FONDI KOSOVAR PËR GARANCI KREDITORE
KOSOVSKI FOND ZA KREDITNO JEMSTVO
KOSOVO CREDIT GUARANTEE FUND

ANNUAL REPORT 2020


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PART I

BACKGROUND

MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE MANAGING DIRECTOR

Last year, when we were drafting the message for the 2019 Annual Report, all the institutional attention and focus was on the situation brought on by the COVID-19 pandemic. The fact that our generation was facing for the first time a unique situation, one not experienced before, was creating uncertainty and many unknowns, as to what the future had in store for us. Consequently, the message introducing the annual report of the previous year reflected the compassion we shared with our society . However, it also provided an analysis of the institutional capabilities at KCGF to deal with the shocks that this crisis could bring, reflecting empathy but also focusing on our institutional responsibility: support private enterprises in Kosovo in combating and minimizing the consequences of the COVID-19 pandemic crisis.

Now a year later, when we take a look back and assess how our institution adapted to the new reality, we are nothing short of being proud of what we, together with our donors, have built and created over such a short period. It was an extremely important test of the professional grounds and the institutional culture underpinning the KCGF, as one of the newest institutions in the state of Kosovo. During the last year, in addition to proving to be a well-established institution ready to withstand even the most extreme and unpredictable situations, such as the COVID-19 pandemic, KCGF once again demonstrated its ability to balance institutional maturity with being pro-active, in order to maintain institutional financial stability, while at the same time managing to respond to the new needs of the private and banking sector, in the process of supporting financial intermediation. It is no coincidence that during this period, KCGF was a preferred and reliable partner of the banking sector, local authorities, as well as international donors, in addressing one of the most acute problems arising from the crisis caused by the pandemic, namely diminishing access to finance opportunities for private enterprises in Kosovo, which in turn would worsen market liquidity and multiply losses in the private sector.

During 2020, as the perception of credit risk in the market was at its highest, we pressed on, without any hesitation despite the public health and economic crisis, to maintain our two existing guarantee windows, the regular window, and the Agro Window. This was intended to convey to our partners a message of confidence and certainty, which was in turn highly praised by the banking community and the private business community. During the pandemic period alone, when the Government had imposed many restrictions on the freedom of movement and limited business activities in most economic sectors aiming to contain the spread of the virus, through its guarantee windows, KCGF issued guarantees for 1,200 loans, in the amount of EUR 40 million. Moreover, KCGF played a crucial role at all stages of the design and implementation of an economic recovery program, culminating with the launch of five guarantee windows, with the aim to boost lending confidence via increasing credit risk coverage by up to 80% for certain economic sectors. It was a combined marathon of effort and internal analysis by our colleagues at KCGF, together with the representatives of Kosovo institutions, international donors, and partner banks, to best adapt the terms of our credit guarantee schemes to the newly emerged circumstances in the market, which first of all required adjustments of the legal infrastructure and subsequently adjustments to the terms and conditions of our credit guarantee scheme.

Support from the Government of the Republic of Kosovo and our international donors, mostly from USAID and KfW, was not lacking during this period either. It is worth noting the extension of the capital contribution from KfW, in the amount of 11.5 million, of which 6.5 million were designated to strengthen the existing Agro Window and 5.0 million to support the Economic Recovery Program. Last year also marked the finalization of the agreement with the World Bank on Financial Sector Strengthening Project in Kosovo, a four-year project that includes increasing the capital of KCGF by 21.4 million, as well as providing technical assistance intended for strengthening institutional capacities and internal processes, notably for the development of the Environmental and Social Management System, promotion of public relations, as well as the advancement of best practices of financial and credit risk management at the institution. With such contributions, the value of KCGF's capital last year doubled from EUR 16.7 million to EUR 49.6 million at the end of 2020, which is an important milestone because it increases the institutional guarantee potential and consequently its impact on financial intermediation process.

Building an institution that upholds the fundamental principles of social and environmental responsibility, was and remains an objective of our long-term institutional strategy. Managing and mitigating the environmental and social impact of our credit guarantee activities for MSMEs has been an ongoing institutional preoccupation from the outset, however, it has become increasingly important especially in the last two years, when the KCGF guarantee scheme started to grow significantly along with its already prominent role in supporting banking sector lending activity. Therefore, last year, with the support from the World Bank and KfW project, KCGF worked closely with partner Financial Institutions (FIs) to build an Environmental and Social Management System (ESMS), spanning all links in the lending chain.

On the other hand, KCGF has continued to work on the project for developing the energy window with support provided from the Millennium Foundation Kosovo. This partnership is particularly important, as it aims to provide both KCGF and the banking sector with technical assistance to create an environment where lenders can begin to grant loans to private investors for renewable energy power production, namely solar energy projects. This window is well on its way to becoming part of the Economic Recovery Program. It is worth noting that last year KCGF managed to finalize AgroSoft, a software platform designed to help the process of credit risk assessment for activities in the agriculture sector. This platform enabled with technical assistance from KfW and developed by the KCGF staff in cooperation with the Ministry of Agriculture, today is an extremely practical tool in the hands of credit analysts of partner banks to assess the creditworthiness of customers in the agriculture sector.

KCGF remains among the largest depositors in the banking sector in Kosovo. For the fifth consecutive year, the KCGF investment strategy continues to harness short-term and medium-term deposits in local banks. This institutional approach reflects the confidence of the KCGF governing structures in our country's banking sector, while at the same, by boosting market liquidity, it creates more opportunities to enhance the lending capacity of local banks.

Although we have left behind a difficult year laden with challenges, we consider that it has enhanced our maturity and institutional stability – we believe that we are now stronger than we were a year ago. However, we remain cautious and aware that the pandemic has not yet passed, while we brace as the inertia of last year's crisis will nevertheless be present this year. The consequences will be evident, and the extent of their impact will also be an indicator of the quality and appropriateness of the Economic Recovery Program, along with all other measures taken by the regulator and local authorities. In cooperation with the GoK and our donors, KCGF will continue to implement the recovery package throughout 2021, while at the same time being proactive and open to new initiatives aimed at supporting the private sector in other stages of post-economic recovery. This stems from the sense of moral responsibility embodied and fostered in the culture and mission of our institution, embraced voluntarily by all KCGF staff and its Board, with the sole purpose of emerging from the crisis even stronger.

In conclusion, on behalf of the Board of Directors and the KCGF staff, please allow us to acknowledge our international donors and the Government of the Republic of Kosovo for their continued support to the KCGF. We also extend our gratitude to all other stakeholders, first and foremost the Central Bank of Kosovo (CBK) and our Partner Financial Institutions for their continued cooperation. At the same time, although the first signs that the pandemic is coming to an end are beginning to appear on the horizon, we wish you all good health with the added caution that we should all continue to be careful, so that the last meters of this journey remain in meters and will not turn into kilometers.

RINOR GJONBALAJ
Chairman of the Board of Directors

BESNIK BERISHA
Managing Director

AKRONIMET

AC	Audit Committee
BD	Board of Directors
CBK	Central Bank of the Republic of Kosovo
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EIF	European Investment Fund
ESMP	Environmental and Social Management Policy
ESMS	Environmental and Social Management System
FI	Financial Institution
FSSP	Financial Sector Strengthening Project
GoK	Government of the Republic of Kosovo
IFC	International Finance Corporation
KAS	Kosovo Agency of Statistics
KBA	Kosovo Banking Association
KCGF	Kosovo Credit Guarantee Fund
KfW	German Development Bank
MCC	Millennium Challenge Corporation
MFIs	Microfinance Institutions
MFK	Millennium Foundation Kosovo
MoF	Ministry of Finance
MSMEs	Micro, Small and Medium Enterprises
MTI	Ministry of Trade and Industry
NBFIs	Non-Bank Financial Institutions
NPLs	Non-Performing Loans
PFIs	Partner Financial Institutions
RMC	Risk Management Committee
Sida	Swedish International Development Cooperation Agency
MIS	Management Information System
USAID	America International Development Cooperation Agency

SUMMARY OF FINANCIAL INDICATORS

KEY FINANCIAL INDICATORS	DECEMBER 2019	DECEMBER 2020
CAPITAL	**16,286,801**	**49,747,447**
Guarantee Potential	**94,007,608**	**182,897,947**
Allocated Limit	**70,400,000**	**83,350,000**
Utilization Rate of Limits by Partner FIs	**62.3%**	**67.1%**
GUARANTEE BALANCE	**43,885,949**	**55,997,787**
No. of Active Guaranteed Loans	**3,120**	**4,248**
No. of Partner FIs	**8**	**8**
Average Guarantee	**18,558**	**18,151**
Average Maturity	**36**	**36**
NPLs (in %)	**1.29 %**	**1.55%**
Coverage of NPLs with Provisions (in%)	**122.0 %**	**166%**
INVESTED CAPITAL	**16,620,045**	**23,778,921**

Monetary values are in Euro

PART II

INSTITUTION PROFILE

ESTABLISHMENT OF KCGF AND ITS STATUS

The Kosovo Credit Guarantee Fund is an independent and sustainable institution that issues guarantees to financial institutions to cover the risk for MSME loans. KCGF was established in January 2016, based on Law No. 05/L-057 on Establishment of the Kosovo Credit Guarantee Fund (Law on KCGF). The Law establishing KCGF was sponsored by MTI, with the support of USAID, through its Empower Credit Support Program, and the German Development Bank (KfW). The Law on KCGF entered into force on January 23, 2016.

MISSION

Kosovo Credit Guarantee Fund is an independent, development oriented legal entity that provides credit guarantees for MSMEs by sharing the credit risk with financial institutions. By guaranteeing the credit portfolios of financial institutions we aim to enhance access to finance for MSMEs, sustain entrepreneurship development, support domestic production and services that create an added value, new jobs, and that prop up overall economic development.

We are committed to sustainable corporate management and the social responsibility that comes with it. By coordinating activities with our partners, such as donors, financial institutions, and local regulators, we strive to serve the long-term economic interests of the nation, business community and society in general.

INSTITUTIONAL VALUES

KCGF's values that are institutionally embedded and serve to develop everyday business practices, provide guidance to ensure that our business activities are conducted pursuant to the highest level of accountability and are in line with the highest ethical and moral standards.

TRANSPARENCY

Being a public interest institution, KCGF believes that it is of the utmost importance to disclose information on working practices, policies, and financial and operational results with partners and the general public.

PARTNERSHIPS AND COOPERATION

Developing sound relationships with our partners based on transparency and accountability helps achieve our common goals and build credibility and mutual respect.

OBJECTIVITY AND INDEPENDENCE IN DECISION-MAKING

KCGF maintains its objectivity and independence in decision-making based on principles of common sense, while promoting the further development of the financial sector.

COMMITMENT

Working with dedication and professionalism, KCGF employees strive to fulfill the institutional mission and objectives, believing in its role and the positive impact on sound economic development.

TEAMWORK AND PROFESSIONALISM AT WORK:

KCGF has a team of experts who cooperate based on mutual respect. Teamwork, problem-solving, open communication, and sharing of professional experiences lay the foundation for its institutional success.

Integrity and personal dignity are the values embraced by each employee in the pursuit of duties and initiatives at work, without compromising on these principles.

PART III

CORPORATE GOVERNANCE

BOARD OF DIRECTORS AND PERSONNEL

The KCGF is governed by a Board of Directors consisting of seven (7) members:

A. One (1) ex officio member, appointed by the Ministry of Trade and Industry of the Republic of Kosovo

B. One (1) ex officio member, appointed by the Ministry of Finance of the Republic of Kosovo

C. Four (4) independent members, appointed by donors and

D. Managing Director of KCGF

KCGF BOARD OF DIRECTORS MEMBERS IN 2020:

RINOR GJONBALAJ

Chairman of the Board and
Independent Board Member
Chairman of the Risk Committee

ARTA HOXHA

Independent Board Member
and Chair of the Audit Committee

BESNIK BERISHA

Managing Director of KCGF
and Board member

KRESHNIK KURTISHI

Independent Board Member

MELIH CADIRCI

Independent Board Member

NOL BUZHALA

Member of the Board *ex officio* -
Ministry of Trade and Industry

SALVADOR ELMAZI

Member of the Board *ex officio* -
Ministry of Finance

PERSONNEL

KCGF PERSONNEL IN 2020:

From left to right:

BESNIK BERISHA
Managing Director

KASTRIOT KËPUSKA
Agro Expert

VJOSA BALAJ
Senior Finance and Administration Manager

VERË KADRIU
Administration and Language Assistant

TEA BLAKAJ HOXHA[1]
Senior Legal Officer and Secretary to the Board of Directors

ALBAN KASTRATI
Senior Risk Manager

NORA ARIFI
Senior Guarantee Manager

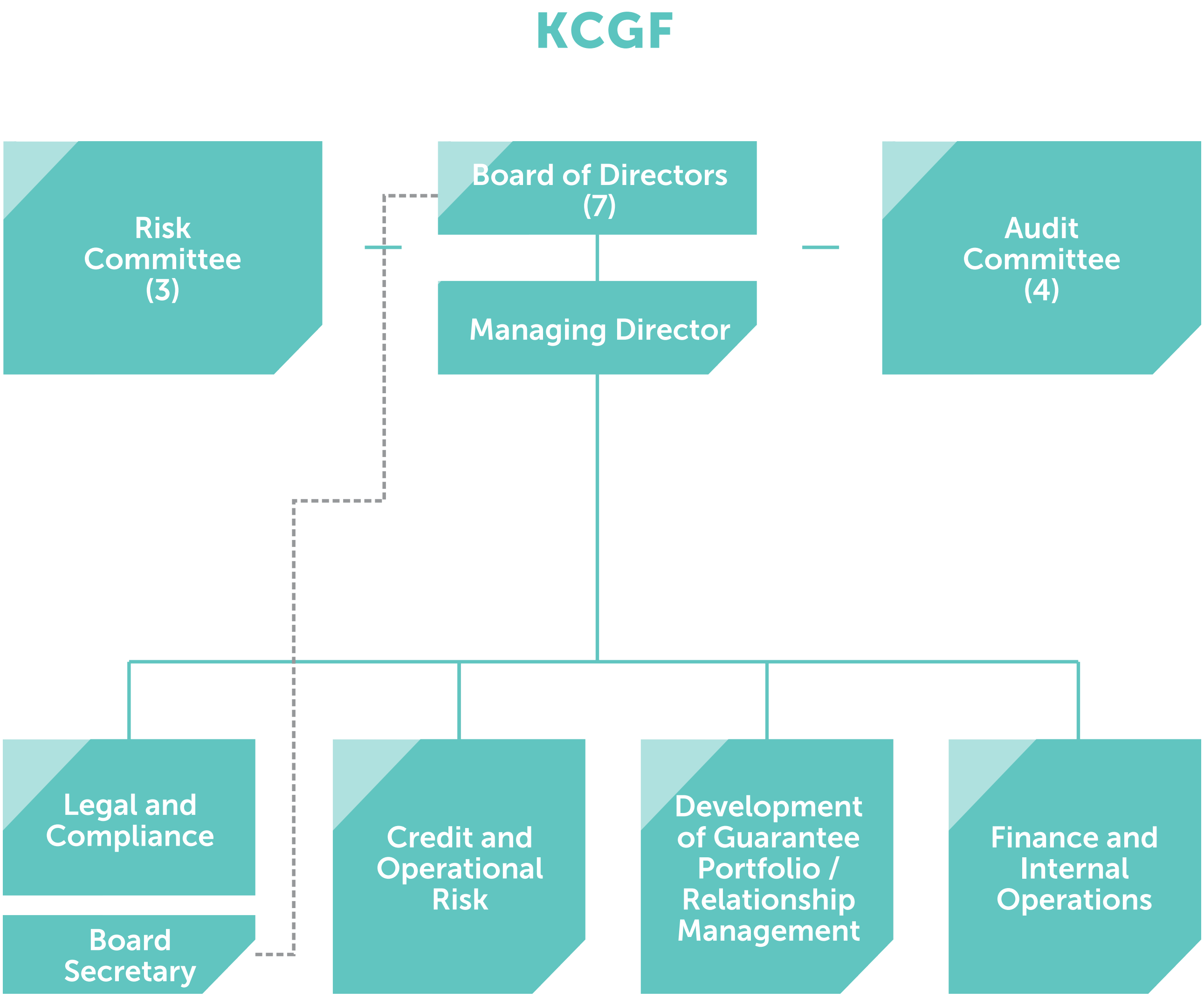
BURBUQE GURI
Finance and Administration Assistant

BLERT GJINOLLI
Environmental and Social Expert

JETON REXHEPI
Project Financing Credit Risk Expert

1 Until March 31, 2020, Mr. Partin Pruthi was Senior Legal Officer and Secretary to the Board of Directors. In August 2020, this duty was assumed by Ms. Tea Blakaj Hoxha, who performed in this capacity at the KCGF until December 2020

ORGANIZATIONAL CHART



The number of full-time staff at the KCGF is six, while four staff are engaged in the implementation of Donor projects as follows:

AGRO EXPERT – engaged in the development of Agro Window Project supported by KFW;

PROJECT FINANCING CREDIT RISK EXPERT – engaged in the development and implementation of the Energy Window Project supported by MCC/MFK;

FINANCE AND ADMINISTRATION ASSISTANT – engaged in the development and implementation of the Energy Window Project supported by MCC/MFK;

ENVIRONMENTAL EXPERT – responsible for the implementation of the ESMS, engaged under the FSSP with the WB

COMMITTEES

RISK MANAGEMENT COMMITTEE

The Risk Management Committee was established under the Law on KCGF. The Risk Management Committee assists the Board of Directors with a specialized focus on risk management. The Risk Management Committee meets at least on a quarterly basis and consists of three (3) members of the Board, while the Senior Risk Manager is a permanent member of the Committee.

