Rural Development Foundation

Annual report 2011

Annual report

Beginning of financial year	1 January 2011
End of financial year	31 December 2011

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Attached documents

1. Independent auditor's report
2. List of activities

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MANAGEMENT REPORT

The Estonian Rural Development Foundation (the RDF or the Foundation) may be considered to date back to 19 July 1993 when the Estonian Government decided to establish the Agriculture and Rural Life Credit Foundation. In 2001, the Agriculture and Rural Life Credit Foundation merged with the Rural Development Foundation. The funds of the merged foundation amounted to 33.2 million euros.

The Rural Development Foundation is a self-sufficient legal person in private law and since the above merger no state budget funds have been allocated to raise the Foundation's capital.

The Foundation's activities are aimed at supporting economic development in Estonian rural areas by implementing specific programmes to foster entrepreneurship in those areas. Applying the above programmes helps expand the availability of financial resources, support balanced development in rural areas, disseminate information on rural life, support vocational education, and build the image of rural life.

The Rural Development Foundation operated in accordance with the aims and objectives and the budget for 2011 approved by the supervisory board.

The activities detailed in this management report are divided into the following subgroups:
1) Issuing credit and debt obligation guarantees
2) Lending
3) Building the image of rural life
4) Performing tasks given by the state
5) Development
6) People.

The Foundation ended 2011 with a profit of 106,285 euros.

1. Issuing credit and debt obligation guarantees

On issuing guarantees, the Foundation follows the Guarantee scheme. The Guarantee scheme is aimed at assuring small and medium-sized enterprises' access to financial resources by providing support from a state foundation's capital. The Guarantee scheme applies to all economic sectors including agriculture, fisheries and transportation.

The Foundation's guarantee portfolio grew from 32.3 million euros in 2010 to 42.3 million euros in 2011, i.e. 31 per cent (2010: 22.2%). The carrying amount of loans guaranteed by the Foundation increased from 57.1 million euros in 2010 to 75.6 million euros in 2011, i.e. 32.4 per cent (2010: 18.9%). The ratio of the guarantee portfolio to the carrying amount of loans remained almost unchanged edging down from 56.5 per cent to 56 per cent.

In 2011, 340 guarantee agreements (2010: 302 agreements) with the total guarantee obligation of 32.1 million euros (2010: 19.5 million euros) were concluded including 69 guarantee agreements with the total guarantee obligation of 3.1 million euros signed for financing non-profit associations (NPAs). With the benefit of guarantees, undertakings were able to borrow 53.7 million euros (2010: 30.7 million euros) from credit institutions.

In 2011, an average guaranteed amount per agreement amounted to 94.4 thousand euros which marks a considerable rise compared to 2010 (64.6 thousand euros). However, the proportion of a guarantee in the loan amount decreased in the reporting year. In 2011, an average guarantee amounted to 59.8 per cent of the underlying loan against 63.4 per cent in 2010.

The amounts allocated for guarantee obligations under guarantee agreements concluded in 2011 break down by business sector and by county as shown in figures 1 and 2 respectively. The growth in the guarantee portfolio in 2007-2011 is illustrated in figure 3 below.

