.1. Values

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

Statesmanship – we operate pursuant to the common interests of the inhabitants of Estonia; we are respectful, honest, open and trustworthy.

Ambition – we value and promote the constant targeted development and drive in the implementation of worthwhile ideas of the members of our team and the organisation; we are open to new ideas and cooperation.

Teamwork – we act together, respecting, encouraging and supporting our colleagues and partners.

2.2. Main Operational Principles of KredEx. State Guarantee and Self-Sustainability

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

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

KredEx is a legal person governed by private law and operating in the form of a foundation. Even though KredEx was established

by the state, which also exercises control over its activity through the Ministry of Economic Affairs and Communications, KredEx acts independently in its decisions.

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

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

2.3. Management of the Organisation

KredEx has a Supervisory Board and a Management Board. The task of the two-member Management Board is to manage and represent the agency. In 2021, the Management Board consisted of Ivo Kuldmäe, Chairman of the Board, and Paul Kalle, Member of the Management Board. Kalle. The mandate of Ivo Kuldmäe as a member of the Management Board ended on 01 January 2022. Paul Kalle will continue on the Management Board of the Estonian Business and Innovation Agency.

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In December 2021, the Ministry of Economic Affairs and Communications, the person exercising the rights of a founder of the KredEx Foundation, amended the articles of association of KredEx, according to which the Supervisory Board now consists of up to ten members. When determining the number of Supervisory Board members, the objectives of the Foundation, asset volume and economic situation shall be taken as a basis and the need to ensure efficient fulfilment of the duties of the Supervisory Board in planning and organising the activity of the Foundation and exercising supervision over the activity of the Management Board.

The Supervisory Board members are appointed and removed by the Minister of Entrepreneurship and Information Technology, as the person exercising the rights of a founder.

In 2021, the Chairman of the Supervisory Board Ando Leppiman (20.12.2021) and the members Aarne Randmaa (05.02.2021), Krõõt Kilvet (11.03.2021), Andrus Toom (11.03.2021), Priit Värk (11.03.2021), Veiko Hintsov (20.12.2021), and Raivo Rand (20.12.2021) were recalled.

On 11 March 2021, Veiko Hintsov, Helo Meigas and Mait Palts were appointed as new members of the Supervisory Board, and on 20 December, Karen Kangro Burns, Sille Kraam, Ants Noot, Kristi Tiivas, Jaan Toots, and Renno Veinthal were appointed as new members.

As at the end of 2021, the composition of the Supervisory Board of KredEx was as follows.

Ants Noot, Chairman of the Supervisory Board
Chairman of the Management Board of Eesti Gaas

Karen Kangro Burns, Member of the Supervisory Board
start-up entrepreneur

Risto Kask, Member of the Supervisory Board
advisor to the Minister of Public Administration

Sille Kraam, Member of the Supervisory Board
Deputy Secretary General at the Ministry of Economic Affairs and
Communications

Helo Meigas, Member of the Supervisory Board
member of the Supervisory Board at Foundation Praxis Centre for
Policy Studies

Mait Palts, Member of the Supervisory Board
Director General of the Estonian Chamber of Commerce and
Industry

Kristi Tiivas, Member of the Supervisory Board
entrepreneur

Jaan Toots, Member of the Supervisory Board
entrepreneur

Renno Veinthal, Member of the Supervisory Board
Deputy Secretary General of the Ministry of Education and
Research

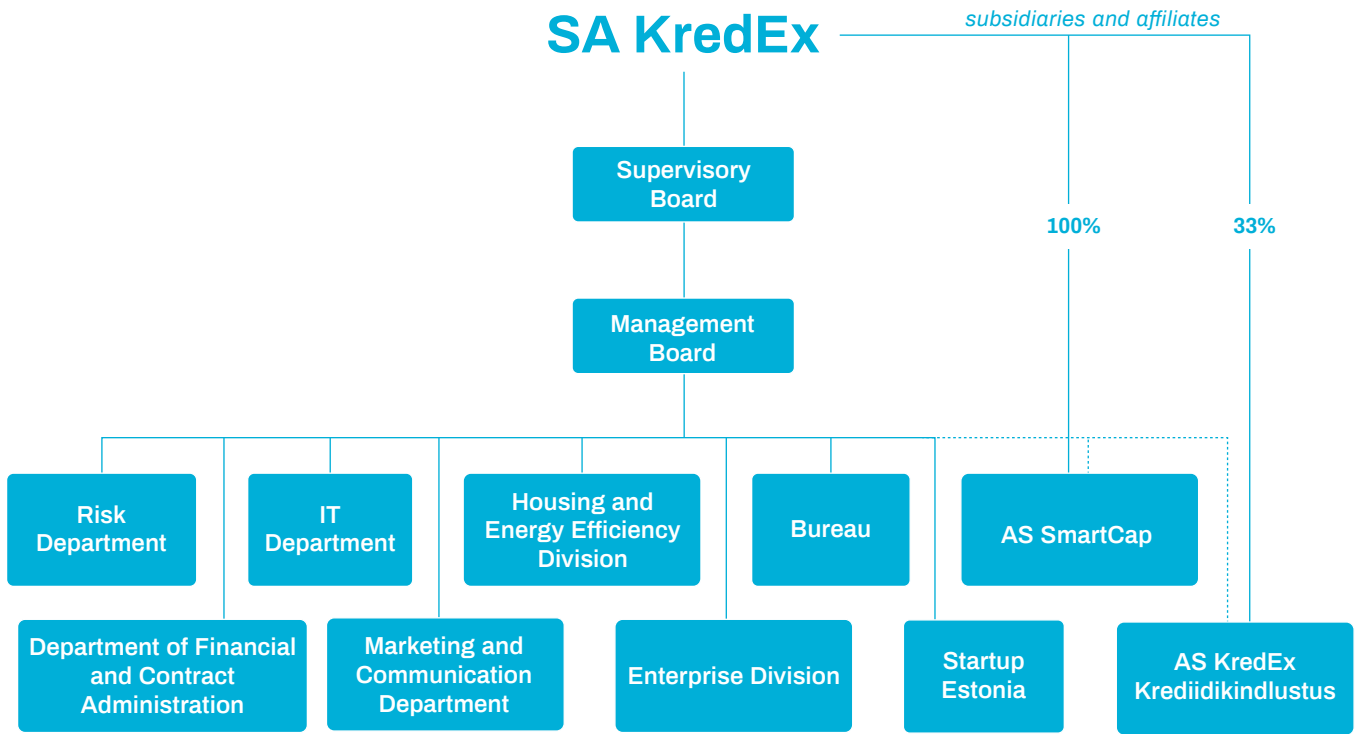


Figure 1. Structure of KredEx

The team

We have achieved good work results thanks to a unified team that values long-term labour relations, which we consider important for achieving our goals and securing continuity. The KredEx team is stable: about half of us have worked at KredEx for more than five years, and 18 people for more than 10 years. The average length of employment of KredEx employees is seven years.

Every two years, KredEx participates in the Fontes financial sector wage survey in order to compare the wages of its employees with those of other participants in the financial sector and to get an overview of changes in the wage market. In 2021, KredEx was awarded the title of equal wage payer. It shows employees and the labour market that the organisation is a responsible wage payer. We can tell our clients and partners that KredEx values equality in the organisation. We follow the best practice when paying wages to men and women.

In 2021, the Ministry of Economic Affairs and Communications started the merger of KredEx and Enterprise Estonia. In order to give employees as much information as possible about the coming changes and the opportunity to have their say on all issues, the need for internal communication increased significantly. It is important for us to maintain a cohesive team and to ensure that our employees also have a job in the new, joint organisation.



Working from home offices for a second year has led to a need to support the mental health of employees. In 2021, we offered psychological counselling to all employees and the topic of our joint virtual training was also mental health.

In addition to cooperation, we recognise the importance of traditions that help unite us as a team. As all KredEx employees are vaccinated, we organised summer days and an end-of-year party in the open air, following the requirements of the Health Board.

2.4. Overview of Internal Control

To ensure the impartiality and efficiency of the internal control system, we select the internal audit service provider based on the principles established in the Public Procurement Act. Qualified internal auditors periodically examine the areas of KredEx's activities, and submit summaries of the course and results of the audit to the Supervisory Board. Internal audit reports provide the Management Board with information to improve the internal control system.

At the beginning of 2019, the Supervisory Board confirmed AS PricewaterhouseCoopers as the internal audit provider for the years 2019–2021.

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

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

2.5. Economic Environment

In 2021, the Estonian economy recovered quickly from the post-pandemic downturn, exceeding the year-earlier forecasts and growing by 8% according to preliminary estimates. Despite the generally rapid growth of the economy, the added value of accommodation and catering, wholesale trade, forestry and manufacturing did not return to the level of 2019. The labour shortage has increased, supply problems remain critical, and energy prices have skyrocketed. According to Eesti Pank, consumer price growth accelerated to 12.2%

in December, being the fastest price rise in the last 25 years and well above the average of the euro area (5%).

The overall mood of the Estonian economy is optimistic. Although the number of people infected with the coronavirus Omicron strain has grown to be very high and the burden on hospitals is increasing as a result, this is not expected to have a strong impact on economic activity. Confidence of industrial undertakings in increasing their orders and production was very strong as at the start of 2022, while expectations on demand in the services sector have declined this year. However, the growth of industrial undertakings is still constrained by input supply problems and labour shortages, but exports are forecast to grow at around 6% on the back of strong external demand. Export is also supported by the continued high level of investments by companies in fixed assets.

Banks forecast that the Estonian economy will grow by 2.8–3.5% in 2022. Projections have been revised downwards at the end of 2021 due to the impact of high energy prices on households and businesses. Energy prices remain high and the resulting inflation will continue to be high at least in the first half of 2022, eroding the purchasing power of households and holding back economic growth. Banks are forecasting an increase in prices between 6 and 6.5%. Housing-related costs account for around one-third of the increase in consumer prices, but food and fuel price rises also have a major impact. Price growth is expected to pick up in early 2022, before slowing down thereafter.

Strong economic growth has boosted demand for labour, and banks are forecasting a recovery in employment growth for 2022 after the pandemic, which will also boost economic growth. Given the strong demand, the labour shortage has increased in all sectors, particularly in industry. The unemployment rate, which was 6.4% in 2021, will fall to around 5.5% in 2022.

The impact of the labour shortage, high inflation expectations and a 12% increase in the minimum wage will push wage growth up to 7–9% in 2022. For the year as a whole, it exceeds the inflation expectation and the purchasing power of households will not decline. Purchasing power is also supported by government grants on energy prices, the withdrawals from the second pension pillar and high volume of savings (around EUR 1 billion, or around 6% of private consumption).

According to Eesti Pank, in 2021, access to finance improved to close to its highest level in the last eight years, except in the sectors most affected by the pandemic, namely accommodation, catering, and transport. Competitive pressure on the loan margins of banks strengthened and loan conditions were eased. The real estate sector, which is very active, is the sector most satisfied with the financing options. The good performance of real estate firms and their access



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to loans is also reflected in the faster growth in bank loans than in other sectors, which was over 10%.

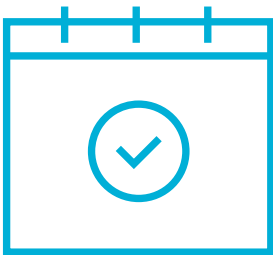
Driven by the good access to loans and increased demand, the balance of corporate bank loans grew by around 7% in 2021. The supply of financing in the non-bank segment (venture capital funds, crowdfunding, etc.) also increased. According to the forecast by Eesti Pank, corporate debt is also expected to increase significantly in the coming years.

Higher earnings and confidence supported household borrowing activity and capacity in 2021. Their earnings continued to rise strongly: average gross wages increased by more than 7%, and savings accumulated during the pandemic were supplemented by payments from the II pension pillar in 2021. Strong asset growth boosted the borrowing capacity and confidence of households, however the general accelerated price increase during autumn of the same year and the rising uncertainty in the economic environment began to affect it negatively. The growth in housing loans issued by banks reached 9%, being the fastest growth of the decade. The volume of new housing loans has increased, mainly due to an increase in the average loan amount, reflecting the strong price rise in the real estate market.



3. Activities and Results in 2021

3.1. Briefly



January marked the fourth year of the Startup Visa programme. Since its establishment, 3400 people have resettled or been granted the right to settle in Estonia under the programme.

In March, KredEx started accepting applications for reconstruction grants for small residential buildings. A total of 43 small residential building owners received the grant this year, totalling EUR 1.33 million.

In March, we resumed offering crisis measures for enterprises under renewed conditions.

In March, KredEx signed a cooperation agreement with the Ministry of Economic Affairs and Communications to contribute to the development of a growth environment for start-ups in the field of education (*edtech*-companies) and to support the development of innovative educational services that have great potential to become success stories of Estonian education.

In April, Signe Rähesoo started to work as the Chairman of the Management Board of KredEx Krediidikindlustus.

In the same month, Estonia became the country in Europe with the largest number of unicorns (over USD 1 billion worth of start-ups).

In the same month, SmartCap, a subsidiary of KredEx, as the second implementer of the Startup Estonia programme in the direction of accelerators, launched a call for tenders to find promoters for the development programme for knowledge-based enterprises. The aim was to find professional partners to develop a knowledge-based business ecosystem and to organise a business development programme for enterprises in the growth areas of health technology and upgrading of resources.

In May, the call for applications for factory reconstruction grants closed. A total of 37 apartment associations from several parts of Estonia submitted an application to KredEx for the innovative and more efficient reconstruction of an up to five-storey apartment building built on the basis of a standard design.

In the same month, the County Development Centres started counselling housing associations on KredEx housing services. As at the end of 2021, around 500 counselling sessions had taken place across Estonia.

In May, expert groups were formed consisting of community members of start-ups to focus on the key sector challenges in specific focus areas. These areas are global talent; future founders; diversity; science in tech; regional development.

In May, KredEx and the Ministry of Economic Affairs and Communications awarded the Estonian Woodhouse Association the title "Estonian Friend of Wooden Houses 2020" for the development of the pilot project of the grant measure for the factory reconstruction of apartment buildings.

In the same month, SmartCap was awarded the Silver Label for Responsible Business in the micro and small enterprise category.

In June, enterprise managers started to provide a comprehensive consultation service for entrepreneurs. The aim is to identify the plans, problems and needs of the entrepreneur, in order to provide development support, if necessary, with the help of KredEx services.

In June, KredEx Krediidikindlustus and Creditinfo published a joint survey on the payment behaviour of enterprises.

In the same month, a call for applications for the home grant closed, with the results announced in November. A total of 659 families from across Estonia applied for the home grant for low-income families with many children.

In June, the government approved the merger plan of KredEx and Enterprise Estonia.

The first phase of the ekredex2 software project was completed **in September**. As a result, KredEx started to offer apartment building and housing loan guarantee services on the new platform.

In October, the Council of the European Union approved Estonia's plan to use the Recovery and Resilience Facility, for which AS SmartCap established the SmartCap Green Fund in December within a total volume of EUR 100 million. The fund invests in venture capital funds that finance innovative, research-intensive enterprises whose activities contribute to the development and launching of new products, services or technologies that address environmental challenges, reduce greenhouse gas emissions or capture greenhouse gases.

In November, Ivika Kolk joined KredEx Krediidikindlustus as a member of the Management Board.

In the same month, KredEx and Enterprise Estonia signed a merger agreement, as a result of which KredEx will continue as a joint organisation from 2022.

In December, AS SmartCap signed an agreement on the principal terms and conditions with the best private fund manager selected in a competition to invest EUR 15 million in a venture capital fund targeting high-tech SMEs.

3.2. Overview of the Results of Housing and Energy Efficiency Area in 2021 in the Entrepreneurial Sector

3.2.1. Most important activities in the area

We continued to offer our regular guarantee services and grants in 2021, and provided direct loans to apartment associations, as well as continued the pilot project of factory reconstruction of apartment buildings. Together with the County Development Centres, we started to provide more extensive counselling: From 2021, there has been an advisory centre in every Estonian county to introduce the services for apartment buildings.



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

With the help of its loan guarantees, KredEx enables the purchasing of a home at a lower rate of self-financing and ensures the preservation and lower energy use of residential buildings. The housing loan guarantee is intended for specific target groups: these are young families and young specialists, buyers of energy-efficient housing, tenants of restored houses and veterans of the Defence Forces and the Defence League.

The total amount of housing loans issued by banks in 2021 and secured by real estate was EUR 1.78 billion (EUR 1.27 billion in 2020), of which the volume of loans with a KredEx guarantee accounted for EUR 504 million. A year before, housing loans with a KredEx

guarantee were issued in the extent of EUR 291 million (an average of EUR 42 million per month).

In 2021, the volume of housing loans with a KredEx guarantee accounted for 28% of the volume of housing loans issued in Estonia (23% in 2020).

The amount of housing loan guarantees issued in 2021 was EUR 49 million, which is EUR 9 million (22.5%) more than in the previous year. By the end of the year, the portfolio volume of these guarantees amounted to EUR 97.8 million (EUR 93.8 million in 2020) (see Figure 2). In 2021, 4618 households purchased or renovated a home with the KredEx loan guarantee.

Since 2000, 45,392 households have improved their living conditions with the help of KredEx.

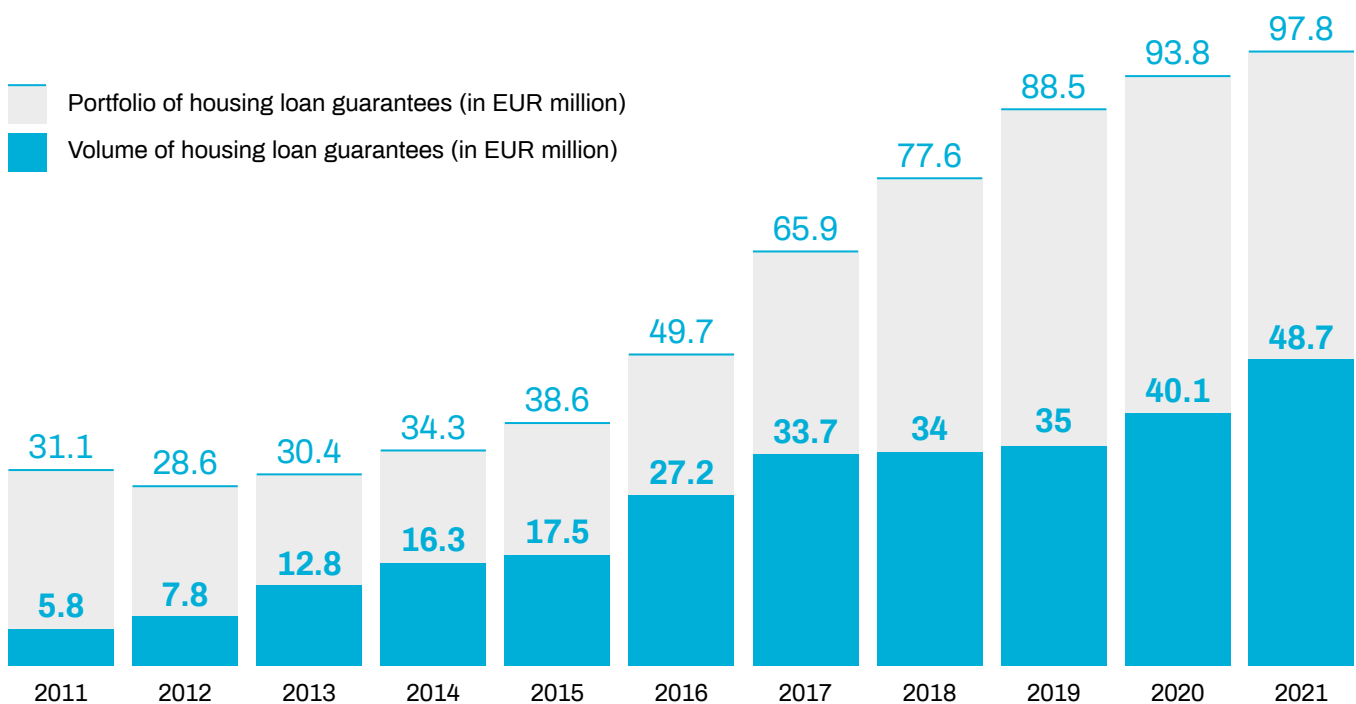


Figure 2. Volume of KredEx housing loan guarantees in 2011–2021, in millions of euros

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

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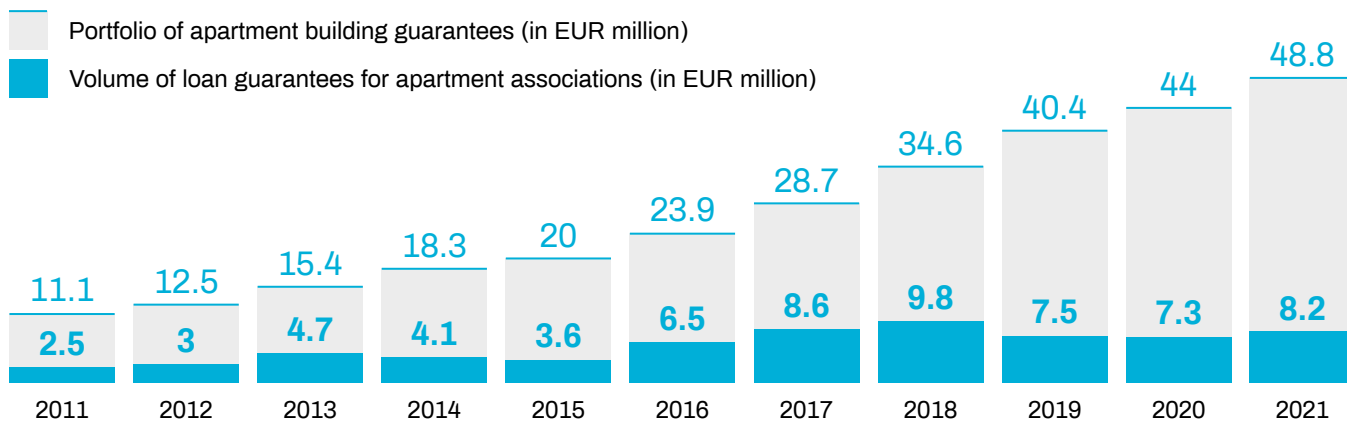


Figure 3. KredEx volume of loan guarantees for apartment associations in 2011–2021, in millions of euros

From 2002 to the end of 2021, 1295 guarantee contracts have been concluded with KredEx when taking out a loan for the renovation of apartment buildings, in the total loan amount of EUR 120.7 million.