As such, the Committee reviews credit and operational risk policies, oversees the guaranteed development portfolio, and ensures that the credit risk profile is in line with credit policies, laws, and applicable regulations.

AUDIT COMMITTEE

The Audit Committee was established under the Law on KCGF. The Audit Committee consists of four (4) members of the Board and meets on a quarterly basis.

This Committee is responsible for providing recommendations to the Board of Directors on issues related to risk management, internal control, financial statements, compliance requirements, internal and external audit, and other functions that are relevant to the governance of KCGF. In addition, Audit Committee reviews internal financial, operational, and administrative controls.

KCGF PARTNERS

To achieve its objectives and goals, KCGF cooperates with financial institutions (banks, MFIs, NBFIs), donors, the Government of the Republic of Kosovo, the Central Bank of Kosovo, and the MSME community.

DONORS

- Government of the Republic of Kosovo
- United States Agency for International Development (USAID)
- German Development Bank (KfW)

PARTNERS

- Swedish International Development Cooperation Agency (Sida), represented by the Swedish Embassy
- World Bank
- European Investment Fund (EIF)
- Millennium Foundation Kosovo

PARTNER FINANCIAL INSTITUTIONS

- Banka Ekonomike
- Banka Kombëtare Tregtare
- Banka për Biznes
- NLB Bank
- ProCredit Bank
- Raiffeisen Bank
- TEB
- Raiffeisen Leasing Kosovo

PART IV

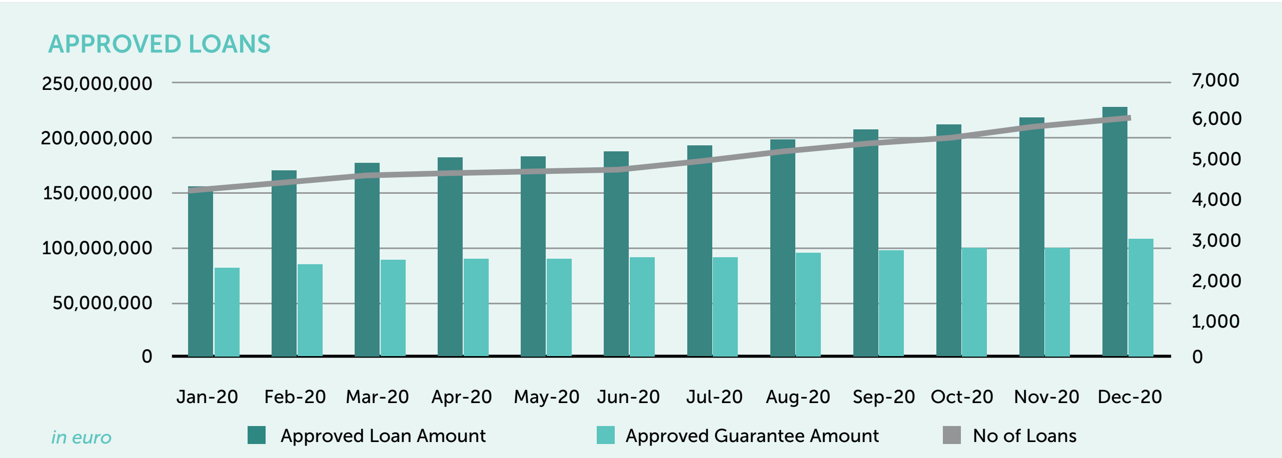
KCGF PERFORMANCE

GUARANTEE PORTFOLIO DEVELOPMENT

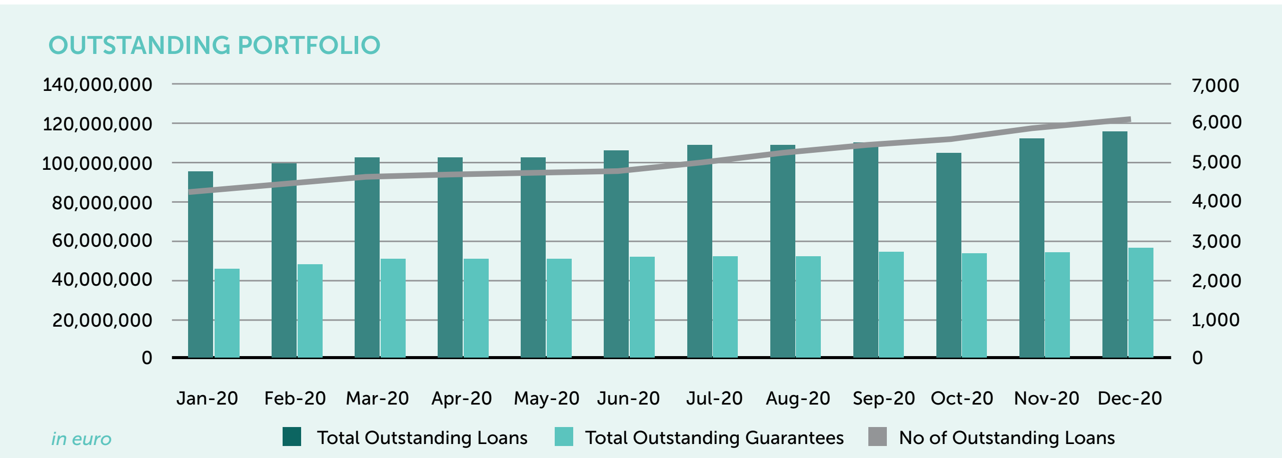
CONTINUED HIGH QUALITY FAST PACED GROWTH

2020 was both a challenging and successful year for KCGF, continuing to provide credit guarantees for MSMEs while sharing credit risk with financial institutions at an even higher level than in previous years. Throughout the pandemic period, KCGF continued to maintain its existing guarantee windows, despite the increasing perception of risk in the market and the unpredictability of the course of events worldwide, but especially in our country.

During 2020, KCGF intermediation led to EUR 71.78 million lending in the sector for 1,821 MSMEs distributed across 2,030 loans, supported by a guarantee amount of EUR 35.1 million. The cumulative amount of loans approved as of the end of the year reached the amount of EUR 228.9 million for 5,075 MSMEs, backed by a cumulative guarantee amount of EUR 110.7 million.



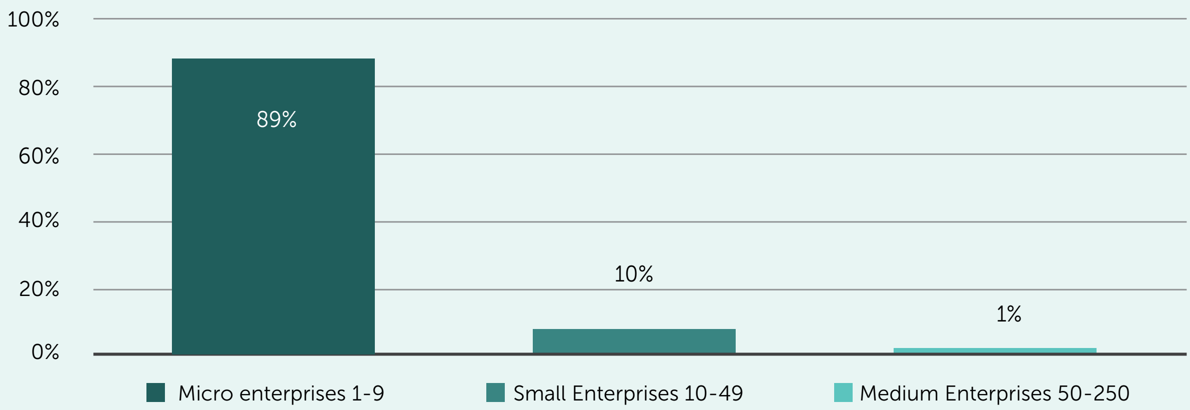
The total outstanding value of the loan portfolio at the end of 2020 was EUR 115 million, while the total outstanding value of the guaranteed portfolio was EUR 55.99 million.



ABOUT 99% OF THE PORTFOLIO CONSISTS OF SMALL ENTERPRISES

Micro and small enterprises continue to comprise the largest share in the guaranteed portfolio. The greatest concentration of the guaranteed portfolio was in the segment of micro enterprises with up to 9 employees.

PARTICIPATION OF THE GUARANTEED LOANS ACCORDING TO THE SIZE OF ENTERPRISES



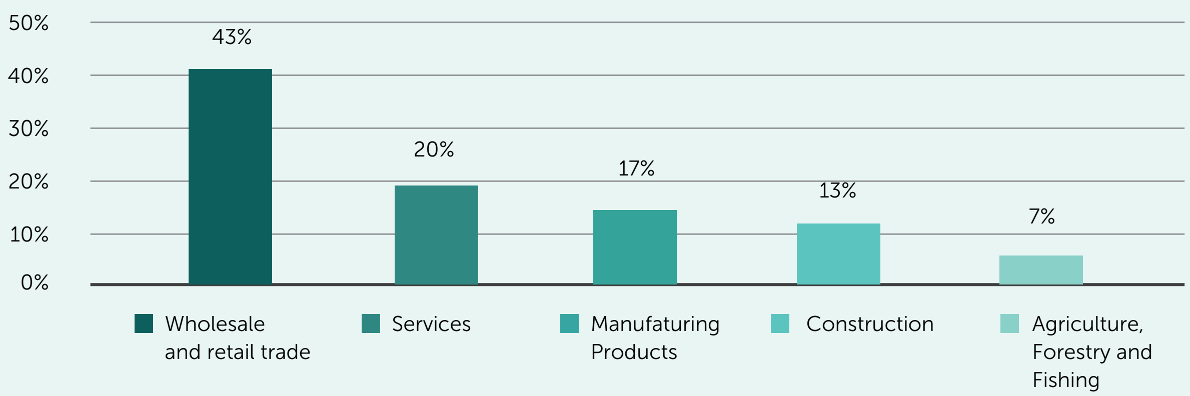
Such distribution of the guarantee portfolio reflects the private sector in our country, but also the orientation of our institution towards access to finance for this segment.

CREDIT GUARANTEES BY ECONOMIC SECTOR

Sector specific incentives that create added value for the economy and well diversification remain listed under KCGF's objectives. To this end, KCGF with the help of its donors and partners has consistently worked in developing products that will support the economic recovery, with a particular focus on strengthening strategic sectors.

2020 followed the same trend as last year, covering a wide range of economic sectors benefiting from guarantees. This trend is also representative of our country's economy.

LOANS BY SECTOR



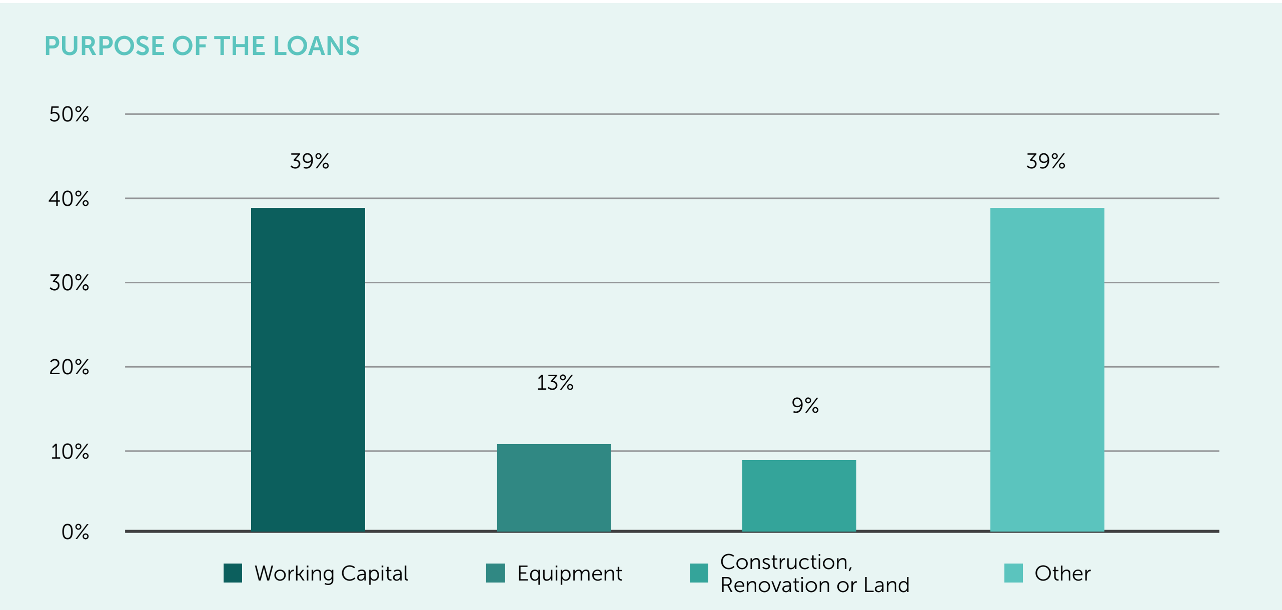
The most dominant sector in the 2020 guaranteed loan portfolio was retail and wholesale trade with 43%, followed by services with 20%, manufacturing with 17%, construction with 13%, and agriculture with 7%. Compared to a year ago, we have moderate movement across sectors, noticing an uptick in the trade sector and a downturn in the services and agriculture sector, which were affected by the lockdown in the investment season in these sectors, due to the situation caused by COVID-19.

While the agricultural sector continued to have a low share of around 2.8% of the total in the banking sector, it amounted to a total share of 9.6% in the KCGF active portfolio at the end of 2020.

Providing incentives for sectors, such as agriculture, manufacturing, and services, that generate value-added for the economy is one of our objectives, therefore KCGF is working together with its partners towards strengthening those and other under-served sectors, considered to be the driving force of the economy and a contributing factor to greater employment opportunities and enhanced social wellbeing in general.

GREATER SHARE OF WORKING CAPITAL AND MIXED-PURPOSE INVESTMENTS[2]

Credit demand and type of investment help us understand the economic developments during the pandemic period.



In 2020, 13% of approved loans were invested in equipment (manufacturing machinery, agriculture equipment, other equipment); 9% in land, construction, or renovation; 39% in turnover capital; and 39% in other purposes.

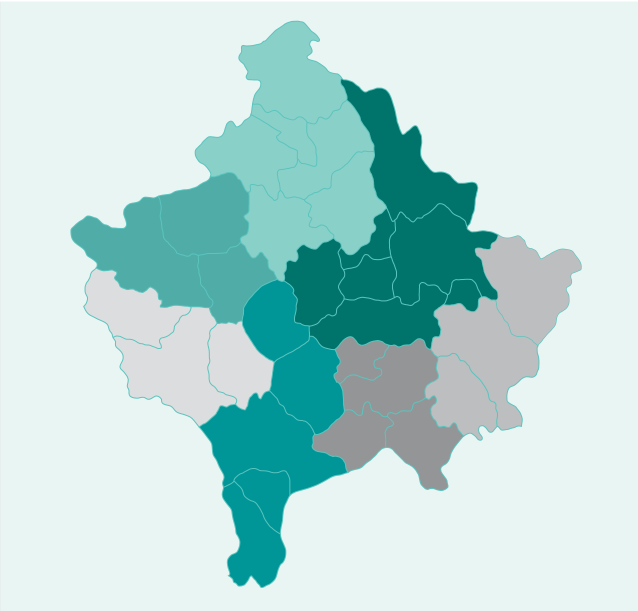
Such demand for short-term loans, overdrafts, and credit lines gave us indications on the cash flow pressure during 2020.

2 In practice, if a loan is intended for parallel investments; in working capital, fixed assets, renovation, or even construction, then this is marked as mixed-purpose lending.

UTILIZATION OF GUARANTEES IN DIFFERENT REGIONS

Utilization of guarantees in different regions in 2020 followed the trend of previous years. The Pristina Region had the major share in the guaranteed loan portfolio with 57%.

Such a distribution of the portfolio is considered to be in line with the distribution of the banking sector credit portfolio in the respective regions.



Ferizaj / Uroševac	8%
Gjakovë / Djakovica	4%
Gjilan /Gnjilane	5%
Mitrovicë/ Mitrovica	5%
Pejë / Peć	7%
Prishtinë / Priština	57%
Prizren	14%

AGRICULTURE FINANCE GUARANTEES THROUGH AGRO WINDOW

Among other sectors, the agriculture sector in general was affected by the COVID-19 pandemic. Most affected were especially the agriculture sub-sectors related to the gastronomy sector, such as vegetable production or meat industry, while the production of fruits, mostly small fruits and especially raspberries, experienced a significant increase, because farmers had more time available for harvesting and the demand for such fresh produce went up significantly during the pandemic.