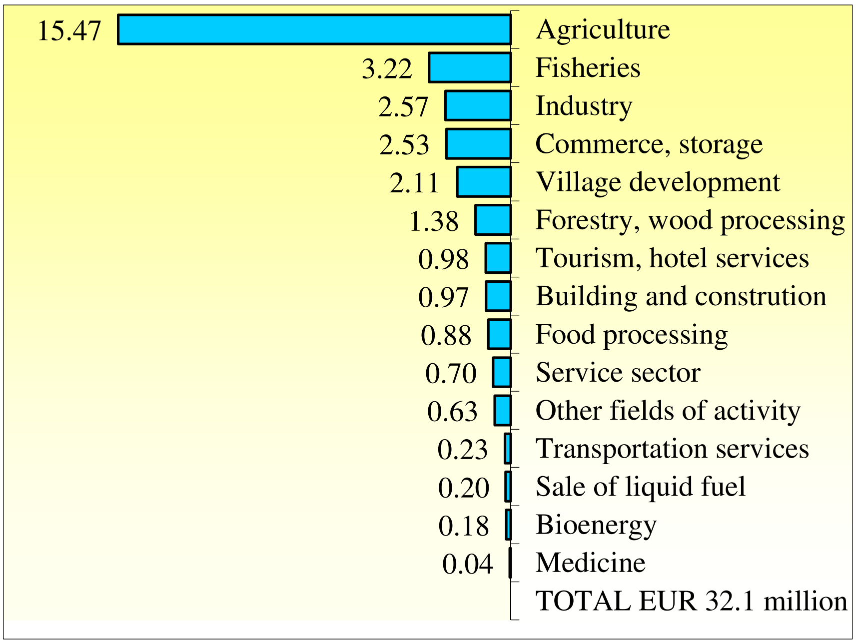

Figure 1. Guarantee obligations by business sector

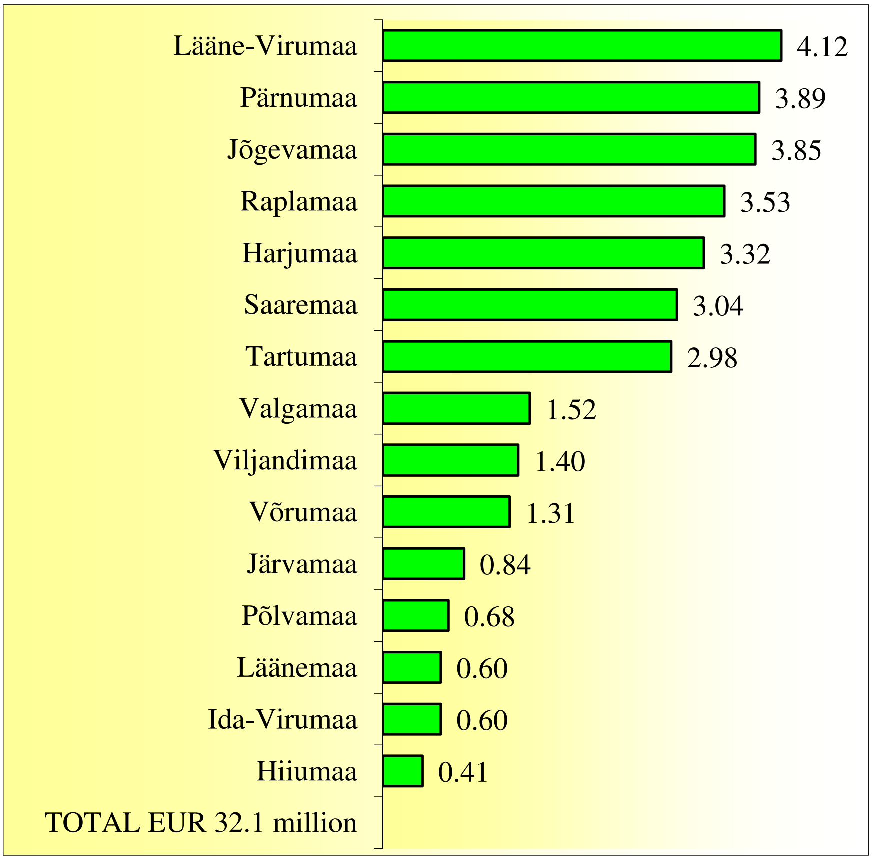

Figure 2. Guarantee obligations by county

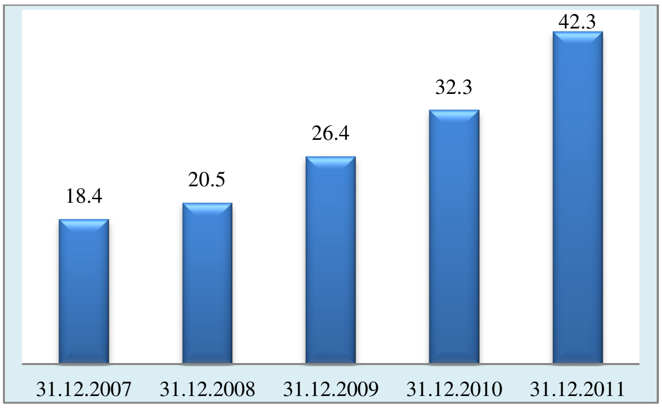

Figure 3. The guarantee portfolio in 2007-2011 (in millions of euros)

2. Lending

The RDF grants loans under the aid scheme (the European Commission (EC) Aid No N 606/07) that stipulates major terms and conditions for granting loans through credit institutions.

In money terms, in 2011 the volume of lending was lower than in 2010 with 11.3 million euros lent to 89 clients. In 2010, loans granted to 146 clients amounted to 13.0 million euros. The total loan portfolio of the Foundation increased from 32.2 million euros in 2010 to 33.1 million euros in 2011.

The major loan product was loans granted through credit and financial institutions. In 2011, 11.2 million euros were granted through banks and leasing companies. The Foundation's resources were mostly used for funding enterprises of the agriculture sector, but the Foundation also financed other fields of entrepreneurship and the non-profit sector.

Direct loans to non-profit associations (NPAs) granted by the Foundation amounted to 95.1 thousand euros. Operating expenses of only those NPAs were financed which are eligible for support within the framework of measure 4 (LEADER measure) of the Estonian Rural Development Plan 2007–2013 and measure 4.1 (Sustainable development of fisheries areas) provided in the operational programme 2007-2013 of the European Fisheries Fund (EFF) (see figure 4).

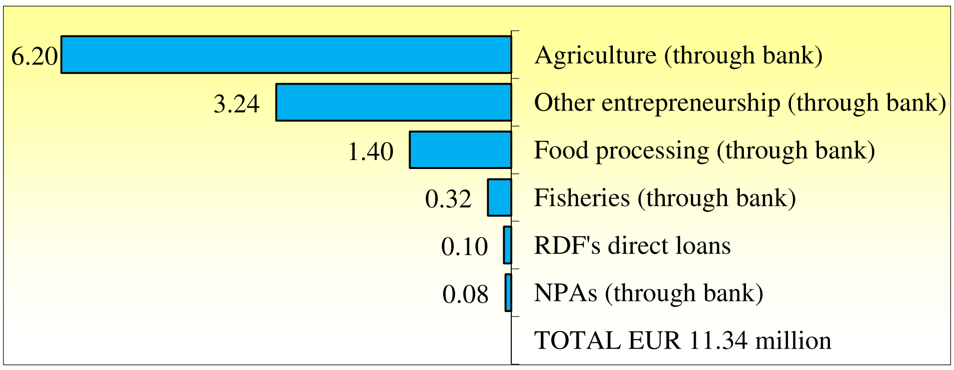

Figure 4. Loans granted in 2011, by business sector

Figure 5 illustrates loans granted by the Foundation in 2011, broken down by county. The largest amount (2.8 million euros) was granted to Raplamaa. More than one million euros were granted to Tartumaa, Viljandimaa and Jõgevamaa. Saaremaa, Hiiumaa and Harjumaa were the counties with the least of loans taken.

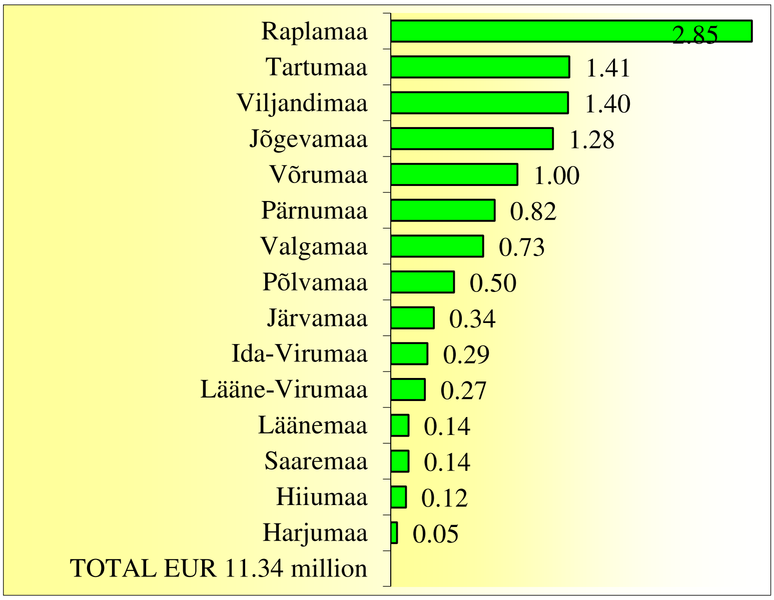

Figure 5. Loans granted in 2011, by county

3. Building the image of rural life

To build the image of rural life, in 2011 the Foundation provided allowances for students of rural vocational education institutions, recognised the best students and the best teacher of rural economics, and presented the Best Dairy Farmer's and the Best Beef Farmer's awards.