Apartment building renovation loan

In May 2020, an opportunity to apply for a loan from KredEx opened for such apartment associations to whom a bank is unwilling to grant a loan due to the location of the apartment building, or for whom the loan amount offered by the bank is not sufficient for the complete reconstruction of the residential building.

In 2021, 34 loan applications were submitted in the total amount of EUR 5.6 million. In total, we decided to issue EUR 2.5 million in loans to renovate 18 apartment buildings with a total of 221 apartments. The total investment amount is EUR 4.2 million.

3.2.3. State grants for the housing sector

3.2.3.1. Applications for the reconstruction grant of apartment buildings

From April 2015, KredEx has been issuing reconstruction grants from structural funds to apartment associations and local governments, aimed at the complete reconstruction of apartment buildings.

A recipient of the grant must reconstruct their heating system, insulate their façade and roof, install a ventilation system with heat recovery, and replace all old windows, installing these within a plane undergoing thermal insulation or providing window jambs with additional thermal insulation. If only part of the conditions are met (no ventilation with heat recovery, windows are not raised to the plane of thermal insulation), it is possible to apply for a 10% lower grant.

In addition, the services of technical consultancy, construction project preparation, and owner supervision are supported up to 50%.

Due to high demand, the EUR 102 million allocated for grants had been covered with applications by September 2017. EUR 17.5 million were added in 2019.

As at the end of 2021, a total of 441 apartment buildings had received financing decisions from the above-mentioned sources, amounting to approximately EUR 119.86 million. In 2021, a final funding decision was made for 9 applicants in the total amount of EUR 2.91 million. Payments were made in the amount of EUR 11.98 million for residential buildings undergoing renovations and in 2021, the reconstruction of 37 apartment buildings was completed. Works had been completed in 433 residential buildings and payments had been made in the sum of EUR 118.35 million.

To increase the volume of reconstruction in other counties as well, the EUR 28.5 million budget of the 2020 round was divided between five regions – Northern Estonia (Harju County), Southern Estonia (Jõgeva, Põlva, Tartu, Valga, Viljandi and Võru County), North-Eastern Estonia (Ida-Viru County), Western Estonia (Hiiu, Lääne, Pärnu and Saare County), and Central Estonia (Järva, Lääne-Viru, and Rapla County). The division between regions was prepared on the basis of the number of apartment buildings in the region and the average real estate value of apartments. As at the end of 2021, a total of 58 apartment buildings had received a financing decision in the total sum of nearly EUR 21.24 million. Payments were made in the amount of EUR 4.7 million for residential buildings undergoing renovations and in 2021, the renovation of 6 apartment buildings was completed.

In July 2020, an extraordinary application round for the reconstruction grant of apartment buildings was opened, with a total volume of EUR 71 million, with the aim of modernising the apartment buildings and mitigating the after-effects of the emergency situation in the construction sector. The terms and conditions of the grant were generally the same as in previous application rounds. As an addition to the conditions, in Ida-Viru County and regions where the market value of real estate is low, the possibility to perform reconstruction works on an apartment building in part (replacing the roof, insulating the façade, updating the heating system, etc. as individual works) was added. In the case of partial reconstruction, the proportion of the grant is 30%.

As at the end of 2021, 225 grant decisions in the total amount of EUR 61.89 million had been made within the extraordinary reconstruction grant measure. Payments were made in the amount of EUR 6.93 million for residential buildings undergoing renovations and in 2021, the renovation of 31 apartment buildings was completed.

Considering the significant number of apartment buildings requiring reconstruction and the constant demand for the grant, we will continue to support the reconstruction of apartment buildings in 2022 as well.

3.2.3.2. Factory reconstruction grant for apartment buildings

The aim of the measure on the factory reconstruction of apartment buildings is to automate the reconstruction of apartment buildings and reduce the time needed for this. External wall insulation elements are manufactured in the factory and only installed on site. The windows are also already factory-installed in the wall element.

As the aim of the measure is to standardise technical solutions for renovation, apartment buildings built under the four main standard designs were eligible to apply for a grant. These standard designs are 1-317 (the so-called "Khrushchyovka"), 1-464 (the so-called "Mustamäe" panel building), 1-464 (the so-called "Õismäe and Lasnamäe" panel building) and 111-133 (the so-called "Annelinna" panel building).

Simultaneously with the application round, a public competition was held for the designers of the building design documentation and the contractors of the reconstruction works. As a result, a cooperation agreement was signed with five consortiums of companies, each consortium comprising a general contractor, a house factory for the manufacture of wall panels, and a designer. On the basis of a ranking of applications, price quotes for the design and construction works were taken for 29 apartment buildings, of which 19 decided to proceed with factory reconstruction. The first buildings to be renovated in this way should be completed in early 2023.



The aim of the measure on the factory reconstruction of apartment buildings is to automate the reconstruction of apartment buildings and reduce the time needed for this.

On the basis of a ranking of applications, price quotes for the design and construction works were taken for 29 apartment buildings, of which 19 decided to proceed with factory reconstruction. The first buildings to be renovated in this way should be completed in early 2023.

3.2.3.3. Grant for small residential buildings

In 2021, KredEx continued to accept applications for the grant for increasing the energy-efficiency of small residential buildings. The grant is intended for natural persons, who are the owners of small residential buildings, for improving the technical condition of the building and reducing its energy consumption. Also, the support promotes the making of investments for the renovation of small residential buildings and improving the quality of the indoor climate therein. The grant also enables residents to begin using renewable energy appliances.

The receipt of grant applications started and was also suspended on 1 March 2021, due to the exhaustion of the budget for the grant measure. A total of 119 applications were submitted in one day for a total of EUR 2.64 million.

Since November 2016, KredEx has received 1,397 applications for increasing the energy efficiency of small residential buildings, in the total sum of EUR 11.8 million. A total of 912 residential buildings have been renovated, with EUR 5.98 million issued as grants for this purpose.

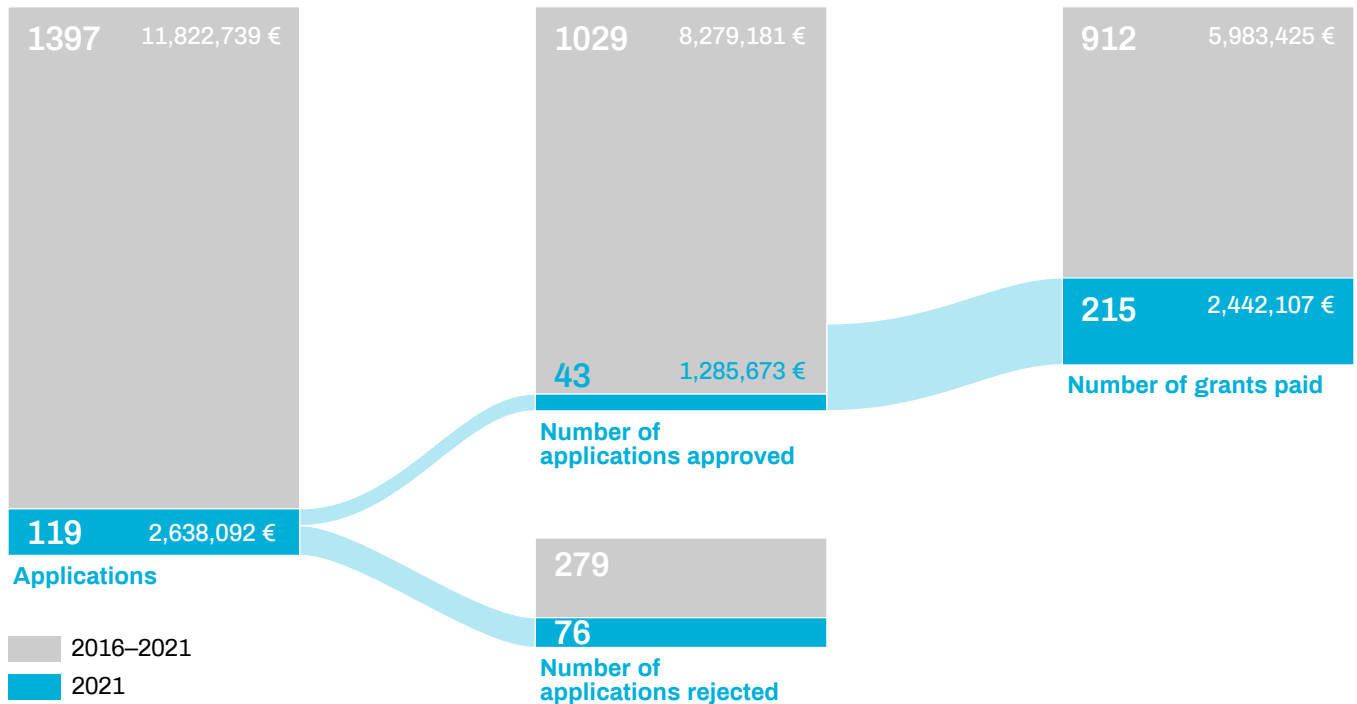


Figure 4. General data regarding grants awarded for increasing the energy efficiency of small residential buildings 2016–2021

The most common reconstruction works throughout the entire application period of the measure have been the replacement of windows (359 applications), reconstruction of the roof (314) and external walls (307). The number of renovations carried out in 2021 is shown in Figure 5. Compared to previous years, the number of applications submitted for the reconstruction of heating and ventilation systems increased in 2021. In 2021, 29 applications were submitted for the complete renovation of the building.

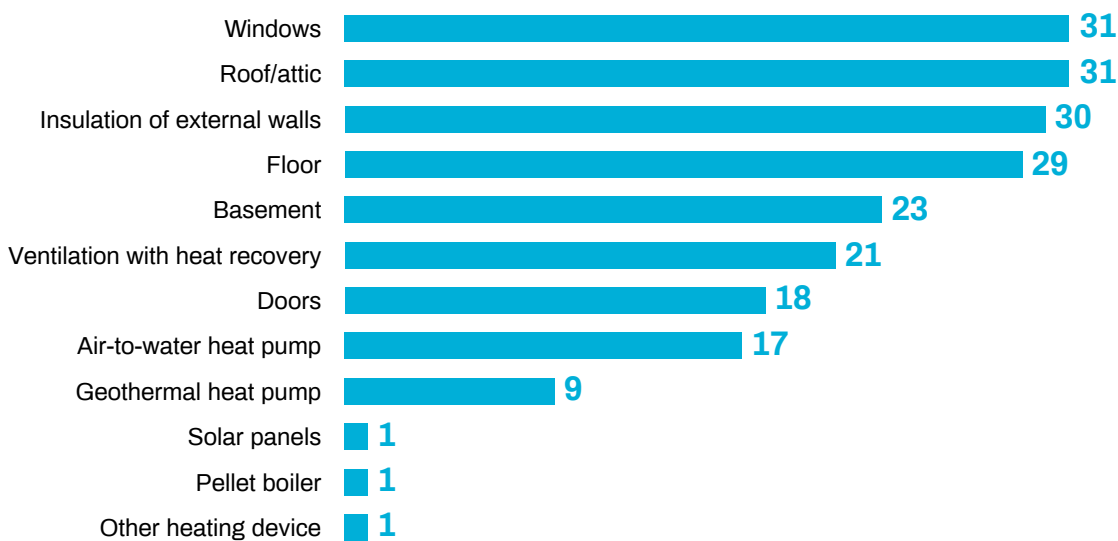


Figure 5. Number of works performed with the grant for increasing the energy-efficiency of small residential buildings, 2021

3.2.3.4. Home grant for families with many children

Within the framework of the *Development Plan for Children and Families for 2012–2021*, KredEx will allocate grants to large families to improve their residential living conditions. Its target group is households with low income raising at least three children under the age of 19, whose income per family member is less than EUR 355 per month. Eligible activities include purchasing, building, reconstructing, renovating, or expanding their home and the construction, replacement, or updating of technical systems or utilities.

The grant is round-based and the budget for 2021 was EUR 3.53 million. The application round lasted from 12 April to 31 May, in the course of which large families filed 663 applications in the total sum of EUR 5.68 million. The cost of projects in the applications amounted to EUR 10.7 million.

A total of 477 applications (71.9%) were deemed as conforming to requirements; based on a ranking with points scored, 405 applications (61.1%) of these were satisfied. A total of 178 applications (26.8%) were declared non-conforming. A total of 72 applications (10.9%) were rejected due to the exhaustion of funds and 8 applicants withdrew. On average, the allocated grant forms 35.3% of the cost of underlying projects of the applications.

Households that received the grant were evenly geographically distributed all over Estonia. There were slightly more grant recipients in Ida-Viru County, Harju County and Lääne-Viru County, where the population is also higher than in other counties (see Figure 6).

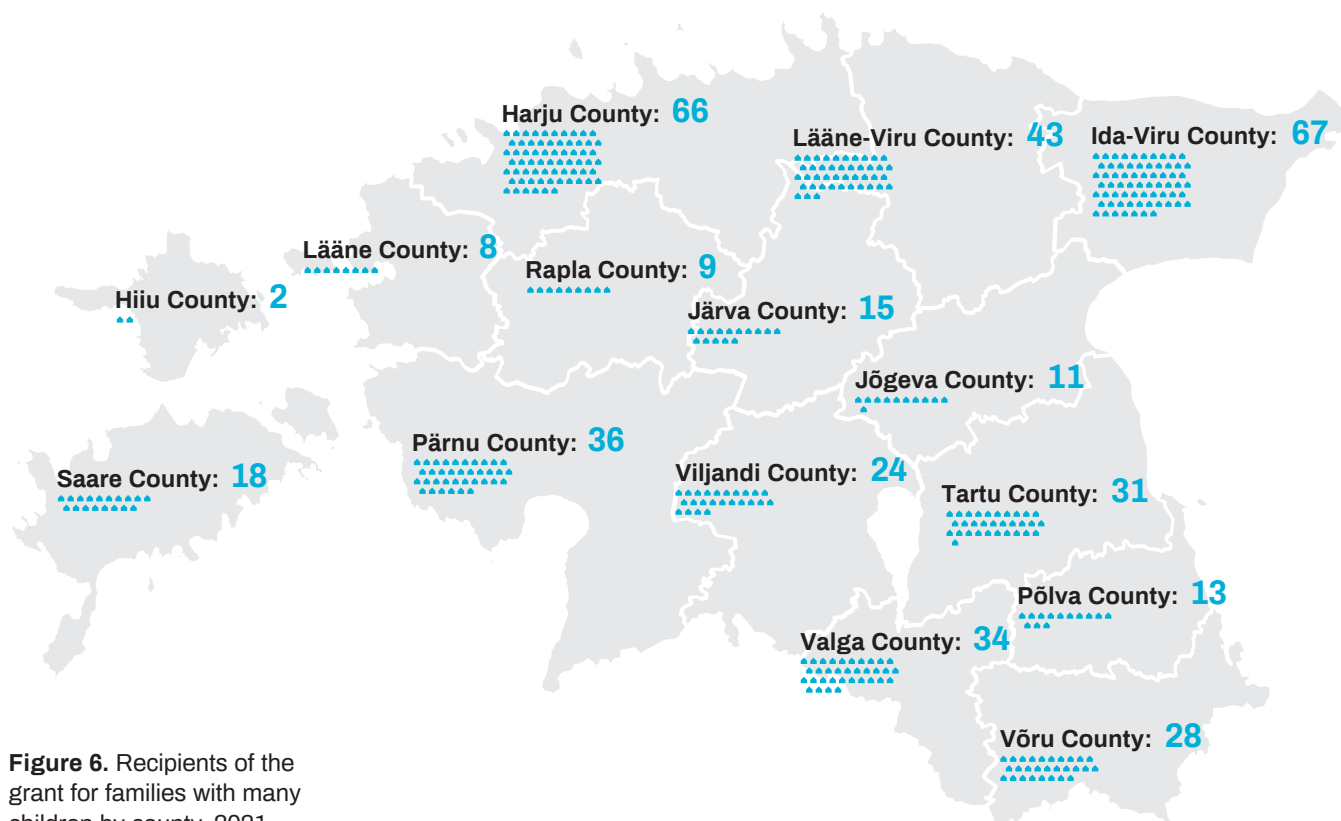


Figure 6. Recipients of the grant for families with many children by county, 2021

In total, the applications of 405 families were satisfied (see Figure 7), of which 305 received the grant for the first time and 100 for the second time. The average grant amount per family was EUR 8,730. There are 1,409 children being raised in the families that received the grant; an average of 3.5 children per family.

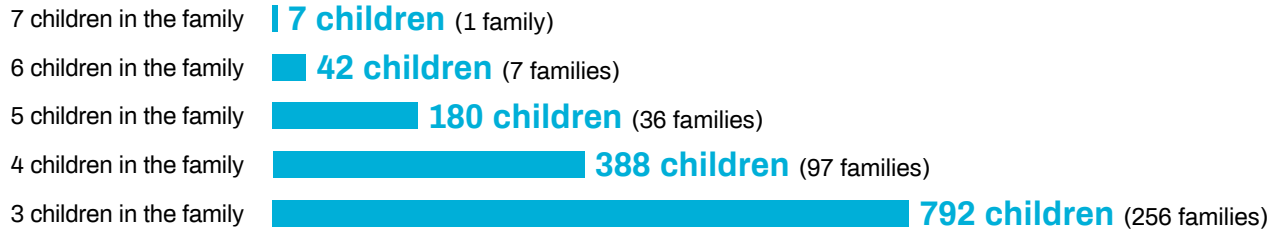


Figure 7. Number of families receiving home grant in 2021 by number of children

Most of the applications were submitted to receive the grant for building and renovating housing, and for building, changing or replacing the technical systems (469 applications). The next largest number of applications was for the acquisition of housing (190 applications), with 4 applications to receive the grant for the acquisition and renovation of housing.

The taxable income of the families that received the grant in 2021 (excluding parental benefits and the previous home grant) is EUR 176.30 per household member. The taxable monthly income of 16 families in 2021 was EUR 0, and the taxable income of 217 families was below EUR 203 (see Figure 8).

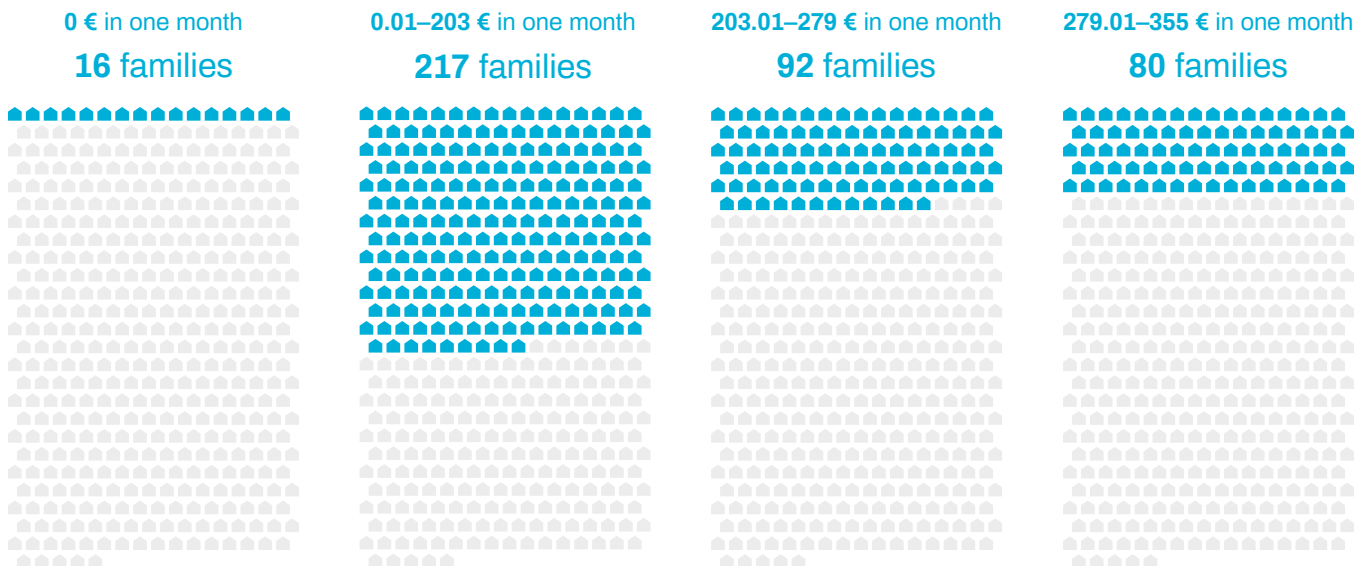


Figure 8. Monthly taxable income of families that received the home grant in 2021, per household member

In the period of 2008–2021, 8,223 applications for home grant, amounting to EUR 75 million have been submitted to KredEx, of which 4,352 applications amounting to EUR 39.6 million have been approved. Among them, 3,540 families have received the grant once, 741 families twice, 62 families three times and 9 families four times. The average grant amount per family has been EUR 9,097. A total of 267 families have refrained from taking out the allocated grant or have not used it.

3.2.3.5. Grant for the renovation of electrical installations

Since 2015, KredEx has been implementing a grant measure for the modernisation of electrical installations. The purpose of the grant is to provide support for the renovation of electrical installations in residential buildings using the old voltage system (3 × 220 V) in Tallinn, so that the residential buildings are transferred to the new 3 × 230/400 V voltage system.

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

Compared to the previous situation, application activity decreased somewhat in 2021: while in 2020 there were 50 applicants, then in 2021, there were 33. However, the average amount applied was higher: more than EUR 3,000 (compared to EUR 2,100 a year earlier).

By the end of 2021, grant applications had been submitted to renovate the electrical installations of 329 buildings in the total amount of EUR 851,929. KredEx has made payments to 291 applicants, totalling EUR 723,177.

KredEx will continue to issue the grant in 2022.

3.2.3.6. Demolition grants for local governments

KredEx helps local municipalities to make the living environment safer and aesthetically more pleasing. For this, grants are provided to them for the demolition of obsolete buildings and civil engineering works that are in the possession of the local municipality.