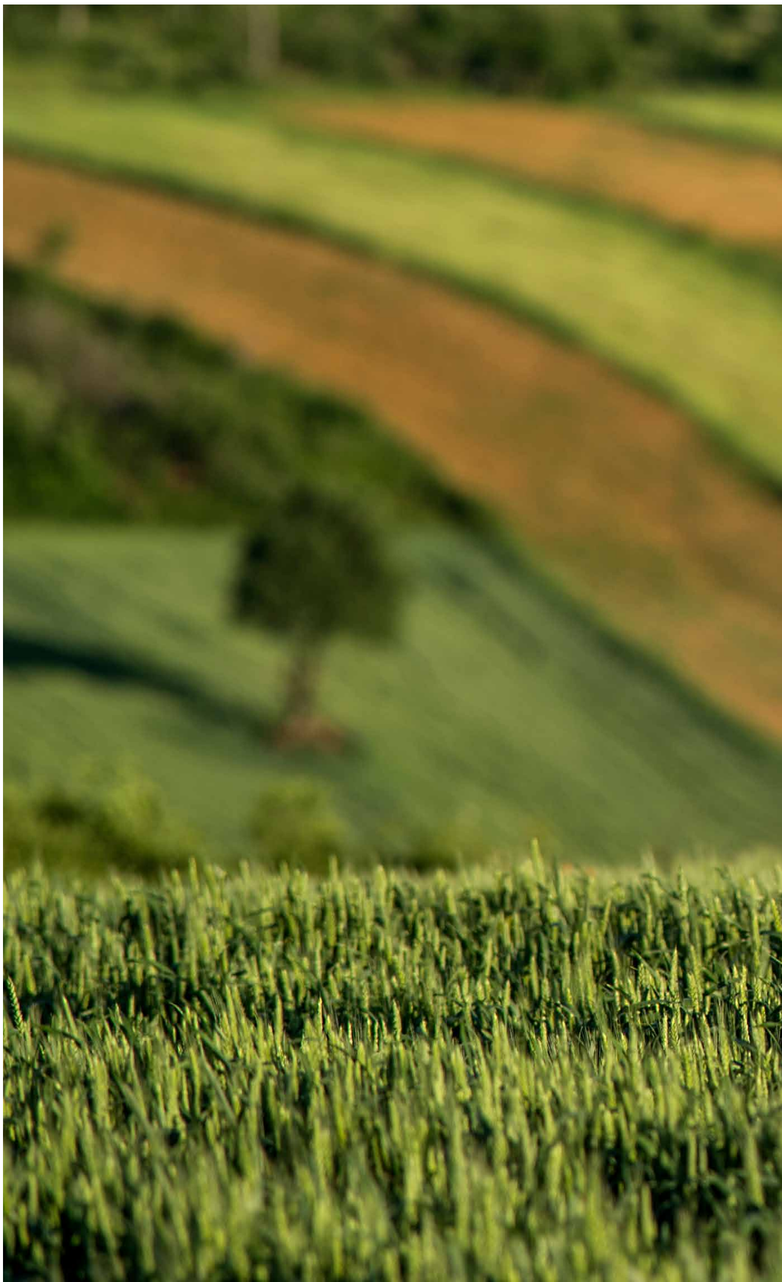
There was an opportunity for restructuring agro loans with repayment issues, yet this opportunity was seized by a small number of customers in this sector. The guarantees covering the agriculture sector in 2020 were at about 25% less compared to the previous year. This decline is mainly attributed to the second quarter of 2020, where uncertainties related to the course and duration of the pandemic significantly affected the reluctance of farmers to invest in this sector.

The agriculture sector financing by banks remains low in relation to the financing of other sectors. As of the end of 2020, this sector's share in outstanding bank loans was 2.8%, contracting by about 1% compared to the previous year. The declining share in financing also comes as a result of the growing share in other sectors, mostly construction.

KCGF attributes great importance to financing and guarantees for the agriculture sector, perceiving it as a sector that plays a significant positive role in generating employment and reducing the high unemployment rate. Activities in this sector are also considered a good opportunity to generate revenue, both from large projects and investment projects that need smaller investments. The end result of such investments includes employment and resolution of social issues for many households, especially those in rural areas of the country.

As of the end of 2020, KCGF through its Agro Window had enabled the guarantee of agriculture loans worth over EUR 16.6 million.

The support that this sector enjoys from the KCGF was further strengthened, when during the pandemic period in April 2020, the German Development Bank (KfW) allocated additional capital in the amount of EUR 6.5 million to support and guarantee financing in this sector. This assistance by German taxpayers to Kosovar farmers and agribusinesses active in this sector, granted through the first "no handshake" deal, was welcome especially considering the global public health crisis faced by every entrepreneurial farmer.



ADDITIONALITY

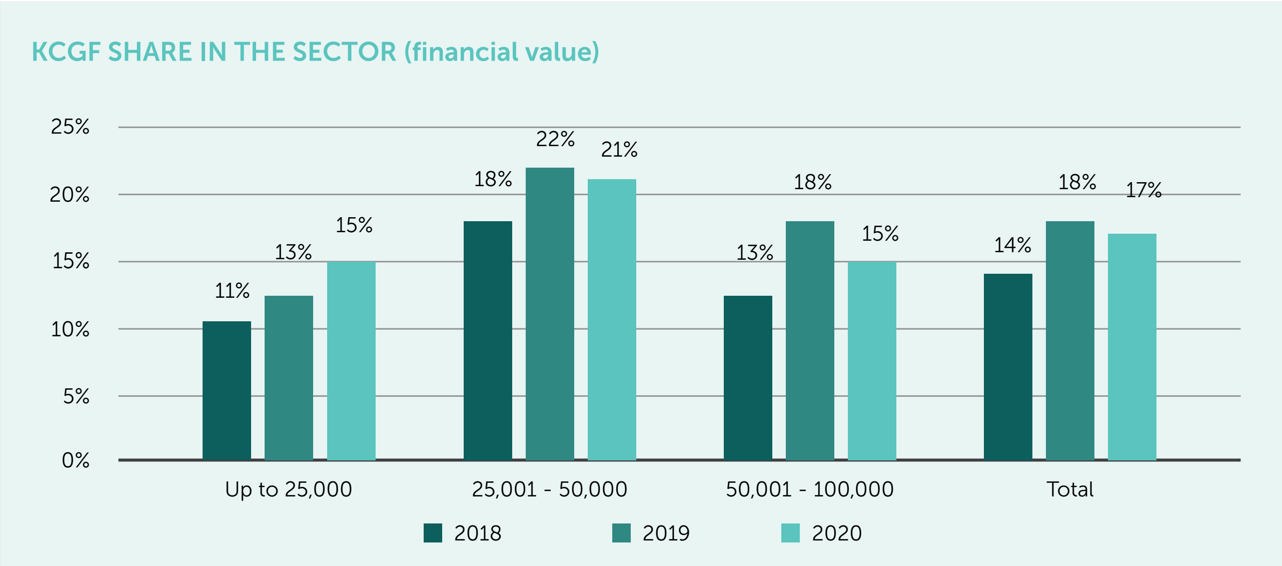
Additionality is the raison d'être for the establishment of the KCGF. It means that a bank, Micro Finance Institution, or Non-Bank Financial Institution would not have issued a loan to an MSME without any extended guarantee – hence the addition of a new customer thereby contributing to economic growth.

To observe this impact, the KCGF examined the indicators related to financial additionality by reflecting on the data provided by the Kosovo Credit Registry and the data provided by the internal KCGF Management Information System (MIS). In this context, the loans allowed in the sector during 2020 were analyzed and compared to the loans allowed in the sector but guaranteed by the KCGF.

The monitoring results on these indicators showed us how KCGF operations in general have led to improved access to finance and relaxed lending standards.

SHARE OF GUARANTEED LOANS IN THE BANKING SECTOR

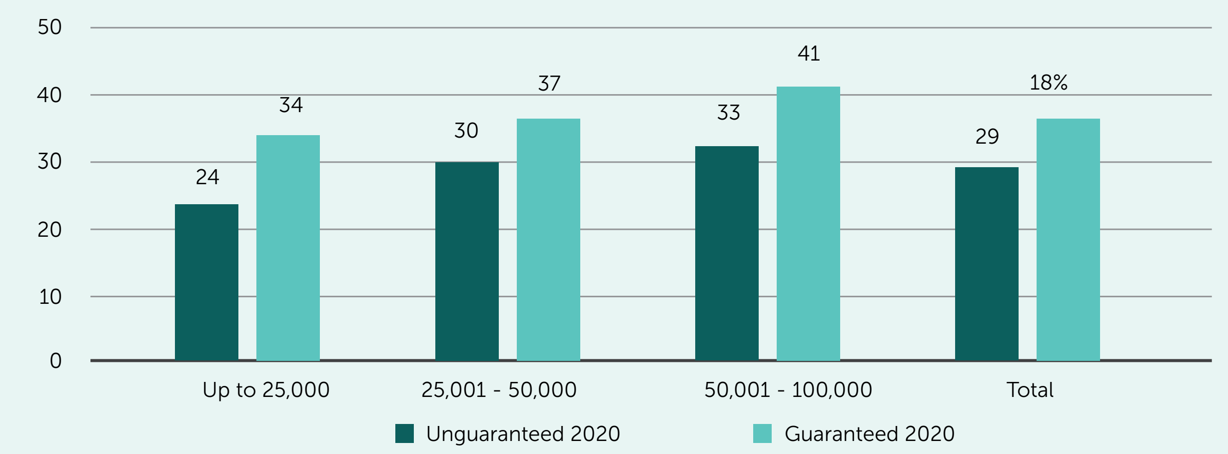
This indicator, yet again this year, shows an increase in the share of guaranteed loans in the banking sector. The greater the share, the larger the effect of KCGF on lending operations in the banking sector, and namely better access to finance for MSMEs. In 2020, in the category of loans up to EUR 100,000 this share was 17%, while in the EUR 25,000-50,000 category alone it was 21%. The reason for reflecting in the category up to EUR 100,000 is because the customer profile in the KCGF portfolio corresponds to this segment in the market. This indicator marked a slight decrease by 1%, compared to 2019, when the share was 18%. Despite the decline, we consider that the KCGF credit guarantee scheme has further boosted its positive impact on financial intermediation.



AVERAGE LOAN MATURITY

The guaranteed portfolio in 2020 continued to consist of medium-term loans, with an average of 36 months. The average loan maturity as an indicator of financial additionality this year once again showed an increase in the maturity of guaranteed loans compared to unguaranteed loans. The longer the maturity, the better the financing conditions for borrowers, while the risk for lenders will be higher. The average term of guaranteed loans up to EUR 100,000 was 37 months or by 28% longer than the average of unguaranteed loans. This indicator both during 2020 and 2019 resulted in more relaxed risk standards for PFIs, therefore better lending conditions for MSMEs, and namely for MSMEs any increase in maturity will enhance the capacity of the borrower to complete the planned investment.

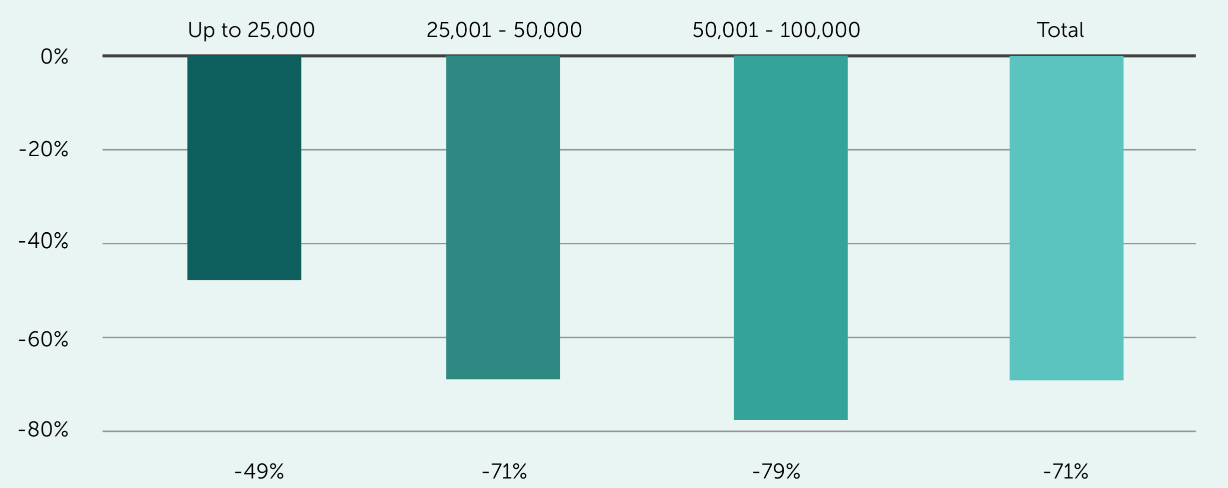
AVERAGE LOAN MATURITY



COLLATERAL COVERAGE

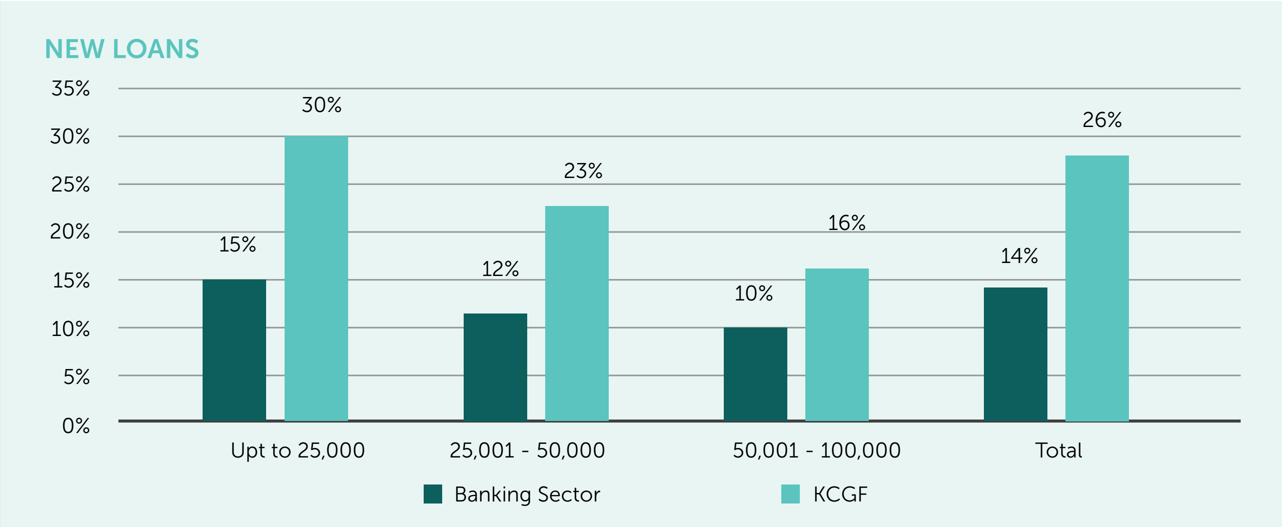
Collateral is very often one of the reasons for rejecting a loan application or one of the reasons for reducing the loan amount in the application. Therefore, in terms of guarantee scheme impact, lower collateral requirements first and foremost mean financial inclusion with better lending conditions for customers, shorter processing time for loan applications, and lower borrowing costs. In 2020, KCGF guarantee scheme generated a positive impact, reducing collateral requirements by 71%.

REDUCED COLLATERAL DEMAND



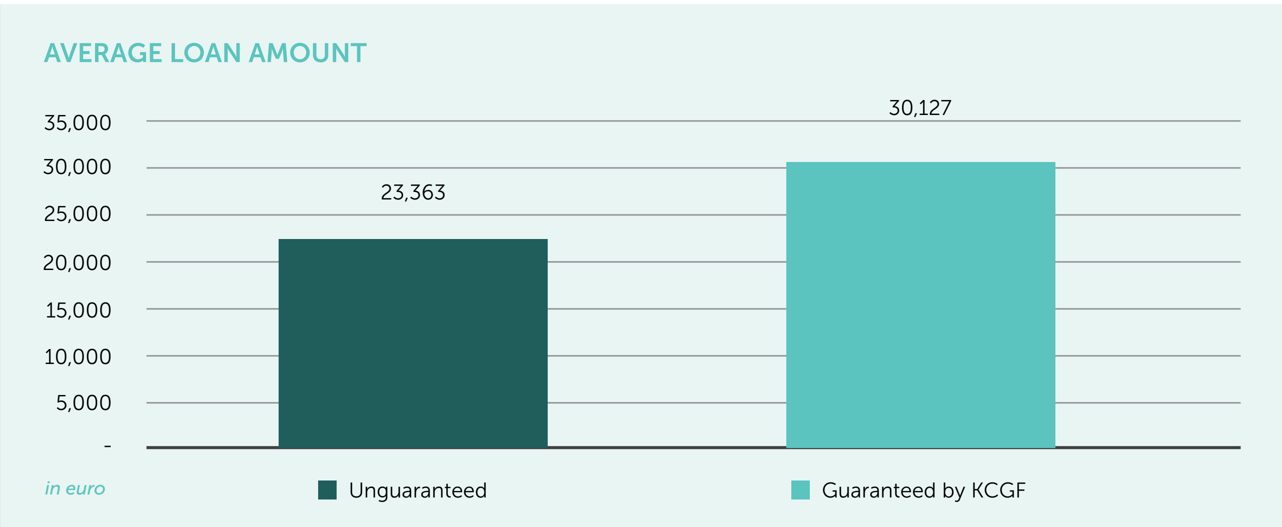
NEW CUSTOMERS / FINANCIAL INCLUSION

The higher share of this category of customers (who have never taken a loan) in the general portfolio of loan customers, means lower perception of risk by banks in relation to newly established enterprises, i.e., higher level of financial inclusion for new businesses. The share of guaranteed loans to new businesses without previous borrowing experience in 2020 in the category of loans up to EUR 100,000 was 26%, or 93% higher than the share of unguaranteed loans in the same segment. This ratio reflects the impact of KCGF on the financial inclusion of the private sector without previous borrowing experience, and therefore its overall positive financial and economic impact.