From 2003, the Foundation has provided financial assistance to students of rural economics studying at vocational education institutions. The purpose of the student allowances is to attract students to vocational education and to provide rural undertakings with qualified labour. In 2011, agreements were concluded with 128 students of 9 vocational education establishments and the student allowances paid amounted to 121,460 euros. The amount of each student's allowance depends on his or her academic achievement and participation in studies. The total financial assistance to students provided by the RDF amounts to approximately 1.3 million euros. In 2011, funds for student allowances were allocated from the state budget. In the state budget for 2012, 94,058 euros has been allocated for student allowances, agreements for granting student allowances are planned to be signed with a 100 students.

4. The RDF as an entity performing tasks given by the state

From the beginning of 2010, the RDF coordinates the system of agricultural and rural economy advisory services in Estonia. In 2011, the development plan and activity plan for 2012-2020 for the agricultural and rural economy advisory system were approved.
During the reporting period, we organised training sessions for advisers, renewed co-operation agreements with Jõgeva Plant Breeding Institute, the Estonian Research Institute of Agriculture, the Estonian University of Life Sciences and the Agricultural Research Centre. Several meetings of the advisory board of the advisory services system, i.e. the signatories to the joint operating agreement were held. The signatories to the joint operating agreement contribute to achieving a shared goal – to establish the all-Estonian advisory organisation by the end of 2013.
The above activities were funded by 546.9 thousand euros allocated from the state budget. In addition, the RDF concluded two authorisation agreements with the Ministry of Agriculture for training advisers on rural entrepreneurship and carrying out briefing sessions on support, direct support and additional support schemes under axis 2 of the Estonian Rural Development Strategy 2007-2013, also a contract for services was concluded for creating a sub-module of occupational health and safety for the www.pikk.ee website.

Members of the Management Board:

In 2011 the RDF commenced activities of the Baltic Sea cooperation project the Baltic Deal. The project unites the efforts of advisory services of the countries around the Baltic Sea to reduce the adverse effect agricultural activities may have on the environment without impairing the competitiveness or production volumes of agricultural undertakings. Within the project framework, a conference and a briefing session were organised and several meetings and round-table discussions were participated. The project activities planned for 2012 involve briefing sessions in several counties, training days at demonstration farms and participation in project-related seminars and conferences.

5. Development

The Ministry of Agriculture has planned to introduce a refundable support measure in 2012 aimed at establishing a loan fund which is financed under the European Fisheries Fund.
Under the 2012 State Budget Act 4,000,000 euros has been provided for the financial engineering instrument of the fisheries operational programme 2007-2013 including proceeds from non-residents of 3,000,000 euros. The funds are intended to be utilised mostly for implementing aquaculture related investment projects. The managing authority of the European Fisheries Fund (the Ministry of Agriculture) is currently working out the relevant loan instrument.
Pursuant to the Fisheries Market Organisation Act, financial engineering instruments may be applied through a state foundation which is established for supporting the economic development in rural areas and whose rights of a founder are executed by the Ministry of Agriculture. The resolution to authorise the foundation to apply the financial engineering instruments is made by the minister of agriculture. In order to apply the financial engineering instruments, the Ministry of Agriculture and the foundation conclude a contract under public law where among other issues the conditions referred to in chapter VI of the Commission Regulation (EC) No 498/2007 are agreed on to ensure that the financial engineering instruments are properly applied.
According to plan the Foundation will be responsible for the registration, management and monitoring of the granted loans, and for the audit and assessment of the value and quality of the loan portfolio on an annual basis. The benefits and risks arising from the loans are not attributable to the Foundation’s budget.

In 2012 the Rural Development Foundation intends to submit a tender for and win the public procurement organised by the Ministry of Agriculture for finding the entity to apply the financial engineering instruments. To tender for the public procurement the Rural Development Foundation has prepared a business and activity plan which outlines the Foundation’s former and current activities and specifies its compliance with the criteria set out in laws and regulations. The business and activity plan also includes arguments why the Foundation could be authorised by the minister of agriculture to apply the financial engineering instruments.

6. People

During the reporting year the minister of agriculture initiated several replacements in the supervisory board; however, the number of members remained 15. The management board of the Foundation also continued with two members.
Changes concerned the staff involved in coordinating the agricultural and rural advisory system. At 31 December 2011, five employees employed under employment contracts of indefinite duration worked in the coordinating centre of the advisory services in Tartu. In addition, one employee worked under the employment contract signed for a fixed term in 2010, an employment related to the Baltic Deal project.
The Foundation finds it important that the staff working in two separate offices considered themselves a single team. On shared meetings the staff discussed procedure rules, activity plans, IT solutions, motivational activities, etc. In 2011, the average number of employees was 13.55.

A contract of services was signed for outsourcing computer setup and maintenance services and IT consultancy services to the Foundation.

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at 31 December	**Note**	**2011**	**2010**
		EUR	**EUR**
ASSETS			
Cash and cash equivalents			
Current accounts		2,583,265	2,316,822
Term deposits	3	6,000,000	6,000,000
Short-term investments	4	955,000	1,067,160
Total		**9,538,265**	**9,383,982**
Loans granted			
Loans	5	33,141,627	32,217,102
Allowance for doubtful receivables	6	-1,582,424	-1,795,517
Total		**31,559,203**	**30,421,585**
Other receivables and prepayments	7	**525,937**	**412,504**
Property, plant and equipment	8		
Plant and equipment		19,135	4,358
Other fixtures and fittings		10,098	12,905
Total		**29,233**	**17,263**
TOTAL ASSETS		**41,652,638**	**40,235,334**

Members of the Management Board:

As at 31 December	Note	2011 EUR	2010 EUR
LIABILITIES AND EQUITY			
Prepayments of loans and guarantee fees	9	771,226	11,384
Trade payables		19,308	13,859
Tax payable	10	37,244	31,932
Accrued expenses		14,786	20,590
Total		**842,564**	**77,765**
Guarantee provision	11	4,193,268	3,647,048
Total liabilities		**5,035,832**	**3,724,813**
Capital of the Foundation	13	33,206,971	33,206,971
Accumulated surpluses for prior periods		3,303,550	3,126,443
Surplus for the period		106,285	177,107
Total equity		**36,616,806**	**36,510,521**
TOTAL LIABILITIES AND EQUITY		**41,652,638**	**40,235,334**

Members of the Management Board:

STATEMENT OF FINANCIAL PERFORMANCE

	Note	2011 EUR	2010 EUR
Revenue			
Financial income	14	1,360,853	1,609,258
Guarantee fees	15	1,129,458	787,924
Other operating income		64,930	228,060
Government grants	12	710,198	546,892
Total revenue		**3,265,439**	**3,172,134**
Expenses			
Personnel expenses	17	336,612	343,070
Administrative expenses		161,496	161,220
Other operating expenses	16	1,940,577	1,937,758
Government grants	12	710,198	546,892
Total expenses		**3,148,883**	**2,988,940**
Depreciation	8	**10,271**	**6,087**
Surplus for the period		**106,285**	**177,107**

Members of the Management Board:

CASH FLOW STATEMENT

	Note	2011 EUR	2010 EUR
Cash flows from operating activities			
Surplus for the period		106,285	177,107
Depreciation	8	10,271	6,087
Change in the value of debt securities	4	-32,840	-75,540
Net adjustment for the surplus		*-22,569*	*-69,453*
Change in loans and receivables (incl. write-downs)		-1,137,618	1,611,220
Change in other receivables	7	-113,433	-123,099
Change in guarantee provisions	11	546,220	376,990
Change in other payables and deferred income		764,799	8,916
Net cash from/used in operating activities		**143,684**	**1,981,681**
Cash flows from investing activities			
Acquisition of property, plant and equipment	8	-22,241	-9,959
Proceeds from disposal of property, plant and equipment	8	0	1,278
Change in deposits		0	-2,814,068
Acquisition of debt securities	4	-255,000	0
Disposal/redemption of debt securities	4	400,000	2,300,819
Net cash from/used in investing activities		**122,759**	**-521,930**
NET CASH FLOWS		**266,443**	**1,459,751**
Cash and cash equivalents at beginning of period		2,316,822	857,071
Increase in cash and cash equivalents		266,443	1,459,751
Cash and cash equivalents at end of period		2,583,265	2,316,822

Members of the Management Board:

STATEMENT OF CHANGES IN EQUITY

	Capital of the Foundation EUR	Accumulated surpluses for prior periods EUR	Surplus/deficit for the period EUR	Total EUR
Balance at 31 December 2009	**33,206,971**	**3,507,389**	**-380,946**	**36,333,414**
Transfer of surplus for 2009 to accumulated surpluses	0	-380,946	380,946	0
Surplus for the period	0	0	177,107	177,107
Balance at 31 December 2010	**33,206,971**	**3,126,443**	**177,107**	**36,510,521**
Transfer of surplus for 2010 to accumulated surpluses	0	177,107	-177,107	0
Surplus for the period	0	0	106,285	106,285
Balance at 31 December 2011	**33,206,971**	**3,303,550**	**106,285**	**36,616,806**

Members of the Management Board:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION

The holder of the founder's rights of the Rural Development Foundation is the Estonian Ministry of Agriculture. The objective of the Foundation is to implement national measures for the regulation of rural life and the agricultural and fisheries markets, and to facilitate the operation and development of small and medium-sized enterprises (SMEs) and non-profit associations (NPAs) in rural areas. Lending, guarantee and support activities of the Foundation are governed by relevant state aid approvals, notices and regulations issued by the European Commission and the Rural Development and Agricultural Market Regulation Act and the Fisheries Market Organisation Act. Under the State Assets Act, the Foundation is defined as a state foundation.
The Foundation acts as a financier granting credit to rural undertakings both directly and through intermediary institutions such as banks, leasing companies and savings and loan associations (S&Ls). The funds placed at the disposal of the Foundation are lent out for designated purposes. At the date these financial statements are authorised for issue, the Foundation is not obliged to return to the state budget the funds repaid to the Foundation by financial institutions, rural undertakings or NPAs.

Designated loans provided by the Foundation include:
1. Loans to NPAs and foundations
2. Loans for expanding the activities of S&Ls
3. Loans through credit and financial institutions.

The Foundation guarantees or stands surety for the loans rural undertakings and NPAs take out from financial institutions.
Guarantees provided by the Foundation comprise guarantees for loan obligations of undertakings and NPAs.

The Foundation provides financial support to the students specialised in rural economics at vocational education institutions and state benefits pursuant to the State Budget Act and other laws and regulations.
The financial support provided to the students of vocational education institutions is aimed at facilitating the acquisition of vocational education and motivating school leavers to work in rural areas. In 2011, funds for student allowances were allocated from the state budget. In 2011 the Foundation also received allocations from the state budget for developing the system of Estonian agricultural and rural advisory services, granting the operation of the system and availability of sound advice, and for communicating state information.

NOTE 2. ACCOUNTING POLICIES

The annual financial statements of the Foundation for 2011 have been prepared in accordance with accounting principles generally accepted in Estonia (the Estonian GAAP). The Estonian GAAP is based on internationally recognised accounting and reporting standards and its basic requirements are set out in the Accounting Act and the guidelines issued by the Estonian Accounting Standards Board.
Since the Foundation is under state control, it has to observe the requirements of the Minister of Finance Regulation No 105, "General Rules for State Accounting", which entered into force on 1 January 2004.
Pursuant to the General Rules for State Accounting, the Foundation has to submit balance records. The Foundation does not have to apply the chart of accounts and the format of financial statements provided in the Regulation. Government grants and support are recognised in accordance with Accounting Standards Board Guideline 12, "Government Assistance", using the gross method.
On 1 January 2011, Estonia joined the euro zone and the Estonian kroon (EEK) was replaced by

the euro (EUR). As a result, the Foundation converted its financial accounting and reporting to euros effective from the same date and the financial statements for 2011 have been prepared in euros. Comparative prior period data were translated using the official exchange rate fixed for the switchover of EEK 15.6466 to EUR 1.
The financial statements are presented in euros.
Significant accounting policies applied on the preparation of the financial statements are as follows.

Government grants and designated funds

The Foundation is financed from the state budget through the Ministry of Agriculture.
Until 2011 the Foundation used its own funds for providing financial support to the students of vocational education institutions and for providing extraordinary support. In 2011, the Foundation received funds for student allowances from the state budget. The volumes and recipients of support are approved by the supervisory board.

Revenue

The revenue of the Foundation comprises guarantee fees and interest income on loans granted (including interest income received from intermediary financial institutions), term deposits, debt securities and current accounts. Interest income is recognised under the effective interest rate method. Revenue is recognised on an accrual basis.

Foreign currency transactions

Transactions in foreign currencies are translated using the European Central Bank exchange rates quoted at the date of the transaction. Assets and liabilities denominated in a foreign currency at the end of the reporting period are restated using the European Central Bank exchange rates ruling at that date. In the reporting period, the Foundation neither earned foreign exchange gains nor incurred foreign exchange losses.

Financial assets and liabilities

Financial assets comprise cash, shares and other securities, accrued income and other short- and long-term receivables. Financial liabilities comprise payables, accrued expenses, and other current and non-current loans and borrowings.