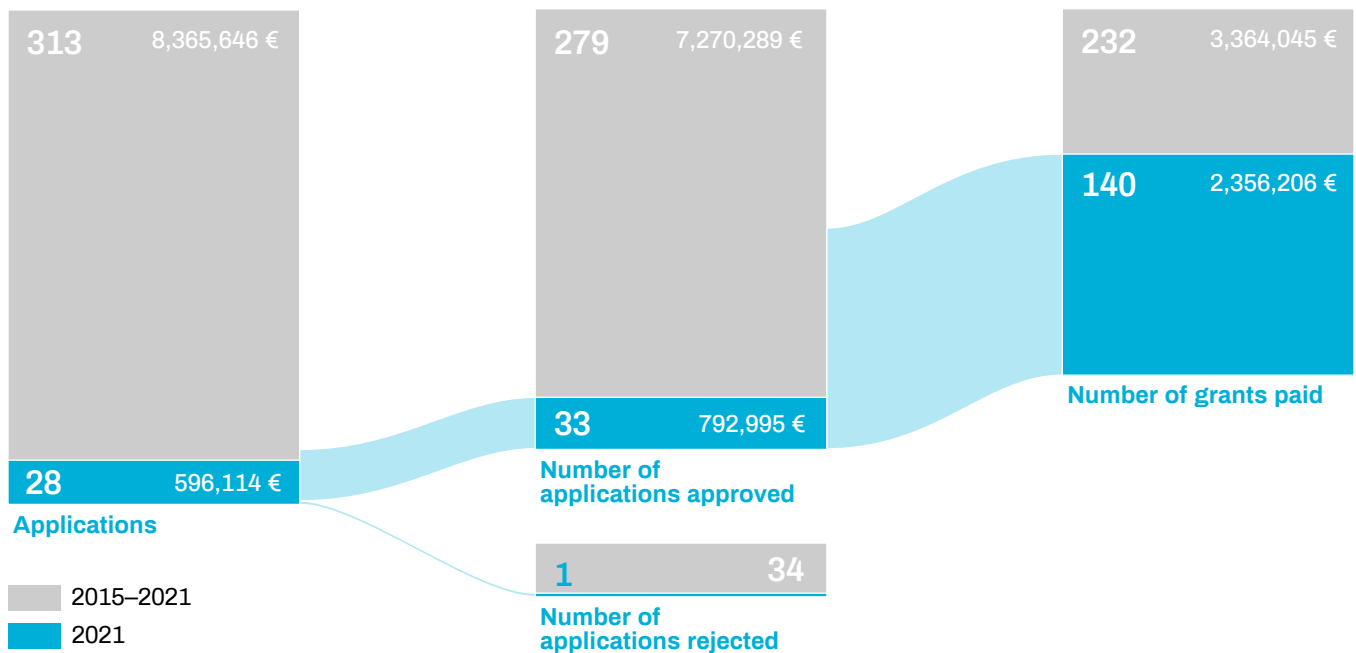


Figure 9. General data of the grant Demolition Grant for Local Governments, 2015–2021

In 2021, grants amounting to EUR 500,000 were awarded. The application round started on 3 May and closed on 3 August, due to the grant amount being exhausted. A total of 28 applications were submitted for a total amount of EUR 500,000. A total of 33 grant decisions were taken for a combined amount of EUR 790,000, of which 27 applications were from the 2021 application round and 6 from the 2020 round (due to funds becoming available). In 2021, the highest number of applications came from the Tartu City Government (4), Rõuge Rural Municipality (3), and Võru Rural Municipality (3). Interest in the demolition grant has increased.

A total of 313 applications for EUR 8.3 million have been submitted for the period 2015–2021. A total of 279 applications have been approved for a combined EUR 7.2 million. Within the measure, about EUR 3.3 million have been paid out as grants.

KredEx will continue to issue the grant in 2022.

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

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

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

Over the course of the three rounds, a total of 13 rental houses are planned to be built or reconstructed for the mobile workforce and

12 rental houses for the socially underprivileged target group. Altogether, 582 apartments with a total area close to 21,000 m² will be built in the 25 residential buildings. The total investment amounts to around EUR 45 million, of which EUR 21 million is the grant.

By the end of 2021, apartment buildings will have been completed in Saue Rural Municipality (two buildings), Muhu Rural Municipality, Türi Rural Municipality, Valga Rural Municipality, Koksvere Maja OÜ from Põhja-Sakala Rural Municipality, Tallinn City Government, Rae Rural Municipality, Haapsalu Linnamajanduse AS from Haapsalu, Saku Rural Municipality, Järva Rural Municipality, Võru Rural



Over the course of the three rounds, a total of 13 rental houses are planned to be built or reconstructed for the mobile workforce and 12 rental houses for the socially underprivileged target group.

Municipality, Maali Üürimaja OÜ from Lääne-Nigula Rural Municipality, Pärnu City Government and Põhja-Sakala Rural Municipality. A total of 15 buildings and 374 rental apartments have been completed. Grants have been paid out in the amount of EUR 13.53 million.

3.2.3.8. The Estonian Electrical Mobility Programme ELMO

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

Activities under ELMO since 2011:

- grant scheme to purchase electric cars in 2011–2015;
- notification activities introducing electric cars, incl. their short-term rental, a demonstration centre in Tartu, and notification campaigns in 2011–2017;
- charging infrastructure for electric cars, covering the entire country, built during the period of 2011–2019.

In the summer of 2018, the results of the auction organised by the Ministry of Economic Affairs and Communications were disputed, and management of the network remained the duty of the State. In order to provide the service, the procurement contract with ABB AS was extended until 31 December 2019. The contract with the winner of the auction was entered into on 22 October 2019, and from 22 November of the same year, the quick charging service for electric cars was provided by Elektrilevi OÜ. The charging network was finally handed over in December 2020.

In summer 2021, a study on the "Design of a measure to promote the introduction of low-emission vehicles" was carried out. The aim of the study was to analyse the previous measure on the purchase grant for all-electric vehicles, to collect information on the purchase grant for electric cars, vans and electric box bikes, as well as on the market situation of vehicles, charging infrastructure and other infrastructure. The study on the promotion of low emission vehicles was funded from the ELMO programme.

The final report of the ELMO programme was submitted in October 2021 and the project has officially ended.

3.3. Overview of 2021 Results in the Field of Entrepreneurship

3.3.1. Most important activities in the area

In 2021, KredEx continued to support enterprises with emergency guarantee and loan services, in addition to the regular measures, with the aim of providing them with additional financing to overcome the temporary difficulties caused by the COVID-19 outbreak.

In addition to regular measures, in 2021, a regional loan was developed to finance part or all of the self-financing of investments made by entrepreneurs outside Tallinn and Tartu, if the enterprise applies for a bank loan or leasing and does not have the capital to cover the required self-financing. The regional loan will be made available to entrepreneurs in 2022. In order to identify the needs of entrepreneurs and to introduce financial instruments that are suitable for them, a systematic comprehensive advisory service for interested entrepreneurs was launched.

Altogether, KredEx provided guarantees and financing to 511 enterprises in 2011 in the total amount of EUR 128 million (in 2020, to 501 enterprises in the amount of EUR 373.2 million). Additional funding was made available to them in total amount of EUR 183 million (in 2020, EUR 481 million).

SA KredEx continued as an investor in the private and venture capital funds of funds Baltic Innovation Fund 1, EstFund and Baltic Innovation Fund 2, through which investments totalling EUR 1 billion are made in fast-growing or expanding enterprises in the Baltic countries. Of this, EUR 100 million is a contribution from KredEx or the Estonian state.

Startup Estonia continued to support the startup sector by strengthening the community, launching the necessary services, improving access to early-phase capital and talent, and addressing the legal bottlenecks. By the end of 2021, 1,300 start-ups have been registered in the database.

It was another record year for the start-up sector in all respects, with a total turnover of EUR 1.4 billion, with EUR 125 million paid in labour taxes and nearly EUR 1 billion attracted in investments. Wise went public on the London Stock Exchange, being the first direct listing of a technology company in the history of this exchange. During the year, another four start-ups were successfully sold to other companies (*exit*).

3.3.2. Financing entrepreneurship

In 2021, the business volume was smaller than in 2020 due to the easing of the impact of the economic crisis caused by the pandemic and the recovery of economic growth, mainly in the area of emergency services to help overcome the temporary difficulties caused by the corona outbreak. The financing provided to entrepreneurs through KredEx services also decreased somewhat for regular services, but still remained higher than in pre-pandemic year of 2019.

In 2021, guarantees in the form of regular SA KredEx measures were granted to enterprises in the amount of EUR 75.2 million (EUR 79.6 million in 2020) and loans in the amount of EUR 9.2 million (EUR 1.9 million in 2020). In addition, extraordinary guarantees under preferential terms, to mitigate the effects of the economic crisis caused by the COVID-19 pandemic, were granted to enterprises in the amount of EUR 28.8 million (in 2020, EUR 56.6 million), and direct loans in the amount of EUR 14.9 million (in 2020, EUR 235 million).

Altogether, KredEx provided guarantees and financing to 511 enterprises in 2021 in the total amount of EUR 128 million (in 2020, to 501 enterprises in the amount of EUR 373.2 million). The support of KredEx enabled them to involve additional funding from banks and KredEx in 2021, totalling EUR 183 million (EUR 481 million in 2020) (see Figure 10).

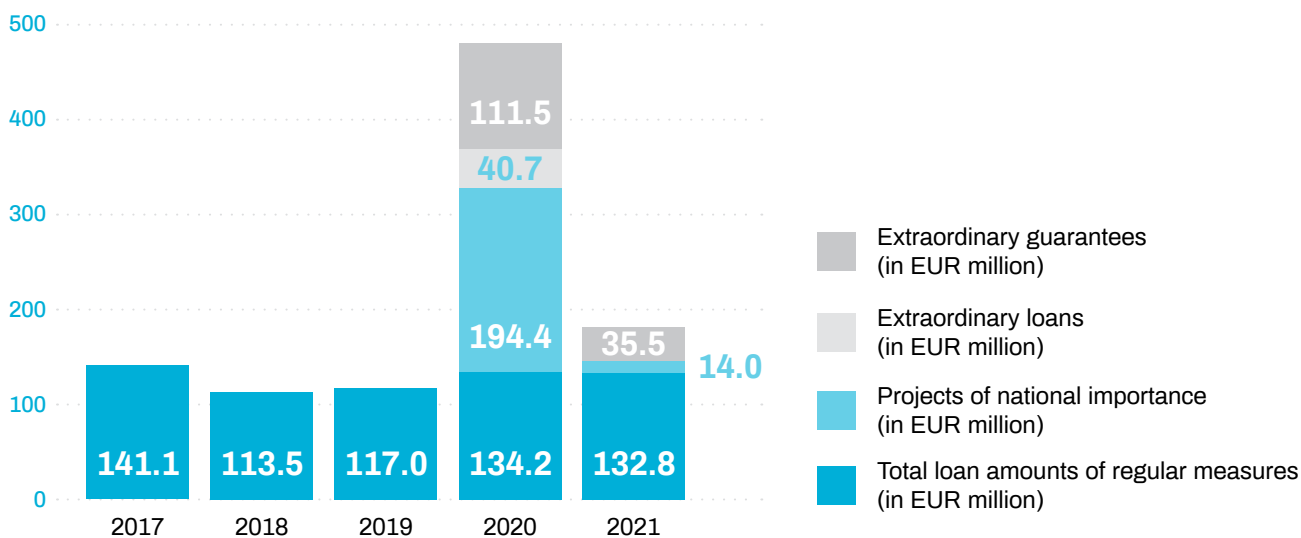


Figure 10. Direct loans and guaranteed loans granted to enterprises under KredEx measures in 2017–2021 in millions of euros

KredEx’s core service has been loan guarantees. With a total amount of EUR 104.1 million (including EUR 75.2 million as regular measures and EUR 28.8 million as extraordinary measures), these allowed enterprises to involve additional funding from banks in 2021 in the total amount of EUR 159.1 million (including EUR 123.6 million as regular measures and EUR 35.5 million as extraordinary measures) (see Figure 11). The volume of guarantees issued decreased by around 24% compared to 2020, mainly due to extraordinary measures.

In 2021, 209 new guarantee contracts were signed and 218 existing guarantee contracts amended. In total, 291 fewer contracts were signed than a year earlier.

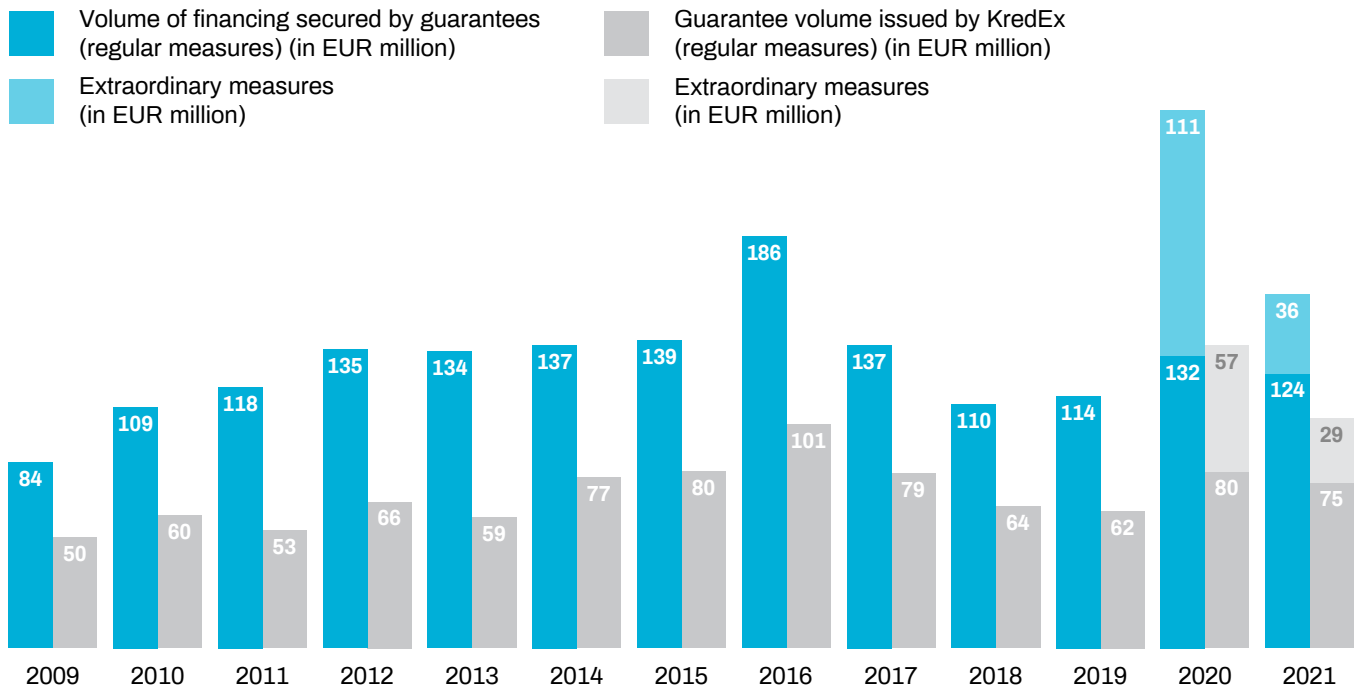


Figure 11. Volume of guarantees issued and funding received with the guarantees, 2009–2021, in millions of euros

In 2021, KredEx continued to offer the start-up loan, industry loan, capital loan, and export loan. The volume of loans granted as regular measures was significantly higher than in the previous year, with a total of EUR 9.1 million in direct loans to 9 enterprises (EUR 1.9 million in 2020).

KredEx financed the foundation of 5 start-ups with a start-up loan and a start-up loan guarantee amounting to EUR 100,000 (EUR 400,000 in 2020). As a result of the financed projects, these enterprises plan to create 12 new jobs. It is important to note that in addition to the startup loan and startup loan guarantees, the projects of starting enterprises are also supported with a loan guarantee from KredEx.

During the year, 5 industry loan contracts were signed for EUR 2.8 million (EUR 1.6 million in 2020). Thanks to the KredEx industry loan, enterprises made investments worth EUR 15 million. There was also one export loan agreement for EUR 6.3 million to finance a multiannual export project.

3.3.3. Supporting enterprises on the basis of the area of activity and banking service of the financed enterprises

In 2021, enterprises were enabled additional financing in the total amount of EUR 50.4 million in the form of loan guarantees and direct loans as extraordinary services, intended to overcome the temporary difficulties caused by the COVID-19 outbreak. Among that, enterprise loans were guaranteed in the amount of EUR 35.5 million (guarantee amount EUR 28.8 million), and direct loans were issued in the amount of EUR 14.8 million.

In 2021, companies in the engineering industry (24% of the volume of guarantees issued), the manufacture of transport equipment (21%), transport (17%) and the manufacture of electronics (8%) were the most heavily financed by extraordinary services (see Figure 12). The breakdown was influenced by a few large projects. Projects of national importance were not taken into account in the breakdown.

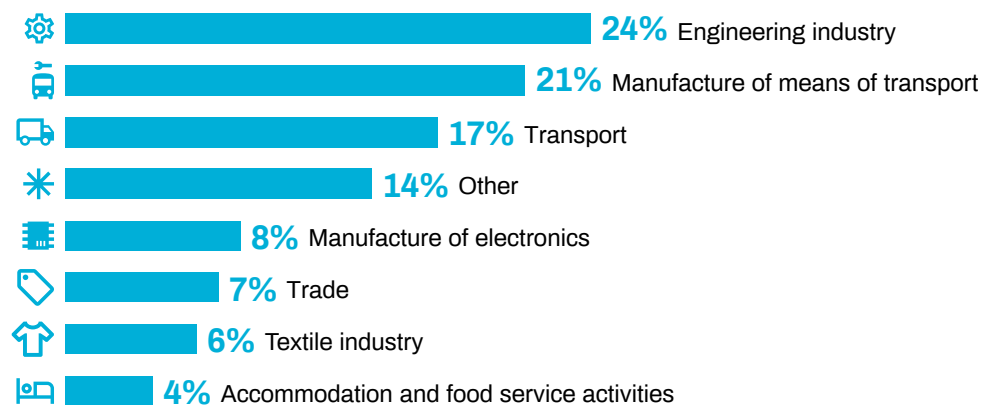


Figure 12. Extraordinary services provided to enterprises (KredEx direct loans and KredEx-guaranteed loans) by sector, excluding projects of national importance, 2021

With regular measures, enterprises were enabled additional funding in the amount of EUR 132.8 million; incl. EUR 123.6 million as bank loans with a KredEx guarantee and EUR 9.2 million as direct loans. The largest volumes of regular funding were provided to construction (36% of the funding received), metal industry (14%), timber industry (7%) and manufacture of electronics (6%) (see Figure 13).

Investment loans accounted for the largest share of guarantees under the extraordinary measures, accounting for around half of the loans guaranteed. Among the regular services, bank guarantees were the most common (48% of the amounts guaranteed), followed by working capital financing (overdrafts (21%) and working capital loans (14%)), see Figure 14.

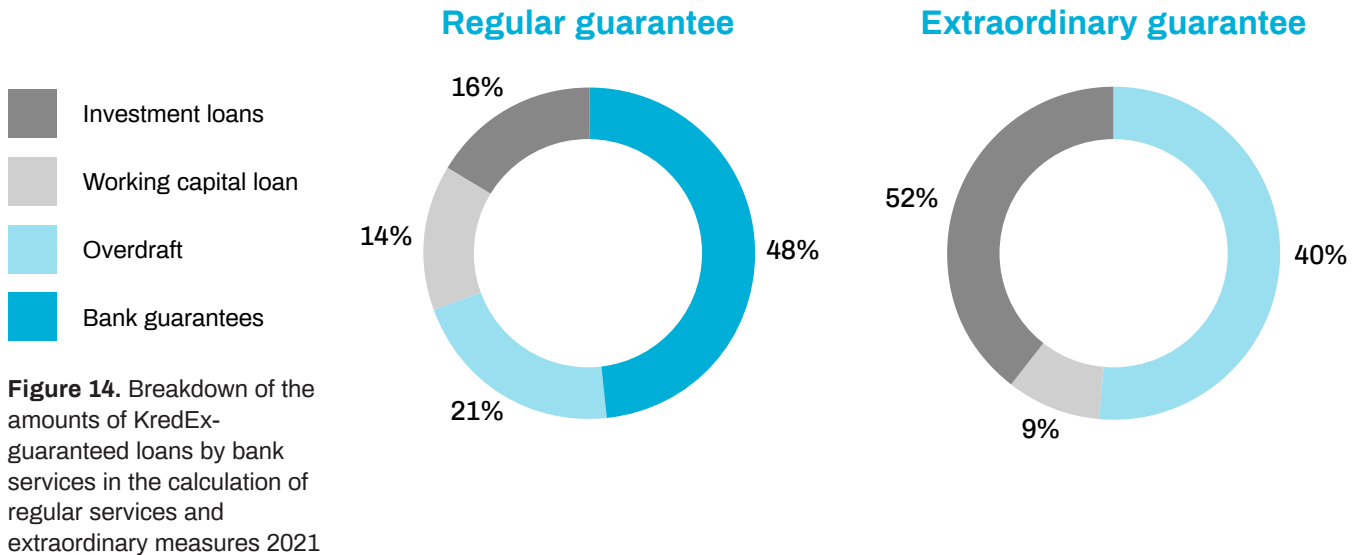


Figure 14. Breakdown of the amounts of KredEx-guaranteed loans by bank services in the calculation of regular services and extraordinary measures 2021

3.3.4. Venture and private capital



In 2013, **the Baltic Innovation Fund 1** (hereinafter: BIF 1), a partnership between the three Baltic States and the European Investment Fund (EIF), was launched with the aim of improving access to finance for Baltic companies with international growth potential and developing the Baltic capital markets. This fund of funds invests money in private equity and venture capital funds managed by the private sector, through which equity investments reach companies. The fund of funds BIF 1 is managed by the EIF.

The volume of the fund of funds BIF 1 is EUR 130 million. Each country's holding amounts to EUR 26 million through SA KredEx (Estonia), ALTUM (Latvia) and INVEGA (Lithuania), and EUR 52 million through the EIF.

BIF 1 has invested in seven private and venture capital funds:

- BaltCap Private Equity Fund II (volume of the fund EUR 81.5 million, incl. BIF 1 holding which is EUR 20 million),
- BPM Mezzanine Fund (EUR 70 million and EUR 15 million, respectively),
- Livonia Partners Fund (EUR 73.5 million and EUR 20 million, respectively),
- Karma Ventures Fund I (EUR 70 million and EUR 25 million, respectively),
- BaltCap Growth Fund (EUR 40.8 million and EUR 20 million, respectively),
- INVL Baltic Sea Growth Fund (EUR 164.7 million and EUR 10 million, respectively),
- Change Ventures Fund I (EUR 42.6 million and EUR 10 million, respectively).

As at the end of 2021, investments have been made in a total of 70 enterprises under BIF 1, 36 of which are Estonian enterprises. In 2021, the fund volume of the Change Ventures Fund II in the portfolio grew by EUR 11.2 million of the additional capital raised from private investors.