HIGHER AVERAGE AMOUNT OF GUARANTEED LOANS

At the end of 2020, KCGF portfolio was populated by small enterprises with an average loan amount of EUR 30,000. This amount corresponds to the small category of enterprises lacking collateral, therefore in need of financial support, but also to the demand, which during this year was mostly for working capital. Additionally, this year resulted in an average amount of guaranteed loans that was by 29% higher than unguaranteed loans in the category of loans up to EUR 100,000. The increase in the average loan amount for this category through KCGF intermediation reflects the impact of the guarantee scheme on better lending standards by banks in the loan approval process for MSMEs financed for the first time by the banking sector.



SHARE OF GUARANTEED BUSINESSES IN RELATION TO ALL ACTIVE BUSINESSES IN THE REAL ECONOMY

The share of KCGF guaranteed loans in total taxpaying businesses is another important indicator of the inclusion of MSMEs in the guarantee scheme.

Based on information provided by the Tax Administration of Kosovo, in 2020 there were approximately 59,863 active businesses (taxpaying businesses), while the number of MSMEs that benefited from the KCGF credit guarantees until 2020 was 5,075, bringing the share of guaranteed MSMEs in the MSME sector at 8% as of the end of 2020. This share is growing year-over-year, thereby reflecting the importance of KCGF as an extended hand for the development of the MSME sector and the economy in general.

SHARE OF KCGF OUTSTANDING GUARANTEED LOAN VOLUME IN GDP

To understand the importance of the KCGF guarantee facility to the national economy, we have calculated the share of KCGF- outstanding guaranteed loan volume in the Gross Domestic Product (GDP) by the end of 2020. At the end of 2020, this share was 0.82%, 33% up from 2019 (at the end of 2019 this ratio was 0.62%).

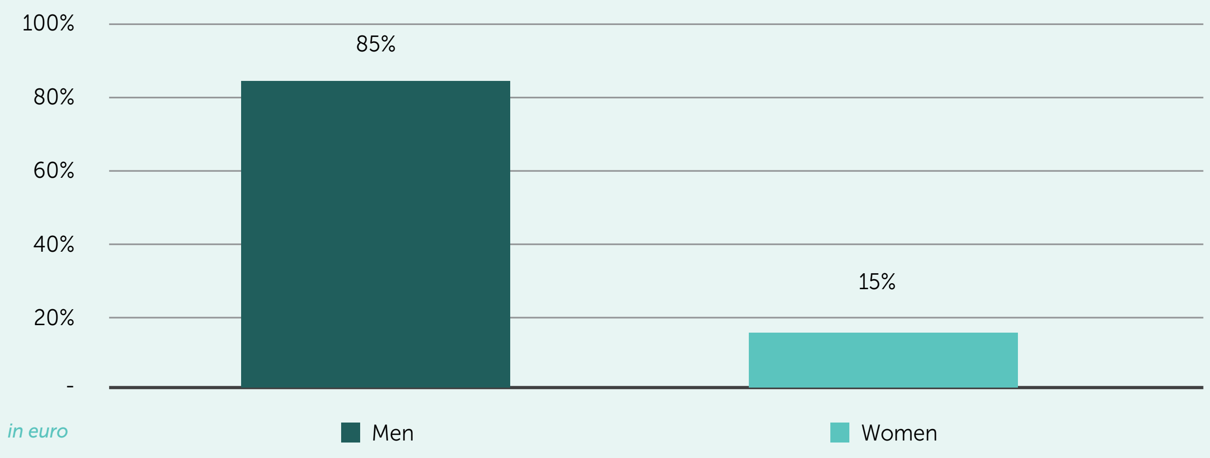
Such an increase in the share of the guaranteed loan volume both in the total sector loan volume (MSME loans) and in the GDP of Kosovo, is a positive sign towards narrowing the lending gap in relation to the GDP of our country.

LOANS FOR WOMEN IN BUSINESS

This indicator focuses on the inclusion of women owners of MSMEs in the lending process. Women make use of formal lending at a lower rate than men. Because of this, KCGF has introduced in its institutional objective the goal to provide better opportunities for under-served economic sectors and population categories, including women.

During 2020, the share of guaranteed loans for women in business was 15%. This share continued to grow compared to previous years. The growing share indicates that the impact of the KCGF credit guarantee scheme is picking up in this target segment as well.

PARTICIPATION OF WOMEN BUSINESS OWNERS



CREDIT RISK MANAGEMENT

The KCGF operations entail taking risks in extending partial loan guarantees for MSMEs, which have been assessed by Partner Financial Institutions (PFIs). Consequently, credit risk arising from information asymmetry, lack of collateral, or other risks when lending to MSMEs, also becomes part of the KFCG risk for guaranteed loans. As KCGF does not participate in credit risk assessment, the processes are designed to ensure regular risk management through appropriate ex-ante and ex-post monitoring and control mechanisms. The risk management approach starts with identifying and analyzing risks for KCGF, onwards to establishing appropriate controls for risk management and mitigation and building an adequate monitoring system. Risk management and mitigation at KCGF is conducted by:

- Defining clear eligibility conditions and criteria for PFIs, MSMEs, as well as eligible loans
- Portfolio diversification, at the level of:
  - *PFIs, through allocation of guarantee limits*
  - *MSMEs, by determining maximum guarantee exposure*
- Counter-guaranteeing the portfolio through credible institution guarantee schemes, enabling risk-sharing for guaranteed loans
- Regular monitoring and control, at the level of:
  - *Financial Sector,*
  - *PFIs, and*
  - *Guaranteed Borrowers.*

RISK MANAGEMENT ACTIVITIES DURING 2020

In accordance with internal policies and processes, KCGF reviewed and approved the applications for limit reassessment of almost all PFIs during 2020, reviewed and modified internal policies in accordance with the modifications made in the respective windows, effectively managed risk perceived by the global COVID-19 pandemic. Additionally, during the past year, KCGF maintained its practice of regular monthly meetings to examine banking sector trends in general and for each PFI in particular, in addition to conducting guarantee portfolio analysis.

Under its existing capacities, KCGF continued to allow higher guarantee limits for PFIs, increasing the guarantee limits by almost EUR 15 million during 2020, raising the total limits allocated to PFIs to EUR 83.35 million.

During 2020, KCGF continued to utilize the COSME (EIF program) counter-guarantee scheme, offering the possibility of risk sharing through 50% coverage of loans guaranteed by KCGF that are eligible for the COSME program. The counter-guarantee scheme has enabled KCGF to partially share credit risk, increase guarantee capacity, reduce provisioning costs, but also reduce fees for loans that are eligible for the COSME scheme.

RISK MANAGEMENT IN LIGHT OF COVID-19

The economic situation in 2020 deteriorated significantly due to the COVID-19 pandemic. While the initial stages of this crisis focused on efforts to better understand the disease to counter it with the best possible response, measures taken to contain the spread of the COVID-19 pandemic inevitably led to economic crisis and recession.

In this time of uncertainty, the focus of KCGF was on the most effective risk management in the emerged situation, but at the same time KCGF was determined to help sustain and encourage lending by PFIs, aiming to mitigate or rather not aggravate the effects of the crisis.

Measures taken by all stakeholders affected the financial sector, mitigating the effects and consequences of the crisis on the financial sector performance in Kosovo. Although economic activity in Kosovo contracted by around 6% according to forecasts by the International Monetary Fund (IMF), the financial sector performance indicators did not deteriorate during this period. The financial sector in Kosovo during this period remained liquid and sound, which was reflected in the performance outcomes of KCGF.

In terms of managing the risk brought on by the COVID-19 pandemic, among the first steps that the KCGF took was to step up communications with PFIs, to better understand the extent of the crisis, to be informed about the affected activities or sectors, measures that PFIs have taken, as well as their expectations related to potential upcoming developments. The information received from PFIs was used to design stress tests under different scenarios that could occur, to prepare for the measures according to different scenarios. In addition, KCGF established a mechanism for monitoring customers in vulnerable sectors, as well as monitoring borrowers who have been placed under moratorium or loan restructuring. Further to monitoring this group, KCGF created additional provisioning reserves to provide adequate coverage in the event of loan deterioration due to the pandemic impact.

RESTRUCTURING OF GUARANTEED LOANS DURING COVID-19

To attenuate the challenges that arose COVID-19, the KCGF committed to facilitating the implementation of regulations issued by the CBK on the deferment of loan repayment for guaranteed borrowers affected by the pandemic. To implement this process, KCGF amended its internal processes to facilitate those related to postponing loan maturity dates. The first stage involved a moratorium on loans, a process that was conducted as directed by the CBK in March-June including almost 46% of the KCGF guaranteed portfolio. The second stage involved the restructuring of loans to borrowers affected by COVID-19, a process also implemented as directed by the CBK, including around 9% of the guaranteed portfolio.

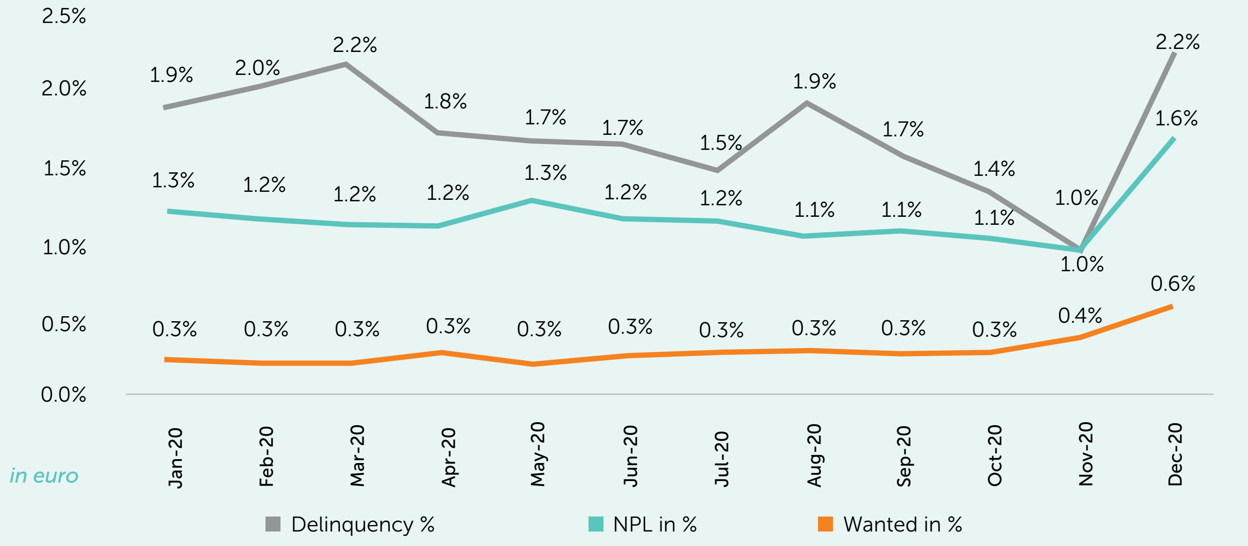
The postponement of loan maturity during this period is thought to have had a significant role on mitigating the impact of COVID-19 on the quality of bank loans, as well as the portfolio guaranteed by KCGF.

PORTFOLIO QUALITY

Notwithstanding the deteriorating economic situation, 2020 featured a continued growth of the guaranteed portfolio, while the quality of guaranteed loans was at the projected level. As of December 31, 2020, the guarantee balance was in the amount of EUR 55.93 million, up by 27% from the previous year. Although portfolio quality measured against delinquent and non-performing loans (NPLs) recorded an uptick during 2020, that increase was at the forecast level and is still below the level of the sector where guaranteed. According to year-end data, the delinquency rate of guaranteed loans was 2.25%, while the NPL rate was 1.55%.

2020 was the second year of claim applications and payments. All applications submitted by PFIs for eligible loans were reviewed in accordance with the guarantee agreement and internal policies of KCGF.

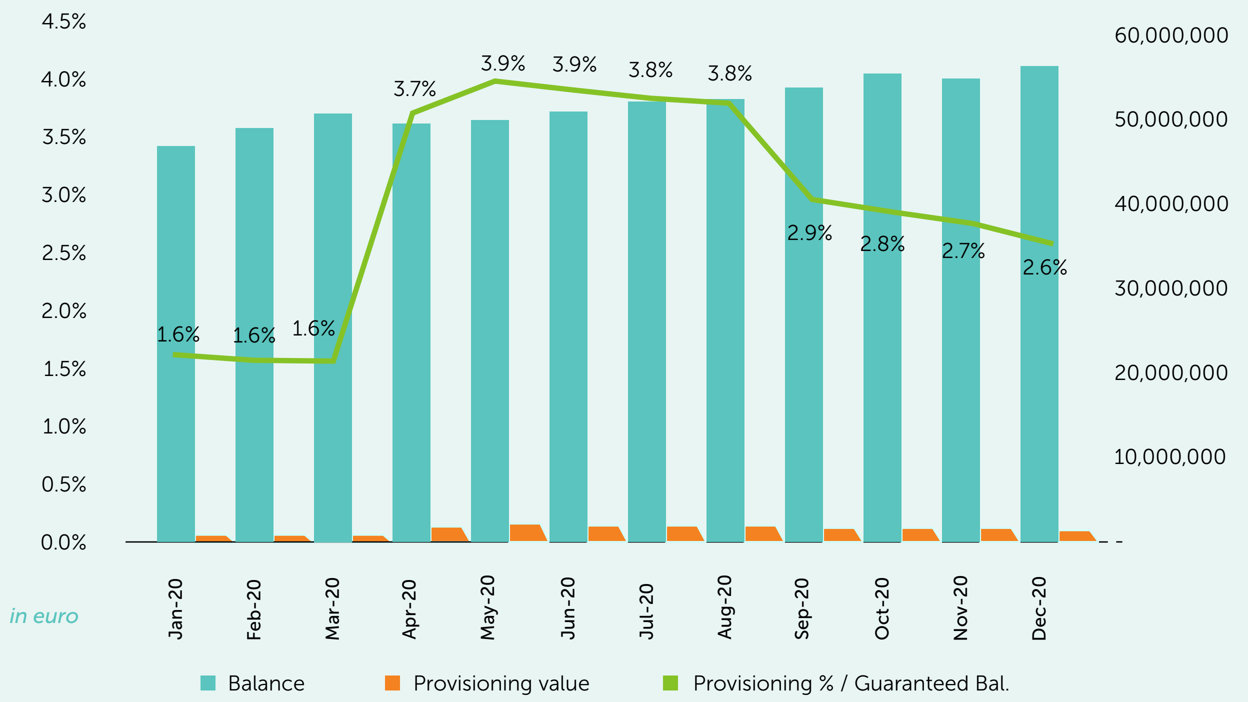
GUARANTEED LOAN PERFORMANCE IN 2020



During 2020, KCGF continued to stand behind its obligations making payments of claim applications on guaranteed loans totaling EUR 228,900, while the total guaranteed amount of paid claims (including previous years) reached EUR 311,250, representing 0.56% of the guaranteed balance. Timely review of payment applications and their evaluation in accordance with the guarantee agreement proves the seriousness of KCGF and boosts its credibility in relation to partners.

KCGF continued to build provisioning reserves according to the expected loss model. Due to the situation created by the pandemic, KCGF augmented its provisioning reserves, increasing their level for guaranteed loans in the sectors rated as most affected by the crisis. As of December 31, 2020, total provisioning reserves were EUR 1,436.3 million, representing a coverage of 2.6% in relation to the guaranteed balance, while the coverage of NPLs was 165.7%.

PROVISIONING TO GUARANTEED BALANCE RATIO



CAPITAL STRUCTURE AND INVESTMENTS

The KCGF capital consists of funds provided to KCGF by the Government of the Republic of Kosovo and international donors.