Financial assets and liabilities are initially recognised at cost, which is equal to the fair value of the consideration given or received for them. The initial cost of a financial asset or liability comprises all expenses directly attributable to its acquisition.

In the statement of financial position, financial liabilities are measured at amortised cost.
A financial asset is derecognised when the Foundation's contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the cash flows of the financial asset and most of the risks and rewards of the ownership of the financial asset. A financial liability is removed from the statement of financial position when it is discharged or cancelled or expires.
Purchases and sales of financial assets are consistently recognised at the settlement date, i.e. at the date the assets are transferred to or by the Foundation.

Cash and cash flows

Cash and cash equivalents comprise cash balances, current accounts and demand deposits which are not subject to a material risk of change in market value.

In the cash flow statement, cash flows from operating activities are accounted for under the indirect method. Cash flows from investing and financing activities are accounted for under the direct method.

Short-term investments

Short-term investments in securities are stated in the statement of financial position at their fair value. Fair value is considered equal to the market value or redemption value of the investment. The market value of debt securities has been determined based on their quoted trading prices at the reporting date. Gains or losses arising from a change in the value of securities are recognised in the statement of financial performance.

Loans

The Foundation acts as a financier of banks and leasing companies which transfer the financing to contractually designated clients.
In addition, the Foundation grants direct loans in accordance with the loan measures approved by the supervisory board.
Provisions for loan losses as at 31 December 2011 and 2010 have been recognised in accordance with the requirements of the Accounting Act and Accounting Standards Board Guidelines and constitute estimates of possible loan losses.

The allowance for doubtful receivables comprises individual write-downs of loans granted to S&Ls and direct loans to recipients (hereinafter 'loans'). Loans are classified into four risk categories: well-performing, risky, doubtful and hazardous.

The extent of the write-down is estimated on the basis of various factors which may affect the recovery of the loans and the value of collateral, if any. Actual losses may differ from the estimates. In making write-downs, mostly the following factors are considered:

existence and sufficiency of collateral;
borrower's financial position;
borrower's settlement behaviour;
measures adopted for improving the financial position of a problem borrower;
general market situation and events before and after the reporting date.

Expense from the write-down of doubtful loan receivables is recognised in the statement of financial performance in 'Other operating expenses'. Recovery of receivables written down in previous periods and reductions of write-downs are recognised in the same expense account as reversing entries.

Non-interest bearing loans and loans whose interest rates differ from the market are recognised on the acquisition of the receivable at their present value using the Foundation's effective interest rate. The difference between the nominal value and present value of the receivable is amortised over the settlement term of the receivable. The result of the restatement of loans to their present value is recognised in the statement of financial performance in 'Financial income'.
Based on the resolution of the supervisory board, the effective interest rate of the Foundation (the base interest rate) is the interest rate announced by the European Central Bank as the rate applied by the European Central Bank to its main refinancing operations, plus 0.5%.

Risk assessment of guaranteed loans and establishment of guarantee provisions

Guarantee provisions are recognised for losses which may be incurred when a loan recipient fails to repay the guaranteed loan to a credit institution and as a result, the Foundation has the obligation to cover the loan to the guaranteed extent (80% of the loan balance to the maximum).

Upon assessment, the loans guaranteed by the Foundation are divided into four categories which range from well-performing loans to loans to be expensed. Loans are provided for on an individual basis considering their risk level with provisions extending from zero to 100% of the guaranteed amount. Loans are classified into risk categories based on the analysis of each repayable loan which involves assessment of the borrower's financial position and ability to settle the principal and interest payments.

Property, plant and equipment

Assets are classified as items of property, plant and equipment when their useful life extends beyond one year. Items of property, plant and equipment are initially recognised at cost which comprises their purchase price, non-refundable taxes and other costs directly attributable to their implementation.
Items of property, plant and equipment are depreciated on a straight-line basis over their useful lives.
Annual depreciation rates are assigned as follows:

- plant and equipment 33-40%;
- office fixtures and fixtures 25-33%;
- works of art 0%;
- land 0%.

Liabilities

All known liabilities and provisions which can be measured reliably and whose realisation is probable are recognised in the statement of financial position.

Vacation pay liability

A vacation pay liability is recognised as incurred, i.e. in the period in which the employee's right to receive payment is established. The vacation pay earned by the employees and the change in the vacation pay liability are recognised as an expense in the statement of financial performance and a current liability in the statement of financial position.

Leases

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee is recognised as a finance lease. Other leases are classified as operating leases.

Finance leases are carried as assets and liabilities at amounts equal to the fair value of the leased property. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised over the lease term. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Subsequent events

The annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the end of the reporting period (31 December 2011) and the date on which the financial statements were authorised for issue.

NOTE 3. TERM DEPOSITS

At 31 December 2011 and 2010, the term deposits of the Foundation broke down as follows:

As at 31 December	**2011**	**2010**
Maturity date	**EUR**	**EUR**
Between 1 and 12 months	6,000,000	6,000,000
Total	**6,000,000**	**6,000,000**

At 31 December 2011, the Foundation was holding the following deposits:

Credit institution	**Amount in EUR**	**Yield %**	**Opening date**	**Closing date**
AS LHV Pank	1,000,000	3.2%	25 Aug. 2011	25 Aug. 2012
AS LHV Pank	1,000,000	3.1%	28 Nov. 2011	28 Nov. 2012
Tallinna Äripanga AS	1,000,000	3.3%	2 Oct. 2011	2 Apr. 2012
Tallinna Äripanga AS	1,000,000	3.0%	28 Nov. 2011	28 Nov. 2012
Citadele banka Estonian branch	1,000,000	3.3%	4 Apr. 2011	4 Apr. 2012
Citadele banka Estonian branch	1,000,000	3.5%	28 Nov. 2011	28 Aug. 2012
Total	**6,000,000**			

NOTE 4. SHORT-TERM INVESTMENTS

At 31 December 2011 and 2010, the Foundation restated debt securities to their fair value as follows: in 2011 based on the redemption value of the debt securities and in 2010 based on the market value of the debt securities.

The application of the redemption value on measuring the fair value of debt securities in 2011 resulted from the maturity of the debt securities of less than 12 months as at 31 December 2011. The fair value of the debt securities was 955,000 euros and 1,067,160 euros. As at 31 December 2011 and 2010, the Foundation's return for the period on short-term investments amounted to 95,239 euros and 142,255 euros respectively. Gains from the change in the value of the debt securities amounted to 32,840 euros and 75,541 euros respectively, and interest income amounted to 62,399 euros and 66,715 euros respectively.