Baltic Innovation Fund 2 (hereinafter BIF 2) was established in the middle of 2019; the operating principles of which are similar to those of BIF 1. The volume of the fund of funds BIF 2 is EUR 156 million, with each country contributing EUR 26 million via KredEx (Estonia), ALTUM (Latvia) and INVEGA (Lithuania) and EUR 78 million via the EIF.

The investments of BIF 2 in private and venture capital funds at the end of 2021 were as follows:

- BaltCap Private Equity Fund III (fund volume EUR 152.9 million, incl. BIF 2 holding of EUR 25 million),
- Livonia Partners Fund (EUR 136.14 million and EUR 20 million, respectively),
- Karma Ventures Fund I (EUR 100 million and EUR 25 million, respectively).

BIF 2 is in the middle of the investment period: In 2021, two private equity and venture capital funds were invested in and the volume of the fund BaltCap Private Equity Fund III in the portfolio increased by EUR 6.2 million by the additional capital raised from private investors. In 2022, new investments are expected, and in total, six to eight private and venture capital funds are planned to be financed under BIF 2. As at the end of 2021, BIF 2 had invested in four enterprises, two of which are Estonian.

In 2016, SA KredEx, EIF and the Ministry of Economic Affairs and Communications signed a financing agreement to establish a fund of funds **EstFund**, to provide equity investments to Estonian companies with international growth potential. The fund volume is EUR 48 million, to which the EIF will add EUR 12 million.

EstFund invests in three private and venture capital funds.

- United Angels Co-investment Fund I: fund volume EUR 15.85 million, to which at least EUR 15.85 million will be added from private investors at the company level in the form of co-investments; EstFund's holding in the fund is EUR 12 million.
- Tera Ventures Fund II: fund volume EUR 45 million, including the holding of EstFund of EUR 24 million.
- Equity United PE 1: fund volume EUR 25 million, including up to EUR 12 million holding of EstFund.

As at the end of 2021, EstFund's three funds had an investment capacity of EUR 85.9 million and invested in 39 enterprises.

In addition to funds of funds BIF 1, BIF 2 and EstFund, KredEx is improving the access of enterprises to venture capital through its subsidiary, AS SmartCap, which manages the fund of funds SmartCap Venture Capital Fund.

3.3.5. Startup Estonia and the ecosystem of Estonian start-ups

In 2021, the total turnover of Estonian start-ups grew to EUR 1.4 billion and EUR 125 million in labour taxes were paid to the state. The volume of investments raised by start-ups more than doubled, to a record EUR 928 million.

While in 2020, the total turnover of Estonian start-ups was EUR 782 million, then within the year, start-ups increased their turnover to EUR 1.4 billion, i.e., by 77%. Based on the quarterly data from the Estonian Tax and Customs Board, the start-ups with the highest turnover in 2021 were Bolt (EUR 723 million), Adcash (EUR 33 million), Veriff (EUR 25.1 million), 3Commas Technologies (EUR 24.7 million), and Paxful (EUR 23.6 million).

In 2021, start-ups paid 29% more in labour taxes (EUR 125 million) to the state than a year earlier (EUR 97 million). The largest taxpayers were Bolt (EUR 18.9 million), Wise (EUR 17.7 million), Veriff (EUR 5.2 million), Paxful (EUR 4.8 million), Starship Technologies (EUR 3.3 million), Milrem (EUR 3 million), and Monese (EUR 2.6 million).

In the course of 2021, the existing start-ups Upsteem.com, Estelon, Edrk, Ganttlic, fututec, Click & Grow and Kompakfilter all celebrated their 10th anniversary. This represents a symbolic coming of age for a start-up and therefore their data are no longer included in the statistics on start-ups.

In addition, the start-ups Icefire, GetID, SpectX and AlphaChat were sold to other enterprises. The start-up company Wise was listed on the London Stock Exchange in the third quarter, being the first direct listing of a technology company in the history of the exchange, according to Reuters.



According to the Startup Estonia database of startups, there were about 1,300 startups operating in Estonia at the end of 2021.

Estonian start-ups raised a record-breaking **EUR 928 million** in investments in 2021. Compared to the year before, the average size of the investment involved has also increased, to EUR 10.3 million (EUR 5.8 million the year before). There has also been an increase in the number of start-ups attracting investments: 90 start-ups attracted at least one investment (76 in 2020), including 47 deals worth at least EUR 1 million (32 in 2020).

The biggest investment in 2021 was involved again by Bolt (EUR 620 million). Bolt was followed by Glia (EUR 64.1 million), Veriff (EUR 58 million), Starship Technologies (EUR 14 million), Scoro (EUR 13.8 million), Wolf3D (EUR 11.5 million), Testlio (EUR 10.3 million), Katana (EUR 9.3 million), Pactum (EUR 9.1 million), and Fractory (EUR 7.5 million).

According to the Startup Estonia database of startups, there were about 1,300 startups operating in Estonia at the end of 2021. Business software and services is still their main activity, with 240 of the enterprises in the database engaged in this field. The fintech area comes second (171 start-ups), and end-consumer products and services come third (141 start-ups). The largest sectors are transport and logistics (EUR 791 million), fintech (EUR 149 million) and business software and services (EUR 113 million).

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

Over the past five years, 3,162 work permits and 868 enterprise permits for doing business in Estonia have been granted through the *Startup Visa Programme* (a total of 4,030 positive decisions). In 2021, the Police and Border Guard Board granted 925 permits to work in a start-up company and 171 permits for start-up entrepreneurship through Startup Visa. The top three countries of origin among the founders were Russia, Iran and Belarus. Employees are most often from Russia, India and Ukraine.

By the end of 2021, the recipients of a Startup Visa had created 253 start-ups in Estonia (about 20% of start-ups). A total of 310 people are employed in these, and these enterprises paid a total of EUR 4.2 million in labour taxes, and their turnover reached EUR 37.4 million. The largest employers were Glia, Evocon, and CyberCube.

Startup Estonia's main focus is to develop the ecosystem. We helped co-organise the most important start-up conferences, including sTARTUp Day and Latitude59. We completed the activities contracted under the Ecosystem Development Programmes procurement contracts from the years 2019 and 2020, which had been postponed in part due to the outbreak of the coronavirus.

On the basis of the strategy for 2021–2027, we prepared **a vision document** for Startup Estonia, which includes descriptions and justifications of the strategic directions and numerical targets for 2030. The vision has been approved by both the Minister of Economic Affairs and Communications and the Government.

The main interest set out in the vision document is that the state, Startup Estonia and the startup sector have an interest in valuing the development of the research-intensive startup ecosystem, because by supporting the commercialisation of science we will reach innovative solutions and the next level in the development of the sector. Another focus is to address the availability of labour, both by supporting the incubation and mobilisation of domestic talent and by developing the Startup Visa and creating the growth company visa. We value the varied, cohesive and open ecosystem of startup and believe that this is the key to success in the future as well. We value the contribution of all participants in the development of this ecosystem since we all carry solidary responsibility for ensuring the continued quick development of the sector and the community.

In 2021, the high-priority activities of **focus areas** continued in Startup Estonia in cooperation with the ministries of the area.

- One of these was the *CyberTech* direction launched in 2017 in cooperation with the Ministry of Economic Affairs and Communications.
- In cooperation with the Ministry of Education and Research, the Ministry of Economic Affairs and Communications and non-profit organisation EdTech Estonia MTÜ, we continued to develop the education technology sector on the basis of new cooperation agreements.
- In cooperation with the Ministry of Finance, the last year of the three-year pilot programme for the development of the start-up ecosystem in Ida-Viru County has come to an end. There is still half a year to complete the activities and prepare summaries. Also, a substantive agreement has been reached to continue the programme until 2025.

The operating costs of Startup Estonia are covered with the resources of the supported activity *Enlivening Startup Entrepreneurship* under the priority axis *Growth-Capable Entrepreneurship and the Research and Development Activity Supporting it* of the Cohesion Fund's development plan 2014–2020. The Startup Estonia programme is financed using funds from the European Regional Development Fund (project No. EU50651).

3.4. AS SmartCap

SmartCap is a subsidiary of a small fund management company registered with the Financial Supervision Authority and of the Estonian Business and Innovation Agency. SmartCap manages two contractual closed alternative funds (SmartCap Venture Capital Fund and SmartCap Green Fund), the sole unit-holder of which is the Republic of Estonia.

The Management Board of SmartCap has two members: Sille Pettai and Mari Vavulski. As at the end of the reporting period, the company's Supervisory Board has four members. The Chairman of the

Supervisory Board is Priit Põldoja; other Members of the Supervisory Board are Ivo Kuldmäe, Viljar Lubi and Mikko-Jussi Suonenlahti.

The aim of SmartCap is to develop the Estonian capital market through venture capital investments and to enable this way the ambitious and innovative Estonian enterprises to grow. SmartCap contributes to the economic growth of Estonia and the development of the capital market by:

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

SmartCap Venture Capital Fund's assets are invested in 1) Estonian-focused venture capital funds that develop innovative Estonian enterprises with international growth potential, or 2) international venture capital funds that have a significant value-added component to Estonia's ecosystem of innovative enterprises with international growth potential, thereby supporting changes that help modernise the Estonian economy and develop the local capital market.

SmartCap Green Fund, launched at the end of 2021, will start investing in 2022. The Fund's assets are invested in 1) Estonian-focused venture capital funds that develop innovative, research-intensive enterprises, or 2) directly in Estonian enterprises whose activities contribute to the development and launch of new products, services or technologies that address environmental challenges, reduce greenhouse gas emissions or capture greenhouse gases.

As at 31.12.2021, SmartCap's assets under management amounted to EUR 70 million (see Figure 15) and the funds' investment portfolio included a total of two Estonian-focused early-phase



The aim of SmartCap is to develop the Estonian capital market through venture capital investments and to enable this way the ambitious and innovative Estonian enterprises to grow.

venture capital funds. As at the same date, SmartCap Venture Capital Fund's investments through venture capital funds and direct investments had reached a total of approximately 112 enterprises, with aggregate turnover doubling to a rounded EUR 850 million in 2021. These enterprises employed nearly 2,300 people in Estonia, whose remuneration accounted for about EUR 40 million in labour taxes.

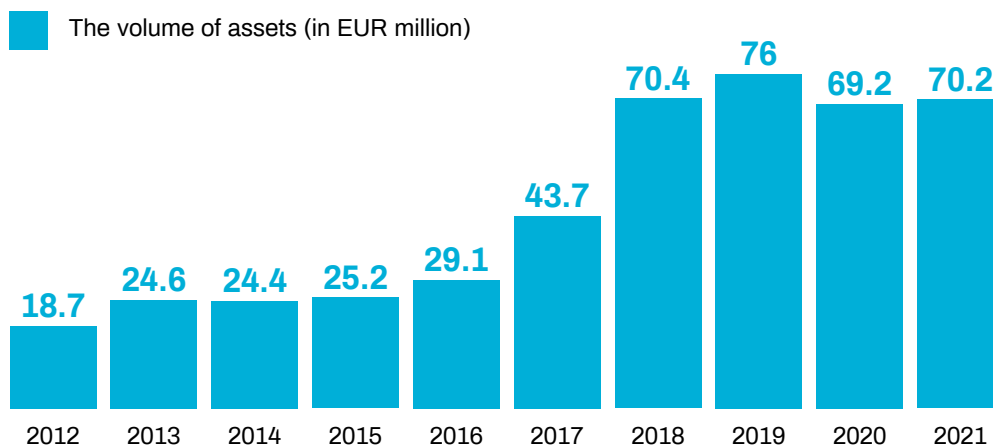


Figure 15. Asset volume of SmartCap Venture Capital Fund managed by SmartCap since foundation in EUR million 2012–2021

SmartCap's main investment projects in 2021 were organising a competition for a venture capital fund for high-tech SMEs and discussions with the state to allocate additional capital to finance SmartCap's new investment programmes.

In a competition organised to finance high-tech SMEs, we were looking for a private fund manager for a venture capital fund to invest in these companies with the aim of alleviating the problem of limited capital in the start-up phase. Market players showed great interest in the competition: six teams applied to participate. In December, SmartCap signed an agreement of principal terms and conditions with the best private fund manager selected in the competition to invest EUR 15 million in the venture capital fund to be founded.

SmartCap's strategy for 2019–2023 sets out the development of new investment programmes and obtaining financing for these, as well as developing the organisation for that purpose. In autumn 2021, the EUR 100 million SmartCap Green Fund was approved as one of the measures of the Estonian Recovery and Resilience Facility (RRF). In December, SmartCap's Supervisory Board approved the fund's conditions and SmartCap signed a subscription agreement with the state to finance the SmartCap Green Fund, with a view of making contributions by the end of 2022.

Through the SmartCap Green Fund, EUR 100 million of equity investments will be made available through the RRF in 2022–2026, plus a contribution from private investors. This will create the preconditions for the emergence of future technologies with export potential in Estonia, which is crucial for meeting the European Union's climate targets as well as for modernising the Estonian economy and ensuring its innovation capacity.

In 2021, the Responsible Business Forum of Estonia awarded SmartCap with the Responsible Business Silver Award for its activities in implementing sustainable principles in its daily operations, business strategy and management level. SmartCap applies responsible investment and sustainability principles in its investment process and in its day-to-day operations.

The main secondary activity of SmartCap is implementing the Startup Estonia programme regarding accelerators. In 2021, two research accelerator tenders were organised. At the end of the year, no contracts had yet been signed in the framework of procurement.

The focus for 2022 will be on starting the investment activities of the SmartCap Green Fund, including organising the necessary research and consultations, updating internal procedures and increasing the investment team. SmartCap will also continue negotiations with the state to create new opportunities for venture capital investments and to improve access to finance, as well as to finalise an investment in a fund that invests in small and medium-sized high-tech companies.

As part of the secondary activities, it is planned to finalise the procurement processes in 2022 and, if necessary, organise a procurement for research accelerators.



3.5. AS KredEx Krediidikindlustus

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

The mission of KredEx Krediidikindlustus is to provide credit insurance services to Estonian enterprises with the aim of hedging the credit and political risks associated with their sales transactions. These services are primarily intended for exporting enterprises. The broader objective of KredEx Krediidikindlustus is to provide Estonian enterprises with a sense of security, regardless of the economic situation, and in this way increase their competitiveness and export capacity.

In 2021, the members of the Supervisory Board of KredEx Krediidikindlustus were Ivo Kuldmäe (Chairman of the Management

Board of SA KredEx until 31.12.2021), Kristjan Värton (Member of the Management Board of DataCatering OÜ), and Kaido Kepp (Member of the Management Board of IIZI Kindlustusmaakler AS). The members of the Audit Committee were Paul Kalle, member of the Management Board of SA KredEx (as the Chairman of the Audit Committee), Erik Štarkov (Head of Risk Management and Internal Audit Unit of AS Eesti Energia), and Regina Raukas (Head of Financial Assets of the Strategic Planning Department of the Ministry of Economic Affairs and Communications).

Changes were made in the Management Board of KredEx Krediidikindlustus during the reporting year.

As at the end of the reporting year, the Chairman of the Management Board was Signe Rähesoo and the members were Kaarel Aus and Ivika Kolk. The responsibilities of the Chairman of the Management Board include general and risk management, internal control, financial management, pricing, investments, business continuity, service development, claim settlement and information technology management. Ivika Kolk, a member of the Management Board, is responsible for insurance marketing, customer and partner relations and service development. Kaarel Aus, a member of the Management Board, is responsible for coordinating intra-group cooperation to promote sales. The mandate of Kaarel Aus as a member of the Management Board expired after the reporting period.

From 01.02.2022, the Management Board of KredEx Krediidikindlustus consists of two members and the previous responsibilities of Kaarel Aus are performed by other members of the Management Board.



Since the establishment of KredEx Krediidikindlustus, the volume of services provided has steadily increased, as the awareness of enterprises regarding risk assessment and the desire to expand to new and more distant target markets has increased.

Since the establishment of KredEx Krediidikindlustus, the volume of services provided has steadily increased, as the awareness of enterprises regarding risk assessment and the desire to expand to new and more distant target markets has increased.

The turnover of Estonian enterprises insured by KredEx's affiliate AS KredEx Krediidikindlustus increased by 26% in 2021, reaching EUR 964 million (see Figure 16). Of this, export turnover amounted to EUR 616 million, having increased by 26.9% compared to the previous year. KredEx Krediidikindlustus insured an estimated 3.4% of the export turnover of Estonian undertakings. Of the export of goods and services of Estonian origin, the turnover insured by KredEx Krediidikindlustus was estimated at 4.8%. Insured turnover in Estonia grew by 23.6% over the year, to EUR 348 million.

Overall, more than 4,000 buyers' payment risks were insured by the end of the year (in 70 countries). The portfolio of credit lines assigned to them increased by 1% over the year (to EUR 361 million), thanks to credit lines granted to buyers abroad. The volume of credit lines assigned to Estonian buyers remained unchanged. A total of 70% (71% in 2020) of the assigned credit lines were related to insuring the payment risks of foreign buyers.

The largest export target countries coincide with Estonia's main export target countries. The highest number of payment risks was insured for buyers in Sweden, Finland and Latvia. Among the more exotic destinations, the insurance portfolio includes credit lines for buyers in Jordan, Kyrgyzstan, Vietnam, and Algeria.

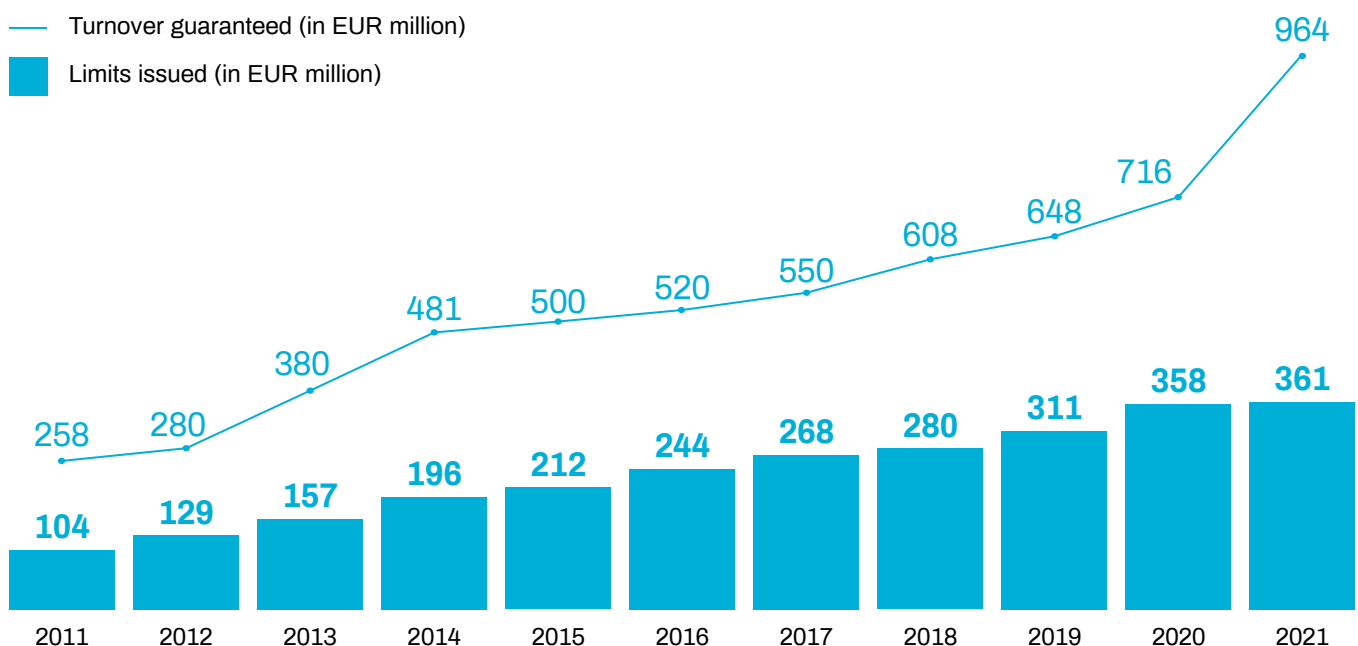


Figure 16. Continued growth in the volume of operations of KredEx Krediidikindlustus in 2011–2021

A total of 27% of the assigned credit lines are insured under the State Export Guarantee Act (41% in 2020). To mitigate the residual risk of the rest of the credit limits, KredEx Krediidikindlustus uses market-based re-insurance.

In 2021, insurance premiums were collected in the amount of nearly EUR 3 million, being by 42% more compared to the previous year (EUR 2.1 million in 2020). The increase is mainly due to an increase in the larger turnover of enterprises.

In 2021, one insurance contract was taken out to insure the payment risk arising from an export transaction with a maturity exceeding two years (also one contract in 2020). Under this contract, an Estonian enterprise manufactures and sells production equipment worth EUR 6.6 million to a Finnish buyer in the wood processing sector.

In 2021, EUR 1.4 million in damages (2020: EUR 600,000) was compensated. A total of 98% (74% in 2020) of this amount was related to damage caused due to unpaid invoices by foreign buyers. The net loss ratio in 2021 was 25,4% (86,6% in 2020).



4. Plans for 2022

The aim of KredEx, as a state-owned financing institution, is to make capital available and mitigate credit risks in order for Estonian enterprises to develop and people's living environment to improve. The main aim of the activities of KredEx is to improve the standard of living of Estonian residents. This objective remains valid also in the future, especially in view of the need to support businesses affected by both the pandemic and the war launched by Russia against Ukraine.

We continue to provide guarantees, loans, venture and private capital and residential grants, and the implementation of the Startup Estonia programme in 2022. We are consistently looking for opportunities to remedy capital market shortages and open up financing possibilities, to support economic recovery, improve

the living standards of residents, and increase energy efficiency. As in previous years, in 2022, we will focus special attention on improving the availability of financing for both entrepreneurs and residents outside major cities. To do this, we will, for example, start issuing regional loans, but also offer other new services.

In the enterprise area, we are working towards increasing the collateral and loan volumes, primarily regarding our regular services. For this, we will improve the user experience of our customers, continuing to simplify



As in previous years, in 2022, we will focus special attention on improving the availability of financing for both entrepreneurs and residents outside major cities.

our conditions and processes, including implementing opportunities opened up by digitalisation.

In the venture capital area, private and venture capital funds, financed from the fund of funds Baltic Innovation Fund I, Baltic Innovation Fund II and EstFund, will continue investing in enterprises.