In 2016, when KCGF was established, the amount of donated capital to KCGF was EUR 7,345,141 while in 2017 this amount doubled, closing 2017 with donated capital in the amount of EUR 15,790,921. The doubling of the capital came as a result of contributions from the USAID, MTI, and KfW in late December 2017. During 2018 and 2019, KCGF did not receive any new capital.

2020 resulted in a significant increase in capital for KCGF. The Government of the Republic of Kosovo contributed to the capital increase in the amount of EUR 21,410,000 and KfW donated the amount of EUR 11,500,000.

The capitalization of the institution is of particular importance to enable the increase of the KCGF guarantee capacity and at the same time channel security in the financial market. KCGF implements a capital leveraging policy that is determined according to market/sector risk indicators, making sure that KCGF has sufficient capital to carry out its operations and absorb potential losses. Enhanced guarantee potential affects increased lending by financial institutions, providing them with the comfort to explore new sectors in the lending market and in particular to support the most disadvantaged sectors that are of great importance for the development of the private sector and the economy of Kosovo as a whole.

The KCGF capital is invested in KCGF partner institutions, as specified in the law.

KCGF delegates its trust to partner institutions, leaving it up to them to manage the invested funds. When planning for investments, KCGF takes care to provide liquidity in the financial market and consequently affects increased lending by financial institutions. KCGF also optimizes rates of return on investment, always taking care to maintain market stability, which has continued even during an unstable situation, such as that of 2020. During 2020, KCGF invested EUR 23,778,921 in term deposits with its PFIs, with a maturity of one (1) and two (2) years, carrying on in the spirit of multiple year cooperation in this direction.

Revenues from investments are consolidated in the statement of profit or loss and other comprehensive income (OCI) and the annual profit is reinvested or retained at KCGF, thereby increasing the capital, and is not distributed outside the KCGF in any form or manner, including dividends.

	GoK	USAID	KFW	Retained Earnings	Total
Capital 2016	2,000,000 €	5,345,141 €	-	(3,149.00)	7,341,992 €
Capital 2017	1,000,000 €	445,780 €	7,000,000 €	179,017.00 €	8,624,797 €
Capital 2018	-	-	-	320,012 €	320,012 €
Capital 2019	-	-	-	484,334 €	484,334 €
Capital 2020	21,410,000 €	-	11,500,000 €	66,312 €	32,976,312 €
Total	24,410,000 €	5,790,921 €	18,500,000 €	1,046,526 €	49,747,447 €
%	49%	12%	37%	2%	100%

TERM DEPOSITS ACCORDING TO MATURITY

ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

KCGF bears full responsibility for the environment and the community and therefore takes care to avoid and reduce the negative environmental impact from investments made possible by its guarantee scheme.

To contribute to responsible economic development, KCGF began implementing its Environmental and Social Management System (ESMS).

The purpose of the ESMS is to ensure that financed projects (eligible loan investment plans) identify and address measures to avoid and minimize environmental and social impacts in accordance with relevant Kosovo legislation, World Bank rules and the IFC Performance Standard 1.

In this regard, KCGF is committed to identifying and addressing all environmental and social risks associated with its guarantee activities. In 2020, KCGF continued to implement its Environmental and Social Management Policy (ESMP) as required by donors based on IFC standards.

The objective of the ESMP is to fulfill the institutional mandate with full responsibility to the environment and the community and to ensure that PFIs have the necessary support to reduce the negative environmental impact of their operations.

To fully implement the ESMS, KCGF in cooperation with donors updated its ESMP, hired an Environmental and Social Expert, and built a monitoring and reporting process.

As not all PFIs have such a system in place, KCGF with support from the World Bank during 2020 began preparations to support PFIs to build their own ESMSs, as well as their capacities.

KCGF will continue to support and monitor PFIs in the coming years, until we assess that the PFIs are ready to proceed independently. All these efforts are simply to ensure that investments made due to the KCGF credit guarantee do not have a negative environmental and social impact in our country.

2020 MILESTONES

ECONOMIC RECOVERY PACKAGE

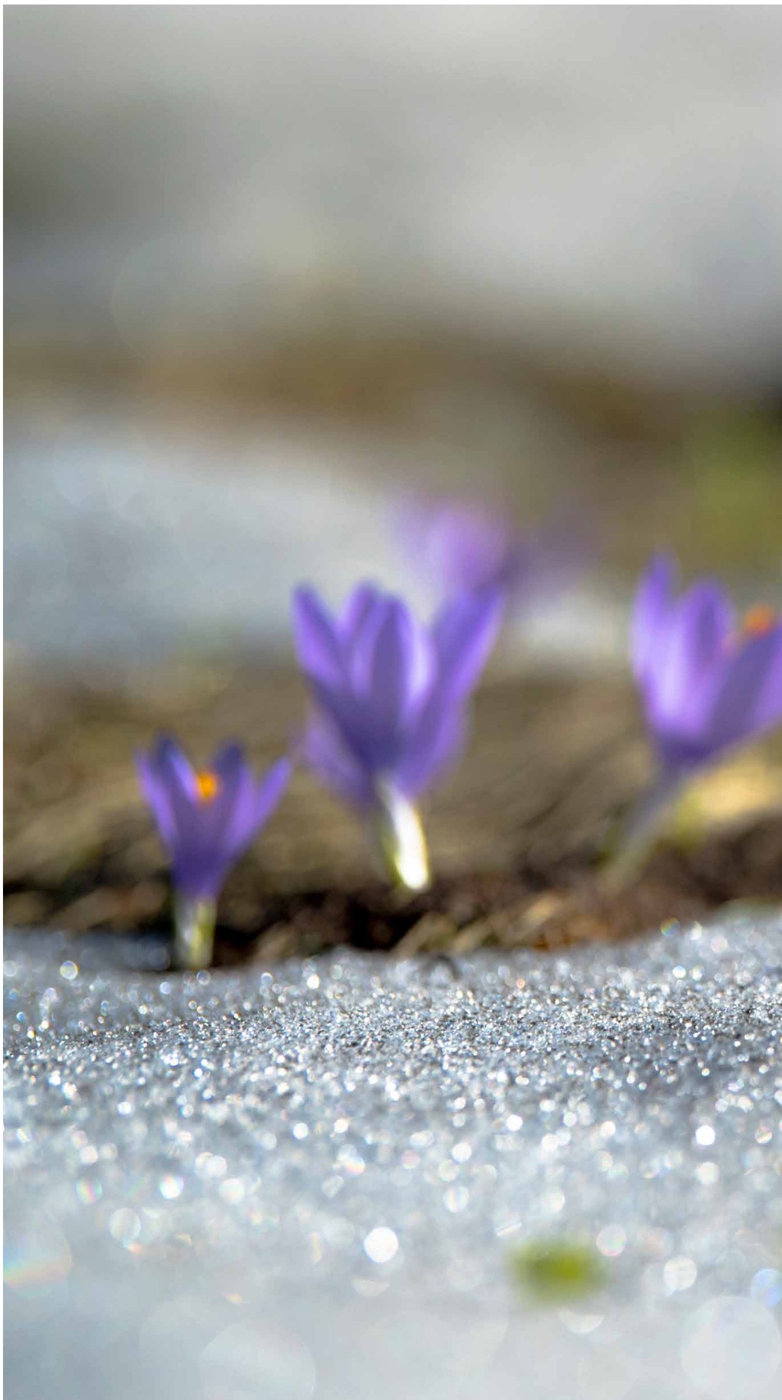
As the COVID-19 pandemic was taking its toll, MSMEs began to feel its effects in every aspect. From the beginning, KCGF took on the responsibility of assisting the MSME sector by creating guarantee products that would respond to the need for continuous lending to MSMEs, aiming to meet the need for liquidity and investment financing.

By actively participating in the working groups initiated by the Ministry of Finance to design the economic recovery package, KCGF presented its vision of how the KCGF guarantee scheme facility can be best deployed to address the consequences of the economic crisis caused by the COVID-19 pandemic and how this scheme should be adapted to the newly created situation. Restoring confidence in the banking sector to avoid a credit crunch, which in turn would lead to a lack of liquidity in the market, has been identified as one of the fronts where KCGF would have to mount a fight, during and after the COVID-19 crisis.

To achieve this goal, in a situation where the perception of credit risk in the market is considered much higher than under normal circumstances, it was deemed necessary for the KCGF guarantee scheme to provide greater coverage. Therefore, increasing the credit guarantee coverage from 50% to 80% was considered a prerequisite for making a difference in the market. On the other hand, to address the specific needs of certain market segments, special guarantee windows were designed to assist sectors deemed as strategic to the economy, as well as marginalized segments in business dealings.

To see this joint initiative between the Government of the Republic of Kosovo and KCGF come to fruition, it was necessary to amend the current legislation that regulates the KCGF operations and engage internal KCGF structures to design the guarantee windows.

The implementation of this joint initiative with the GoK and international donors was made possible with the approval of the Economic Recovery Package in the Assembly of Kosovo and the ratification of the Law on Economic Recovery by Acting President of the Republic of Kosovo. In this regard, KCGF launched its windows under the Economic Recovery Package, providing support to lending in certain sectors, such as manufacturing, services, agriculture, trade, with special focus on women in business, start-up businesses, and investments in energy efficiency.



AGROSOFT PLATFORM

The Kosovo Credit Guarantee Fund (KCGF), in cooperation with the Ministry of Agriculture, Forestry and Rural Development (MAFRD) and the Kosovo Banking Association (KBA), launched the AgroSoft platform, a project supported by the German Development Bank (KfW). The AgroSoft virtual platform will help financial institutions to perform more accurate analyses related to agricultural financing. This user friendly and dynamic platform accessible from various electronic devices (desktop, laptop, tablet, or smartphone) and updated by MAFRD with the latest data, will enable financial institutions and other stakeholders to narrow the information asymmetry gap between farmers, the financial institution, and the market.

PART V

ACTIVITIES DURING 2020

CONCLUSION OF NEW AGREEMENTS

APRIL 2020

FINANCIAL AGREEMENT ON INCREASING KCGF GUARANTEE CAPITAL

The Acting Minister of Finance and Transfers, Besnik Bislimi, and the Director of the KfW Office in Kosovo, Rene Eschemann, signed the Financial Agreement to increase the guarantee capital of the Kosovo Credit Guarantee Fund in the amount of EUR 6.5 million, with a focus on lending support to the agribusiness sector.

SEPTEMBER 2020

MOF AND KCGF SIGN SUBSIDIARY AGREEMENT

The Deputy Minister of Finance, Agim Krasniqi, and the Managing Director of the Kosovo Credit Guarantee Fund, Besnik Berisha, signed the Subsidiary Agreement in the amount of about EUR 22.3 million. This agreement comes as a result of the financing agreement between the Republic of Kosovo and the World Bank for the Financial Sector Strengthening Project.

SEPTEMBER 2020

MFK, KCGF, AND MOF SIGN LETTER OF INTENT

The Millennium Foundation Kosovo (MFK), the Kosovo Credit Guarantee Fund (KCGF), and the Ministry of Finance (MoF) signed a Letter of Intent to launch commercial financing for renewable energy and energy efficiency projects in the amount of up to EUR 25 million. Parties signed the Letter of Intent in the presence of the Millennium Challenge Corporation (MCC) representatives and the delegation of the U.S. International Development Finance Corporation (DFC), visiting Kosovo to promote cooperation and economic development.

NOVEMBER 2020

FINANCIAL AGREEMENT ON INCREASING KCGF GUARANTEE CAPITAL

The Director of the German Development Bank (KfW) for Southeast Europe and Turkey, Dr. Klaus Müller, and the Managing Director of the Kosovo Credit Guarantee Fund, Besnik Berisha, signed the financial agreement to increase the guarantee capital of the Kosovo Credit Guarantee Fund in the amount of EUR 6.5 million. This support is provided by the German Government to strengthen lending to the business sector in general, to avoid the consequences of the crisis brought on by the COVID-19 pandemic. The guarantee facilities, fully funded by the German Government with intermediation by KfW, are already supported with capital of EUR 18.5 million.

DECEMBER 2020

IMPLEMENTATION OF THE WORLD BANK FINANCIAL SECTOR STRENGTHENING PROJECT IN KOSOVO

As a result of the financing agreement between the Republic of Kosovo and the World Bank for the Financial Sector Strengthening Project, the capital of the Kosovo Credit Guarantee Fund increased in the amount of EUR 21.4 million. Through the Financial Sector Strengthening Project, the World Bank aims to support Kosovo's economic recovery with targeted support for access to finance by creating guarantee windows for certain market segments, such as women in business, young entrepreneurs, and manufacturing, and aims to promote the financial and technical capabilities of the KCGF by providing technical assistance. The total value of the subsidiary agreement, including technical assistance, is about EUR 22.3m. Through this capital, the KCGF shall endeavor to strengthen its role under the Economic Recovery Package in efforts to combat the adverse effects caused by the COVID-19 pandemic.

WORKSHOPS/SEMINARS

JANUARY 2020

KCGF AND MFK JOIN FORCES IN SUPPORT OF INVESTMENTS IN SOLAR RENEWABLE ENERGY

The Millennium Foundation Kosovo (MFK) together with the Millennium Challenge Corporation (MCC) and the Kosovo Credit Guarantee Fund (KCGF) hosted an Executive Informative Session for the donor community, international development organizations, and financial organizations to provide more information on the Renewable Energy Independent Power Producer (IPP) Facilitation Project in the amount of USD 5 million.

FEBRUARY 2020

KCGF PRESENTATION ON ITS INSTITUTIONAL ROLE IN DOMESTIC ECONOMIC GROWTH

The Kosovo Credit Guarantee Fund provided a presentation on its institutional role in domestic economic growth, with special emphasis on supporting local agribusinesses. The presentation for the Association of Fruit and Vegetable Processors of Kosovo (PePeKo) and the National Raspberry Association included discussions on the easiest access to finance that should be available to local agribusinesses in this sub-sector.

APRIL 2020

KCGF ATTENDS VIRTUAL FORUM HOSTED BY AMCHAM

Managing Director of the Kosovo Credit Guarantee Fund, Mr. Besnik Berisha participated in the virtual forum "Role of Kosovo Credit Guarantee Fund in Addressing the Impact of COVID-19" hosted by AmCham. In this panel, Mr. Berisha informed the participants on the current activity of the KCGF, as well as the measures being taken by KCGF, in cooperation with the Government of the Republic of Kosovo and international donors, to support MSMEs and PFIs during the COVID-19 pandemic.

MAY 2020

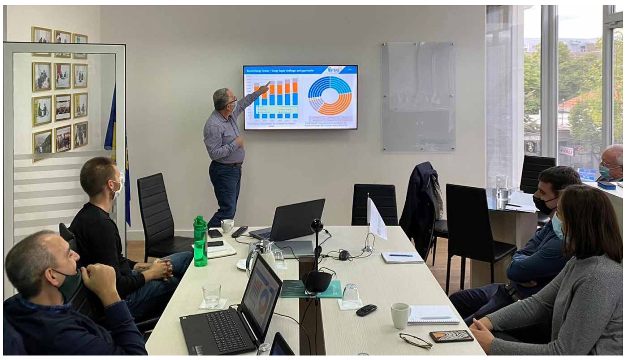
KCGF HOSTS COORDINATION MEETING WITH DONORS AND PARTNERS

Information on initiatives and developments, mutual coordination to create new opportunities to help MSMEs through the Kosovo Credit Guarantee Fund to overcome the situation brought on by the pandemic, were some of the topics featured in discussions at this meeting. The meeting was attended by representatives of the Ministry of Finance and Transfers as well as representatives of international donors, such as: KfW, USAID Office in Kosovo, Sida, World Bank, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), European Union Office in Kosovo, International Finance Corporation (IFC), and Embassy of Japan in Kosovo.

OCTOBER 2020

KCGF ATTENDS THIRD EDITION OF KOSOVO SUSTAINABLE DEVELOPMENT WEEK

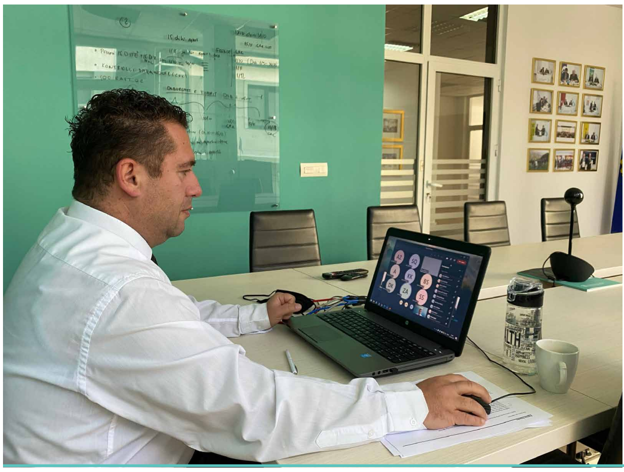
The Kosovo Credit Guarantee Fund joined other participants in the virtual panel on “COVID-19 Economic Recovery through Clean Energy”. During the panel discussion, Mr. Berisha stressed that Kosovo Credit Guarantee Fund (KCGF), under the Economic Recovery Package, plans to support the financing of projects with special focus on the renewable (solar) energy sector and energy efficiency.



OCTOBER 2020

TRAINING ON INSTITUTIONAL CAPACITY BUILDING RELATED TO RENEWABLE ENERGY AND ENERGY EFFICIENCY

Employees of the Kosovo Credit Guarantee Fund attended a two-day training on renewable energy and energy efficiency, provided by experts from Financial Markets International Inc. This training, which is part of the one of three key interventions under the Agreement concluded between MFK and KCGF aiming to establish an enabling environment for financing renewable energy in Kosovo, focused on supporting KCGF in the development of institutional capabilities related to enhancing its financial insights on the solar energy market, in addition to the introduction of a guarantee window for the financing of renewable (solar) energy projects and investments that boost energy efficiency.



OCTOBER 2020

TRAINING ON AGROSOFT PLATFORM

The Kosovo Credit Guarantee Fund conducted the first round of virtual trainings on how to use the AgroSoft platform with the selected staff of partner banks. In addition to credit guarantees, through the AgroSoft platform, KCGF shall facilitate easier access to finance for local farmers and agribusinesses, in support of easier and more reliable credit related decision-making.

DECEMBER 2020

KCGF ATTENDS THE 2020 ANNUAL CONVENTION OF THE KOSOVO BANKING ASSOCIATION, "BANKING IN THE TIME OF COVID-19"

The Kosovo Credit Guarantee Fund attended the virtual panel on "Challenges and Sustainability of Kosovo Banks during the COVID-19 pandemic: Recovery and Expected Changes in the Banking Sector." In this panel, Mr. Berisha briefed the participants on current KCGF operations, as well as on measures being taken by KCGF, in cooperation with the Government of the Republic of Kosovo and international donors, to support MSMEs and PFIs during the COVID-19 pandemic. During the panel discussion, Mr. Berisha also informed the participants about the new windows and facilities offered for the underserved sectors and segments, such as: agriculture, women in business, and start-up businesses, encouraging partner FIs to enable access to finance for these sectors and segments, while consistently ensuring that there shall be no increased liabilities incurred at a level that would be overwhelming for the final beneficiaries.

ORIENTATION AND REFRESHER TRAINING WITH PFIS

Orientation and Refresher training with PFIs aims to raise awareness among PFI staff on KCGF services, credit guarantees features, how such services make a difference and bring benefits to all related parties, i.e., PFIs, MSMEs, and the economy in general.

During 2020, the KCGF staff provided a series of orientation trainings for credit analysts and loan officers responsible for credit and risk analysis, who directly engage with KCGF (staff and system), and with the customers (MSMEs). These trainings were specific to the implementation of the AgroSoft Platform and a refresher course on standard products.

SUCCESS STORIES

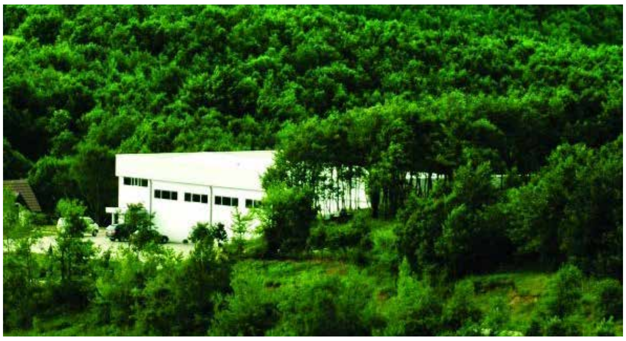
HIT-FLORES – A COLLECTION CENTER IN THE SHARR MOUNTAINS

Hit-Flores is a company involved in the harvesting and processing of medicinal plants, mushrooms, and forest fruits. The company is also involved with the processing and packaging of tea, which is harvested directly from the Sharr Mountains.

"We started our business in 2005, initially with the harvesting of forest fruits and gradually expanding operations to include the harvesting of medicinal plants and mushrooms. Our primary goal is to harvest high-quality fruits and medicinal plants from the beautiful Sharr Mountains and use proper classification and packaging to ensure our presence in international markets", notes Mr. Arafat Bajrami, business owner of Hit-Flores.

Currently, the company is cooperating with more than 4,000 farmers and various international companies from ten European countries. The company cooperates with local farmers from the region of Dragash, Shtërpcë, Brezovicë, Mitrovicë, Vushtrri, as well as with farmers from the northern part of Albania. Hit-Flores employs 28 full time workers and 70-120 seasonal workers, as needed.

"With the constant expansion of company activities, we realized that we needed to invest in facility augmentation to ensure that our operations would be supported in the best way possible. We managed to make this investment with a loan guaranteed by the Kosovo Credit Guarantee Fund", notes Mr. Bajrami. Through this investment, the company managed to create a better space for storage and preservation of products, making them ready for placement in both domestic and international markets.



ARBËRIA GROUP – PRODUCER OF NATURAL MINERAL WATER "UJË I ALPEVE"

Arbëria Group is a company involved in the production of natural mineral water "Ujë i Alpeve" (Alpine Water) and the production of carbonated beverages.

"It was 2010 when we established the Ujë i Alpeve Water Factory, to produce and bring quality natural water from the spring to the customer's dining table. Ujë i Alpeve natural mineral water springs from the depths of the Gollak Mountains in the village of Koliq, at an altitude of over 1,200 meters, from an ancient spring of natural mineral water, and is well-known as high-quality water", emphasizes Mr. Afrim Osmani, business owner.

Currently, the company is cooperating with more than 1.500 local companies, local hypermarket, and supermarket chains, as well as retailers. *"Since 2010, our company has managed to expand, adding production lines, and increasing the number of employees, and to become established as a name brand among customers. To offer a high-quality product, we package the water using modern European technology certified according to European standards, which allows our Alpine Water to retain all its natural properties from the spring. However, in addition to the advanced technology we employ, to carry out our planning and to be competitive in the market, we also needed to invest in working capital. We managed to make this investment with a loan guaranteed by the Kosovo Credit Guarantee Fund",* points out Mr. Osmani.

Through this investment, the company managed to achieve production goals and planned sales, which at the same time resulted in business growth.

MEETINGS OF THE BOARD OF DIRECTORS AND RELEVANT COMMITTEES

KCGF BOARD OF DIRECTORS MEETINGS

During 2020, the Board of Directors of KCGF held a total of six (6) meetings, of which five were regular meetings and one ad hoc meeting. At the Board meetings, several important decisions were made on the further development of KCGF and the KCGF relations with third parties.

MEETINGS OF THE RISK MANAGEMENT COMMITTEE AND THE AUDIT COMMITTEE

During 2020, the Risk Management Committee (RMC) held four (4) regular meetings and the Audit Committee (AC) held four (4) regular meetings. At these meetings, the respective committees issued decisions and recommendations for review by the KCGF management and final approval by the Board of Directors.

The following table provides an outline of relevant Board of Directors and subsidiary committee meetings:

Schedule of Board Meetings	Participation of Board Members	No. of Topics Discussed	No. of Decisions Issued
21 February 2020	7/7	8	3
07 May 2020	7/7	1	0
29 May 2020	7/7	4	3
21 August 2020	7/7	9	6
21 October 2020	7/7	7	4
18 December 2020	6/7	3	3
Total:		**32**	**19**

Schedule of RMC Meetings	Attendance by RMC Members	No. of Topics Discussed	No. of Decisions/ Recommendations Issued
11 February 2020	4/4	1	0
12 May 2020	4/4	4	1
10 August 2020	4/4	4	3
04 November 2020	4/4	5	4
Total:		**14**	**8**

Schedule of AC Meetings	Attendance by AC Members	No. of Topics Discussed	No. of Decisions/ Recommendations Issued
19 February 2020	Recommendations Issued	4	0
07 May 2020	4/4	4	0
07 August 2020	4/4	4	0
05 November 2020	4/4	1	1
Total:		**13**	**1**


KCGF-06-16

PART VI

AUDITED FINANCIAL STATEMENTS

KOSOVO CREDIT GUARANTEE FUND

Independent Auditor's Report and Financial Statements for the year ended December 31, 2020

CONTENT

Independent Auditor's Report

Grant Thornton LLC
Rexhep Mala 18
10000 Pristina
Kosovo
T +383 (0)38 247 801
F +383 (0)38 247 802
E Contact@ks.gt.com
VAT No. 330086000

To the Board of Directors of
Kosovo Credit Guarantee Fund

Opinion

We have audited the accompanying financial statements of Kosovo Credit Guarantee Fund (the "Fund"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kosovo, 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.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund '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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance of Kosovo Credit Guarantee Fund 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.

Grant Thornton LLC
Prishtina

GRANT THORNTON L.L.C. KOSOVO

Suzana Stavrikj
Statutory auditor

1 June 2021

	Notes	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
ASSETS			
Cash and cash equivalents	4	28,089,205	735,567
Trade and other receivables	5	231,824	381,374
Deposits	6	24,050,187	16,891,934
Right of use asset	7	79,324	26,927
Property, plant, and equipment	8	24,605	2,032
Intangible assets	9	25,119	40,203
TOTAL ASSETS		**52,500,263**	**18,078,037**
EQUITY AND LIABILITIES			
Accrued expenses		29,275	9,206
Lease liability	7	81,302	27,468
Reserve for losses on Guarantees	16	1,445,576	688,299
Deferred revenues from donated assets	10	612,850	32,110
Accrual guarantee fees		583,813	549,819
Total liabilities		**2,752,816**	**1,306,902**
Equity			
Capital	11	48,700,921	15,790,921
Accumulated profit		1,046,526	980,214
Total equity		**49,747,447**	**16,771,135**
TOTAL EQUITY AND LIABILITIES		**52,500,263**	**18,078,037**

Authorized for issue by the management and signed on its behalf on 31 May 2021.

Besnik Berisha
Managing Director

KOSOVO CREDIT GUARANTEE FUND • FONDI KOSOVAR PËR GARANCI KREDITORE • KOSOVSKI FOND ZA KREDITNO GARANTOVANJE

Vjosa Balaj
Senior Finance Manager

The accompanying notes on pages 7 to 29 form an integral part of these financial statements.

	Notes	Year ended 31 December, 2020 (EUR)	Year ended 31 December, 2019 (EUR)
Guarantee fees	12	1,061,886	814,289
Other income	13	349,561	461,242
Total income		**1,411,447**	**1,275,531**
Personnel expenses	14	(205,779)	(176,188)
Depreciation and amortization	7,8,9	(46,748)	(43,647)
Operating expenses	15	(106,436)	(100,395)
Net provision losses for guarantees	16	(986,172)	(470,967)
Profit for the year		66,312	484,334
Other comprehensive income		-	-
Total comprehensive profit for the year		**66,312**	**484,334**

The accompanying notes on pages 7 to 29 form an integral part of these financial statements.

	Capital (EUR)	Accumulated profit (EUR)	Total (EUR)
As at January 1, 2019	15,790,921	495,880	16,286,801
Profit for the year	-	484,334	484,334
Other comprehensive income	-	-	-
As at December 31, 2019	**15,790,921**	**980,214**	**16,771,135**
As at January 1, 2020	15,790,921	980,214	16,771,135
Paid in Capital	32,910,000	-	32,910,000
Profit for the year	-	66,312	66,312
Other comprehensive income	-	-	-
As at December 31, 2020	**48,700,921**	**1,046,526**	**49,747,447**

The accompanying notes on pages 7 to 29 form an integral part of these financial statements.

	Notes	Year ended 31 December, 2020 (EUR)	Year ended 31 December, 2019 (EUR)
Cash flow from operating activities:			
Profit of the year		66,312	484,334
Adjustments for:			
Depreciation and amortization	7,8,9	46,748	25,696
Interest on deposits		(282,648)	(245,050)
Interest expenses on the lease liabilities		(4,974)	(1,430)
		(174,562)	**263,550**
Movements in working capital:			
Increase in trade and other receivables		149,550	(91,756)
Increase in accrual guarantee fee		33,994	147,135
Increase in reserves for losses on Guarantees		757,277	388,616
(Decrease)/Increase in deferred revenues from donated assets		580,740	(8,737)
Increase in accruals		20,070	(4,406)
Increase in lease liability		4,441	19,381
Interest paid for lease liabilities		4,974	1,430
Net cash (used)/generated in operating activities		**1,376,484**	**715,213**
Cash flow from investing activities:			
Acquisition of fixed assets	8,9	(30,891)	(16,467)
Increase in deposits		(7,158,876)	(1,058,045)
Received interest from deposits		283,271	152,667
Net cash used in investing activities		**(6,906,496)**	**(921,845)**
Cash from financing activities			
Repayment of lease liability		(26,350)	(18,840)
Paid in capital		32,910,000	-
Net cash generated in financing activities		**32,883,650**	**(18,840)**
Net (Decrease)/Increase in cash and cash equivalents during the year		**27,353,638**	**(225,472)**
Cash and cash equivalents at the beginning of the year		735,567	961,039
Cash and cash equivalents at the end of the year	4	**28,089,205**	**735,567**

The accompanying notes on pages 7 to 29 form an integral part of these financial statements.

1. GENERAL

The Kosovo Credit Guarantee Fund ("KCGF" or "the Fund") is an independent and sustainable institution that issues guarantee to financial institutions to cover the risk for MSME (Micro, Small and Medium Enterprises) loans.

KCGF was established, because of joint initiative between International Donors in Kosovo (mainly USAID and KFW) and Government of Kosovo, in January 2016, based on the Law on Establishment of the Kosovo Credit Guarantee Fund.

Through "Law on Establishment of the Kosovo Credit Guarantee Fund" Law No. 05/L-057 established the KCGF as an independent, not-for-profit, public institution, autonomous, legal entity and determined its authority, structure, governance, operations, scope, and policies and procedures for the issuance of Credit Guarantees.

The founding law of the KCGF was initiated by MTI (Ministry of Trade and Industry), while USAID in Kosovo, through the EMPOWER Credit Support Program (ECS) supported the institution on becoming operational. The law entered into force on 23 January 2016. KCGF capital consists of funds donated by USAID, KfW and the Government of Kosovo (GoK).

KCGF is created to help meet the need for increased access to finance for micro, small and medium enterprises in Kosovo, to create jobs, increase local production and value-added services, and improve the trade balance and enhance financing opportunities for MSMEs.

KCGF is an independent, autonomous, legal entity established by Law, with full legal personality, and a legal identity that is separate and distinct from the KCGF Management Board and Executives.

KCGF is governed by a Board of Directors composed of seven members who collectively combine years of experience in financial management, risk management, commercial or financial law and auditing. The Board provides leadership and oversight for all KCGF's activities.

KCGF is established for the purpose of providing partial risk credit guarantees to financial institutions on loans to MSMEs up to the coverage amount prescribed by the LKCGF and the Guarantee Agreement between KCGF and the financial institution.

For its main function, KCGF is responsible for:

a. Issuing Credit Guarantees in accordance with the LKCGF and internal policies approved by the Board of Directors.

b. Setting the conditions for registering qualified Kosovo Financial Institutions in the KCGF reflected in the Policy on the Registration of Financial Institutions.

c. Setting the conditions for issuing Credit Guarantees by the KCGF.

d. Setting the Guarantee Fees of the KCGF.

e. Depositing or investing directly or through delegation of authority the assets of KCGF within the limitations of the LKCGF

f. Paying Payable Amounts on Credit Guarantees to Registered Financial Institutions pursuant to the provisions of the LKCGF and the Guarantee Agreement, in accordance with the provisions of the LKCGF and the Policy on Handling Claims.

1. GENERAL (CONTINUED)

KCGF's minimum capital is 300,000.00 Euros as defined in the Article 10 of the LKCGF (Law on Establishment of the Kosovo Credit Guarantee Fund). KCGF's governing bodies are the Board of Directors and the Managing Director. The Board of Directors shall be the highest governance body of KCGF.
The KCGF's fiscal identification number is 601642061.

KCGF operations and all administrative activities since June 10, 2017 are independent and under the management of the Fund.

On December 6, 2017 the Kosovo Credit Guarantee Fund (FKGK) signed the Guarantee Agreement with the Swedish International Development Cooperation Agency (SIDA), represented by the Embassy of Sweden in Pristina.
On May 14, 2019, the Kosovo Credit Guarantee Fund (KCGF) signed the Guarantee Agreement with the European Investor Fund under the COSME LGF (loan guarantee facility) program.
The support of the guaranteed portfolio of KCGF by SIDA and COSME, will further enhance the ability of the Fund to ensure a higher level of credit guarantees, while at the same time increasing the financial sustainability of the sector. The sustainability will reflect the facilitation of financial intermediation hence increase of access to finance of micro, small and medium size enterprises, to promote economic growth and job creation for woman, man, and youth of all ethnicities in Kosovo.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income, and expense. The measurement bases are more fully described within the Note below.

The preparation of these financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in note 3.8.

Impact from the Covid-19 pandemic

The rapid development of the COVID-19 virus and its social and economic impact in Kosovo and globally has affected the economy of Kosovo. As a result of the pandemic, the economy has been negatively affected by creating a decline in aggregate demand and thus affecting the financial sector. One of the measures taken during this time, was the moratorium on loan repayment which is also reflected in the KCGF. This measure is considered effective to affect the liquidity of businesses during a difficult time. Also, the subsequent impact is in maintaining the quality of the portfolio until a moment of recovery of businesses from the limitations of the pandemic.

Despite the Pandemic, KCGF has a very stable liquidity position, as a result it continued to meet its obligations during this time. Portfolio developments and guarantee risk have been monitored and the necessary steps have been taken by allocating additional provision deemed necessary.

2. These circumstances did not affect the appropriateness of the going concern assumption of the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of preparation and statement of compliance (continued)

3.1.1 *Standards and Interpretations effective in the current period*

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

• **Amendments to IFRS 3 "Business Combinations"** - Definition of a business (effective for annual periods beginning on or after 1 January 2020).

• **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure"** - Reference at the reference rate (effective for annual periods beginning on or after 1 January 2020).

• **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definitions of materiality (effective for annual periods beginning on or after 1 January 2020).

• **Changes in Conceptual Framework References to IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

• **Amendments to IFRS 16 Leases - COVID-19 Lease Concessions** (effective for annual periods beginning on or after 1 June 2020).

2.1.2 *Standards and Interpretations issued by IASB issued but not yet effective and not early adopted by the KCGF*

At the date of authorization of these financial statements the following standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

• **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023).

• **Amendments to IFRS 3 "Business Combinations"** - Conceptual Framework Reference to the amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022).

• **Amendments to IFRS 4 "Insurance Contracts"** - Extension of the temporary exemption from the application of IFRS 9 (the expiry date of the temporary exemption from IFRS 9 has been extended to annual periods beginning on or after 1 January 2023).

• **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** - Interest Rate Standard Reform - Phase 2 (effective for annual periods beginning on or after 1 January 2021)

• **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 Investments in Joint Ventures and Joint Ventures** - Sale or Contribution of Assets between an Investor and a Joint Venture or Joint Venture and other changes (date of entry in force is indefinitely postponed until the completion of the research project on the equity method).

• **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of current and long-term liabilities (effective for annual periods beginning on or after 1 January 2023).

• **Amendments to IAS 16 Property, Plant and Equipment** - Revenue before Intended Use (Effective for annual periods beginning on or after 1 January 2022).

• **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Variable Contracts - Contract Performance Cost (effective for annual periods beginning on or after 1 January 2022).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation and statement of compliance (continued)
2.1.2 Standards and Interpretations issued by IASB issued but not yet effective and not early adopted by the KCGF (continued)

• **Annual Improvements to IFRS Standards Cycle 2018-2020** (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41).

KCGF has chosen not to adopt these standards, changes to existing standards and new interpretations before their effective dates.

2.2 Financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. Financial liabilities are classified and measured at amortized cost.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At the initial recognition, KCGF measures a financial asset or liability at its fair value plus or minus, in the case of a financial asset or liability not at fair value through profit and loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or liability, such as fees and commissions.

As at 31 December 2020 and 2019, financial assets and liabilities of the Fund are subsequently measured at amortized cost and include of cash and cash equivalents, deposits, trade and other receivables and liabilities.

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired. Financial liabilities are derecognized when they are extinguished (i.e., when the obligation specified in the contract is discharged, cancelled, or expires).

2.3 Cash and cash equivalents

Cash and cash equivalents include cash in hand and balances with banks with original maturity of less than 3 months. The Fund has a bank account opened with Central Bank of the Republic of Kosovo and current accounts with Banken per Biznes, Banken Ekonomike, TEB Bank, Banka Kombetare Tregtare, ProCredit Bank and NLB Bank.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Property, Plant and Equipment

In the financial statement's property, plant and equipment are measured at historical cost of acquisition less accumulated depreciation and impairment loss.

Initial recognition

Upon their initial acquisition property, plant and equipment are valued at acquisition cost, which comprises the purchase price, including customs charges and any directly attributable costs of bringing the asset to working condition.

The directly attributable costs include costs for site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes etc.

The approach chosen by the Company for subsequent measurement of property, plant, and equipment, is the cost model under IAS 16 - acquisition cost less any accumulated depreciation and any accumulated impairment losses.

Gains or losses from derecognition of an item of property, plant, and equipment (calculated as the difference between the proceeds and the carrying amount of the item) are recognized net within other income/other costs in profit or loss.

Depreciation methods

The Fund applies the straight-line depreciation method for property, plant, and equipment as follows:

(i) Equipment and IT equipment	3 years (useful life)
(ii) Office furniture	3 years (useful life)
(iii) Leasehold improvements	as per the lease contract

2.5 Intangible assets

In the financial statements the intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. They include software programs and license for their use. The Fund applies the straight-line depreciation method for the intangible assets with a determined useful life of 5 years.

2.6 Right of used asset

The Fund recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Right of used asset (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Fund’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments.
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in “property, plant and equipment” and lease liabilities in “other liabilities” in the statement of financial position.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 6.4%.

The Fund uses one or more of the following practical expedients according to IFRS 16.C10, applying it on a lease -by-lease basis:
- Using a single discount rate to a portfolio of leases with similar characteristics.
- Adjusting the right-of-use asset for any recognized onerous lease provisions, in-stead of performing an impairment review.
- Applying a recognition exemption for leases for which the lease term ends within 12 months of the date of initial application and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.
- Excluding initial direct costs from the measurement of the right-of-use asset.
- Using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:
- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Right of used asset (continued)

- the Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
- the Company has the right to operate the asset; or
- the Company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered, or changed, on or after 1 January 2019.

2.7 Impairment of non-financial assets

The carrying value of non-financial assets is reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of such assets is the greater of the net selling price and the value in use.
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax-discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.
Impairment losses are recognized in the statement of comprehensive income.

2.8 Fund's balance

The Fund Balance is a grant provided by the Government of the Republic of Kosovo, USAID and KfW. During December 2020, to increase the capital of KCGF, grant agreements in the amount of 11.5 million Euros were signed between the German Development Bank (KfW) and the Ministry of Finance, also a loan agreement was signed between the World Bank and the Ministry of Finance and further for a grant between the Ministry of Finance and KCGF for the amount of 21.4 million Euros.

2.9 Current and deferred income taxes

According to LKCGF, the Fund is exempt from Corporate Income Tax, VAT, and tax on dividends, interest or investment income earned from funds on credit guarantees or investments, and any other levy, withholding or tax to any aspect of the operations of the Fund.

2.10 Revenue recognition

Revenue from services is recognized when all the following conditions are satisfied:

- the amount of revenue can be measured reliably.
- it is probable that the economic benefits associated with the transaction will flow to the entity.
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the cost incurred for the transaction and the cost to complete the transaction can be measured reliably.

The Fund's revenues are:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Revenue recognition (continued)

(i) Revenues from guarantee fees;
(ii) Interest from investment.

Guarantee fees
Once the loan is accepted and put under guarantee, the guarantee fee is also calculated. The guarantee fee is calculated based on the actual guarantee fee percentage specified for a Guarantee Agreement multiplied by the Approved Amount of the guarantee. The income from the guarantee fee is recognized on accrual basis for a period of 12 months.
The guarantee fees are recognized as revenues in statement of comprehensive income at the end of each month by debiting Accrual Guarantee Fee and credit Guarantees Fees Income.

Interest from investment
Investment means investments of surplus funds where the over-riding principle guiding the investment of surplus funds is to ensure that the primary objectives of safeguarding KCGF’s assets and limiting its risk are balanced with the achievement of a satisfactory return.

2.11 Expenses

KCGF’s expenses are:

(i) Re-guarantee expenses (fees paid for a counter guarantee)
(ii) Operating expenses (general administrative expenses)
(iii) Personnel expenses (salaries, board fees)
(iv) Provision expenses (provision for guarantee losses) – Note 2.11

The fund registers the expenses under the accrual basis of accounting. The difference between revenues and expenses represents the net income/loss during the accounting period, which is transferred into the accumulated profit as part of the capital of the fund.

KCGF pays only contributions to a publicly administered pension plan on a mandatory basis. The Fund has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2.12 Donations

KCGF accepts donations or Technical Assistance from donors. In the framework of Technical Assistance, KCGF receives funds and expenses specified in the contract, fixed or intangible assets and capacity building. KCGF accounts for the amounts received depending on the specifics of the contract as deferred revenues and only after their realization registers them into donation revenues in the Income Statement.

2.13 Provisions

Provisioning policy specifies the process of setting aside certain reserves for all credits that are placed under guarantees that are expected or have incurred credit loss. The provisioning policy is made in accordance with IFRS 9. The impairment of credit guarantees is done in three stages, based on changes in credit quality since initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Provisions (continued)

The information provided by RFI (Registering Financial Institutions) regarding credit classification is the key trigger for moving credit guarantee into stages and for measuring credit risk. Impairment in first stage is accounted for all credit guarantees irrespective of the credit quality, based on expected loss over a period of 12 months. The credit guarantee will move to second stage (or from second to third) if there is a significant deterioration in the credit quality if the contractual cash flows on the financial asset are not fully recoverable in the event of default. In the second stage, the impairment allowance is recognized based on the lifetime expected losses. The transfer of financial assets from one stage to another is symmetrical, which means that any financial asset can move back if there is a significant improvement in the credit quality.

The guiding principle of IFRS 9 is that Expected Credit Loss (ECL) reflects the general pattern of deterioration or improvement in the credit quality. The amount of ECL recognized as a loss allowance or provision depends on the extent of credit deterioration since initial recognition.
Under the general approach, there are two measurement bases:

- 12-month ECLs (Stage 1), which applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality.
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

Stage 1 - involves identifying financial instruments that have not deteriorated. For these instruments 12-month expected credit losses would be recognized. That is, an estimate would be made of the probability of a default occurring in the 12 months following the reporting date. That probability would be multiplied by the shortfall in lifetime cash flows (that is, the present value of the difference of all principal and interest contractually due and the amount the entity expects to receive) In essence, the 12 month expected credit losses represent a portion of the lifetime credit losses.

Stage 2 - involves identifying financial instruments that have deteriorated significantly in credit quality since they were first recognized, and do not exhibit objective evidence of a credit loss event. For these instruments, lifetime expected credit losses would be recognized; interest revenue would still be calculated on the gross carrying amount for these instruments. In contrast to 12-month expected credit losses, lifetime expected credit losses represent estimates based on the probability of a default event occurring at any time over the life of an instrument and is not only weighted by the likelihood of possible default events over the next 12 months.

Stage 3 - is for those financial instruments that do show objective evidence of impairment at the reporting date. For such instruments, lifetime expected credit losses are recognized, but unlike for financial assets in Stages 1 or 2, the interest revenue on these assets is calculated on the net carrying amount (i.e., the gross carrying amount less the loss allowance for expected credit losses).

2.14 Commitments and contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. The amount of a contingent loss is recognized as a provision if it is probable that future events will confirm that, a liability incurred as at the statement of financial position date and a reasonable estimate of the amount of the resulting loss can be made.

3. FINANCIAL RISK MANAGEMENT

3.1 Introduction and overview

Risk is defined as effect of uncertainty events and their outcomes that may have a significant effect on KCGF operations. Risk management is the process of evaluating and responding to risks for the purpose of reducing those risks to acceptable levels. The evaluation of risk is based on identification of threats, as well as the likelihood of the threats being realized and the potential impact on the KCGF. Risk management uses the results of risk assessments to make decisions and to coordinate activities to direct and control an organization regarding risk.

The KCGF Risk Management Policy sets out the key principles which to establish an appropriate system of risk oversight and management. The key principles for risk management are implemented in Guarantee Agreement, in existing policies and procedures as well as methodologies and tools for risk measuring, monitoring, and reporting. Together these form the KCGF risk management framework.

3.2 Risk Governance Structure

The KCGF risk governance structure emphasizes oversight and control of risk and defines the processes and mechanisms by which decisions about risks are taken and implemented. KCGF's risk management governance structure begins with oversight by the Board of Directors. The Board receives regular updates on the key risks of KCGF - including a comprehensive summary of KCGF's risk profile and performance of the portfolio against defined goals, presented quarterly to the Board. The Board set forth risk appetites for credit risk and liquidity risk and approves key risk policies, limits, strategies. The Board also ensures that KCGF is taking appropriate measure to achieve prudent balance between risk and reward.

The Board of Directors has established two committees to supervise specific areas and to prepare topics for consideration by the Board: Risk Management Committee and Audit Committee.

Risk Management Committee - the committee reviews and submits recommendations to the Board of Directors regarding KCGF risk appetites, risk policies, risk instructions, capital, leverage, liquidity, products and services from a risk perspective, and loan portfolio credit quality.

Audit Committee -the committee operates as a preparatory committee for the Board of Directors with respect to accounting and auditing matters, including related risk matters.

In general, both committees assist the Board of Directors in ensuring strict risk management within KCGF and in ensuring that risk management and risk reporting are always compliant with law and the KCGF general principles.

KCGF is not exposed to foreign exchange risk, since all assets, liabilities and transactions are in EUR. KCGF is also not exposed to interest rate risk, since all assets and liabilities are with fixed interest rates.

3.3 Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower to honor its financial or contractual obligations to a bank. KCGF's risks lies, correspondingly, with the banks. If nonperforming loans at a bank increases, putting their portfolio at risk, this will in turn increase KCGF's, in the sense that KCGF may be called on the guarantees issued. This will have an impact on KCGF's capital position and expected fee incomes. Therefore, KCGF's counterparties' (RFI) credit assessment and their policies will influence the quality of KCGF's guaranteed portfolio. For Registering Financial Institutions, KCGF has implemented a Registration Policy which is aimed at ensuring registration of only financial institutions that are responsive and transparent and provide evidence of their ability to comply with

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Credit risk (continued)

KCGF requirements. The registration policy sets the key principles that financial institutions should have to be registered in KCGF:

- A sound capital base and financial position
- A good reputation in the market
- A willingness to further penetrate the MSME segment
- A willingness to reduce collateral requirements as a quid pro quo for KCGF's partial loan guarantees
- Sound loan underwriting policies and procedures

For ensuring the guarantee commitments that KCGF is taking within its risk bearing capacity and that its portfolio is well diversified, KCGF has adopted an Allocation Policy. This policy determines the risk appetite that KCGF is willing to take and sets the methodology for evaluating RFI exposure. The policy also sets the methodology for assessing RFI and allocating limits to RFI. The methodology defines that the main criteria for allocating an initial limit are market share and risk profile. However, exposure limits may be adjusted by the KCGF. Reasons for adjustment would include failure to use the allocated limit significantly or at all, poor quality of loans submitted for guarantee, or safety and soundness issues in the overall condition of the bank.
Maximum exposure to credit risk for all financial assets is presented in the Statement of financial position and within the notes.

3.4 Liquidity risk

Effective liquidity risk governance is essential to maintain the confidence of donors and RFI, and to enable the core business to continue to generate revenue, even under adverse circumstances. Reliable arrangements, analysis of liquidity requirements, and contingency planning (for example, a stand-by line of credit, or counter guarantee arrangement) are crucial elements of strong liquidity.
KCGF acknowledges that capital that it is holding as liquid assets should provide support towards the achievement of its objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques that balance risk and reward, within the context of effective risk management.
For the purposes of optimizing potential returns within acceptable risk parameters, KCGF has prepared an investment policy that clearly sets out an investment framework consistent with KCGF mandate and its strategic objectives.

	December 31,2020				
		Current			
	Up to 1 year (EUR)	1 to 2 years (EUR)	2 to 5 years (EUR)	Over 5 years (EUR)	Total (EUR)
Financial assets					
Cash and cash equivalents	28,089,205	-	-	-	28,089,205
Trade and other receivables	231,824	-	-	-	231,824
Deposits	19,877,488	4,172,699	-	-	24,050,187
Total financial assets	**48,198,517**	**4,172,699**	**-**	**-**	**52,371,216**
Financial liabilities					
Payables and other liabilities	1,492,493	18,770	44,891	-	1,556,154
Total financial liabilities	**1,492,493**	**18,770**	**44,891**	**-**	**1,556,154**

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Liquidity risk (continued)

	December 31,2019				
		Current			
	Up to 1 year (EUR)	1 to 2 years (EUR)	2 to 5 years (EUR)	Over 5 years (EUR)	Total (EUR)
Financial assets					
Cash and cash equivalents	735,567	-	-	-	735,567
Trade and other receivables	381,374	-	-	-	381,374
Deposits	12,223,243	4,668,691	-	-	16,891,934
Total financial assets	**13,340,184**	**4,668,691**	**-**	**-**	**18,008,875**
Financial liabilities					
Payables and other liabilities	715,658	9,315	-	-	724,973
Total financial liabilities	**715,658**	**9,315**	**-**	**-**	**724,973**

3.5 Operational Risk

Similarly, operational risk can arise due to internal events such as the potential for failures or inadequacies in any of the KCGF's processes and systems, or those of its outsourced service providers. Operational risk can come from a wide spectrum of different external events, ranging from power failures to floods or earthquakes.

Similarly, operational risk may arise due to internal events, such as potential for failure or discrepancy in any of the FKGK processes or systems, or any of the external service providers. Operational risk stemming from human resource management may mean a range of issues, such as poorly trained or poorly managed workers; the potential for negligence or deliberate misdemeanor; conflict of interest; fraud; hostile action and so on. The KCGF's operational risk management focuses on proactive measures in order to ensure business continuity as well as the accuracy of information used internally and reported externally, a competent and well-informed staff, and its adherence to established rules and procedures as well as on security arrangements to protect the physical and ICT infrastructure of the KCGF.
KCGF's Operational Risk Management Framework:

I) Clear strategies adopted by the Board of Directors and oversight exercised by Senior Management.
II) Strong internal operational risk culture (Internal operational risk culture is taken to mean the combined set of individual and corporate values, attitudes, competencies and behavior that determine an institution's commitment to and style of operational risk management) and internal control culture, emphasizing on dual controls;
III) High standards of ethics and integrity, and
IV) Commitment to effective corporate governance, including, among others, segregation of duties, avoidance of conflicts of interest, and clear lines of management responsibility, accountability, and reporting, as reflected in the KCGF's governance documents. All levels of staff shall understand their responsibilities with respect to operational risk management.

Insurance policies may be used to confront losses which may occur as a result of events such as third-party claims resulting from errors and omissions, employee or third-party fraud, and natural disasters.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.6 Financial instruments presented at fair value

The financial assets measured according to the fair value in the statement of financial position in accordance with the hierarchy of the fair value are shown in the next table. This hierarchy groups the financial assets and liabilities into three levels that are based on the significance of the incoming data used during the measurement of the fair value of the financial assets. Fair value hierarchy is as follows:

- Level 1: quoted prices (not adjusted) on the active markets for identical assets or liabilities.
- Level 2: other incoming data, aside from the quoted prices, included in Level 1 which are available for asset or liability observing, directly (i.e., as prices), or indirectly (i.e., made of prices) and
- Level 3: incoming data on the asset or liability that are not based on data available for market observing.

As of 31 December 2020, and 2019, the Fund has no financial assets measured at fair value.

3.7 Financial instruments that are not presented at fair value

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities that are not presented in the Statement of financial position at their fair value:

	Carrying value 2020 (EUR)	Fair value 2020 (EUR)
Financial assets		
Cash and cash equivalents	28,089,205	28,089,205
Trade and other receivables	231,824	231,824
Deposits	24,050,187	24,050,187
Total financial assets	**52,371,216**	**52,371,216**
Financial liabilities		
Payables and other liabilities	1,474,852	1,474,852
Total financial liabilities	**1,474,852**	**1,474,852**

	Carrying value 2019 (EUR)	Fair value 2019 (EUR)
Financial assets		
Cash and cash equivalents	735,567	735,567
Trade and other receivables	381,374	381,374
Deposits	16,891,934	16,891,934
Total financial assets	**18,008,875**	**18,008,875**
Financial liabilities		
Payables and other liabilities	697,505	697,505
Total financial liabilities	**697,505**	**697,505**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.8 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Management also needs to exercise judgement in applying the KCGF accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis.

This note provides an overview of the areas that involve a higher degree of judgement and complexity, and major sources of estimation uncertainty. Detailed information about each of these estimates and judgements is included in related notes together with information about the basis of calculation for each affected line item in the financial statements.

Impairment of credit guarantees

The Funds reviews its credit guarantee contracts to assess whether an impairment loss should be recorded in profit or loss. Management's judgement is required in the estimation amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about several factors. Details are provided in Note 2.11.

Useful life of depreciable assets

Management reviewed the useful lives of depreciable assets on 31 December 2020. Management estimates the determined useful life of assets represents the expected usefulness (utility) of assets. The carrying values of such assets are analyzed in Notes 8**Error! Reference source not found.**. However, the factual results may differ due to the technological obsoleteness.

4. CASH AND CASH EQUIVALENTS

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Cash at Central Bank of Kosovo	27,906,366	686,131
Current Accounts	182,354	49,127
Petty cash	485	309
Total cash and cash equivalents	**28,089,205**	**735,567**

5. TRADE AND OTHER RECEIVABLES

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Receivables from clients Accrual	223,834	374,942
Advances	7,990	6,432
Total receivables	**231,824**	**381,374**

5. TRADE AND OTHER RECEIVABLES (continued)

Receivables from clients as of 31 December 2020 and 2019 are past due. Receivables from clients are paid in the following month as the Fund generates the fees invoices in the following month, after the banks report of the status update of the outstanding of the guarantee.

6. DEPOSITS

The total deposits as at 31.12.2020 are in amount of 23,778,921 EUR (2019: 16,620,045 EUR) with a minimum interest rate of 0.5% and maximum interest rate 2.1% (2019: minimum interest rate of 1.2% and maximum interest rate 2.1%).
The investments, which should have a minimum maturity of 1 year and a maximum maturity of 5 years, are limited to banks that meet the criteria as approved by KCGF's Board of Directors.

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Deposits in banks in Kosovo	23,778,921	16,620,045
Accrued interest	271,266	271,889
	24,050,187	16,891,934
Current maturity of long-term deposits	(19,877,488)	(12,223,243)
Non-current deposits	**4,172,699**	**4,668,691**

7. RIGHT-OF-USE ASSET AND LEASE LIABILITY

7.1 Right-of-use

Right of use assets comprise of a building leased for KCGF office.

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
As at January 1	26,927	44,878
Depreciation charge for the year	(7,480)	(17,951)
Write off	(19,447)	-
Right of use asset	95,189	-
Depreciation charge for the year	(15,865)	-
As at December 31	79,324	26,927
Net book value as at 31 December	**79,324**	**26,927**

7.2 Lease liability

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
As at January 1	27,468	44,878
Lease payment for the year	(7,850)	(18,840)
Interest expenses	362	1,430
Write off	(19,980)	-
Right of use asset	95,189	-
Lease payment for the year	(18,500)	-
Interest expenses	4,613	-
Lease liability as at 31 December	**81,302**	**27,468**

8. PROPERTY, PLANT AND EQUIPMENT

	Equipment (EUR)	IT Equipment (EUR)	Office furniture (EUR)	Leasehold improvements (EUR)	Total (EUR)
Historical cost					
As at January 1, 2019	2,138	50,431	19,947	-	72,516
Additions during the period	2,544	-	-	-	2,544
As at December 31, 2019	**4,682**	**50,431**	**19,947**	**-**	**75,060**
Write off	**(1,972)**	**(50,431)**	**(19,947)**	**-**	**(72,350)**
Additions during the period	1,979	616	3,746	20,588	26,929
As at December 31, 2020	**4,689**	**616**	**3,746**	**20,588**	**29,639**
Accumulated depreciation					
As at January 1, 2019	1,927	43,052	19,947	-	64,926
Depreciation for the period	723	7,379	-	-	8,102
As at December 31, 2019	**2,650**	**50,431**	**19,947**	**-**	**73,028**
Write off	**(1,972)**	**(50,431)**	**(19,947)**	**-**	**(72,350)**
Depreciation for the period	1,275	32	574	2,475	4,356
As at December 31, 2020	**1,953**	**32**	**574**	**2,475**	**5,034**
NET VALUE					
As at December 31, 2020	**2,736**	**584**	**3,172**	**18,113**	**24,605**
As at December 31, 2019	**2,032**	**-**	**-**	**-**	**2,032**

As at 31 December 2020 and 2019, KCGF uses all property and equipment for its activities and there are no encumbrances over KCGF assets.

9. INTANGIBLE ASSETS

	Software (EUR)	Total (EUR)
Historical cost		
As at January 1, 2019	78,669	78,669
Additions during the period	13,923	13,923
As at December 31, 2019	**92,592**	**92,592**
Additions during the period	3,962	3,962
As at December 31, 2020	**96,554**	**96,554**
Accumulated amortization		
As at January 1, 2019	34,795	34,795
Amortization for the period	17,594	17,594
As at December 31, 2019	**52,389**	**52,389**
Amortization of the year	19,046	19,046
As at December 31, 2020	**71,435**	**71,435**
NET VALUE		
As at December 31, 2020	**25,119**	**25,119**
As at December 31, 2019	**40,203**	**40,203**

As at 31 December 2020 and 2019, there are no encumbrances over KCGF intangible assets.

Management Information System is the Fund's software which was originally donated by USAID. This system was purchased and activated in July 2016 and its initial value was 66,825 euros. KCGF during 2017 and 2018 has upgraded the system with own funds in the amount of 11,844 euros. With a donation from KfW, the fund has upgraded the system again in 2019 in the amount of 13,923 euros and in 2020 in the amount of 3,962 euros. The Fund has recognized the system as an asset in the financial statements and has accounted for deferred income in relation to the amount of the donation.

10. DEFERRED REVENUES

10.1 Deferred revenue from donated assets

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Equipment	-	-
IT Equipment	-	-
Office furniture	-	-
Software	19,394	32,110
Total in kind contributions	**19,394**	**32,110**

10. DEFERRED REVENUES FROM DONATED ASSETS (continued)

10.1 Deferred revenue from donated assets (continues)

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
At the beginning	32,110	40,847
Additions during the year	3,962	13,923
Depreciation and amortization (Note 13)	(16,678)	(22,660)
At the end of the year	**19,394**	**32,110**

Grants related to non-depreciable assets requiring the fulfilment of certain obligations are recognized in profit or loss over the periods that bear the cost of meeting the obligations. Grants are released to profit or loss over the estimated useful lives of donated assets – software and equipment.

10.2 Deferred revenue from guarantee fee subsidy

	As at December 31, 2020 (euro)	As at December 31, 2019 (euro)
Fee subsidy	500,000	-
Total deferred revenues from subsidy fee	**500,000**	**-**

	As at December 31, 2020 (euro)	As at December 31, 2019 (euro)
At the beginning	-	-
Additions during the period	500,000	-
Utilized	-	-
At the end of the year	**500,000**	**-**

KCGF in the framework of the contract signed between KCGF and the Ministry of Finance on December 31, 2020, receives as an advance the subsidy of the guarantee fee, in the amount according to the contract, distributed over a period of time. KCGF records the amount as deferred income and only after the realization of the guarantee, it records it as income in the statement of comprehensive income.

10.3 Deferred revenue from technical assistance

	As at December 31, 2020 (euro)	As at December 31, 2019 (euro)
FSSP technical assistace	93,456	-
Total deferred revenues from technical assistance	**93,456**	**-**

	As at December 31, 2020 (euro)	As at December 31, 2019 (euro)
At the beginning	-	-
Additions during the period	100,000	-
Utilized (Note 12)	(6,544)	-
At the end of the year	**93,456**	**-**

KCGF in the framework of the contract signed on September 17, 2020 between KCGF and the Government of the Republic of Kosovo represented by Ministry of Finance and the implementation of the Financial Sector Strengthening Project, receives as an advance the technical assistance, according to the budgeted amount, which is determined according to the need to cover costs. KCGF records the amount as deferred revenue and only after the realization of expenditures dedicated to the implementation of the project, it records it as income in the comprehensive income statement.

11. CAPITAL

As at 31 December 2020 and 2019, capital consists of funds provided to the KCGF as grants as follows:

	As at December 31, 2020	As at December 31, 2019
Funds received from USAID	5,790,921	5,790,921
Funds received from KfW	18,500,000	7,000,000
Funds received from GoK	24,410,000	3,000,000
	48,700,921	**15,790,921**

In April 2020, KfW donated an additional capital of EUR 6,500,000 to Agro Window as part of the development of this KfW-supported sector. While in November 2020, KfW donated another 5,000,000 EUR to support the windows under the Recovery Package, dedicated to the recovery of businesses during the pandemic crisis.
During this year, the implementation of the World Bank project for Financial Sector Strengthening Project began, where the Government of Kosovo donated to the KCGF 21,410,000 EUR capital.

12. GUARANTEE FEES

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Guarantee fees	1,061,886	814,289
Total guarantee fees	**1,061,886**	**814,289**

Once the loan is accepted and put under guarantee, the guarantee fee is also calculated. The guarantee fee is calculated based on the actual guarantee fee percentage specified for a Guarantee Agreement, multiplied by the Approved Amount of the guarantee. The income from the guarantee fee is recognized on accrual basis for a period of 12 months.
The guarantee fees are recognized as revenues in statement of comprehensive income at the end of each month by debiting Accrual Guarantee Fee and credit Guarantees Fees Income.

13. OTHER INCOME

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Funds for operating expenses	50,235	193,532
In kind fixed asset donation (Note 10.1)	16,678	22,660
Interest income from deposits	282,648	245,050
Total other income	**349,561**	**461,242**

Funds for operating expenses are part of the technical assistance under the contract between KCGF and the Kosovo Millennium Foundation, for the implementation of the project "Financial Facilitation Activity of the Independent Energy Producer", as well as the contract between KCGF and the Government of the Republic of Kosovo represented by Ministry of Finance in the framework of the implementation of the Project with the World Bank for the Financial Sector Strengthening Project (FSSP). It is important to note that the funds are used only to cover operating expenses according to the plan set out in the relevant contract.

14. PERSONNEL EXPENSES

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Salaries	170,005	145,568
Pension contribution	19,407	16,475
Tax salaries	16,367	14,145
Total personnel expenses	**205,779**	**176,188**

15. OPERATING EXPENSES

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Re-guarantee expenses	28,209	34,631
Office rent & utilities	4,585	5,809
Maintenance & Repair Exp.	16,667	19,840
Translator and other Professional services	25,171	15,498
Expenses for Membership & Subscription	5,701	5,825
Interest expenses on the lease liabilities	4,975	1,430
Publications, Branding and Marketing	4,619	5,407
Phone and internet expenses	3,914	3,250
Training, Conferences and Seminars	609	-
Bank fees	1,709	491
Other expenses	10,277	8,214
Total operating expenses	**106,436**	**100,395**

On December 6, 2017, the Fund signed the Guarantee Agreement with the Swedish International Development Cooperation Agency (SIDA), represented by the Embassy of Sweden in Pristina.
With the mediation of the Swedish Embassy in Kosovo, KCGF has benefited from the portfolio reassurance scheme. This reinsurance scheme has a single use character and enables the transfer of 50% of the risk to the part guaranteed by the KCGF, while as compensation the KCGF pays a reimbursement fee, calculated on the guaranteed part.

16. NET PROVISION LOSSES FOR GUARANTEES

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Additional provision	2,779,511	1,049,323
Release of provision	(1,793,339)	(578,356)
Total net provision expenses	**986,172**	**470,967**

Provisioning policy specifies the process of setting aside certain reserves for all credits that are placed under guarantees that are expected or have incurred credit loss.
Movement of reserve for losses on guarantees for 2020 and 2019 is as follows:

	For the year ended at 31 December 2020 (EUR)	For the year ended at 31 December 2019 (EUR)
As at 1 January	688,299	299,683
Additional provision	2,779,511	1,049,323
Release of provision	(1,793,339)	(578,355)
Claims paid	(228,895)	(82,352)
As at 31 December	**1,445,576**	**688,299**

The claims paid refer to 16 claims, paid requested by 6 banks (2019: 4 claims, requested by 3 banks).

16. NET PROVISION LOSSES FOR GUARANTEES (CONTINUED)

	For the year ended at 31 December 2020 (EUR)	For the year ended at 31 December 2019 (EUR)
Stage 1	697,610	174,917
Stage 2	216,435	108,072
Stage 3	531,531	405,310
As at 31 December	**1,445,576**	**688,299**

17. CONTINGENCIES AND COMMITMENTS

	As at December 31, 2020 (EUR)	
	Number of Guarantees	**Outstanding Guaranteed Amount**
Total	**4,268**	**55,997,787**

	As at December 31, 2019 (EUR)	
	Number of Guarantees	**Outstanding Guaranteed Amount**
Total	**3,133**	**43,885,949**

Litigation and claims

As of 31 December 2020, there are no litigations or claims against FKGK (2019: no litigations or claims against FKGK).

18. RELATED PARTY TRANSACTIONS

Related parties consist of the Board of Directors of the Fund. Parties are considered related if one party could control the other party or exercise significant influence over the other party in making financial or operational decisions. The expenses shown below include compensation paid to Board Members (renumeration fee for meetings, pension contribution) as per the Statute.

18. RELATED PARTY TRANSACTIONS (CONTINUED)

	Receivables (EUR)	Liabilities (EUR)	Revenues (EUR)	Expenses (EUR)
As at December 31, 2020				
Board Members	-	-	-	20,375
Total	**-**	**-**	**-**	**20,375**

	Receivables (EUR)	Liabilities (EUR)	Revenues (EUR)	Expenses (EUR)
As at December 31, 2019				
Board Members	-	-	-	19,580
Total	**-**	**-**	**-**	19,580

19. EVENTS AFTER THE REPORTING DATE

After 31 December 2020 – the reporting date until the approval of these financial statements, there are no adjusting events reflected in the financial statements or events that are materially significant for disclosure in these financial statements.

Kosovo Credit Guarantee Fund

Address:
Njazi Alishani No. 5, 10 000 Pristina, Republic of Kosovo

Phone: +383 (0) 38 225 600

Email: info@fondikgk.org

www.fondikgk.org