	2011	**2010**
	EUR	**EUR**
Debt securities at beginning of period	**1,067,160**	**3,292,438**
Disposed/redeemed	-400,000	-2,300,819
Purchased	255,000	0
Change in value	32,840	75,541
Debt securities at end of period	**955,000**	**1,067,160**

At 31 December 2011, the Foundation was holding the following debt securities of enterprises issued within the programme "Developing investor networks and involving them in advancement of rural entrepreneurship", guaranteed by and the Foundation:

Debt security	**Number, maturity date**	**Nominal yield% or initial value EUR**	**Redemption value EUR**	**Fair value at 31 Dec. 2011 EUR**
IMB Puidutoodete AS EE 3300097740	655 30 Aug. 2012	3M Euribor + 5%	655,000	655,000
AS Läätsa Kalatööstus EE 3300100841	6 30 Oct. 2012	6M Euribor + 2.75%	300,000	300,000
Total				**955,000**

The base currency of the debt securities is the euro.

NOTE 5. LOANS AND RECEIVABLES

At 31 December 2011 and 2010, granted loans broke down as follows:

As at 31 December	**2011**	**2010**
Loan	**EUR**	**EUR**
Loans provided through financial institutions	23,308,583	19,797,586
Direct loans	9,833,044	12,420,278
Write-down of the nominal value of loans	0	-762
Total	**33,141,627**	**32,217,102**

All loans were granted in euros.

At 31 December 2011 and 2010, the average yield of the "Loans provided through financial institutions" portfolio was 2.35% and 2.6% respectively. Intermediary institutions usually accept 100% of the credit risk. The risk of the Foundation is limited to the guarantees granted to the loans. The extent of the guarantees is decided by the supervisory board of the Foundation.
Non-interest bearing loans and loans whose interest rates differ from the market are restated to their present value. The amortisation of the present value in 2010 was recognised in the statement of financial performance as increase in financial income of 2,499 euros. At 31 December 2010, the write-down of the nominal value amounted to 762 euros and non-interest bearing loan balances totalled 51,616 euros.
The amortisation of the present value in 2011 was recognised in the statement of financial performance as increase in financial income of 762 euros. At 31 December 2011, the write-down of the nominal value was 0 euros and non-interest bearing loan balances stood at 0 euros.

Distribution of direct loans and the average loan portfolio yield at 31 December 2011 and 2010 were as follows:

Direct loan	**Balance at 31 Dec. 2011 EUR**	**Yield**	**Balance at 31 Dec. 2010 EUR**	**Yield**
Loans to rural undertakings and NPAs	7,444,928	5.59 %	9,575,146	5.57 %
Loans to S&Ls	2,388,116	4.69 %	2,845,132	4.14 %
Total	**9,833,044**	**5.38 %**	**12,420,278**	**5.23 %**

At 31 December 2011 and 2010, the average yield of the Foundation's total loan portfolio was 3.38% and 3.67% respectively.

At 31 December 2011 and 2010, settlements of the nominal values of granted loans and receivables broke down as follows:

As at 31 December	**2011**	**2010**
	EUR	**EUR**
Loan settlements due in less than 1 year	7,656,469	8,282,080
Loan settlements due between 1 and 5 years	16,015,852	16,697,657
Loan settlements due in over 5 years	9,448,943	7,230,763
Total	**33,121,264**	**32,210,500**

The breakdown does not take into account the principal receivables of overdue loans as at 31 December 2011 and 2010.

NOTE 6. DOUBTFUL RECEIVABLES

Changes in the allowance for doubtful receivables in 2011 and 2010 were as follows:

	Write-down EUR
Balance at 31 December 2009	**1,659,221**
Items deemed irrecoverable	-432,683
Change in doubtful receivables from enterprises and NPAs	299,687
Change in doubtful receivables from S&Ls	269,292
Balance at 31 December 2010	**1,795,517**
Items deemed irrecoverable	-1,032,092
Change in doubtful receivables from enterprises and NPAs	840,672
Change in doubtful receivables from S&Ls	-21,673
Balance at 31 December 2011	**1,582,424**

Allowances for doubtful receivables are established for covering the outstanding balances of loans due from direct recipients and S&Ls. Allowances are not established for loans with a designated purpose which are provided through licensed credit institutions and financial institutions belonging to the same group as the above licensed credit institutions.

NOTE 7. OTHER RECEIVABLES AND PREPAYMENTS

At 31 December 2011 and 2010, other receivables and prepayments comprised the following:

As at 31 December	**2011 EUR**	**2010 EUR**
Interest accrued on loans, deposits and debt securities	146,969	169,209
Guarantee fees receivable	338,704	225,386
Miscellaneous receivables and prepayments	40,264	17,909
Total	**525,937**	**412,504**

In accordance with the General Rules for State Accounting, interest receivable on direct loans that is over 180 days overdue is considered doubtful.

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment in 2011 and 2010 were as follows:

Cost	**Plant and equipment EUR**	**Fixtures and fittings and works of art EUR**	**Total EUR**
At 31 December 2009	**21,954**	**45,392**	**67,346**
Disposals	0	-1,278	-1,278
Acquisitions	5,684	4,275	9,959
At 31 December 2010	**27,638**	**48,389**	**76,027**
Write-offs	-10,005	-2,837	-12,842
Acquisitions	22,241	0	22,241
At 31 December 2011	**39,874**	**45,552**	**85,426**

	Plant and equipment EUR	Fixtures and fittings and works of art EUR	Total EUR
Accumulated depreciation			
At 31 December 2009	**-21,954**	**-30,723**	**-52,677**
Depreciation for the period	-1,326	-4,761	-6,087
At 31 December 2010	**-23,280**	**-35,484**	**-58,764**
Depreciation for the period	-7,464	-2,807	-10,271
Write-offs	10,005	2,837	12,842
At 31 December 2011	**-20,739**	**-35,454**	**-56,193**
Carrying amount			
At 31 December 2010	**4,358**	**12,905**	**17,263**
At 31 December 2011	**19,135**	**10,098**	**29,233**

NOTE 9. PREPAYMENTS OF LOANS AND GUARANTEE FEES

At 31 December 2011 and 2010, the prepayments of loans and guarantee fees broke down as follows:

As at 31 December	2011 EUR	2010 EUR
Prepayments of guarantee fees	3,402	11,384
Prepayments of loans	767,824	0
Total	**771,226**	**11,384**

Increase in prepayments of loans in 2011 resulted from advance loan payments made by some borrowers in December 2011. Under loan contracts, the due date for a loan payment is the last day of the month. Where the due date falls on a public holiday or any other holiday, the due date for a loan payment is the first working day following the holiday. Consequently, loan payments for December were scheduled on 2 January 2012.