In the Startup Estonia programme, we will continue to support startup entrepreneurship, to create the best possible growth environment for new success stories. Estonia has a startup sector with an open economy and mentality that welcomes all foreign talents, enterprise founders and foreign investors.

In the area of housing and energy efficiency, we will continue to offer an integrated package of services – including information activities, county counselling, grants, loans, and loan guarantees – to facilitate making residential buildings more energy efficient. In addition, we will implement a pilot project of reconstructing apartment buildings with prefabricated blocks, in which 20 apartment buildings will be reconstructed, using the innovative technology.

Due to the continuing extensive spread of the coronavirus (COVID-19), the Russian war in Ukraine and the resulting situation, where the financial results, supplies and liquidity of companies are uncertain, we remain a strong partner for enterprises and banks. We are helping businesses to keep their jobs and cope with the difficulties caused by these events.

At the beginning of 2022, Enterprise Estonia and KredEx merged, and the new legal name is **Estonian Business and Innovation Agency**. A transition phase started in January, where a new structure and brand are created for the joint agency. In the meantime, services will continue to be provided under the existing Enterprise Estonia and KredEx brands. The substantive merger will be completed in the course of 2022. The main objective of the joint organisation of KredEx and Enterprise Estonia is to support entrepreneurship and the improvement of living conditions in Estonia, increase our international competitiveness, visibility and attractiveness as a place for business, living and studies.

5. Annual Financial Report

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5.1. Consolidated balance sheet in euros

ASSETS	31.12.2021	31.12.2020	Notes
Current assets			
Cash and cash equivalents	712,227,161	773,923,464	3
Short-term loan receivables	14,229,315	11,412,094	5
Receivables and prepayments	3,662,592	1,997,596	6
Total current assets	730,119,068	787,333,154	
Fixed assets			
Long-term investments	24,774,463	24,828,213	7
Long-term loan receivables	195,318,916	154,368,614	5
Tangible fixed assets	19,927	59,086	8
Intangible fixed assets	2,317,477	2,247,696	9
Total fixed assets	222,430,783	181,503,609	
TOTAL ASSETS	952,549,851	968,836,763	
LIABILITIES			
Liabilities			
Current liabilities			
Debts and prepayments	12,655,069	2,339,253	10
Short-term part of long-term loans	2,247,118	4,344,008	15
Short-term technical provisions	3,513,744	2,529,493	11
Targeted financing for housing grants	3,556,413	41,778,202	12
Targeted financing for the application of the green investment scheme	11,950,506	12,053,692	13
Targeted financing for supporting measures of entrepreneurship	451,085,511	483,107	14
Total current liabilities	485,008,361	63,527,755	
Long-term liabilities			
Long-term technical provisions	31,540,422	21,464,533	11
Long-term loans	3,606,969	5,827,133	15
Targeted financing for supporting measures of entrepreneurship	300,125,652	750,209,766	14
Total long-term liabilities	335,273,043	777,501,432	
Total liabilities	820,281,404	841,029,187	
Net assets			
Foundation capital	127,807,576	126,592,498	
Total net gain of the reporting year	4,460,871	1,215,078	
Total net assets	132,268,447	127,807,576	
TOTAL LIABILITIES	952,549,851	968,836,763	

5.2. Consolidated income statement in euros

Operating income	2021	2020	Notes
Guarantee fees	3,608,948	3,482,824	16, 17
Interest income from loans	563,743	791,307	16, 17
Targeted financing to cover operating expenses	3,835,945	3,674,130	16, 17
Fund management fees	684,846	784,058	17
Total operating income	8,693,482	8,732,319	
Operating expenses			
Administrative expenses	-6,511,220	-5,462,115	20
Other operating income and expenses (net)	133,724	96,459	18
Total operating expenses	-6,377,496	-5,365,656	
Targeted financing			
Targeted financing received for housing grants	17,405,433	8,297,307	16
Targeted financing received for the application of the green investment scheme	63,563	0	16
Targeted financing received for supporting measures of entrepreneurship	42,380	42,000	16
Targeted financing disbursed for housing grants	-17,405,433	-8,297,307	16
Targeted financing disbursed for the application of the green investment scheme	-63,563	0	16
Targeted financing disbursed for supporting measures of entrepreneurship	-42,380	-42,000	16
Targeted financing total	0	0	
Provisions and impairment losses			
Provisions for claims from guarantee activities	-1,266,019	-2,701,325	16
Cost of loan allowance	173,747	45,560	16
Total provisions and impairment losses	-1,092,272	-2,655,765	
Financial income and expenses			
Net income from securities	0	2,985	4
Interest income on deposits	3,835	1,072	3
Interest expenses	-211,740	-341,848	16
Profit/loss from associated undertaking	147,881	-101,346	7, 16
Profit/loss from fund investments	3,299,254	948,569	
Other financial income and expenses	-2,073	-5,252	19
Total financial income and expenses	3,237,157	504,180	
Net income for the reporting period	4,460,871	1,215,078	

5.3. Consolidated cashflow statement in euros

Cash flows from principal activities	2021	2020	Notes
Net income for the reporting period	4,460,871	1,215,078	16
Adjustments to total net income ¹	-3,973,059	-913,714	
Change in receivables and prepayments made	-1,664,996	164,676	
Change in liabilities and prepayments received	10,315,816	-3,806,446	
Change in provisions	11,060,140	13,636,441	11
Change in loan receivables	-43,767,523	-119,717,914	5
Change in targeted financing	-37,806,684	759,372,486	
Total cash flows from principal activities	-61,375,436	649,950,607	
Cash flows from financing activity			
Loan repayments received	-4,317,054	-4,852,404	15
Total cash flows from financing activity	-4,317,054	-4,852,404	
Cash flows from investment activities			
Sale of short-term financial investments	0	506,165	
Acquisition of long-term financial investments	-3,780,000	-3,986,667	7
Repayment of long-term financial investments	8,060,000	2,640,000	7
Income from interest	0	2,985	4
Received dividend income	0	50,000	7
Acquisition of fixed assets	-301,441	-1,093,113	8, 9
Sale of fixed assets	17,628	0	8, 9
Total cash flows from investment activities	3,996,187	-1,880,630	
Total cash flows	-61 696 303	643 217 573	
Cash and cash equivalents at the beginning of the period	773,923,464	130,705,891	3
Change in cash and cash equivalents	-61,696,303	643,217,573	
Cash and cash equivalents at the end of the period	712,227,161	773,923,464	3

- 1 Adjustment of the total net income consists of the following income and expenses: profit from Baltic Innovation Fund units EUR -4,078,369, profit from affiliate AS KredEx Krediidikindlustus EUR -147,881, depreciation of fixed assets EUR 260,033, residual value of fixed assets sold EUR -10,785, deposits interest to be received EUR -3802, interest on short-term securities EUR -2985, other income and expenses EUR 7745

5.4. Statement of changes in net assets in euros

	Enterprise trust funds	Housing trust funds	Foundation capital total	Undistributed income	Net assets total
Balance 31.12.2019	83,651,533	39,065,980	122,717,513	3,874,985	126,592,498
Distribution of income into trust funds	2,412,783	1,462,202	3,874,985	-3,874,985	0
Distribution of income into trust funds	0	0	0	1,215,078	1,215,078
Balance 31.12.2020	86,064,316	40,528,182	126,592,498	1,215,078	127,807,576
Distribution of income into trust funds	53,212	1,161,866	1,215,078	-1,215,078	0
Total net gain of the reporting year	0	0		4,460,871	4,460,871
Balance 31.12.2021	86,117,528	41,690,048	127,807,576	4,460,871	132,268,447

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

5.5. Notes to annual accounts

Note 1. Principles of drafting the consolidated annual accounts

Foundation KredEx, registry code 90006012, is a national foundation registered at the address Hobujaama 4, Tallinn. The consolidated annual report of the KredEx Foundation for the year 2021 has been approved by the Management Board of Foundation KredEx and will be submitted for approval to the Supervisory Board of KredEx.

1.1. Bases of preparation

The 2021 Consolidated Annual Report for Foundation KredEx has been prepared in accordance with the Estonian financial reporting standard, which is based on internationally accepted accounting and reporting principles. The general requirements of the Estonian financial reporting standard have been established by the Accounting Act of the Republic of Estonia, complemented by instructions of the Estonian Accounting Standards Board. Additionally, the Support of Enterprise and State Loan Guarantees Act, the Public Sector Financial Accounting and Reporting Guidelines and other regulations and legislation regulating the activities of Foundation KredEx and listed under the relevant accounting principle in Note 2 have been followed.

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

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

These annual accounts have been prepared in a consolidated manner and cover the following legal persons: Foundation KredEx (parent company of the group) and AS SmartCap (wholly-owned subsidiary). For the sake of comparison, the main statements have also been submitted in unconsolidated form in Note 27.

1.2. More important accounting estimates

As a prerequisite for the preparation of financial statements, the management makes estimates and assumptions that affect the balances of income, expenses, assets and liabilities and the disclosure of contingent assets and liabilities as at the date of

the financial statements. Estimates and the related assumptions are based on experience from previous periods and other factors considered justified under the current circumstances. Even though these estimates have been made on the basis of the management's best knowledge, the subsequent actual result may differ from the estimates made. A more accurate overview of the estimates has been provided under the respective accounting principles or notes.

Management's most important estimates are related to technical provisions formed to cover loan allowances and financial guarantees.

The assessment of loan claims is based on the expected credit loss model for loans issued as crisis measures in the context of the COVID-19 economic mitigation package. This means that the valuation of financial assets is based on an assessment of potential losses throughout the loan period (see Note 1.3 "Risk Management"). This accounting principle differs from clause 3.22 of the Guideline of the Accounting Standards Board, pursuant to which, allowance must be recorded if there are indications of impairment of financial assets on the reporting date. According to the management of KredEx, using the expected credit loss calculation principle ensures a justified and relevant reporting of the financial position.

For other loan claims, estimates are based on historical experience and available information on a case-by-case basis.

Estimates shall be used to establish technical provisions to cover financial guarantees, both for the equalisation provision and for the provision for outstanding claims. In the case of the equalisation provision, these are based on long-term loss projections, and in the case of the establishment of a provision for outstanding claims, on the available information on a case-by-case basis.

Estimates and the assumptions they are based on are consistently reviewed. Changes in accounting estimates are recognised in the year of making the change, in the event that these only pertain to that reporting year; or in the year of making the change and the following years, if these pertain to the current and following reporting years.

1.3. Risk management

Principles of risk management

Risk is defined as a potential negative deviation from the expected result. Risk management is a process, in which the objective is the efficiency and profitability of an activity that meets the expectations of the person exercising the rights of a founder, as defined in the strategy. Insofar as risks are inherent in all business activities and at all levels of activity, all KredEx employees are involved in risk management through the internal control system, in addition to the management.

Risk management is responsible for identifying and measuring the risks associated with the business, for implementing the measures necessary to control risks, for monitoring the risks, and for reporting on the effectiveness of risk management.

Risks are measured (a) by quantifying, estimating the potential size of the risk through a change in the monetary volume, or (b) qualitatively, by relying on an expert assessment of the size of the risk and the likelihood of its materialisation. In both cases, a functioning control environment is taken into account.

Risk management structure and liability

The principles governing risk management at KredEx are established by the Supervisory Board. In addition, the Management Board establishes internal rules on the operative level to ensure the implementation of risk management principles and a quick and efficient response to changes in the economic environment or business model of the group. Risk management must comply with the applicable rules of law and regulations.

The Management Board of KredEx is responsible for managing risks, verification, introduction of risk management principles and methods, and the effectiveness of risk management. The Management Board may delegate the risk taking, control and monitoring within a limited extent to collegial decision-making bodies with a limited decision-making competence, formed by the Management Board.

Risk management is based on the concept of three lines of defence.

First line of defence

The first line of defence is comprised of risk management activities performed by managers and employees of sales and support units. The objective of this line of defence is to ensure the identification and assessment of risks related to activities, products and processes in their area of responsibility, and implementation of the measures necessary to keep the risks under control.

Second line of defence

The role of the second line of defence is borne by the Head of Compliance and risk managers and analysts in the risk department. The main functions of the second line of defence are

- regular risk identification, assessment and monitoring;
- informing the Management Board and Supervisory Board of risks;

- developing the methodology for risk management and advising the first line of defence in risk management;
- training in risk management;
- control and monitoring of compliance to internal rules and legislation.

Third line of defence

The third line of defence is comprised of the internal audit function. The internal audit audits the compliance of KredEx's activities to legislation and guidelines, the functioning and effectiveness of business processes and the internal control system, implementation of the decisions taken by the competent body of KredEx, also compliance with established rules and regulations, limits and other internal norms.

KredEx has three main levels at which risk management decisions are made: the Supervisory Board, the Management Board, and the Credit Committees.

Credit risk

The size of the credit risk expresses the potential loss that may arise from the counterparty's failure to perform its obligations before KredEx in the case of claims exposed to credit risk. Credit risk is one of the biggest risks in the activities of KredEx.

KredEx's main positions exposed to credit risk are as follows:

- cash and cash equivalents,
- loans and receivables,
- other financial assets,
- off-balance sheet liabilities (portfolio of guarantee contracts).

The process of granting credit depends on the size of the loan or loan guarantee.

There are three decision-making levels to making credit decisions at KredEx:

- 1) the Finance Committee level,
- 2) the extended Finance Committee level,
- 3) the Supervisory Board level.

KredEx issues loans to enterprises and apartment associations and bank loan guarantees to private individuals, enterprises and apartment associations. The guarantee rate depends on the guaranteed service and can be up to 80% of the guaranteed obligation, except for guarantees given under the special measures approved by the Government or a Minister.

Breakdown of loan portfolio by service in EUR million

	31.12.2021	31.12.2020
Total portfolio	575.4	580.4
Total portfolio of guarantees	310.3	303.9
Regular guarantees of enterprise loans	110.6	111.5
Extraordinary guarantees of enterprise loans	53.2	54.2
Housing loan guarantees	97.8	93.7
Loan guarantees for apartment buildings	48.8	44.4
Total loan portfolio	265.1	276.5
Direct enterprise loans	18.0	11.7
Start-up loans	0.8	1.1
Extraordinary COVID-19 loans	216.3	233.2
Loans to banks (loans of apartment associations)	24.5	29.7
Loans of apartment associations	5.3	0.6
Loans to non-profit associations	0.2	0.2

Measuring credit risk

KredEx implements a corporate credit risk assessment system when issuing and monitoring corporate loans and guarantees, which allows for the differentiation of claims based on the financial capacity of the companies' customers. The assessment takes into account the financial situation of the company, its creditworthiness, management, business plan and other circumstances that may affect the fulfilment of the obligations of the borrower towards KredEx or the financier.

On the basis of the credit risk assessment, the borrower is classified in one of the following risk categories (see table).

Risk category	Standard and Poor's	Moody's	Basis for classification of the undertaking
B	AAA, AA+, AA, AA-	Aaa, Aa1, Aa2, Aa3	Very strong solvency – a solid undertaking the volume of activities, stability and profitability of which give a high degree of confidence that it is able and it wishes to meet its obligations even in the face of very negative changes
C	A+, A, A-	A1, A2, A3	Strong solvency – an undertaking that is unlikely to run into solvency problems during a risk period, even in the event of a negative change
D	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	Adequate solvency – an undertaking with an adequate financial position and no immediate threats to its solvency and ability to meet its financial obligations
E	BB+, BB	Ba1, Ba2	Medium or inferior indicators – an undertaking that is able to meet its obligations now and in the foreseeable future, but the solvency of which could be damaged by adverse conditions
F	BB-, B+	Ba3, B1	Relatively risky undertaking – KredEx still assesses its solvency and will as acceptable, but solvency depends on the continuation of favourable conditions
G	B, B-	B2, B3	High risk of default by the undertaking
H	CCC+, CCC, CCC-, CC, C	Caa1, Caa2, Caa3, Ca	Fulfilment of the obligation of undertaking is highly unlikely. The undertaking is nearly insolvent
M	D	C	The undertaking is insolvent. Its risk category is determined by the occurrence of insolvency, not by the risk score
X	NA	NA	The risk category of the undertaking has not been determined. COVID-19 services

Where services are provided under the special measures approved by the Government or a Minister, all undertakings are classified in risk class X and the assessment system for undertakings is not applied; instead, the requirements to the borrower set out in the terms and conditions of the service approved by the Supervisory Board shall be taken as the basis.

KredEx issues new credits to enterprises in risk categories B to F. Risk categories G to H are assigned to companies whose financial situation has deteriorated or who have incurred arrears.

Breakdown of credit portfolio by risk category in EUR million

	Risk category	31.12.2021	31.12.2020
Guarantees		110.6	111.5
	C	19.8	16.8
	D	31.4	43.5
	E	32.4	25.6
	F	26.9	25.0
	G	0.1	0.6

	Risk category	31.12.2021	31.12.2020
Direct loans		18.0	11.4
	C	6.7	1.1
	D	4.4	2.5
	E	4.5	4.5
	F	2.1	3.4
	H	0.3	0.3
Start-up loans		0.8	1.1
	F	0.6	1.0
	H	0.1	0.1
	M	0.1	0.1
Extraordinary COVID-19 guarantees and loans	X	269.5	287.4

Concentration of exposures

It is the concentration risk strategy of KredEx in the credit portfolio to avoid the material impact of a single counterparty default or sector. KredEx has established the following concentration risk limits:

- 1) the largest loan or guarantee amount to a single counterparty or to related counterparties (loans and guarantees to enterprises);
- 2) the maximum guarantee amount to a single counterparty (private guarantees);
- 3) the largest share of the sector in the credit portfolio.

The risk of KredEx may not exceed 10% of the target capital of the respective credit product for any undertaking.

Upon applying special measures approved by the Government or a Minister, these concentration risk limits will not apply.

Loans and guarantees by economic sector in EUR million

	31.12.2021	31.12.2020
Regular enterprise services (loans and guarantees)	129.4	124.3
Manufacturing industry	62.0	51.3
Construction	29.5	27.5
Information and communications	9.4	7.4
Whole- and retail trade	7.6	10.2
Professional education, research, and technical practice	6.4	5.0
Other areas of activity	14.6	22.9

	31.12.2021	31.12.2020
Extraordinary services (loans and guarantees)	269.5	287.4
Transportation and storage	110.9	110.3
Professional education, research, and technical practice	55.5	39.5
Manufacturing industry	46.1	37.5
Real estate activities	20.7	42.0
Accommodation and food service activities	13.6	13.2
Other areas of activity	22.7	44.9
Private individuals	97.8	93.7
Apartment associations	54.3	45.3
Loans to banks	24.5	29.7
Total	575.4	580.4

Measurement of expected credit loss

In determining the loan allowance, KredEx applies two different methodologies.

- Loan allowances related to the COVID-19 economic mitigation package are based on the expected credit loss (ECL) method. KredEx calculates the expected credit loss as a function from the probability of default (PD) from exposure at default (EAD) of the loan or receivable, and from the loss given default (LGD). In addition, KredEx takes into account the sector risk coefficient (based on a comparison of the sector's gross profit in the second and third quarters of 2020 and 2021 versus the second and third quarters of 2019) and the uncertainty coefficient, when determining the allowance. PD expresses the likelihood that the loan will not be repaid and the undertaking will become insolvent either within 12 months or within its lifetime. The PD rate for loan-financed enterprises is 25%, as enterprises face liquidity constraints at the time of borrowing and the debt burden allowed by the service conditions can be very high. LGD expresses the expected loss from default, considering the probability of future revenues and their expected size, incl. the realisation of guarantee. The collateralisation of loans related to the COVID-19 economic mitigation package is generally low, and the LGD is between 80–95%. The uncertainty coefficient considers the higher than usual uncertainty caused by the coronavirus pandemic regarding economic forecasts, based on which it is difficult to estimate the time and extent of economic recovery. An uncertainty coefficient of 1.1 has been used where a significantly higher level of uncertainty has not been foreseen.

- The general allowance of regular loans is based on historical experience (general allowance of 2–5% depending on the risk level of the borrower; 15% in the case of start-up loans and subordinated loans). In addition, special discounts are formed; determining the extent of these considers the difference between the balance sheet value and the net realisable value of the collateral or the claim or is guided by the historical loss of similar transactions.

Changes in allowances in thousands of euros	Balance as at 01.01.2021	Allowances created/reversed during the year	Loans written off during the year	Balance as at 31.12.2021
Housing loans	–8,750	0	0	–8,750
Enterprise loans to banks	–234,936	–72,259	90,453	–216,742
Capital loans to undertakings	–1,603,349	–638,582	262,696	–1,979,235
COVID-19 crisis measure loans	–54,069,604	16,290,196	424,562	–37,354,846
Other loans	–243,638	9,242	0	–234,396
	–56,160,277	15,588,597	777,711	–39,793,969

KredEx considers a financial asset to be insolvent if at least one of the claims issued to the customer is more than 90 days overdue in contractual payments (principal or interest) and/or if the customer has filed a bankruptcy petition (or bankruptcy petition has been filed against him).

Provisions for guarantee contracts

KredEx establishes provisions and uses reinsurance to cover the risk of expected credit losses on guarantees. Risk-taking is limited by regulations on own funds. Upon the granting of guarantees for enterprise loans, the minimum limit of own funds shall be 10 per cent of the net asset value of the valid guarantees, but not less than EUR 2 million. Upon the granting of guarantees for housing loans, the minimum limit of own funds shall be 8 per cent of the net asset value of the valid guarantees, but not less than EUR 2 million. The internal minimum requirement for own funds of KredEx is 13% and 9.6%, respectively. A separate internal minimum requirement for own funds (50%) is set for COVID-19 guarantees for enterprise loans, that were issued starting from 2020. As at the end of 2021, the internal and statutory requirements for own funds were met with an adequate margin.

Own funds ratios for guarantees

	31.12.2021	31.12.2020
Enterprise loan guarantees	24,80%	24,40%
COVID-19 enterprise loan guarantees	50%	25%
Loan guarantees for housing loans and apartment associations	10,70%	11,30%

To perform the obligations arising from KredEx guarantee contracts, KredEx forms an equalisation provision that helps to cover potential losses to be paid out in the coming years. Under Government of the Republic Regulation No. 91 of 5 May 2005, 'The principles for setting up and the procedure for calculating technical provisions for state loan guarantees,' the amount of the equalisation provision must be at least 1% of all valid loan guarantees and liabilities of KredEx, arising from valid guarantee offers. Thereby, when calculating the volume of liabilities, these issued offers that have not been concluded as contracts are taken into account within the extent of 70%. A total of 30–35% of the guarantee fees earned in the housing area and 87% of guarantee fees from the enterprise area are transferred to the equalisation provision.

The provision for outstanding claims is calculated as a short-term obligation for covering known but outstanding claims. The provision for outstanding claims is formed on the account of funds transferred to the equalisation provision.

For the calculation of the equalisation provision for guarantees issued under the COVID-19 crisis measures, the upper limit of losses set by the Government of the Republic for commercial banks is used. The equalisation provision for crisis measures is 42% of the current portfolio volume. Additional provisions will be made where necessary.

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

Managing operational risk

Operational risk is the risk of suffering a loss due to the inadequacy of internal processes, people's activities or systems, or their failure to function as expected, or external events. Operational risk also includes legal and compliance risk, but not strategic risk. Reputational risk must be considered in the assessment and management of operational risk.

Operational risk is considered and managed as a separate area of risk management. Operational risk management is integrated into the everyday activities of KredEx and is primarily directed at activities preventing and controlling the materialisation of risk. Acknowledging the nature, effect of operational risk and the need to control it must occur at the level of every employee.

Information security and compliance risks are managed separately as the main sub-types of operational risk.

Operational risks are primarily assessed qualitatively. KredEx conducts regular operational risk self-assessments.

A process has been established for responding to incidents and reporting, and taking the necessary measures to mitigate the risks causing the incidents. The Risk Management Department supports business areas in analysing risks and preparing action plans.

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

Cash and cash equivalents

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

Initial recognition of financial assets

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

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

After the initial recognition, all financial assets are measured at fair value, except for:

- 1) claims against other parties that KredEx has not acquired for the purpose of resale and financial investments held to maturity, are recognised at amortised cost;
- 2) investments in shares and other equity instruments, the fair value of which cannot be estimated reliably (including derivative instruments related to such assets), are recognised at cost.

Financial assets recognised at fair value

After the initial recognition, all financial assets are measured at fair value, except for:

- 1) short- and long-term financial investments in shares and other equity instruments whose fair value can be reliably estimated;
- 2) short- and long-term financial investments in publicly traded bonds or other debt instruments.

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

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

Financial assets recorded at amortised 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 amortised cost. This is calculated for the whole validity period of the financial assets, whereas any discount or premium that occurred upon the acquisition, or expenses directly connected to the transaction, are taken into consideration.

Financial assets, recorded using the adjusted acquisition cost method, are discounted if it is likely that their covered value is lower than the book value. When assessing the loan receivables, the expected credit loss model (see Note 1.3 'Risk Management') is taken as the basis.

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 collection of a previously written-down receivable or in case of other events showing that the allowance is no longer justified, the impairment shall be reversed and recorded in the income statement as a reduction of the expense for which the impairment was initially recorded.

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

Financial assets recorded at their acquisition cost

Investments in shares and other equity instruments, not publicly traded and the fair value of which cannot be reliably estimated, are measured at cost.

Financial assets measured at cost shall be written down to their recoverable amount if the recoverable amount of the asset is lower than its carrying amount. The covered value of the financial assets recorded at their acquisition cost is the cash flows likely to be obtained from the financial asset in the future, discounted by the average profitability rate of the market in relation to similar financial assets. The discounting of financial assets is recorded in the income statement as a financial expense. The discounting of financial assets, recorded at their acquisition cost, shall not be cancelled later.

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

Holdings in subsidiaries

Subsidiaries are all business entities over which KredEx has control. KredEx controls an entity when it is exposed to, or has rights to, variable returns from its involvement and has the ability to use its power to affect the amount of the returns. Subsidiaries are consolidated in the annual accounts from the moment of gaining control until such time as that control ends. Common accounting principles are applicable to the Group.

The assets and liabilities of subsidiaries are reflected at their balance sheet value in the balance sheet of the acquiring undertaking (as well as in the balance sheet value of the acquired undertaking). The difference between the acquisition cost of the acquired holding and the balance sheet value of the acquired net assets is reflected as an increase or decrease in the acquired undertaking's equity capital. The financial indicators of the parent undertaking and the subsidiary are reflected in the consolidated annual accounts, added together row by row, as if they originated from a single company. The subsidiary's revenues and expenditures, having arisen prior to the acquisition date, are not included in the consolidated income statement or the cash flow report.

The parent undertaking's investments in the subsidiary, which are reflected in the balance sheet, shall be eliminated against the parent undertaking's holdings in the subsidiary's equity capital. All intra-group receivables, liabilities and mutual transactions and the unrealised gains and losses on such transactions are eliminated from consolidated accounts.

In the parent company's standalone financial statements, investments in shares of subsidiaries are accounted for using the equity method.

Holdings in related companies

Holdings in related companies are recorded using the equity method. Investments are initially registered at their acquisition cost. Henceforth, a subsidiary is reflected in the value that corresponds to KredEx's holding in the net assets of the subsidiary.

Shares in investment funds

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

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

Discounts are expensed, and the carrying amount of the loan portfolio is decreased by that amount. If a loan claim is recognised as a finished loss event, the loan and the respective discount shall be written off the balance sheet. The unrecoverable loan shall be recognised as income if it is received later. Revenue earned from the crisis measure loans are reflected as increasing the trust fund of the measure, and discount costs are reflected as reduction of the trust fund of the measure. Only the targeted financing to cover administrative costs is covered in KredEx's income statement.

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

Procedure for accounting fixed assets

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

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

If the item of the property, plant and equipment consists of distinguishable components with different useful lives, these components shall be recognised as separate items, assigning them separate depreciation rates based on their useful lives.

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

Non-current assets, acquired by targeted financing for the fulfilment of administrative tasks assigned by the state and not connected with the core activity of KredEx, are registered at their net acquisition cost. Accounting for such assets takes place off-balance sheet.

Technical provisions for covering guarantees

The report includes the provision for outstanding claims and the equalisation provision, the formation of which has been described in more detail in Note 2 'Risk Management'. The provision for outstanding claims that are known, but yet unpaid or are currently pending, is registered as a liability. The provision for outstanding claims is formed from the equalisation provision.

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

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

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

Calculation of loan interests

For undertakings and credit institutions, loan interest is calculated based on the payment schedule specified in the loan agreement. Generally, payment schedules are prepared in such a way that the payment of the loan and the interest takes place once per month. If the payment schedule provides for the payment of interest over a longer period of time, the accrued interest is recognised as at the balance sheet date.

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

Calculation of guarantee fees

Banks authorised to issue guarantees on behalf of KredEx keep records of guarantee fees for housing loans to private individuals. The guarantee fee is calculated and paid upon the issuing of a loan in full for the entire guarantee period. The total amounts of the guarantee fee, as of the moment of calculation, are shown among income. The fee is not distributed to the guarantee period as the guarantee recipient has no right to reclaim the guarantee fee or influence the amount thereof in the future. When 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 drawn up quarterly for the banks that issued the loans, who shall withhold the fees from the borrowers. Guarantee fees are recorded in income as of the date of the invoice. The guarantee fees of problem loans might not be received on time. In that event, that the calculation of the guarantee fee is cancelled and the loan recipient is subject to special monitoring.

Calculation of contract fees

No contract fees are calculated on housing loan guarantees. Contract fees on enterprise loans and guarantees are calculated upon the conclusion of a contract. An invoice, regarding direct loan contract fees, is submitted upon the issuing of the loan. The loan recipient pays the invoice before the loan is issued, or the amount of the contract fee is deducted from the payable loan amount. Upon the receipt of information regarding the conclusion of a contract an invoice for the contract fee for loan guarantees shall be issued to the banks issuing loans, and the banks shall debit the fees from loan recipients. Contract fees are recorded in income as of the date of the invoice.

Targeted financing of operating expenses

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

Intermediation of targeted financing of supporting measures

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

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

Supporting measures for issuing or guaranteeing investment loans

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

Calculation of foreign currency

Transactions in foreign currency are recognised based on the official exchange rates of the European Central Bank effective on the transaction date. Monetary assets and obligations denominated in a foreign currency are converted into euros as at the balance sheet date according to the exchange rates of the European Central Bank effective on the balance sheet date.

Profit and loss obtained as a result of the revaluation are shown in the income statement for the reporting period, whereas currency exchange rate profits and losses from transactions with buyers and suppliers are recorded under business income and expenses. Other spreads are recorded in financial income and expenses.

Operational lease

Operational lease is a type of lease, for which all risks and benefits, connected with the lease object, remain with the lessor, and are not transferred to the lessee. In the case of an operational lease, the lessor records the leased property in its balance sheet. Operational lease payments are recorded as cost by linear method during the lease period, regardless when the payments actually take place.

Financial liabilities

Financial liabilities are initially accounted for at their acquisition cost, which is the fair value of the fee received for the financial liability. Thereafter, financial liabilities are accounted for at amortised cost, using the effective interest rate. Transaction expenses are accounted for upon the calculation of the effective interest rate and are written off during the life cycle of the financial liability. Interest expenses related to the financial liability are recorded using the accrual method as a period expense in the income statement on the line 'Financial income and expenses'. The recording of a financial liability shall be terminated when it has been paid, cancelled or expired.

Events after the date of the report

The annual accounts show material circumstances affecting the valuation of assets and liabilities, which occurred between the balance sheet date and the date of preparing the report, but which are related to the transactions made during the reporting or prior periods. Events after the balance sheet date that have not been considered upon the evaluation of assets and liabilities, but that significantly influence the results of the following financial year, are published in the annual accounts.

Procedure for the calculation of off-balance sheet assets

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

Note 3. Cash and cash equivalents

	31.12.2021	31.12.2020
Demand deposits	712,194,359	773,892,014
Fixed-term deposits	32,802	31,450
	712,227,161	773,923,464

In 2021, demand and term deposits earned interest income in the amount of EUR 3916 (EUR 1072 in 2020) (see Note 16).

Note 4. Short-term financial investments

As the last bond in the investment portfolio matured in 2020 and no new investments were made in 2021, there were no income and expenses related to the investment portfolio. In 2020, bonds earned an interest income of EUR 2985.

Note 5. Loan receivables by due date

Housing loans	Up to 1 year	2–6 years	7–14 years	Total	Book value
Loans to non-profit associations	0	175,000	0	175,000	166,250
Apartment building renovation loan for banks	5,190,318	16,287,523	2,988,236	24,466,077	24,466,077
Total	5,190,318	16,462,523	2,988,236	24,641,077	24,632,327

Loans in the enterprise area					
Capital loans	464,046	89,670	0	553,716	418,383
Technology loans	875,971	6,461,295	1,431,747	8,769,013	7,333,475
Export loans	693,803	1,216,795	95,477	2,006,075	1,597,710
Start-up loans via banks	408,033	354,581	0	762,614	545,872
Other loans	15,540	218,856	0	234,396	0
Total	2,457,393	8,341,197	1,527,224	12,325,814	9,895,440

COVID-19 crisis measure loans					
Working capital loans to undertakings	6,044,338	12,557,000	0	18,601,338	12,020,596
Investment loans to undertakings	2,297,100	7,316,243	0	9,613,343	6,334,807
Loans for projects of national importance	2,216,999	178,114,134	0	180,331,133	152,912,144
Apartment building renovation loans	174,028	990,705	2,664,759	3,829,492	3,752,917
Total	10,732,465	198,978,082	2,664,759	212,375,306	175,020,464

TOTAL LOANS RECEIVABLES	18,380,176	223,781,802	7,180,219	249,342,197	209,548,231
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As at the end of 2020, the short-term part of the issued loans was EUR 11,412,094 and long-term part was EUR 154,368,614.

Changes in loan portfolio	Housing loans	Enterprise loans for banks	Capital loans to undertakings	COVID-19 crisis measure loans	Other loans	Total loans
Loans at acquisition cost						
Balance at acquisition cost 31.12.2019	35,438,808	1,177,499	13,162,553	0	240,516	50,019,376
Issued loans, 2020	0	205,000	1,357,748	180,177,784	0	181,740,533
Calculated interest and contract fees	601,981	35,771	505,572	1,609,023	6,168	2,758,515
Loan repayments 2020	-5,538,845	-294,427	-1,308,389	-361,630	-4,644	7,498,647
Received interest and contract fees	-606,374	-37,405	-525,099	-1,565,273	-7,690	-2,741,841
Loans written off the balance sheet	0	0	-1,605,613	0	0	-1,605,613
Interest debts written off the balance sheet	0	0	-731,337	0	0	-731,337
Balance at the acquisition cost 31.12.2020	29,895,570	1,086,438	10,855,435	179,859,904	243,638	221,940,985
Loans granted in 2021	0	60,830	3,339,142	40,260,274	0	43,660,246
Calculated interest and contract fees	430,286	30,646	471,785	5,092,910	4,467	6,030,094
Loan repayments in 2021	-5,250,290	-294,041	-2,589,189	-7,373,686	-8,836	-15,516,042
Received interest and contract fees	-434,489	-30,806	-485,674	-5,039,531	-4,873	-5,995,373
Loans written off the balance sheet	0	-90,453	-258,000	-420,000	0	-768,453
Interest debts written off the balance sheet	0	0	-4,696	-4,562	0	-9,258
Balance at the acquisition cost 31.12.2021	24,641,077	762,614	11,328,803	212,375,309	234,396	249,342,199
Irrecoverable loans						
Balance 31.12.2019	0	-196,926	-3,519,140	0	-240,516	-3,956,582
Impairments, 2020	0	-38,010	-421,159	-54,069,603	-3,122	-54,531,895
Loans written off the balance sheet	0	0	2,336,950	0	0	2,336,950
Receipt of previously discounted loans, 2020		26,097	61,364	0	0	87,461
Balance 31.12.2020	-8,750	-234,936	-1,603,349	-54,069,604	-243,638	-56,160,277
Impairments, 2021	0	-72,259	-638,582	16,290,196	9,242	15,588,597
Loans written off the balance sheet	0	90,453	262,696	424,562	0	777,711
Recovery of impaired loans, 2021		24,646	28,102	0	0	52,748
Balance 31.12.2021	-8,750	-216,742	-1,979,235	-37,354,846	-234,396	-39,793,969
Balance at amortised cost						
Balance at amortised cost 31.12.2019	35,438,808	980,573	9,643,413	0	0	46,062,794
Balance at amortised cost 31.12.2020	29,886,820	851,502	9,252,086	125,790,300	0	165,780,709
Balance at amortised cost 31.12.2021	24,632,327	545,872	9,349,568	175,020,463	0	209,548,231

Housing loans

The apartment building renovation loan has been issued to banks from the funds received from the European Regional Development Fund, a loan taken from the Council of Europe Development Bank, a loan received from the Ministry of Finance, and KredEx own funds, within the framework of the measure 'Apartment building renovation loan'. The loan period for banks is up to 20 years and the interest rate 1.7% to 2.7%. Allowances are not made on these loans since the borrowers are commercial banks.

Loans to non-profit associations specialising in energy saving were given by order of the Ministry of Economic Affairs and Communications, from the funds provided for housing support measures. The loan interest is 3% per year.

Enterprise loans to banks

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

Capital loans to undertakings

Capital loans have been granted directly to enterprises partly from KredEx's own funds and partly from the European Regional Development Fund under the measure 'Subordinated loan programme'. Subordinated loans have been issued with a term of up to 10 years, and interest rates ranging from 9–13%. Technology loans issued under the programme 'Subordinated loan programme' are an exception in regard to the interest rate; where according to the terms and conditions of service, the interest rate is equal to the interest rate of the loan issued by a credit or a financing institution, or 1 to 2 percentage points higher thereof, depending on the rate of financing. As of 2016, loans are also issued from the funds of the Cohesion Fund's implementation plan 2014–2020 measure 'Improving the availability of capital insurance and credit insurance', pursuant to the approved terms and conditions of service.

COVID-19 crisis measure loans

EUR 625.4 million was allocated to KredEx with the 2020 Supplementary Budget Act for issuing extraordinary loans to reduce negative effects caused by COVID-19 in the enterprise sector. Extraordinary working capital loans, investment loans, loans to projects of national importance and to apartment associations were issued from this amount in the total sum of EUR 180.2 million, including to OÜ Porto Franco that became subject to investigation in 2021. Loans have

been issued with a term of up to six years and with an interest rate in the range of 2–6%.

The largest loans issued within the crisis measures were as follows.

Enterprise	Loan amount (EUR)	Interest rate	Loan period
AS Tallink Grupp	100,000,000	Euribor of 12 months + 2%	08.06.2023
OÜ Porto Franco	39,400,000	Euribor of 12 months + 2%	08.09.2026
AS Magnetic MRO	10,000,000	Euribor of 12 months + 2%	10.09.2026
AS Alexela Varahaldus	51,000,000	Euribor of 12 months + 2%	19.10.2025
AS Nordic Aviation Group	8,000,000	Euribor of 12 months + 2%	28.12.2026

The types of collateral for issued capital loans and loans issued as crisis measures include real estate (mortgage), right of claim, commercial pledge, surety or guarantee of a private or legal person, pledge of stocks or shares.

Other loans

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

Note 6. Receivables and prepayments

	31.12.2021	31.12.2020
Receivables from current settlements	201,759	276,678
Receivables from reinsurance providers	49,989	50,097
Prepaid expenses	19,512	2,631
Claims from targeted financing of operating expenses	895,289	734,872
Accrued income of guarantee fees	420,267	522,934
Prepayments of guarantee benefits	2,075,776	410,384
Total	3,662,592	1,997,596

Receivables from current settlements also include the receivable from the affiliated company in the amount of EUR 6094 (EUR 14,463 in 2020), see Note 26.

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

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

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

Note 7. Long-term financial investments

In 2010, one-third of the shares of AS KredEx Krediidikindlustus were acquired with the acquisition price of EUR 6,391,164. The profit for 2021 using the equity method was EUR 147,881 (EUR 101,346 in 2020) (see Note 16); the balance of the investment by the end of the year was EUR 7,068,654 (EUR 6,920,773 in 2020).

In 2021, the contributions to the Baltic Innovation Fund amounted to EUR 2,380,000 (EUR 3,320,000 in 2020), and EUR 8,060,000 was received from the fund (2,640 000 in 2020). In total, EUR 15.7 million has been paid as contributions into the fund. The deposits shall be used for covering both operating expenses and fund investments. As at 31 December 2021, the fair value of funds directed to fund investments was EUR 15,717,754 (EUR 17,108,722 in 2020).

In 2021, contributions to Baltic Investment Fund II, established in 2019, were made in the amount of EUR 1,400,000 (EUR 666,667 in 2020). In total, EUR 2.5 million has been paid as contributions into the fund. As at 31 December 2021, the fair value of funds directed to fund investments was EUR 1,988,055 (EUR 798,718 in 2020).

The fair value of the units of the Baltic Investment Fund I and the Baltic Investment Fund II is estimated on the basis of the net asset value of the invested assets.

In 2021, the total profit on fund investments amounted to EUR 4,078,369 (EUR 948,569 in 2020).

Note 8. Tangible fixed assets

	Machinery and equipment	Inventory and tools	Buildings	Total
Acquisition cost 31.12.2020	62,312	192,410	18,756	273,478
Tangible fixed assets sold at cost	-62,312	0	0	-62,312
Written off the balance sheet at its acquisition cost	0	-40,625	0	-40,625
Acquisition cost 31.12.2021	0	151,785	18,756	170,541
Depreciation 31.12.2020	-51,526	-148,846	-14,020	-214,392
Depreciation of sold fixed assets	51,526	0	0	51,526
Depreciation 2021	0	-24,622	-3,751	-28,373
Depreciation of fixed assets written off the balance sheet	0	40,625	0	40,625
Depreciation 31.12.2021	0	-132,843	-17,771	-150,614
Residual cost 31.12.2019	20,364	44,435	8,487	73,286
Residual cost 31.12.2020	10,786	43,564	4,736	59,086
Residual value 31.12.2021	0	18,942	985	19,927

Note 9. Intangible fixed assets

	Computer programmes	Prepayments	Total
Acquisition cost 31.12.2020	400,244	2,224,433	2,624,677
Acquired 2021	0	301,440	301,440
Accounted for from prepayments	2,461,164	-2,461,164	0
Acquisition cost 31.12.2021	2,861,408	64,709	2,926,117
Depreciation 31.12.2020	-376,981	0	-376,981
Depreciation 2021	-231,659	0	-231,659
Depreciation 31.12.2021	-608,640	0	-608,640
Residual cost 31.12.2019	13,204	1,168,599	1,181,803
Residual cost 31.12.2020	23,263	2,224,433	2,247,696
Residual value 31.12.2021	2,252,768	64,709	2,317,477

The intangible fixed assets accounted for on prepayments in the amount of EUR 2,461,164 and the balance of prepayments amounting to EUR 64,709 represent the expenditure incurred for the development of the new information system of KredEx. With the introduction of the new information system, the current procedural software and customer portal will be replaced. The new information system is to be implemented in full at the latest on 1 July 2022.

Note 10. Debts and prepayments

	31.12.2021	31.12.2020
Trade payables	258,401	484,084
Salary and holiday pay liabilities	505,072	370,007
Liabilities to reinsurance providers in respect of prepayments and recoveries	10,396	21,746
Amounts for setting up AS SmartCap funds	10,000,000	0
Decided but not paid grants	1,734,456	1,197,361
Tax arrears	146,744	266,055
Total	12,655,069	2,339,253

Amounts for setting up AS SmartCap funds in the line reflect the money pursuant to the custody agreement concluded in December 2021 between AS SmartCap and SA KredEx. On the basis of this agreement, SA KredEx will allow the SmartCap Venture Capital Fund, a venture capital fund managed by AS SmartCap, to deposit funds in its current account. As at 31 December 2021, the amount of deposited funds was EUR 10 million.

Note 11. Short-term and long-term provisions

Short-term technical provisions	31.12.2021	31.12.2020
Short-term share of provision for outstanding claims	3,513,744	2,529,493
Total	3,513,744	2,529,493

Long-term technical provisions		
Long-term share of provision for outstanding claims	456,973	3,389,531
Equalisation reserves	31,083,449	18,075,002
Total	31,540,422	21,464,533

Total	35,054,166	23,994,026
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Technical provisions

Technical provisions include provisions recorded as liabilities, the provision for outstanding claims and equalisation provision written off. The principles behind the calculation of provisions have been explained in Notes 2 and 3.

As at 31 December 2021, technical provisions correspond to the minimum rates established by law, forming 17.18% of the current portfolio and offers in the area of enterprise and 1.96% in the area of the housing. Of the total guarantee exposures, technical provisions comprised 18.99% in the area of enterprise and 1.98% in the area of housing. From guarantee premiums, planned provisions were allocated within the extent of EUR 2,738,690 (EUR 2,607,485 in 2020), including EUR 2,082,391 for enterprise loan guarantees (EUR 1,995,685 in 2020) and EUR 656,299 for housing loan guarantees (EUR 611,800 in 2020). From the above amount, EUR 416,288 has been covered from the reserve fund of the measure 'The issuance of insurance for loans, guarantees and export transactions in 2014–2020' (EUR 171,420 in 2020) and EUR 431,769 has been covered from the COVID-19 crisis measures fund (EUR 218,119 in 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 2021, additional provisions were calculated in the enterprise area in the amount of EUR 8,239,961 (EUR 13,621,252 in 2020), covered from the COVID-19 crisis measures fund (in 2020, EUR 1,067,059 was returned to the reserve fund 'The issuance of insurance for loans, guarantees and export transactions in 2014–2020', and the COVID-19 crisis measures fund was decreased by EUR 13,662,989). As regards guarantees for housing loans, EUR 667,084 of the additional provisioning was covered from the COVID-19 crisis measures fund

(in 2020, an additional income of EUR 307,530 was generated by the decrease in provisions).

From the reinsurance of enterprise guarantees, EUR 16,665 was received from the European Investment Fund to cover losses in 2021 (EUR 302,830 in 2020). From the collection of guarantee losses, EUR 882,397 was recovered (EUR 247,035 in 2020). From these sums, EUR 705,242 was transferred to the reserve fund of 'The issuance of loans, guarantees and export transactions in 2014–2020' (EUR 5344 in 2020).

Change in technical provisions

	Change in the provision for outstanding claims		Change in the equalisation		Change in provisions	
	2021	2020	reserve	2020	total	2020
Enterprise loan guarantees						
Balance on January 1	5,911,537	5,627,191	16,063,956	3,020,332	21,975,493	8,647,523
Increase	0	2,573,314	12,146,690	15,616,938	12,146,690	18,190,252
Decrease	-1,963,668	-2,288,968	0	-2,573,314	-1,963,668	-4,862,282
<i>including payment of indemnities</i>	-475,732	-2,257,851	0	0	-475,732	-2,257,851
<i>receivables from reinsurance providers</i>	336,402	-31,117	0	0	336,402	-31,117
Balance on December 31	3,947,869	5,911,537	28,210,646	16,063,956	32,158,515	21,975,493
<i>including the long-term part</i>	<i>456,973</i>	<i>3,389,531</i>	<i>28,210,646</i>	<i>16,063,956</i>	<i>28,667,619</i>	<i>19,453,487</i>
Housing loan guarantees						
Balance on January 1	7,487	34,413	2,011,046	1,675,649	2,018,533	1,710,062
Increase	30,832	0	892,589	642,927	923,421	642,927
Decrease	-15,471	-26,926	-30,832	-307,530	-46,303	-334,456
<i>including payment of indemnities</i>	-15,471	-3,077	0	0	-15,471	-3,077
Balance on December 31	22,848	7,487	2,872,803	2,011,046	2,895,651	2,018,533
<i>including the long-term part</i>	<i>0</i>	<i>0</i>	<i>2,872,803</i>	<i>2,003,768</i>	<i>2,872,803</i>	<i>2,003,768</i>
Total balance at the beginning of the period	5,919,024	5,661,604	4,695,981	4,695,981	10,615,005	10,357,585
Increase	30,832	2,573,314	13,039,279	16,259,865	13,070,111	18,833,179
Decrease	-1,979,139	-2,315,894	-30,832	-2,880,844	-2,009,971	-5,196,738
<i>including payment of indemnities</i>	-491,203	-2,260,928	0	0	-491,203	-2,260,928
<i>receivables from reinsurance providers</i>	336,402	-31,117	0	0	336,402	-31,117
Balance at the end of the period	3,970,717	5,919,024	31,083,449	18,075,002	35,054,166	23,994,026
<i>including short-term part</i>	<i>3,513,744</i>	<i>2,529,493</i>	<i>0</i>	<i>0</i>	<i>3,513,744</i>	<i>2,529,493</i>
<i>long-term part</i>	<i>456,973</i>	<i>3,389,531</i>	<i>31,083,449</i>	<i>18,075,002</i>	<i>31,540,422</i>	<i>21,464,533</i>

Note 12. Targeted financing for housing support measures

Under the state budgetary provision agreement, the Ministry of Economic Affairs and Communications provides KredEx each year with funds for the housing support measures. In addition, additional allocations of EUR 32 million were made in 2020 for housing support measures within the framework of COVID-19 crisis measures, of which EUR 26.3 million were returned in 2021. In 2021, the disbursements of reconstruction grants for apartment buildings and the expert analyses of the related construction projects were covered from the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) funds. In 2022, this work will continue with on the account of funds from the European Union's Recovery and Resilience Facility (RRF).

Budgetary provision agreements 2013–2020

	31.12.2021	31.12.2020
Balance at the beginning of the year	41,779,442	18,041,862
Provisions from the state budget	4,824,791	3,278,279
Provisions from the state budget for COVID-19 crisis measures	-26,266,155	32,000,000
Allocations from REACT funds	1,490,227	0
Received technical assistance from Structural Funds	443,952	420,241
Total grant payments:	-17,566,907	-8,306,057
<i>incl. grant for updating the electrical installations of dwellings</i>	<i>-57,162</i>	<i>-153,301</i>
<i>reconstruction grant of apartment buildings</i>	<i>-1,756,600</i>	<i>-166,037</i>
<i>claim on RRF funds for the disbursement of reconstruction grants for apartment buildings</i>	<i>270,936</i>	<i>0</i>
<i>grants for local governments</i>	<i>-2,548,881</i>	<i>-408,603</i>
<i>home grant for families with many children</i>	<i>-1,788,036</i>	<i>-2,987,277</i>
<i>reconstruction grant for small residences</i>	<i>-2,540,953</i>	<i>-1,276,622</i>
<i>support for the introduction of renewable energy equipment</i>	<i>0</i>	<i>-52,792</i>
<i>for participation in housing development projects</i>	<i>-60,415</i>	<i>-144,641</i>
<i>grant for developing the residential properties of local government</i>	<i>-9,085,796</i>	<i>-3,116,784</i>
Provisions from the state budget directed to the component-based reconstruction grant for apartment buildings	0	-2,462,000
Total operating expenses:	-1,148,937	-1,192,883
<i>including administrative expenses of support measures</i>	<i>-775,890</i>	<i>-679,315</i>
<i>technical assistance, including expenses incurred as a result of co-financing</i>	<i>-443,952</i>	<i>-420,241</i>
<i>Technical assistance expenditure from returned REACT funds</i>	<i>161,474</i>	<i>0</i>
<i>change in deferred income</i>	<i>-90,569</i>	<i>-93,327</i>
Balance at the end of the year	3,556,413	41,779,442
<i>including short-term part</i>	<i>3,556,413</i>	<i>41,779,442</i>

Funds for participation in international energy saving projects

	31.12.2021	31.12.2020
Balance at the beginning of the year	-1,240	-1,240
Receipts from international energy saving projects	3,522	0
Operating expenses within the framework of international energy saving projects	-2,282	0
Balance at the end of the year	0	-1,240
<i>including short-term part</i>	0	-1,240

In 2019, KredEx participated in the project "CA-EPBD", the final payment of which was received in 2021.

Total targeted financing for housing support measures	3,556,413	41,778,202
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Note 13. Targeted financing for the application of the green investment scheme

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

In 2010, EUR 14,700,000 was provided to KredEx from the budget of the area of administration of the Ministry of Environment, to organise the application of the green investment scheme according to the trade agreement concluded between the Republic of Estonia and the Grand Duchy of Luxembourg for Assigned Amount Units, permitted under Article 17 of the Kyoto protocol. From those funds, grants were provided for apartment buildings for the performance of integrated renovation work, with the purpose being to increase the energy efficiency of the buildings. The grant amount was up to 35% of the cost of the works.

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

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

Administrative agreement for application of the Green Investment Scheme between the Republic of Estonia and the Grand Duchy of Luxembourg, 17.08.2010

	31.12.2021	31.12.2020
Balance at the beginning of the year	264,788	274,061
Administrative expenses	-8,892	-9,273
Balance at the end of the year	255,896	264,788
<i>including short-term part</i>	<i>255,896</i>	<i>264,788</i>

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

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

In 2020, activities related to the measure were terminated, and the remaining funds were redirected to the measure of component-based reconstruction grant for apartment buildings.

Budgetary provision agreement 2013

	31.12.2021	31.12.2020
Balance at the beginning of the year	0	1,293,835
Amounts of the measure redirected to the component-based reconstruction grant for apartment buildings	0	-1,293,835
Balance at the end of the year	0	0
<i>including short-term part</i>	<i>0</i>	<i>0</i>

In 2011, funds were provided to KredEx from the budget of the Ministry of Economic Affairs and Communications to organise the application of the green investment scheme according to the trade agreement concluded between the Republic of Estonia and the Mitsubishi Corporation for Assigned Amount Units, permitted under Article 17 of the Kyoto protocol. Using funds from the programme 'Electromobility in Estonia' (ELMO), a national charging network for electric cars has been built and the administration thereof organised

for a period of five years. Also, grants of up to 50% or EUR 18,000 of the price of an electric car were given for the purchasing of electric cars within the measure.

At the end of 2019, the Ministry of Economic Affairs and Communications transferred the charging infrastructure for electric cars to OÜ Elektrilevi by way of auction. In 2021, a study was carried out to analyse the existing purchase grant measure for all-electric vehicles, to gather information on the topics of purchase grants for electric cars, vans and electric box-bikes, as well as on the market situation for vehicles and charging infrastructure and other infrastructure.

Contract under public law for the application of the Green Investment Scheme between the Republic of Estonia and Mitsubishi Corporation

	31.12.2021	31.12.2020
Balance at the beginning of the year	52,032	50,826
Examination	-48,000	0
Administrative expenses	-4,032	1,206
Balance at the end of the year	0	52,032
<i>Balance at the end of the year</i>	<i>0</i>	<i>52,032</i>

In 2020, KredEx was allocated funds for the component-based reconstruction grant for apartment buildings grant measure from the budget of the Ministry of Economic Affairs and Communications, pursuant to subsection 161 (7) of the Atmospheric Air Protection Act and Regulation No. 121 of 04 November 2016 of the Government of the Republic on the 'General conditions for the use of proceeds received in the auction for the period 2013–2020 of greenhouse gas emission allowance trading, and reporting'. Funds unused in previous measures will be added to the funds of the measure.

Contract under public law for the implementation of the component-based reconstruction grant for apartment buildings aid measure

	31.12.2021	31.12.2020
Balance at the beginning of the year	11,736,872	0
Received from state budget	0	7,985,000
Redirected from the state budget grants measure	0	2,462,000
Redirected from the investment scheme measure of the 2013 state budget provision	0	1,293,835
Administrative expenses	-42,262	-3,963
Balance at the end of the year	11,694,610	11,736,872
	<i>11,694,610</i>	<i>11,736,872</i>

Total targeted financing received for the application of the green investment scheme	11,950,506	12,053,692
<i>including short-term part</i>	<i>11,950,506</i>	<i>12,053,692</i>

Note 14. Targeted financing for supporting measures of entrepreneurship

The balances of targeted financing for the grant measures, together with the revenues and expenditures from the measure programmes as at 31.12.2021, are as follows.

Trust fund for the establishment of the Baltic Innovation Fund

The intended purpose is to make payments to the Baltic Innovation Fund (BIF) based on the BIF articles of incorporation and management agreement. The money comes from the 'Additional support programme for improvement of the availability of loan capital for undertakings' and the amount of EUR 6,000,000 allocated from the state budget in 2015.

In 2019, Baltic Innovation Fund II was established and the Ministry of Economic Affairs and Communications allocated an additional EUR 2,000,000 in the form of contributions to the fund. In 2020, an additional EUR 24,000,000 was added for the same purpose.

	31.12.2021	31.12.2020
Balance at the beginning of the year	32,458,496	8,353,569
Change in the trust fund due to BIF income and expenses	180,138	-267,100
Change in the value of BIF's shares	598,976	372,027
Ministry of Economic Affairs and Communications contributions to BIF	0	24,000,000
Balance at the end of the year	33,237,610	32,458,496
<i>including short-term part</i>	0	0

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

The intended purpose is to fund the supported activity “The issuance of insurance for loans, guarantees and export transactions under the priority axis “Developing small and medium enterprises and strengthening” the regional competitiveness” of the Cohesion Fund's development plan 2014–2020. In 2016, EUR 18,875,000 was allocated to KredEx from the state budget for funding the measure; in 2020, EUR 15,875,000 and in 2021, EUR 4,250,000.

Revenue earned from the implementation of the measures will be transferred to increase the trust fund, and costs, incl. loan allowances, provisions for covering guarantee losses, and administrative costs, will be covered on account of the trust fund. Only the administrative expenses received on the amounts of the measure are recorded in the KredEx statement of financial performance. Other income and expenditure is accounted for through the trust fund.

	31.12.2021	31.12.2020
Balance at the beginning of the year	33,480,671	16,707,837
Received from state budget	4,250,000	15,875,000
Increase of trust fund on account of income earned from implementing the measure	982,112	546,754
Decrease of trust fund on account of costs of implementing the measure	–870,153	455,160
The measure's administrative expenses	–95,131	–104,080
Balance at the end of the year	37,747,499	33,480,671
<i>including the long-term part</i>	<i>37,747,499</i>	<i>33,480,671</i>

Trust fund of COVID-19 financial measures

Funds were allocated to the area of governance of the Ministry of Economic Affairs and Communications with the 2020 Supplementary Budget Act for reducing the negative effects caused by COVID-19 in the enterprise sector. These funds were directed to KredEx for implementing the grant measures, issuing loan guarantees, working capital loans, investment loans, apartment building loans, and loans to projects of national importance.

Revenue earned from the implementation of the measures will be transferred to increase the trust fund, and costs, incl. loan allowances, provisions for covering guarantee losses, and administrative costs, will be covered on account of the trust fund. Only the administrative expenses received on the amounts of the measure are recorded in the KredEx statement of financial performance. Other income and expenditure is accounted for through the trust fund.

The funds from the measure must be returned as the loans are repaid and the guarantee commitments expire. In 2021, EUR 16 million from the trust fund of apartment association loans was repaid, and in early 2022, EUR 450.7 million from the enterprise funds was repaid.

	31.12.2021	31.12.2020
Trust fund of enterprise loan guarantees as at the beginning of the year	106 291 899	0
Received from the state budget into the trust fund of loan guarantees	0	120,000,000
Repayment obligation 2022	-72,440,796	0
Increase of trust fund on account of guarantee fees and contract fees	554,226	398,893
Decrease of trust fund on account of technical provisions and administrative expenses	-8,845,466	-14,106,994
Trust fund of enterprise loan guarantees as at the end of the year	25,559,863	106,291,899
Trust fund of working capital loans (incl. projects of national importance) at the beginning of the year	501 532 249	0
Received from the state budget to the trust fund of working capital loans	0	553,400,000
Repayment obligation 2022	-338,841,365	0
Increase of trust fund on account of contract fees and loan interests	4,744,089	1,500,003
Decrease of trust fund on account of loan allowances and administrative expenses	17,713,423	-53,367,754
Trust fund of working capital loans as at the end of the year	185,148,396	501,532,249
Trust fund of investment loans at the beginning of the year	48 884 679	0
Received from the state budget to the trust fund of investment loans	0	50,000,000
Repayment obligation 2022	-39,446,301	0
Increase of trust fund on account of contract fees and loan interests	238,221	99,942
Decrease of trust fund on account of loan allowances and administrative expenses	-2,212,673	-1,215,263
Trust fund of investment loans as at the end of the year	7,463,926	48,884,679
Trust fund of apartment association loans at the beginning of the year	21 932 353	0
Received from the state budget into the trust fund of apartment association loans	0	22,000,000
Repaid in 2021	-16,000,000	0
Increase of trust fund on account of contract fees and loan interests	110,600	9,078
Decrease of trust fund on account of loan allowances and administrative expenses	-64,912	-76,725
Trust fund of apartment association loans as at the end of the year	5,978,041	21,932,353
Trust fund of housing loan guarantees at the beginning of the year	5 629 417	0
Received from the state budget into the trust fund of housing loan guarantees	0	5,000,000
Increase of trust fund on account of contract fees and guarantee fees	49,930	644,206
Decrease of trust fund on account of technical provisions and administrative expenses	-689,031	-14,789
Trust fund of apartment association loans as at the end of the year	4,990,316	5,629,417
Trust funds of COVID-19 crisis measures, total	229,140,54	684,270,598
Return of funds from COVID-19 crisis measures in 2022	450,728,462	0

Providing momentum to the start-up entrepreneurship

The operating costs of the Startup Estonia project are covered from the funds of the supported activity *Enlivening Startup Entrepreneurship under the priority axis Growth-Capable Entrepreneurship and the Research and Development Activity Supporting it* of the Cohesion Fund's development plan 2014–2020. The measure's final beneficiary is Enterprise Estonia.

In 2019, funds were received from the Ministry of Finance for developing start-up enterprises in Ida-Viru County and from the Ministry of Education and Science for supporting EdTech companies. The Ministry of Economic Affairs and Communications provides funding for the foundation and development of cybersecurity enterprises.

	31.12.2021	31.12.2020
Balance at the beginning of the year	483,107	431,531
Received from Enterprise Estonia	1,396,386	1,548,785
Received from other target financiers	250,000	461,500
<i>incl. from the Ministry of Finance</i>	<i>0</i>	<i>77,500</i>
<i>from the Ministry of Education and Science</i>	<i>0</i>	<i>210,000</i>
<i>from the Ministry of Defence</i>	<i>0</i>	<i>24,000</i>
<i>Ministry of Economic Affairs and Communications</i>	<i>250,000</i>	<i>150,000</i>
Operating expenses of Startup Estonia	–1,389,239	–1,589,731
Change in the balance of unreceived targeted financing	–383,205	–368,978
Balance at the end of the year	357,049	483,107
Total targeted financing of supporting measures for entrepreneurship	717,973,552	750,692,873
including the long-term part	300,125,651	750,209,766
short-term part	451,085,511	483,107

Note 15. Long-term loans

	Loan obligation 31.12.2021	Term of repayment	Average interest per year
Loan from the Council of Europe Development Bank	914,316	02.05.2022	2,87%
Loan from the Ministry of Finance	4,939,770	02.02.2026	2,56%

Loan from the Council of Europe Development Bank

The intended use of the loan is to perform the programme 'Apartment Building Renovation Programme' approved with the Directive No. 137 of 07 May 2009 of the Minister of Economic Affairs and Communications. On the basis of this, KredEx lends its own funds, money received from the European Regional Fund as structural aid and funds received from the Council of Europe Development Bank as a loan to commercial banks, so that they may issue loans to apartment buildings under favourable conditions.

The Ministry of Finance has provided a state guarantee for the loan, for which the guarantee fee in 2021 was EUR 2073 (EUR 5252 in 2020) (see Note 19).

	31.12.2021	31.12.2020
Balance at the beginning of the year	3,840,919	7,312,665
Repaid	-2,943,240	-3,471,746
Loan balance at the end of the year	897,679	3,840,919
<i>including repayable in the next reporting period</i>	<i>897,679</i>	<i>2,943,240</i>
<i>repayable from the reporting period after the next one until 2022</i>	<i>0</i>	<i>897,679</i>
Interest liability at the beginning of the year	65,560	121,082
Interest expense per year	64,395	159,538
Interest paid during the year	-113,318	-215,060
Interest liability at the end of the year	16,637	65,560
Total balance at the end of the year	914,316	3,906,479
<i>including short-term part</i>	<i>914,316</i>	<i>3,008,800</i>
<i>long-term part</i>	<i>0</i>	<i>897,679</i>

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

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

	31.12.2021	31.12.2020
Balance at the beginning of the year	6,251,941	7,574,427
Repaid	-1,322,486	-1,322,486
Loan balance at the end of the year	4,929,455	6,251,941
<i>including repayable in the next reporting period</i>	<i>1,322,486</i>	<i>1,322,486</i>
<i>repayable from the reporting period after the next one until 2026</i>	<i>3,606,969</i>	<i>4,929,455</i>
Interest liability at the beginning of the year	12,721	15,371
Interest expense per year	147,345	182,309
Interest paid during the year	-149,750	-184,959
Interest liability at the end of the year	10,316	12,721
Total balance at the end of the year	4,939,771	6,264,662
<i>Total balance at the end of the year</i>	<i>1,332,802</i>	<i>1,335,207</i>
<i>long-term part</i>	<i>3,606,969</i>	<i>4,929,455</i>
Total loan obligations at the end of the year	5,854,087	10,171,141
<i>including short-term part</i>	<i>2,247,118</i>	<i>4,344,008</i>
<i>long-term part</i>	<i>3,606,969</i>	<i>5,827,133</i>

Note 16. Income statement by area of activity

Guarantee activity	2021	2020	Notes
Security and contract fees	4,821,792	4,708,978	
Transferred to the fund of the measure from security and contract fees	-1,212,844	-1,226,154	
Guarantee losses and a change in technical provisions	-11,214,942	-15,928,486	
Loss covered from the fund of the relevant measure	9,755,103	12,985,470	
Received from reinsurance from the European Investment Fund	16,665	302,830	11
Receivables from reinsurance providers, change	0	-302,830	11
Received from debt collection	882,397	247,035	11
Repaid amounts transferred into the fund of the relevant measure and reinsurance provider	-705,242	-5,344	11
Total net gain (loss) from guarantee activity	2,342,929	781,499	
Crediting activity			
Interest, fines for delay, and contract fees	6,030,095	2,758,516	
Interest expense directed to the fund of the relevant measure	-5,466,352	-1,967,209	
Change in impairment losses	-15,618,598	-54,540,646	5
Impairment losses covered from the fund of the relevant measure	15,484,785	54,510,418	5
Recovery of written-off loans	52,748	81,625	5
Repaid amounts directed into the fund of the relevant measure	-12,814	-5,837	5
Interest on loans taken	-211,740	-341,848	
Total net gain (loss) from crediting activity	525,750	495,019	
Fund management			
Fund management fees	684,846	784,058	
Total net gain (loss) from fund management	684,846	784,058	
Investment activity			
Interest income from deposits	3,835	1,071	3
Net income from long-term financial investments	0	2,985	4
Profit/loss from related companies	147,881	-101,346	7
Operating expenses of the Baltic Innovation Funds (BIF), change in the value of shares	4,078,369	1,053,496	
Revenue/expense directed from a change in the value of BIF shares and from operating expenses to the fund for the establishment expenses of BIF	-779,115	-104,927	
Total income from investment activity	3,450,970	851,279	

Targeted financing for operating expenses	2021	2020	Notes
Targeted financing received for housing grants	17,405,433	8,297,307	
Decided and disbursed housing grants	-17,405,433	-8,297,307	12
Budgetary means for managing housing support measures	866,459	852,493	17
Targeted financing received for the application of the green investment scheme	63,563	0	
Grants paid within the framework of the green investment scheme	-63,563	0	13
Budgetary means for managing green investment scheme	39,623	13,112	13, 17
Targeted financing received for supporting measures of entrepreneurship	42,380	42,000	
Targeted financing disbursed for supporting measures of entrepreneurship	-42,380	-42,000	
Technical aid	443,951	420,241	12, 17
Administrative costs of entrepreneurship funding measures covered from the funds of the measures	1,102,794	813,043	12, 17
Targeted financing received for covering the costs of Startup Estonia	1,009,815	1,182,442	12, 17
Targeted financing received for implementing other projects	373,303	392,799	12, 17
Total targeted financing	3,835,945	3,674,130	17
Administrative expenses	-6 511 220	-5 462 115	20
Operating result	4 329 220	1 123 871	
Other operating income and expenses	133,724	96,459	18
Other financial income and expenses	-2,073	-5,252	19
Income	4,460,871	1,215,078	

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

	2021	2020	Notes
Guarantee fees (EMTAK 66291)	3 608 948	3 482 824	16
Enterprise loan guarantees	2,393,553	2,293,891	
including, entered into the fund of the relevant measure	-949,583	-197,035	
Housing loan guarantees	1,958,139	1,849,387	
including, entered into the fund of the relevant measure	-49,930	-894,917	
Contract fees for enterprise loan guarantees	470,100	565,699	
including, entered into the fund of the relevant measure	-213,331	-134,201	
Loan interests (EMTAK 64929)	563 743	791 307	5
Housing loans	430,285	601,981	
Start-up loans	30,630	35,771	
Subordinated loans for enterprises	464,359	503,875	
including, entered into the fund of the relevant measure	-372,073	-350,960	5
Contract fees for subordinated loans	11,893	7,865	
including, entered into the fund of the relevant measure	-1,351	-7,225	
COVID-19 crisis measure loans	4,868,326	1,102,046	
including, entered into the fund of the relevant measure	-4,868,326	-1,102,046	
Contracts fees of loans of COVID-19 crisis measures	224,585	506,977	
including, entered into the fund of the relevant measure	-224,585	-506,977	
Targeted financing of operating expenses (EMTAK 84139)	3 835 945	3 674 130	
Administrative expenses of housing support measures	866,458	852,493	12
Technical aid	443,952	420,241	12
Expenses of implementing the green investment schemes	39,623	13,112	13, 16
Structural Funds 2014–2020; administrative expenses of supporting measures of entrepreneurship	95,132	104,080	14, 16
Administrative costs of COVID-19 crisis measures	1,007,662	708,963	
Administrative expenses of other projects	373,303	392,799	
Operating expenses of Startup Estonia	1,009,815	1,182,442	14, 16
Management of funds (EMTAK 66301)	684 846	784 058	
Fund management fees	684,846	784,058	
Total	8,711,740	8,732,319	

Note 18. Other operating income and expenses

	2021	2020
Profit/loss from sales and write-offs of fixed assets and stocks	17,628	0
Targeted financing of operating expenses	99,106	78,415
<i>including providing services to the related company</i>	96,824	78,415
<i>for covering participation expenses in international projects</i>	2,282	0
Other income and expenses	16,990	18,044
Total	133,724	96,459

SA KredEx provides the affiliated company AS KredEx Krediidikindlustus with administrative services (see Note 26).

Note 19. Other financial expenses and income

	2021	2020
State guarantee for the loan from the Council of Europe Development Bank (see Note 14)	-2,073	-5,252
Total	-2,073	-5,272

Note 20. Administrative expenses

	2021	2020
Various operating expenses	-3 117 488	-2 717 587
Rental and maintenance of office premises	-260,594	-224,119
Development, repair and maintenance of IT and office equipment	-604,806	-374,439
Personnel and training expenses	-165,481	-83,900
Economic and administrative expenses	-36,958	-47,521
Telephone, mailing and internet expenses	-7,826	-7,367
Transport expenses	-22,506	-25,434
Travel expenses	-13,362	-7,655
Marketing expenses	-1,161,226	-1,324,245
Auditing expenses	-57,624	-49,520
Legal services	-164,563	-88,800
Membership fees	-19,525	-18,226
Expert assessment	-254,507	-224,365
Other services	-348,510	-241,996

	2021	2020
Labour costs	-3 135 090	-2 703 108
Wages and salaries	-2,377,563	-2,046,715
<i>including the salary of the Supervisory Board and members of the management board</i>	-304,621	-279,069
<i>salary of employees</i>	-1,947,574	-1,767,646
Social tax	-742,103	-643,062
Unemployment insurance premium	-15,424	-13,331
Depreciation of fixed assets	-258 642	-41 420
Total administrative expenses	-6,511,220	-5,462,115

Along with the subsidiary AS SmartCap, the average number of employees at KredEx during the year was 58.1 (50.4 in 2020). The average number of employees working under employment contracts was 54.1, and the remuneration calculated for them was EUR 1,947,574. The average number of members of management and control bodies was 13.8 and the remuneration calculated for them was EUR 304,621. The number of employees working under a contract under the Law of Obligations was five, and the remuneration calculated for them was EUR 5310.

Note 21. Changes in net assets

Foundation capital	Change in net assets: increase +, decrease -	Basis for change
Trust fund for housing guarantees	1,161,866	Distribution of the result of year 2020
Trust fund of start-up loan guarantees	29,714	Distribution of the result of year 2020
Trust fund of loan guarantees	-1,073,163	Distribution of the result of year 2020
Trust fund of subordinated loans	-15,261	Distribution of the result of year 2020
Trust fund for the foundation of the credit insurance company	-101,346	Distribution of the result of year 2020
Investment trust fund of AS SmartCap	264,699	Distribution of the result of year 2020
Trust fund for contributions into the Baltic Innovation Fund	948,569	Distribution of the result of year 2020
Result of 2021	4,460,871	Result of 2021

Note 22. Off-balance sheet claims

Upon the fulfilment of the guarantee obligations, KredEx shall acquire the claim from the creditor within the paid amount. As the debtor has not fulfilled the obligations during the collection of the loan, such loans have low value. However, the loan is often secured by the personal surety of the borrower or owner. In the case of a loss event, the proceedings against the debtor and the guarantor may last for years, and continue for a long time after the payment of the compensation.

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

Considering the fact that claims arising from housing loan guarantees are small (on average about EUR 5100) and that even the payments received in the settlement or enforcement proceedings are volatile, these claims are generally no longer reflected off-balance sheet from 2018.

Likewise, as at the end of 2021, none of the recovered grants have been recognised as off-balance sheet assets. No new grant recourse claims were filed.

Changes in off-balance sheet receivables

	Enterprise loans	Housing loan guarantees	Enterprise loan guarantees	Rights of recourse for grants
Balance of claims 31.12.2019	337,081	0	195,412	0
Change in claims from 31.12.2019	-80,389	0	16,221	0
including received	-81,624	-20,467	-219,715	0
including revaluation	1,235	20,467	235,936	0
Balance of claims 31.12.2020	256,691	0	179,191	0
Change in claims from 01.01.2021	-112,901	0	219,479	0
including received	-112,370	-37,869	-112,901	0
including revaluation	531	37,869	332,380	0
Balance of claims 31.12.2021	143,790	0	398,670	0

Note 23. Off-balance sheet and conditional liabilities

Security liabilities	2021	2020	Change
Enterprise loan guarantees			
Performing Guarantee Portfolio at the beginning of the year	165,726,304	101,204,267	64,522,037
Guarantee volume of concluded agreements	106,755,204	134,136,434	-27,381,230
Depreciation of the portfolio and terminated agreements	-108,721,161	-69,614,397	-39,106,764
Performing Guarantee Portfolio at the end of the year	163,760,347	165,726,304	-1,965,957
Issued offers at the end of the year	665,000	6,359,200	-5,694,200
Maximum security liability as at the end of the year	169,377,801	177,131,976	-7,754,175
Housing loan guarantees			
Performing Guarantee Portfolio at the beginning of the year	138,190,926	128,875,121	9,315,805
Guarantee volume of concluded agreements	63,133,020	52,014,016	11,119,004
Depreciation of the portfolio and terminated agreements	-54,752,789	-42,698,211	-12,054,578
Performing Guarantee Portfolio at the end of the year	146,571,157	138,190,926	8,380,231
Issued offers at the end of the year	0	0	0
Maximum security liability as at the end of the year	146,604,155	138,202,990	8,401,165
Total performing guarantee portfolio	310,331,504	303,917,230	6,414,274

Performing Guarantee Portfolio is a guarantee liability as of the balance sheet date. If the date of commissioning of the loan has not yet arrived, the whole secured amount under the agreement is recorded as a liability. After the date of commissioning the loan, the balance of the guarantee liability is recognised based on the actual loan balance of the relevant date. The amount of guarantee limits, issued by agreements as of the specified date, is recorded as export guarantee liability.

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

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

The tax authority shall have the right to check the tax accounting of KredEx for a period of up to six years from the term of submission of the tax declaration and, upon the detection of mistakes, assign an additional tax amount, interests and a penalty. The tax administrator has not performed a tax audit of KredEx between 2009 and 2019.

KredEx's management finds that there are no circumstances due to which the tax administrator might set a significant additional amount of tax for KredEx.

Note 24. Operational lease

As of 15 March 2010, KredEx has been leasing office premises of 874.51 m² at Hobujaama 4, Tallinn. The lease contract expires on 30 November 2022. The lease contract does not include the possibility of premature termination.

AS SmartCap leases office premises at Pärnu mnt 12, Tallinn. The lease contract expires on 30 October 2022. The lease contract does not include the possibility of premature termination. A bank guarantee has been established in favour of the lessor, with a deposit in the amount of the lease of two months' rent.

In 2021, the rental cost was EUR 170,414 (EUR 146,387 in 2020). The planned rental costs for 2022 from non-interruptible contracts are EUR 156,213.

Note 25. Litigation

In 2020, three complaints were filed with the administrative court, which were used to dispute KredEx's decisions to refuse to grant loans within the crisis measures. In 2021, one of these processes ended favourably for KredEx. As at 31.12.2021, disputes continued in two processes. Management considers that these processes have no economic impact.

Note 26. Transactions with related parties

Related parties are considered to be members of the Supervisory Board and the Management Board, their immediate family members and the companies under their control or significant influence, as well as the related company AS KredEx Krediidikindlustus, the KredEx subsidiary AS SmartCap, ministries, state and local public sector institutions, state-owned companies and local governments.

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

KredEx has provided administrative services to AS KredEx Krediidikindlustus in the amount of EUR 96,824, and has mediated costs in the amount of EUR 22,627 (EUR 74,269 in 2020). KredEx has

issued invoices to KredEx Krediidikindlustus in the amount of EUR 140,361 (VAT included) (EUR 140,594 in 2020). In 2020, AS KredEx Krediidikindlustus provided the service of processing projects in the amount of EUR 11,870 (VAT included) in relation to the implementation of the COVID-19 crisis measures. KredEx mediated revenues to AS KredEx Krediidikindlustus in the amount of EUR 9427 in relation to export loan guarantees. In 2020, dividends in the amount of EUR 50,000 were earned from AS KredEx Krediidikindlustus. In 2021, KredEx received an insurance indemnity from AS KredEx Krediidikindlustus for an export loan loss in the amount of EUR 995,914.

With the respective indicators of the subsidiary AS SmartCap, the Management Board fees in 2021 were EUR 246,602 and the Supervisory Board fees EUR 58,020 (EUR 207 791 and EUR 54,324 in 2020, respectively). According to the management board member agreement, compensation shall be paid to the Chairman in the amount of three basic salaries, if KredEx terminates the contract prematurely without good reason.

Sales	2021	2020
Affiliated company KredEx Krediidikindlustus (sales with value added tax)	140,361	140,594
Fund management service provided by AS SmartCap to Early Fund II	684,846	784,058
Ministry of Economic Affairs and Communications	1,964	1,736
Other government and local government enterprises and authorities	0	31,820
Purchases		
Other government and local government enterprises and authorities	178,710	116,499
Affiliated company KredEx Krediidikindlustus	1,848	11,870
Targeted financing provided		
Grants for local governments	11,634,677	3,525,387
Targeted financing received for Startup Estonia projects		
Other government and local government enterprises and authorities	347,034	401,500
Receivables		
Affiliated company KredEx Krediidikindlustus	6,094	14,463
Other government and local government enterprises and authorities	2,356	17,944
Claims against grant providers	797,775	637,358
Liabilities		
Affiliated company KredEx Krediidikindlustus	1,500	0
Decided but unpaid grants to local governments	1,734,456	1,197,361
Other government and local government enterprises and authorities	12,314	2,959
Ministry of Finance	2,101	5,252

Note 27. Events after the date of the report

With Directive No 192 of the Minister of Entrepreneurship and Information Technology of 16 September 2021, it has been decided to merge the KredEx Foundation (the acquiring foundation) and Enterprise Estonia (the foundation being acquired) as of 1 January 2022. The legal merger took place on 4 January 2022, and the name of the new organisation from that date is the Estonian Business and Innovation Agency.

As a result of the merger, assets in an amount of EUR 18,000,571, liabilities in amount of EUR 7,702,563 and net assets of EUR 10,298,008 will be consolidated into the balance sheet of the joint organisation on the basis of the audited annual accounts of the Enterprise Estonia Foundation as at 31.12.2021.

2At the end of February 2022, Russia started military activities in Ukraine. The Estonian Business and Innovation Agency estimates the direct risk related to Russia to be at around EUR 10 million. Indirect effects are much higher due to the availability of raw materials and price increases but are difficult to estimate. If necessary, loans can be structured in cooperation with banks and customers, and the final credit loss will be significantly lower. The Estonian Business and Innovation Agency has sufficient reserves and foundation capital to cover the increased risks.

Funds were allocated to the area of governance of the Ministry of Economic Affairs and Communications with the 2020 Supplementary Budget Act for reducing the negative effects caused by COVID-19 in the enterprise sector. These funds were directed to KredEx for implementing the grant measures, issuing loan guarantees, working capital loans, investment loans, apartment building loans, and loans to projects of national importance. At the beginning of 2022, EUR 450.7 million of unspent funds and EUR 20.4 million of recoveries from crisis measures were repaid.

Under the agreement for the use of targeted support from the state budget, KredEx will be allocated EUR 9.6 million in 2022 for the housing grant measures.

Note 28. Unconsolidated report**Unconsolidated balance sheet of the parent company
in euros**

ASSETS	31.12.2021	31.12.2020	Notes
Current assets			
Cash and cash equivalents	709,872,214	771,755,901	
Short-term loan receivables	14,229,315	11,412,094	5
Receivables and prepayments	3,486,391	1,821,098	
Total current assets	727,587,920	784,989,093	
Fixed assets			
Long-term investments	27,141,901	27,071,512	
Long-term loan receivables	195,318,916	154,368,614	5
Tangible fixed assets	19,927	59,086	8
Intangible fixed assets	2,317,477	2,247,696	9
Total fixed assets	224,798,221	183,746,908	
TOTAL ASSETS	952,386,141	968,736,001	
LIABILITIES			
Liabilities			
Current liabilities			
Debts and prepayments	12,491,359	2,238,491	
Short-term part of long-term loans	2,247,118	4,344,008	15
Short-term technical provisions	3,513,744	2,529,493	11
Targeted financing for housing grants	3,556,413	41,778,201	12
Targeted financing for the application of the green investment scheme	11,950,506	12,053,692	13
Targeted financing for supporting measures of entrepreneurship	451,085,511	483,107	14
Total current liabilities	484,844,651	63,426,992	
Long-term liabilities			
Long-term technical provisions	31,540,422	21,464,533	12
Long-term loans	3,606,969	5,827,133	15
Targeted financing for supporting measures of entrepreneurship	300,125,652	750,209,766	14
Total long-term liabilities	335,273,043	777,501,432	
Total liabilities	820,117,694	840,928,424	
Net assets			
Foundation capital	127,807,576	126,592,498	
Total net gain of the reporting year	4,460,871	1,215,078	
Total net assets	132,268,447	127,807,576	
TOTAL LIABILITIES	952,386,141	968,736,001	

Unconsolidated income statement of the parent company in euros

Operating income	2021	2020	Notes
Guarantee fees	3,608,948	3,482,824	16, 17
Interest income from loans	563,743	791,307	16, 17
Targeted financing to cover operating expenses	3,811,959	3,674,130	16, 17
Total operating income	7,984,650	7,948,261	
Operating expenses			
Administrative expenses	-5,935,137	-4,937,859	20
Other operating income and expenses	146,169	92,504	18
Total operating expenses	-5,788,968	-4,845,355	
Targeted financing			
Targeted financing received for housing grants	17,405,433	8,297,307	16
Targeted financing received for the application of the green investment scheme	63,563	0	16
Targeted financing received for supporting measures of entrepreneurship	42,380	42,000	16
Targeted financing disbursed for housing grants	-17,405,433	-8,297,307	16
Targeted financing disbursed for the application of the green investment scheme	-63,563	0	16
Targeted financing disbursed for supporting measures of entrepreneurship	-42,380	-42,000	16
Targeted financing total	0	0	
Provisions and impairment losses			
Provisions for claims from guarantee activities	-1,266,019	-2,701,325	16
Loan losses	173,747	45,560	16
Total provisions and impairment losses	-1,092,272	-2,655,765	
Financial income and expenses			
Net income from securities	0	2,985	4
Interest income on deposits	0	130	3
Interest expenses	-211,740	-341,848	16
Profit from subsidiaries	124,139	264,699	
Profit from affiliated undertaking	147,881	-101,346	7
Profit from fund investments	3,299,254	948,569	
Other financial income and expenses, net	-2,073	-5,252	19
Total financial income and expenses	3,357,461	767,938	
Net income for the reporting period	4,460,871	1,215,078	

Unconsolidated cash flow statement of the parent company in euros

Cash flows from principal activities	2021	2020	Notes
Total net gain of the reporting year	4,460,871	1,215,078	16
Adjustments to income	-4,097,199	-1,178,413	
Change in receivables and prepayments made	-1,665,293	128,135	
Change in liabilities and prepayments received	10,252,868	-3,836,942	
Change in provisions	11,060,140	13,636,441	
Change in loan receivables	-43,767,523	-119,717,914	
Change in targeted financing	-37,806,684	759,372,486	
Total cash flows from principal activities	-61,562,820	649,618,871	
Cash flows from financing activity			
Loan repayments received	-4,317,054	-4,852,404	
Total cash flows from financing activity	-4,317,054	-4,852,404	
Cash flows from investment activities			
Sale of short-term financial investments	0	506,165	
Acquisition of long-term financial investments	-3,780,000	-3,986,667	
Repayment of long-term financial investments	8,060,000	2,640,000	
Income from interest	0	2,985	
Received dividend income	0	50,000	
Acquisition of fixed assets	-301,441	-1,093,113	8, 9
Sale of fixed assets	17,628	0	
Total cash flows from investment activities	3,996,187	-1,880,630	
Total cash flows	61,883,687	642,885,837	
Cash and cash equivalents at the beginning of the period	771,755,901	128,870,064	
Change in cash and cash equivalents	-61,883,687	642,885,837	
Cash and cash equivalents at the end of the period	709,872,214	771,755,901	3

Statement of changes in net assets of the parent company
in euros

	Enterprise trust funds	Housing trust funds	Foundation capital total	Undistributed income	Net assets Total
Balance 31.12.2019	83,651,533	39,065,980	122,717,513	3,874,985	126,592,498
Distribution of income into trust funds	2,412,783	1,462,202	3,874,985	-3,874,985	0
Total net gain of the reporting year	0	0	0	1,215,078	1,215,078
Balance 31.12.2020	86,064,316	40,528,182	126,592,498	1,215,078	127,807,576
Distribution of income into trust funds	53,212	1,161,866	1,215,078	-1,215,078	0
Total net gain of the reporting year	0	0		4,460,871	4,460,871
Balance 31.12.2021	86,117,528	41,690,048	127,807,576	4,460,871	132,268,447
Adjusted unconsolidated equity capital					
Book value of holdings under control and significant influence					-2,367,438
Book value of holdings under control and significant influence, calculated on the equity method					2,367,438
Adjusted unconsolidated equity capital as at 31 December 2021					132,279,925

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

Signatures of the Members of the Management Board to the 2021 annual report

The annual report and the consolidated annual accounts of Foundation KredEx for the financial year ended on 31 December 2021 have been prepared by the Management Board.

Lauri Lugna Chairman of the Management Board
(signed digitally)

Paul Kalle Member of the Management Board
(signed digitally)

Sigrid Harjo Member of the Management Board
(signed digitally)



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Independent Auditors' Report

(Translation of the Estonian original)

To the Supervisory Board of Estonian Business and Innovation Agency

Opinion

We have audited the consolidated financial statements of Estonian Business and Innovation Agency (until 31.12.2021 Fund KredEx) (the Group), which comprise the consolidated balance sheet as at 31 December 2021, the consolidated income statement, the consolidated statement of cash flows and the consolidated statement of changes in net assets for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements presented on pages 34 to 76, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Estonian financial reporting standard.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Estonia) (including Independence Standards) 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 management report, but does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, our responsibility is to state whether the information presented in the management report has been prepared in accordance with the applicable legal and regulatory requirements.

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 and we state that the information presented in the management report is materially consistent with the consolidated financial statements and in accordance with the applicable legal and regulatory requirements.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern



basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Tallinn, 18 April 2022

/signed digitally/

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

Licence No 17

Division of the sales revenue of KredEx for the financial year 2021 according to the Estonian Classification of Economic Activities (EMTAK)

According to the EMTAK, the sales revenue of KredEx was divided as follows.

	2021	2020
Guarantee fees (EMTAK 66291)	3,608,948	3,482,824
Loan interests (EMTAK 64929)	563,743	791,307
Targeted financing for operating expenses (EMTAK 84139)	4,038,686	3,674,130
Fund management fees (EMTAK 66301)	684,846	784,058
Total	8,896,223	8,732,319