NOTE 10. TAX PAYABLE

At 31 December 2011 and 2010, tax payable broke down as follows:

As at 31 December	2011 EUR	2010 EUR
Personal income tax	11,809	9,653
Corporate income tax	1,023	1,623
Social security tax	21,392	18,395
Unemployment insurance contributions	2,167	1,641
Funded pension contributions	853	620
Total tax payable	**37,244**	**31,932**

NOTE 11. GUARANTEE PROVISION

At 31 December 2011 and 2010, guarantee provision balances recognised in the Foundation's statement of financial position stood as follows:

	2011 EUR	2010 EUR
Guarantee provision at beginning of period	**3,647,048**	**3,270,058**
Use of provisions	-545,041	-845,617
Increase/decrease in provisions	1,091,261	1,222,607
Guarantee provision at end of period	**4,193,268**	**3,647,048**

In 2011, the provision was increased due to changes in the estimates used on measuring the values of guarantees and increase in the volume of the guarantee portfolio. In 2011 the volume of the guarantee portfolio increased 10,078,897 euros, i.e. 24% compared to 2010 which was the largest increase in the history of the Foundation.
The guarantee provision has been established for covering off statement of financial position liabilities disclosed in note 18. The extent to which the guarantee provision may be realised in 2012 depends on the number of cancelled loan agreements and the value of assets pledged as collateral.
Use of provisions includes prepayments made for loan agreements cancelled by credit institutions. Prepayments are offset after the relevant procedures have been completed, i.e. after all the assets pledged as collateral have been sold.
At 31 December 2011 credit institutions had cancelled 35 loan agreements in respect of which the process for selling assets had been commenced. The liabilities to be covered amounted to 1,227,315 euros, i.e. 29.3 % of the guarantee provision.

NOTE 12. GOVERNMENT GRANTS

At 31 December 2011 and 2010, the balances of government grants recognised in the Foundation's statement of financial position stood as follows:

	2011 EUR	2010 EUR
Government grants at beginning of period	**0**	**0**
Government grant for developing the system of Estonian agricultural and rural advisory services, granting the operation of the system and availability of sound advice	389,860	546,892
Government grant for dissemination of state and scientific information	157,031	
Government grant for paying student allowances	127,824	
Government grant for authorisation agreement and contract for services	27,250	
ARIB supports	8,233	
Total income	*710,198*	*546,892*
Advisory system's personnel expenses and tax	-91,831	-88,517
Advisory system's administrative expenses	-298,029	-458,375
Government and scientific information related payments to information centres	-157,031	
Expenses from paying student allowances	-127,824	
Expenses from authorisation agreement and contract for services	-27,250	
Expenses from ARIB supports	-8,233	
Total expenses	*-710,198*	*-546,892*
Government grants at end of period	**0**	**0**

Expenses incurred on developing the advisory system, disseminating state and scientific information and paying student allowances are in compliance with agreement No 42 on allocations from the state budget signed with the Ministry of Agriculture on 17 February 2011. The report on activities in 2011 was approved by the Ministry of Agriculture on 30 January 2012 and the report is available at the website of the Ministry of Agriculture www.agri.ee.

NOTE 13. CAPITAL OF THE FOUNDATION

The capital of the Foundation comprises allocations from the state budget and designated purpose allocations from the EU Counterpart Funds. At 31 December 2011 and 2010, the capital of the Foundation amounted to 33,206,971 euros. The capital of the Foundation did not change in the reporting period.

NOTE 14. FINANCIAL INCOME

Interest income comprises interest received from intermediary financial institutions, interest on direct loans, and interest earned on current accounts, deposits and debt securities. The minimum interest rate applied to intermediary banks equals the interest rate applied by the European Central Bank to its main refinancing operations plus 0.5% per year. The interest rates on direct loans are set by the supervisory board of the Foundation in accordance with the applied loan measure.
In 2011 and 2010, financial income broke down as follows:

	2011 EUR	**2010 EUR**
Interest income on loans	1,105,990	1,209,781
Interest income on current accounts and deposits	159,624	257,222
Return on debt securities	95,239	142,255
Total	**1,360,853**	**1,609,258**

Return on debt securities comprises interest income on debt securities and gains from the change in the value of debt securities.

NOTE 15. GUARANTEE FEES

A guarantee fee is a fee for a guarantee obligation which is charged at a rate calculated as a percentage per annum of the amount granted as a guarantee for a debt obligation. Guarantee fee rates range from 0.4% to 7.5% and depend on credit quality ratings.
The Foundation charges guarantee fees based on the rates effective at the date of the resolution in respect of the guarantee as stipulated in the Commission Notice on the Application of Articles 87 and 88 of the EC Treaty to State Aid in the Form of Guarantees (2008/C 155/02).

In certain cases, the Foundation may assign a guarantee fee at a rate below the calculated rate by applying the following bases for reduction:

- regional – operations undertaken outside cities;
- micro-enterprise – less than 10 employees, the balance sheet total and turnover below 2 million euros;
- the investment creates new jobs;
- science-based and innovative technologies applied;
- use of local raw material;
- beginning enterprise – launching remains within the last 12 months;
- female entrepreneurs – at least 51% of the undertaking's capital is owned by women or it is managed by a woman.

Each of the above features may reduce the fee based on the credit quality rating by one percentage point. However, the final rate cannot be less than 0.4%.

As at 31 December 2011 and 2010, guarantee fees paid to the Foundation were as follows:

Credit or financing institution	**Guarantee fee 2011 EUR**	**Guarantee fee 2010 EUR**
AS SEB Pank	323,578	226,520
AS SEB Liising	10,438	5048
Swedbank AS	411,281	300,195
Swedbank Liising AS	2,977	166
Danske Bank A/S Estonian branch	1,191	2,869
AS Eesti Krediidipank	24,496	32,258
Tallinna Äripanga AS	6,383	8,913
Nordea Bank Finland Plc Estonian branch	204,303	134,919
Nordea Finance Eesti	2,698	2,552
AS Citadele banka Estonian branch	130	242
Kehtna HLÜ	688	1,224
UniCredit Bank Estonian branch	30,706	16,248
Marfin Pank Eesti AS	13,747	10,656
AS LHV Pank	62,767	23,496
Bank DNB A/S Estonian branch	13,735	12,215
BIGBANK AS	704	0
Enterprises' debt securities	19,636	10,403
Total	**1,129,458**	**787,924**

At 31 December 2011 and 2010, the average yield of the guarantee portfolio stood at 3.02 % and 2.68% respectively.

NOTE 16. OTHER OPERATING EXPENSES

In 2011 and 2010, other operating expenses comprised the following:

	2011 EUR	**2010 EUR**
Expense from guarantee reserve	1,091,261	1,222,607
Expense from allowances for loan losses	818,999	575,082
Awards and donations to individuals	3,292	2,512
Expense from student allowances	0	119,234
Expense from doubtful receivables	3,398	0
Support to undertakings and expense from authorisation agreement	0	15,592
Expense from the Baltic Deal project	23,627	2,731
Total	**1,940,577**	**1,937,758**

NOTE 17. PERSONNEL EXPENSES

In 2011 and 2010, personnel expenses comprised the following items:

	2011 EUR	**2010 EUR**
Remuneration of the management, remuneration paid under employment and service contracts	213,467	219,786
Remuneration of the supervisory board and audit committee	38,072	36,500
Social security tax and unemployment insurance contributions	85,073	86,784
Total	**336,612**	**343,070**

In 2011 and 2010, the average number of people working under employment contracts was 13.55 and 14.25 respectively. Remuneration of the members of the management and supervisory boards is detailed in note 20.

NOTE 18. OPERATING LEASE

In 2011 and 2010, the Foundation's operating lease rentals for office premises amounted to 29,294 euros and 29,510 euros respectively and operating lease rentals for cars amounted to 10,140 euros and 10,124 euros respectively.

Operating lease rentals payable in subsequent periods broke down as follows:

	Office premises EUR	Cars EUR	Total EUR
Payable in less than 1 year	29,294	10,140	39,434,
Payable between 1-5 years	4,494	0	4,494
Total	**33,788**	**10,140**	**43,928**

Lease contracts on cars are fixed-term contracts of 12 months. Lease contracts on office premises will expire on 5 November 2014 and 31 December 2012 respectively. Lease contracts on office premises are renewed automatically unless a contracting party notifies of the termination of the contract.

NOTE 19. OFF STATEMENT OF FINANCIAL POSITION LIABILITIES

At 31 December 2011 and 2010, the carrying amounts of loans guaranteed by the Foundation totalled 75,563,610 euros and 57,100,264 euros respectively while related risk exposures of the Foundation amounted to 42,332,261 euros (56.0%) and 32,253,363 euros (56.5%) respectively.

Credit or financial institution	**Remaining value at 31 Dec. 2011 EUR**	**Remaining value at 31 Dec. 2010 EUR**
AS SEB Pank	12,137,504	9,112,490
AS SEB Liising	224,012	164,994
Swedbank AS	14,675,280	12,538,629
Swedbank Liising AS	58,486	6,355
Danske Bank A/S Estonian branch	25,148	80,765
AS Eesti Krediidipank	842,444	1,254,933
Tallinna Äripanga AS	250,258	192,528
Nordea Bank Finland Plc Estonian branch	6,572,512	6,211,191
Nordea Finance Estonia	201,396	49,558
AS Citadele Bank Estonian branch	0	14,554
Kehtna HLÜ	33,180	24,392
AS UniCredit Bank Estonian branch	2,344,414	921,121
Marfin Bank Eesti AS	324,551	392,965
AS LHV Pank	3,610,194	1,010,379
Bank DNB A/S Estonian branch	957,882	278,509
BIGBANK AS	75,000	0
Total	**42,332,261**	**32,253,363**

A provision has been established for covering potential payments of guaranteed loans (see note 10).

Members of the Management Board:

NOTE 20. TRANSACTIONS WITH RELATED PARTIES

For the purpose of this report, related parties include:

- the management and supervisory boards of the Foundation;
- close relatives and enterprises under the control or significant influence of the above.

As at 31 December 2011 and 2010, the following transactions were performed with related parties:

Transaction party	Trans-action	Amount EUR 2011	Balance at 31 Dec. 2011 EUR	Amount EUR 2010	Balance at 31 Dec. 2010 EUR	Relation-ship with the Founda-tion
Kesk- Eesti PÜ	guarantee	168,590	179,430	76,694	101,086	Supervi-sory board member
Sipa Masinaühistu	guarantee	16,500	13,750	0	0	Supervi-sory board member
Pajumäe Talu	guarantee	0	113,545	0	146,759	Supervi-sory board member

Remuneration of the members of the management and supervisory boards

In 2011 and 2010, the remuneration (including bonuses and vacation pay) of the members of the management board amounted to 52,337 euros and 55,006 euros respectively.
The remuneration of the members of the supervisory board in 2011 and 2010 amounted to 38,072 euros and 36,500 euros respectively.

Upon removal from the board, members of the supervisory board are not entitled to any severance benefits or pay. Upon termination of their contracts on the supervisory board's initiative, members of the management board are entitled to severance benefits equal to three months' remuneration.

SIGNATURES

The supervisory board of the Foundation has reviewed and approved the annual report prepared by the management board, including the management report and the annual financial statements, and the auditor's report. The annual report is signed by all members of the management and supervisory boards.

Name and job title	**Signature**	**Date**
Raul Rosenberg Chairman of the Management Board		
Thea Kaurla Member of the Management Board		
Toivo Jürgenson Chairman of the Supervisory Board		
Ants Noot Vice-chairman of the Supervisory Board		
Andre Sepp Member of the Supervisory Board		
Andres Vinni Member of the Supervisory Board		
Arvo Veidenberg Member of the Supervisory Board		
Lauri Luik Member of the Supervisory Board		
Lemmi Oro Member of the Supervisory Board		
Mait Klaassen Member of the Supervisory Board		
Meelis Mälberg Member of the Supervisory Board		

Members of the Management Board:

Richard Tomingas
Member of the Supervisory Board

Rein Aidma
Member of the Supervisory Board

Sirje Potisepp
Member of the Supervisory Board

Taimo Staalfeldt
Member of the Supervisory Board

Villu Karu
Member of the Supervisory Board

Viktor Sartakov
Member of the Supervisory Board

Members of the Management Board:

INDEPENDENT AUDITORS' REPORT

LIST OF FIELDS OF ACTIVITIES

Activities during the period 1 January to 31 December 2011	In EUR
Other activities auxiliary to financial intermediation n.e.c. (66199)	3,265,439
Total	**3,265,439**

Activities planned for the period 1 January to 31 December 2012
Other activities auxiliary to financial intermediation n.e.c. (66199)

Members of the Management Board: