



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

ANNUAL REPORT

2022



FONDI KOSOVAR PËR GARANTIMIN
KOSOVSKI FOND ZA GARANTIMIN
KOSOVO CREDIT GUARANTEE FUND

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PART I

BACKGROUND

A large, stylized teal-colored letter 'C' graphic is positioned on the left side of the page, curving from the top left towards the bottom right. The 'C' is composed of many thin, parallel lines, giving it a textured appearance. The background is white.



MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND THE MANAGING DIRECTOR

Dear reader,

It is with great pleasure that, with this annual report, we share with you the achievements and challenges of our institution for the entire year of 2022, as well as reveal our plans and objectives for the next years. For the seventh time in a row, the annual report of the KCGF focuses on presenting information which shows the impact of our institution's guarantee schemes in the country's economy.

2022 was a special year for our institution because the portfolio of guarantee windows saw the addition of two new green windows – GROW, whereas in the second part of the year we officially launched the Export Window. The first window aims to assist SME green investments, whereas the second aims to support export companies' investments. While we believe that quite soon, as a result of intensive efforts by KCGF

staff throughout last year, we will start two new windows in the first part of 2023; one window will support "Women in business" and the other will support "Startup businesses".

Also in 2022, we began implementing a project titled "Kosovo's response to SMEs in the COVID-19 pandemic." This was a cooperation between the World Bank and the Government of the Republic of Kosovo, initiated in 2021 but implemented in October of last year, which looks to increase the KCGF capital up to 40 million euros. As a result, the guaranteeing capacity of the KCGF will be increased, which subsequently will bring more opportunities for SME credit.

The list of last year's novelties is complemented by the amendment of the Law on the establishment of the KCGF, which was the first change that took place since the institution was established. Although in essence, the law remains

unchanged and adheres to the basic principles set by the founders of the institution, the new amendments reflect the needs of the market and responses by our partners throughout their experience with the KCGF. The new amendments of the Law on KCGF will enable the institution more flexibility in the credit guarantee process as well as a more adequate response to the needs of private companies.

Two of the several amendments included in the Law for the establishment of the KCGF are worth mentioning as more relevant. Firstly, the enabling of credit guarantee for small farmers, identified by farmer number. Secondly, the increase of guarantee coverage by up to 80% in cases when it is assessed that such an increase is highly necessary in certain segments of the market. Both changes have immediately been found useful as part of the guarantee windows of the KCGF. The ability to guarantee farmers has been reflected in the latest modifications in the Agro window guarantee agreement, whereas the increase of guarantee coverage will be the main distinguishing feature of the "Women in Business" window as well as "Startup".

Year after year, window after window, and project after project, KCGF for the sixth year in a row, has contributed to a better environment for doing business in our country, once again proving itself as an important factor in the development stable private enterprise, and reliable partner of banks during the financial intermediation process.

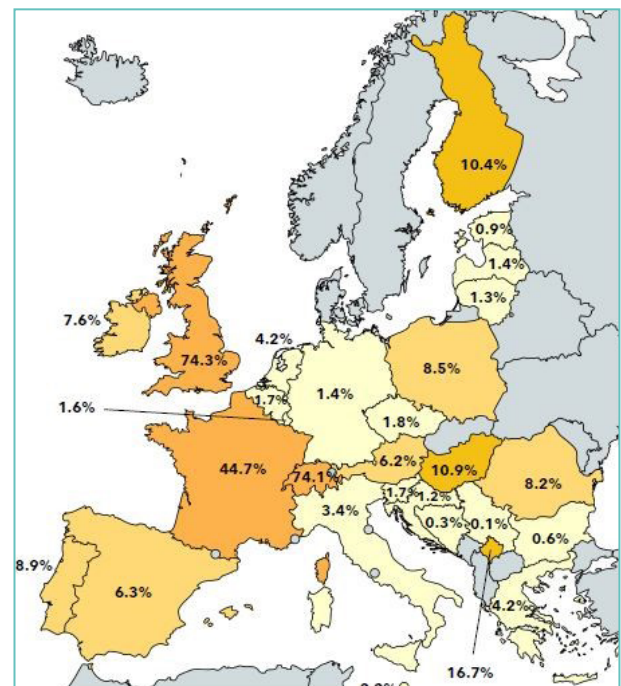
The financial instruments of the KCGF, so-called WINDOWS, maybe not very visible from the last beneficiary, but very productive and useful, with the fact that until 2022 they have benefited: about 8,800 Kosovar businesses; over 506 million euros distributed in approximately 12,000 loans have been guaranteed, while the participation of the guaranteed active credit portfolio in relation to the total active credit portfolio, in the financial sector, in the SME segment is approximately 15%.

Currently, with the windows designed for certain market segments, such as export, green investments, agriculture, and the awaited window for women in business and start-up, our impact is expected to be even greater, more comprehensive, and more sustainable, for all stakeholders involved in the financial intermediation process.

The positive development of our institution and

the impact this development has had on the real economy can be seen in all the main indicators that portray financial and economic prosperity. With 2,021 loans guaranteed during 2022, 1,750 private enterprises have benefited. With a share of 1.3% of the active value of active guarantees in relation to gross national product (GNP), an indicator that shows the intensity of financial intermediation by guarantee schemes, Kosovo has the best ranking of all countries in the region, the value of this indicator at the regional level not exceeding 1.1%.

KCGF also stands better than the region in regards to the indicator that shows the participation of active companies that have benefited from the guarantee scheme of KCGF in relation to all active enterprises throughout the country. With 16.7% according to the Association of European Guarantee Schemes – AECM, in this indicator as well, Kosovo shows that the instrument of credit guarantees has found significant use in the country, significantly better than in neighboring countries, as illustrated in the map below:



Map of the Active MSMEs Coverage who benefited from Guarantee Schemes

Source: AECM Annual Statistics 2022

The participation of new customers who have established credit relations with banks for the first time reached 15%.

The requirement for collateral, as one of the main barriers in SME lending, whether for new or existing customers, has been significantly reduced for guaranteed loans compared to unguaranteed loans. Only during the last year we noticed that a significant percentage of loaned customers were collateralized with less than 100% of the loan value, while 37% or 745 loans from all loans were issued without the need a post collateral at all.

Not less worth mentioning is our approach to environmental and social risk management, and the investments made possible by credit guarantees within the windows of the KCGF. In this regard, we continuously review the list of exclusionary activities, aiming to avoid our mediation and that of our partners, in the financing of economic activities and investments that are categorized with high environmental or social risk.

Moreover, starting from last year, we have also started to quantify the environmental impact of our active portfolio of credit guarantees, using the Partnership for Carbon Accounting Official

(PCAF) methodology. Although faced with a lack of qualitative information at the country level, we have started to calculate very significant results for the externalities caused by this investment portfolio. Hoping that in the coming months we will advance further with this calculation methodology, the results from these analyzes will be very important in assessing which sectors create sustainable economic growth, balancing this growth with the most sustainable management possible of natural resources and the smallest possible impact on the environment we live in.

Meanwhile, in the Green window, as part of the GROW window, we have started to closely monitor the direct impact of green investments in the reduction of CO₂ emissions in the atmosphere. Although we are still in the piloting phase of this window, ever since it was started and until today, the guaranteed investments within the green window – GROW, enabled 5000 tons less CO₂ in the atmosphere, as well as 35% increase in efficiency of energy consumption.

KCGF continues to remain one of the largest depositories in the banking sector in Kosovo.

Even last year, as in the previous years, the





investment strategy of the KCGF, to the greatest extent, is oriented in the form of short-term and medium-term deposits in local banks. This institutional approach reflects the trust in the partnership created between KCGF and the banking sector in our country. Undoubtedly, this has increased the liquidity in the market, and consequently the lending capacity of the local banks.

We tried to briefly summarize only some of the most important achievements and activities of the KCGF which happened during the past year. In the impossibility of mentioning many other activities and achievements in this section, I believe that the reader will be able to find other details in the separate sections of the report, which deal with portfolio management, credit risk, financial performance of the institution and economic and financial additivity.

Even this year, we are convinced that the annual report offers the reader a lot of information, because our institution throughout the year 2022, with its activities and commitment, had something to offer to society, the economy, the private sector and the financial sector of our country.

ARTA HOXHA

Acting Chair of the Board

These achievements make us proud, but at the same time very responsible and careful for the next steps in the development of the institution of the KCGF. Responsible, because we have seen that the rapid growth of the institution also means internal challenges in the management of this growth, highlighting the adaptation of internal processes and the advancement of knowledge within the institution. While being careful, because we are living in an unpredictable time with successive economic and social crises around the globe, which obviously, the economy of our country has not been spared, nor will it be spared from them. Therefore, it is very important that the leading structures take care to strengthen and consolidate even more the institution of the KCGF. Raising knowledge and strengthening human capacities, through continuous staff training; credit risk management and agility of internal processes should be only some of the medium-term priorities of the institutional strategy.

Believing that we are on the right track, allow us to finally, on behalf of the Board of Directors and the staff of KCGF, thank all our donors and partners for the continuous support given to KCGF. The support and trust given by them is an additional motivation for us, to strengthen our institution even more and to achieve other results.

BESNIK BERISHA

Managing Director

ACRONYMS

ABRK		AGENCY FOR BUSINESS REGISTRATION IN KOSOVO
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
ERP		ECONOMIC RECOVERY PACKAGE
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
GROW		GREEN RECOVERY AND OPPORTUNITY WINDOW
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
MFI		MICROFINANCE INSTITUTIONS
MFK		MILLENNIUM FOUNDATION KOSOVO
MFLT		MINISTRY OF FINANCE LABOUR AND TRANSFERS
MTI		MINISTRY OF TRADE AND INDUSTRY
MSME		MICRO, SMALL AND MEDIUM ENTERPRISES
MINT		MINISTRY OF INNOVATION ENTERPRENUERSHIP AND TRADE
MIS		MANAGEMENT INFORMATION SYSTEM
NBFI		NON-BANK FINANCIAL INSTITUTIONS
NPL		NON-PERFORMING LOANS
RFI		REGISTERED FINANCIAL INSTITUTIONS
RMC		RISK MANAGEMENT COMMITTEE
SIDA		SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
USAID		THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

SUMMARY OF THE OPERATIONAL INDICATORS

KEY OPERATIONAL INDICATORS	DECEMBER 2021	DECEMBER 2022
CAPITAL	54,917,245	57,735,311
*Guarantee Potential	214,178,534	213,145,173
**Allocated Limit	172,750,000	138,241,670
Utilization Rate of Limits by RFIs	72.2%	84.4%
GUARANTEE BALANCE	126,092,114	116,269,160
No. of Active Guaranteed Loans	6,729	6,916
No. of RFIs	11	12
Average Guarantee in overall KCGF portfolio	22,043	22,309
Average Guarantee in overall KCGF portfolio	37 MONTHS	37 MONTHS
NPLs (in %)	1.25%	1.94%
Coverage of NPLs with Provisions (in%)	210.4%	131.2%
INVESTED CAPITAL	51,646,646	60,690,832

Monetary values are in Euro

* The leverage factor in AGRO WINDOW has been reduced from 3 to 2, in accordance with donors

** The utilisation rate of limits by RFIs include exposures in active windows as well as closed windows until 31.12.2022. The reduction of the allocated limits is the result of the adopted methodology for calculating the allocated limits against the closed windows until 31.12.2022.



PART II



INSTITUTION PROFILE



ESTABLISHMENT OF THE KCGF AND ITS STATUS

The Kosovo Credit Guarantee Fund is an independent institution, established to facilitate financial mediation for micro, small and medium enterprises (MSMEs), through the provision of credit guarantees for up to 80% of the value of the loan, for registered financial institutions.

The KCGF was established in January 2016, under Law No. 05/L-057 on the Establishment of the Kosovo Credit Guarantee Fund. The law on the establishment of the KCGF is sponsored by the MTI, with the support of USAID through the "EMPOWER Credit Support" program, and the German Development Bank (KfW). The KCGF Law entered into force on January 23, 2016, while KCGF's operational activity as an institution started in September of the same year.

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

Kosovo Credit Guarantee Fund 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

The KCGF has a team of professionals who cooperate on the basis of mutual respect. Teamwork for problem-solving and taking initiative, open communication and sharing of professional experiences among staff, are the basis of KCGF's success. Integrity and personal dignity are values that guide each staff member in the course of carrying out tasks and initiatives at work, without making any compromise in respecting these principles.

MORAL AND ETHICAL VALUES

In order to establish principles and rules within the institution, and in relations with third parties, KCGF's work is based on the institution's Code of Corporate Governance and the Code of Ethics.

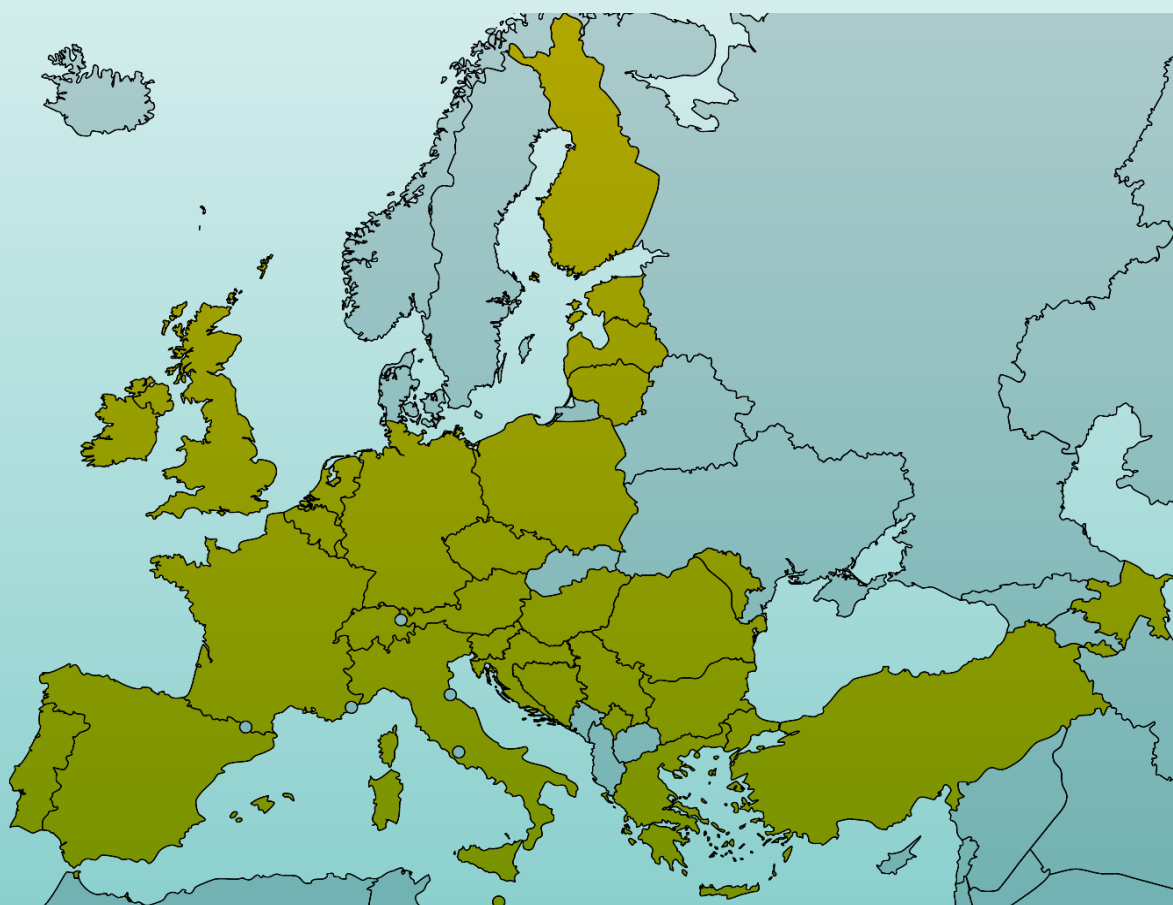


AECM - EUROPEAN ASSOCIATION OF GUARANTEE INSTITUTIONS



AECM is the European Association of Guarantee Institutions, which in 2022 counted a total of 48 members operating in 31 different European countries. Since 2018, the Kosovo Credit Guarantee Fund (KCGF) represents Kosovo within the AECM family.

AECM members are illustrated in the map below.



AT	aws NÖBEG	FI	Finnvera	XK	KCGF	RS	GF Vojvodina
AZ	MCGF	FR	Bpifrance EDC SIAGI SOCAMA	LV	ALTUM	SI	SEF SRDF
BE	Brussels GF PMV Standaard- waarborgen WE	DE	VDB	LT	INVEGA	ES	CESGAR
BA	GF Srpska	GR	HDB TMEDE	LU	MC MPME	CH	NSGI
BG	NGF MGFSME	HU	AVHGA Garantiqa	MT	MDB	TR	KGF TESKOMB
HR	HAMAG-BICRO	IE	SBCI	MD	ODA	UK	BBB
CZ	NRB	IT	Garanzia Etica ISMEA	NL	RVO		
EE	KredEx			PL	BGK		
				PT	BPF		
				RO	FGCR FNGCIMM FRC		

AECM - European Association of Guarantee Institutions



AECM, based in Brussels, was established in 1992 with three key objectives:

1. Political representation of its members in institutions of the EU, EIB Group, OECD, etc.
2. Organize exchange of best practices between AECM members;
3. Promote guarantee facility.

AECM members are either private sector guarantee schemes or public promotional institutions or development banks. Their mission is to support MSMEs in easier access to finance, i.e. provide guarantees for MSMEs that have an economically sound project, but that do not have sufficient bank collateral. The MSME financing gap, known as market failure, is what guarantee institutions bridge. By providing guarantees for these enterprises, guarantee institutions help address this market failure and facilitate access to finance for MSMEs.

By the end of 2022, AECM members' guarantee portfolio reached a volume of 267 billion Euros. The number of supported SMEs reached 5.2 million, with an average guarantee volume of 45,000 Euros.

Total
outstanding
guarantee volume



Number of
supported
SMEs



The average
guarantee
size





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 Innovation Entrepreneurship and Trade of the Republic of Kosovo
- B. One (1) ex officio member, appointed by the Ministry of Finance Labour and Transfers 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 2022:

**RINOR
GJONBALAJ**

Chair of the board and independent member

*Until november 3, 2022



**MELIH
CADIRCI**

Independent board member



**ARTA
HOXHA**

Acting chair of the board and independent member

*As of november 25, 2022



**SALVADOR
ELMAZI**

Ex Officio board member - MFLT



**BESNIK
BERISHA**

Managing director of KCGF and board member



**NOL
BUZHALA**

Ex Officio Board Member - MINT

*Until November 3, 2022.



**KRESHNIK
KURTISHI**

Independent board member



**ZEF
DEDAJ**

Ex officio board member - MINT

*As Of December 9, 2022



KCGF STAFF MEMBERS

KCGF TEAM in 2022:

BESNIK BERISHA
Managing director

ALBAN KASTRATI
Senior risk manager

VJOSA BALAJ
Senior finance and
administration manager

NORA ARIFI
Senior portfolio manager

KASTRIOT KËPUSKA
Project manager

BLERT GJINOLLI
Environmental and social specialist

VILSON UKAJ
Senior legal specialist and
secretary of the board of directors

JETON REXHEPI
Credit risk project financing
*Active within KCGF until november 30, 2022

VERË KADRIU
Administration and language officer

BURBUQE GURI
Controlling specialist

ANITA TOÇI
Marketing and public relations specialist

ALBULENA LUBISHTANI
Monitoring and evaluation specialist
*As Of 04.05.2022

AGNESA BROQI
Financial management specialist
* As Of August 8, 2022



The number of full-time staff at the KCGF is seven (7), while five (5) staff are engaged in the implementation of Donor projects as follows:

PROJECT MANAGER

engaged in the development of Agro Window Project supported by KFW

PROJECT FINANCING CREDIT RISK EXPERT

engaged in PFSF with MFK

FINANCE AND ADMINISTRATION ASSISTANT

engaged in the development and implementation of the Energy Window Project supported by MCC/MFK

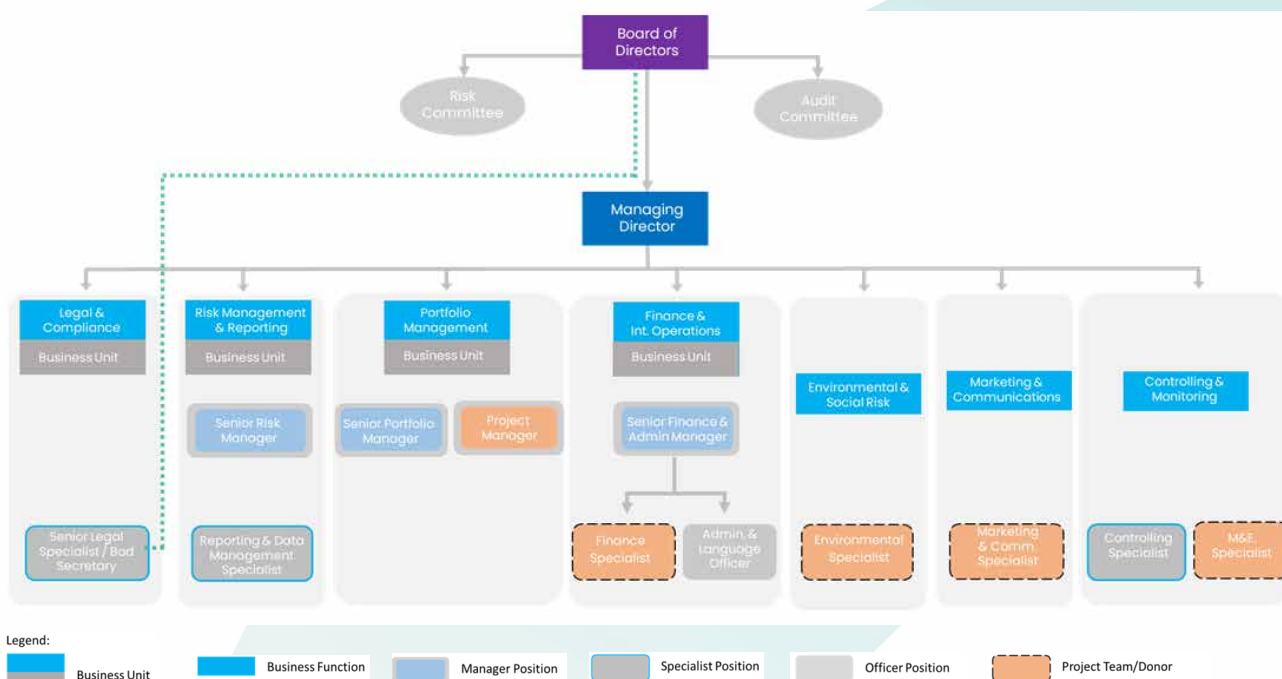
ENVIROMENTAL AND SOCIAL EXPERT

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

MONITORING AND EVALUATION

engaged under the FSSP with the WB

ORGANIZATIONAL CHART



LEGAL FRAMEWORK

In 2022, upon recommendation of the KCGF and the Government, the Assembly of the Republic of Kosovo adopted the amendment of Law No. 05/L-057 on the Establishment of the Kosovo Credit Guarantee Fund. The KCGF also modified most of the secondary legislation to adapt to the amendments of the Law on the KCGF, the institution's strategic objectives and the agreements signed with third parties. As a result, the Board adopted nine policies and one procedure. In terms of policies, it adopted the amendments to the Policy on Anti-Money Laundering and Combating Financing of Terrorism in order to harmonize with international standards and the requirements of international financial partner institutions in the regulatory field on Anti-Money Laundering and Combating Financing of Terrorism. The new Policy on the Protection of Personal Data has also been adopted in compliance with the legislation in force and the General Personal Data Protection Regulation (GDPR).

During 2022, in order to increase the capital for guarantee schemes support, the KCGF has signed several agreements with international financial institutions and registered financial institutions. Among the important decisions adopted by the Board of Directors during 2022, were:

- 1) Ratification of the Loan Portfolio Re-guarantee Agreement with the International Development Finance Corporation of the United States (DFC)
- 2) Ratification of Green Recovery Opportunities Window - GROW, STANDARD and EXPORT WINDOW
- 3) Revision and ratification of the AGRO Window and Leasing

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
- The U.S. Agency for International Development (USAID)
- German Development Bank (KfW)

ASSOCIATES

- The Swedish Agency for Development and International Cooperation, represented by the Swedish Embassy
- World Bank
- European Investment Fund EIF
- Millennium Kosovo Foundation MFK/MCC Millennium Challenge Corporation
- European Investment Bank EIB

REGISTERED FINANCIAL INSTITUTIONS

BANKING INSTITUTIONS

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

MICROFINANCE INSTITUTIONS

- AFK
- FINCA
- KEP
- KRK

NONBANK FINANCIAL INSTITUTIONS

- Raiffeisen Leasing Kosovë



COMMITTEES

RISK MANAGEMENT COMMITTEE

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

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

AUDIT COMMITTEE

The Audit Committee is established on the basis of the Law on the FCGC. The Audit Committee consists of four (4) Board members and meetings are held on a quarterly basis.

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

MEETINGS OF THE BOARD OF DIRECTORS AND RELEVANT COMMITTEES

MEETINGS OF THE KCGF BOARD OF DIRECTORS

During 2022, the KCGF Board of Directors held a total of five (5) regular meetings. At the board meetings, a number of important decisions were made for the further development of the KCGF and its relations with third parties.

The following table presents the meetings of the Board and auxiliary committees of the KCGF Board of Directors:

Board Meetings Schedule	Board members participation	Number of discussed topics	Number of decisions made
February 25, 2022	7/7	16	8
April 22, 2022	7/7	12	6
June 17, 2022	7/7	13	9
September 23, 2022	7/7	26	22
November 25, 2022	6/7	13	7
Total:		80	52

MEETINGS OF THE CREDIT RISK MANAGEMENT COMMITTEE AND AUDIT COMMITTEE

During 2022, the Credit Risk Management Committee (CRMC) held five (5) regular meetings. The Audit Committee (AC) held the same number of regular meetings. In these meetings, the relevant committees made decisions and recommendations for KCGF Management and for final approval by the KCGF Board of Directors.

The following table presents the meetings of the Risk Management Committee:

CRMC Meetings Schedule	CRMC members participation	Number of discussed topics	Number of decisions made/ recommendations issued
February 09, 2022	3/3	5	1
April 06, 2022	3/3	8	3
June 08, 2022	3/3	4	1
September 07, 2022	3/3	10	3
November 09, 2022	2/3	6	3
Total:		35	18

The following table presents the Auditing Committee Meetings:

AC Meetings Schedule	AC members participation	Number of discussed topics	Number of decisions made/ recommendations issued
February 11, 2022	4/4	7	0
April 13, 2022	4/4	6	1
June 10, 2022	4/4	6	0
September 12, 2022	4/4	6	0
November 18, 2022	4/4	6	0
Total:		27	1



PART IV



KCGF PERFORMANCE

GUARANTEE PORTFOLIO DEVELOPMENT

During 2022, the KCGF continued to offer credit guarantees to MSMEs, sharing the credit risk with financial institutions through windows adapted to the characteristics and needs of the respective MSMEs. Only during this year, thanks to KCGF mediation, lending in the sector amounted to 97.5 million Euros distributed over 2,021 loans for 1,750 MSMEs.

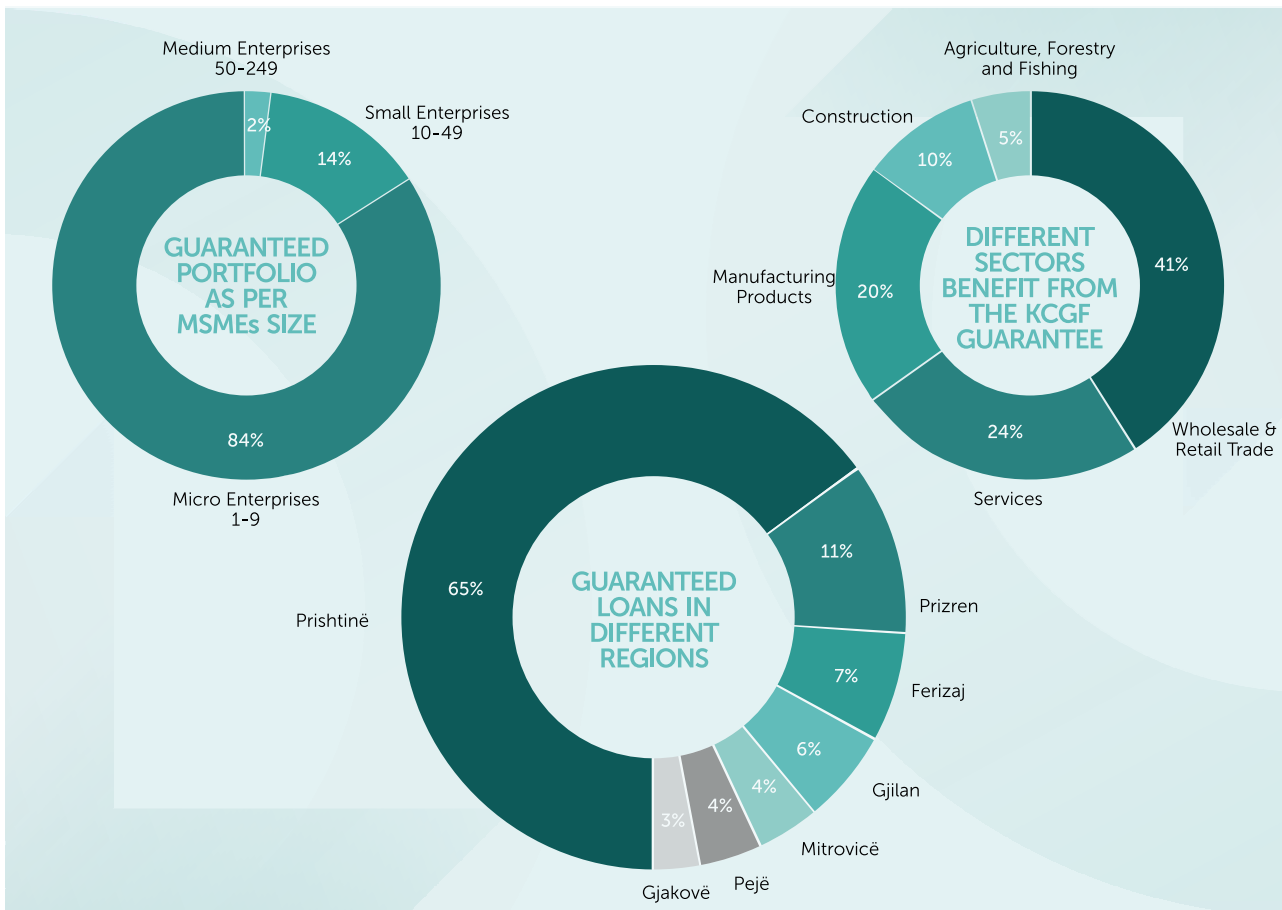
The cumulative amount of loans approved at the end of the year reached the value of 506.3 million Euros for 8,871 MSMEs, supported by a cumulative amount of guarantees of 269.58 million Euros. The total remaining value of the loan portfolio, at the end of 2023, was 211.46 million Euros, while the total remaining value of the guaranteed portfolio was 116.69 million Euros distributed over 6,865 active loans.

In 2022, the guaranteed portfolio continued to have greater participation from micro enterprises. The concentration of the guaranteed portfolio by

number of employees in the segment of micro and small enterprises with up to 49 employees, was 99%. Stimulating the sectors that create added value for the economy, as well as the best possible diversification, remained one of KCGF's objectives. Therefore, the KCGF, with the help of its donors and partners, has continuously worked on building products that will support the strengthening of strategic sectors.

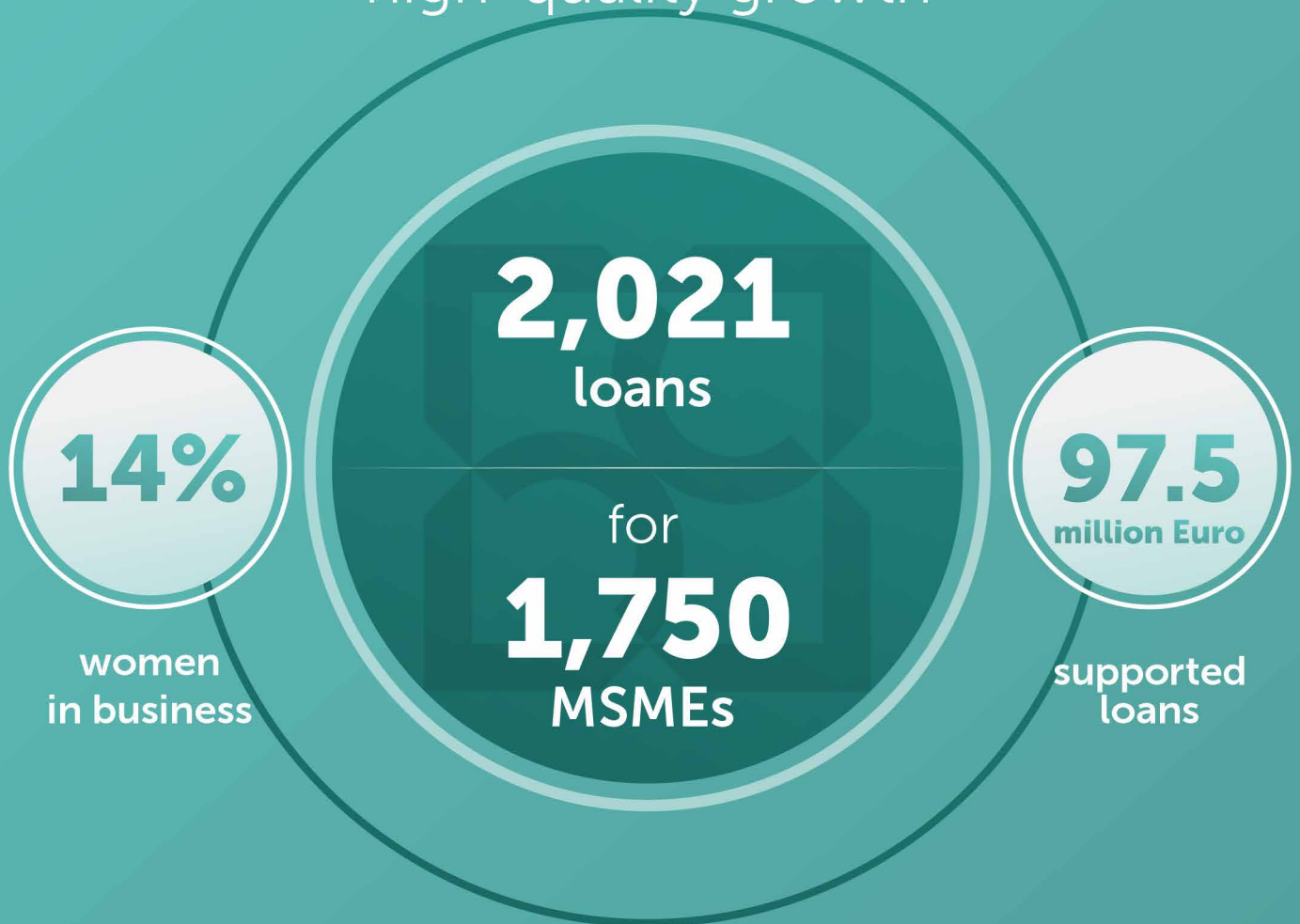
The most dominant sector in the portfolio of guaranteed loans during 2022 was retail and wholesale trade with 41%, followed by services with 24%, manufacturing with 20%, construction with 10%, and agriculture with 5% *). Compared to the previous year, the shift across the sector is especially noticeable in the service sector, where we had an increase of 9% (24% from 22% as it was one year ago).

**Based on sector classification according to NACE codes*



GUARANTEE PORTFOLIO DEVELOPMENT IN 2022

Continuity of rapid and
high-quality growth



About 99% of the portfolio consists of
micro and small enterprises



Working
Capital

MSMEs used
the loans for
investment in:



Equipment, land,
construction or renovation

AGRO WINDOW – DEVELOPMENT / NOVELTIES

The KCGF continues to consider financing and guaranteeing the agricultural sector as a good opportunity to create new jobs, economic development, and replacement of imported food products. As of the end of 2022, the KCGF has signed Agri-Window agreements with 11 Registered Financial Institutions (RFIs), respectively with 7 banks and 4 Microfinance Institutions (MFIs) that are active in agri-lending.

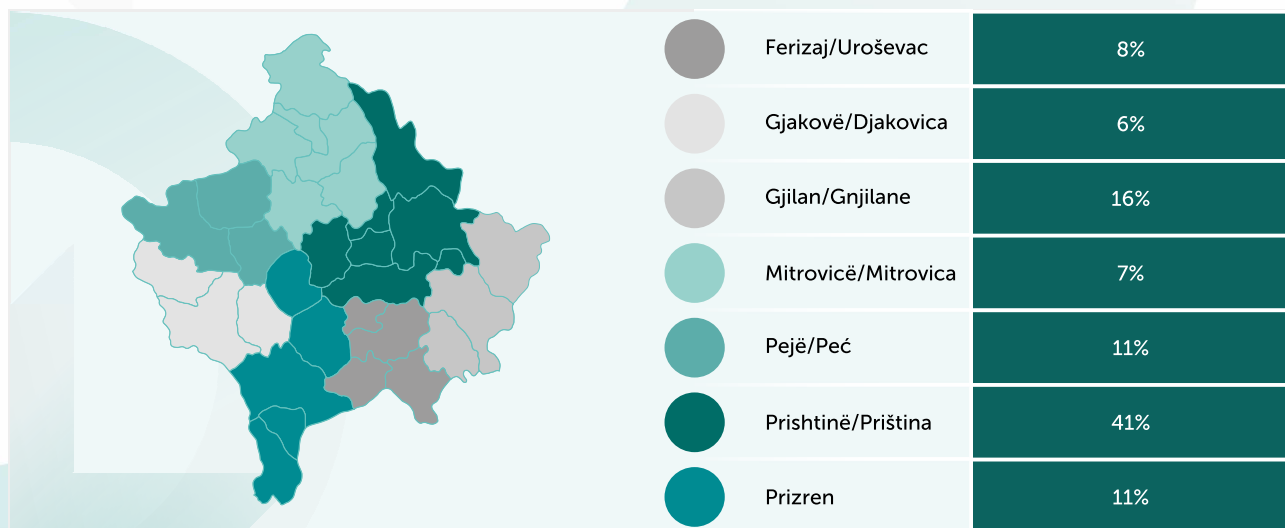
In August of last year, several proposed amendments to the Law on the Establishment of the KCGF (LEKCGF), which have enabled, among other things, continuous guarantees for farmers who possess a Farmer Certificate and a Farm Identification Number (FIN). As a result of the changes in this law, local farmers and agribusinesses will be provided with guarantees up to 60% of their agricultural loan.

During 2022, a total of 8.8 million Euros in new loans from banks and MFIs active in the agricultural sector, were approved for KCGF guarantee, and

there are a total of 212 loans guaranteed under the Agri-Window. The average amount of guaranteed loans in the agricultural sector during 2022 was around €41.5K with an average maturity of over 38 months.

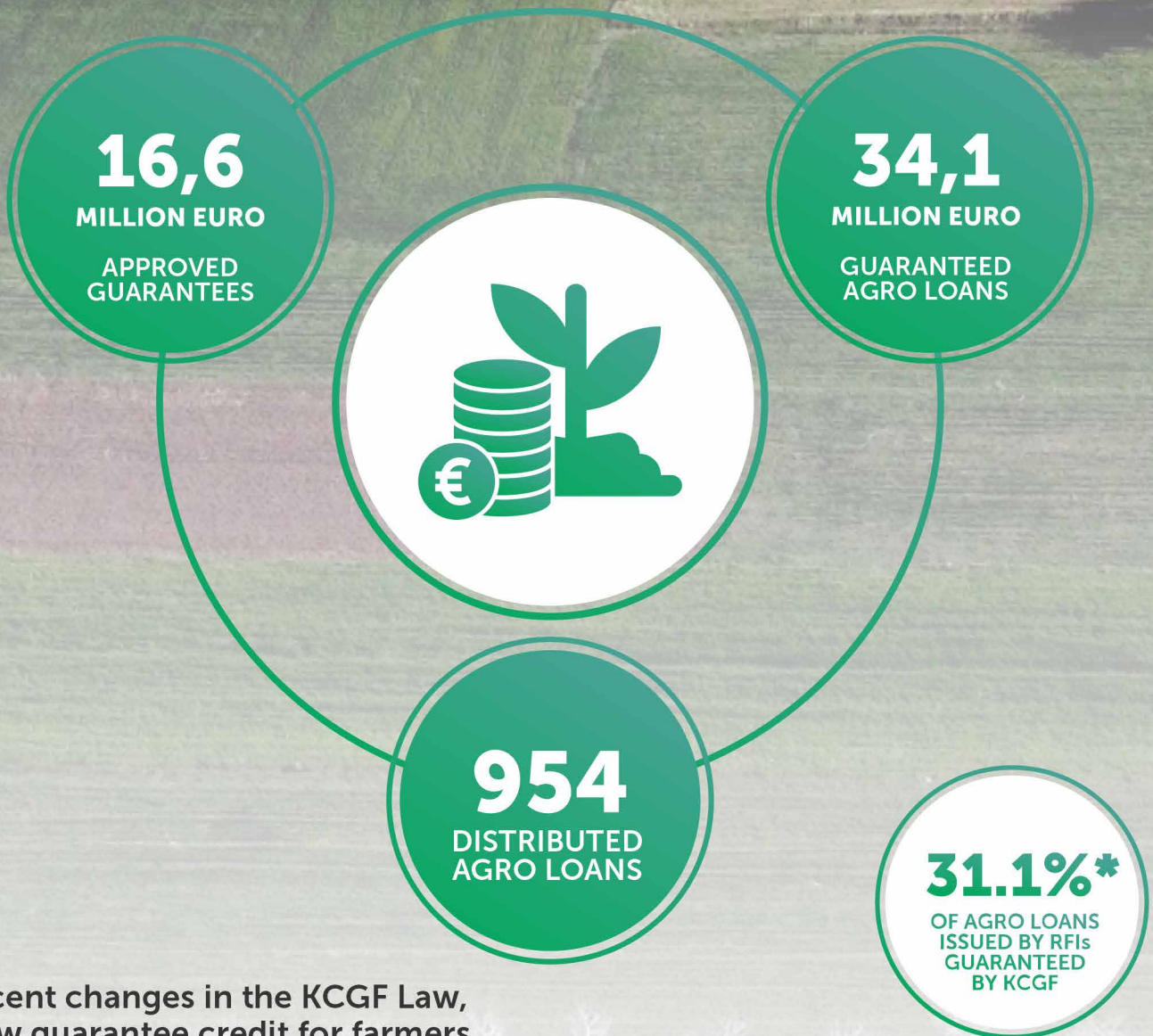
According to bank statements, during 2022, about 29.6% of the financing volume and 31.1% of the number of agricultural loans issued to businesses registered with the KBRA, were guaranteed by the KCGF. As of the end of 2022, only in Agri-Window, a total of about 34.1 million Euros and 954 agri-loans have been guaranteed, while by adding the agri-sector guarantee during the Economic Recovery Package, this volume reaches over 41.1 million Euros for 1,104 loans in total.

The regional distribution of these loans issued by PFIs and guaranteed by the KCGF, in different regions for the agricultural sector during 2022, is as follows:



During 2022, out of 212 agricultural loans guaranteed by the KCGF under the Agri-Window, RFIs anticipated over 6.4 million Euros increase in the turnover of their customers from the investments made, as well as 383 new jobs declared over the current baseline.

ACHIEVEMENTS OF AGRO WINDOW UNTIL 31 DECEMBER 2022



Recent changes in the KCGF Law, allow guarantee credit for farmers with farmers certificate and the farmers identification number (NIF).

*FOR THE PERIOD
JANUARY -DECEMBER 2022
AND BUSINESSES REGISTERED IN ARBK

ADDITIONALITY

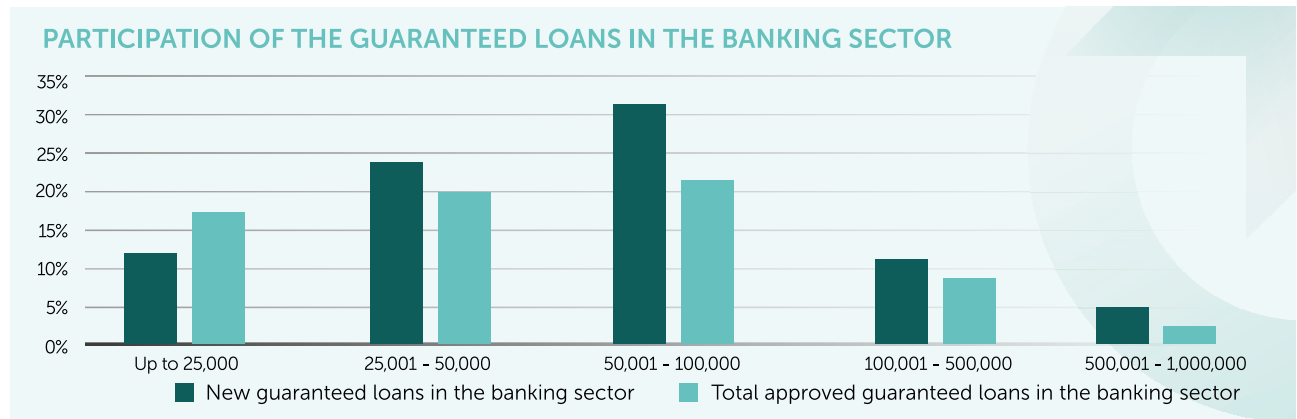
Additionality is the essential reason for KCGF's establishment. The KCGF aims to create new businesses, expand existing businesses, create new opportunities for employment, as well as create opportunities for technological innovation. The KCGF enables SMEs to have access to loans they may not have been able to obtain in the absence of this institution. KCGF's additionality contributes to the general growth of economic well-being, becoming a decisive tool for the development of SMEs and the promotion of entrepreneurship in the country.

In order to observe KCGF's impact, the indicators related to the financial additionality have been analyzed, reflecting on the data provided by the Kosovo Credit Registry and the data provided by the internal MIS of the KCGF.

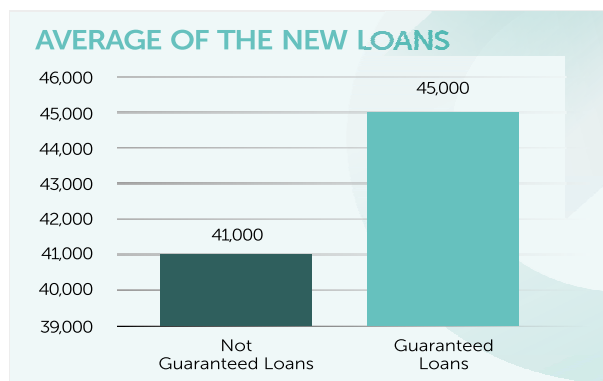
The results of the monitoring of these indicators present KCGF's participation in the banking sector, as well as the impact of the guarantee scheme on the average value of the loans guaranteed by the KCGF compared to those of the sector, the extension of the maturity, the reduction of the demand for collateral, etc.

PARTICIPATION OF GUARANTEED LOANS IN THE BANKING SECTOR

From the graph below it is observed that the participation of guaranteed loans in the banking sector is more pronounced among businesses that received loans for the first time. The participation in the category of new loans with a value of 50,000 to 100,000 Euros was 32%, while the participation of all loans in this category was 22%. For larger loan values, the participation of loans guaranteed by the KCGF is smaller, reaching the smallest value of 2% for loans up to 1 million Euros. This is an expected result because KCGF's goal is to add value to the banking sector by increasing the number of customers who have never received a loan, and also by increasing participation in loans worth up to 100,000 Euros.

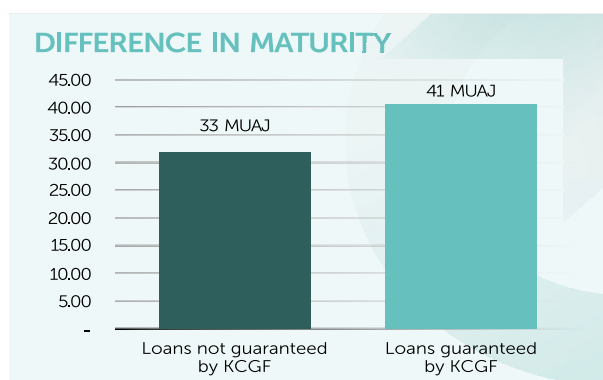


On average, new loans guaranteed by the KCGF have a higher value compared to non-guaranteed ones. This shows once again the impact of the guarantee scheme considering that this scheme offers security to the bank in case of loan failure, as presented in the chart below.



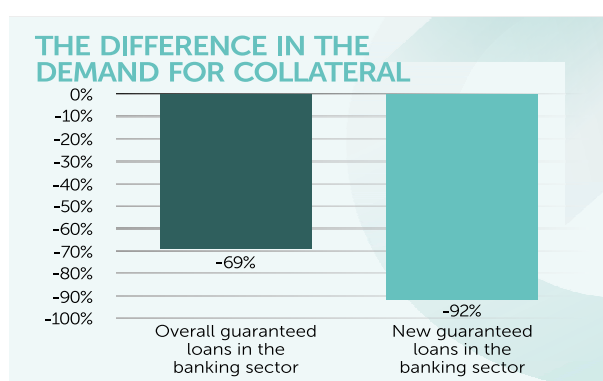
AVERAGE LOAN MATURITY - HIGHER DURATION OF LOANS

The maturity of guaranteed loans continues to be higher than that of non-guaranteed ones. The chart below shows the average maturity for different loan values. During 2022, on average, guaranteed loans had a maturity of more than 41 months, while non-guaranteed ones had an average maturity of 33 months. This result represents the most favorable financing conditions for guaranteed loans compared to non-guaranteed ones.



COLLATERAL COVERAGE

The impact of the guarantee scheme can also be seen in the demand for collateral. Compared to non-guaranteed ones, guaranteed loans, on average, require close to 70% less collateral. In new guaranteed loans, the difference in the demand for collateral is more noticeable; new guaranteed loans require, on average, 92% less collateral than new non-guaranteed loans, see the chart below.



PARTICIPATION OF THE VOLUME OF ACTIVE LOANS GUARANTEED BY THE KCGF IN THE GROSS DOMESTIC PRODUCT (GDP)

The guarantee scheme is one of the most important policies, if not the most important, to support SMEs in times of liquidity gap. The participation of the volume of active loans guaranteed by the KCGF in the Gross Domestic Product (GDP) for 2022, is 1.28%. This is lower than that of 2021 (1.6%), but higher than that of 2020 (0.8%). The higher participation during 2021 is due to supportive policies to help improve the economic situation and avoid further damage to the labor market after the Covid-19 period, and as such, should not be compared with other years.

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

According to OECD (2022), in 2022 there were about 43,000 active businesses in Kosovo. Out of this total, about 8,800 SMEs have benefited from the KCGF Guarantee Scheme, or 16.7% of the total sector of SMEs at the end of the year (according to AECM). This participation is increasing if we compare it with the previous year (11%), showing KCGF's importance in the overall growth of MSMEs.

CREDIT RISK MANAGEMENT

The service offered by the KCGF, which is the partial guarantee of SME loans issued by Registered Financial Institutions (RFI), represents the main source of risk faced by the KCGF. Since credit risk assessment, decision-making and maintenance of MSMEs that have loans guaranteed by the KCGF are entrusted to RFIs, KCGF's risk management mechanisms at the individual level are limited. Being aware of the risks arising from such activity, KCGF risk management processes and framework have adopted a proactive approach to risk management at the portfolio level.

More specifically, the processes at the KCGF are designed in such a way that they will ensure the proper management of the guarantee risk through the determination of the aggregate exposure of the guarantee according to the leveraging factor, the determination of the risk tolerance in most guarantee products, or at the level of RFIs, defining the conditions and clear eligibility criteria for RFIs, MSMEs, loans, or investment plans. The KCGF places special emphasis on continuous supervision and control in risk management, therefore, on a regular basis, the KCGF conducts monitoring and controls at the financial sector, RFI and guaranteed borrower level.

In order to encourage cooperation on a sound basis, in the general guarantee windows, the sharing of risk with RFIs is done on an equal basis, respectively up to 50%, while in windows that aim to address the needs of certain market segments, the guarantee coverage is offered at a higher percentage. Also, the KCGF aims to share the risk as much as possible with re-guarantee schemes, which enable the best mitigation of KCGF's risk.

Diversification is considered as a tool for mitigating the portfolio risk, therefore the KCGF has built processes that enable satisfactory diversification, which is aimed at minimum at the following levels:

- At the level of RFIs, through the allocation of guarantee limits, and through the determination of the maximum guarantee exposure for an RFI;
- At the level of MSMEs, through the determination of the maximum guarantee exposure for an MSME with all related parties. According to year-end data, the highest guarantee exposure was 0.9% in relation to KCGF Capital, while the 10 highest exposures in relation to capital are about 6%;

- At sector level, the KCGF ensures that there is no high concentration in one sector, respectively the exposure of the sector is in accordance with KCGF's objectives and market circumstances. According to year-end data, the sector with the highest participation in the guaranteed portfolio was trade with 41%, followed by the services and manufacturing sector.
- At regional level, the KCGF also monitors the development of the portfolio and aims for the regional development to be in line with market circumstances or with KCGF's objectives.

If the KCGF assesses that there is high concentration in any of the above-mentioned areas that endangers KCGF's portfolio or is not in line with the goals, then the KCGF can take measures to reduce the risk of concentration, by defining restrictions specified in the new guarantee limits for respective RFIs.

LIQUIDITY RISK MANAGEMENT

Credit guarantee represents the main risk for the KCGF, therefore the KCGF is also exposed to liquidity risk, namely the risk of failing to pay its liabilities. Effective liquidity risk management is essential to maintain the trust of donors and partner financial institutions, as well as to enable continuation of the core business.

The KCGF has sufficient capital to cover obligations and this makes it a stable institution and offers security in the financial market. The KCGF invests its capital partly in term deposits with partner financial institutions and partly in Securities of the Republic of Kosovo, with the aim of generating interest income and covering operational expenses. The investment policy addresses the manner of KCGF's capital investments including proper liquidity planning so that KCGF always has sufficient funds needed for timely repayment of liabilities.

The KCGF invests funds based on the principles of proportional allocation according to the investment policy. The KCGF invests up to 70% of the total investments in partner financial institutions, while the rest, i.e., 30%, is invested in Securities of the Government of Kosovo. In addition to the break down of investments by partner financial institutions, there is another aspect of the break down of investments, and this is according to their maturity.

About 60% of investments have a maturity of up to twenty-four months, while 40% of them have a maturity of over twenty-four months to sixty months. For investments with a maturity of up to twenty-four months, at least 30% must have a maturity of up to twelve months.

As for investments with maturity over twenty-four months to sixty months, at least 20% must have maturity from thirty-six months to forty-eight months. In this way, the KCGF takes care to control the liquidity risk by determining the participation limits according to the maturity of the investments.

The KCGF keeps free funds in the CBK account for liquidity purposes, and also, investments in term deposits follow a successive maturity throughout the months of the year, whereby funds are released from maturing deposits each month. In this way, the KCGF manages investments, reschedules them or can withdraw available funds in case of a need for liquidity, and in this process there is no need to interrupt other schedules, maintaining liquidity and optimizing revenues.

PREVENTION OF MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM

In accordance with KCGF Policy on Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT Policy), the KCGF within the framework of the MIS has applied the reporting system for loans qualified at low-medium and high-risk level, and their reporting in terms of politically exposed persons.

RFIs, for each loan reviewed for acceptance under guarantee, also report at the AML/CFT and politically exposed persons level. The KCGF, on a regular basis, monitors loans and qualified borrowers in terms of compliance with requirements in the field of AML/CFT.

The KCGF, according to the requirements of the AML/CFT Policy and within the framework of the agreement with the EIB and the DFC, has developed the Know Your Customer (KYC) process with registered financial institutions, in order to qualify them for benefits from guarantee and re-guarantee schemes.

The KCGF has also made the annual assessment of registered financial institutions in terms of fulfilling the criteria and legal conditions and standards in terms of:

- Adoption of policies, procedures and practices in the field of anti-money laundering and combating the financing of terrorism;

- Maintaining the sanctions list for businesses and individuals and their transactions and updating them in compliance with the sanctions lists of the respective international institutions;
- Cooperation with competent local institutions;
- Organization of trainings and awareness-raising for RFI staff in the field of AML/CFT;
- Conducting special audits and implementing the given recommendations;
- Due diligence and KYC process with their clients who are also qualified borrowers from the KCGF.

RISK MANAGEMENT ACTIVITIES DURING 2022

The KCGF tries to maintain a proactive approach to risk management, thus, even during 2022, risk policies and procedures have been updated with the aim of the best possible risk management. The changes in the risk policy were aimed at enriching the products through changes in the qualifying criteria aimed at greater inclusion of SMEs, increased support in sectors that are considered under-served or that are of particular importance for the economic development of the country, and establishing other risk mitigation measures. In accordance with the internal policies and processes, the KCGF has reviewed and approved the requests for the reassessment of the limits of almost all RFIs during 2022; has reviewed and modified the internal policies in accordance with the modifications made in the relevant windows; has effectively managed the perceived risk of inflation.

In addition, during the past year, the KCGF continued the practice of regular monthly meetings, where the trends in the banking sector in general and in particular for each RFI are analyzed, as well as the development of the guaranteed portfolio. Within the existing capacities, the KCGF continued to increase the guarantee limits to RFIs, through increasing the limits in the existing windows or through the allocation of new limits in the new windows. KCGF's total exposure to RFIs was 138,2 million Euros, which includes exposure in closed windows as well as guarantee limits in active windows. KCGF's exposure to RFIs is covered by capital, which according to year-end data was 57.7 million Euros, consisting of funds donated by the Government of the Republic of Kosovo, international donors, and retained earnings. It should be noted that the funds were donated for specific purposes and have special criteria, which, despite limiting the efficiency of the capital's use, create confidence that the KCGF is sufficiently capitalized and has the ability to absorb the risks to which it is exposed.

During 2022, the KCGF began to use DFC's (US International Development Finance Corporation) re-guarantee scheme that offers the possibility of risk sharing through the coverage of 50% of guaranteed loans in the GROW window. This re-guarantee scheme, together with SIDA's re-guarantee and EIF's COSME program, have enabled the KCGF to partially share the credit risk, increase the guarantor capacity, reduce provision expenses, as well as reduce fees for loans that are guaranteed.

IMPACT OF EXTERNAL FACTORS ON KCGF'S PERFORMANCE

Despite the improvement of the economic situation after the pandemic, the economic climate in our country was affected by the energy crisis as well as inflation at the global level. The presented uncertainty dimmed economic prospects in Kosovo and created new challenges in Kosovo's financial sector, and the KCGF cannot be treated in isolation from these influences. However, despite the

above-mentioned challenges, Kosovo's financial sector continued to remain liquid and sound even during 2022, which was also reflected in the results of KCGF's performance.

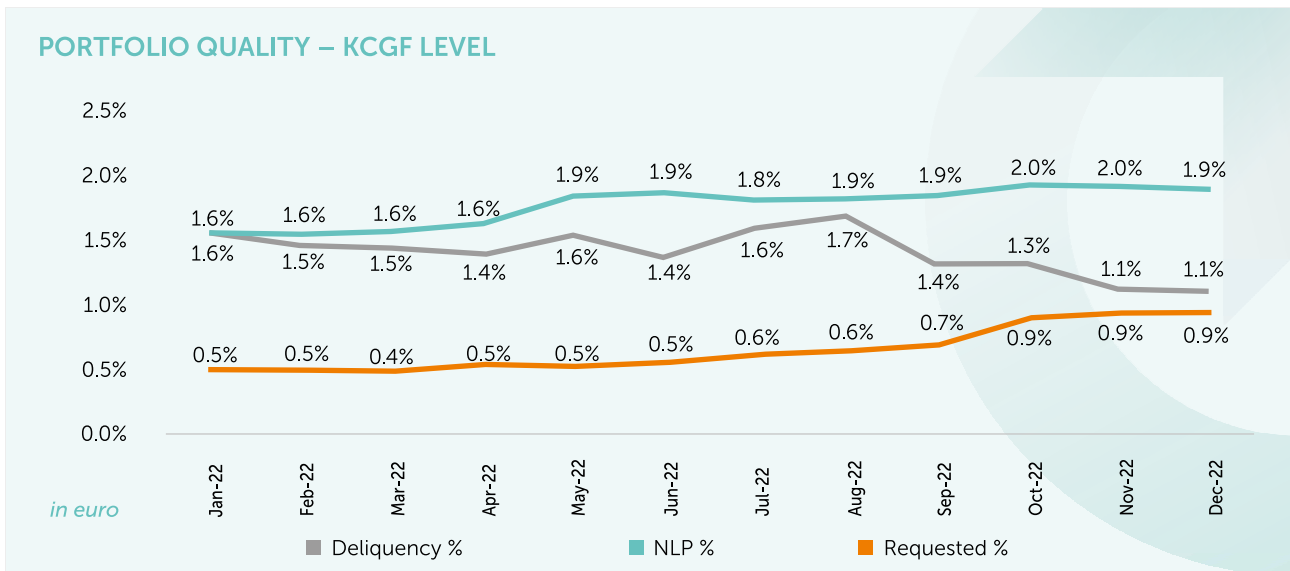
In the circumstances created, despite the increased risk, the KCGF was determined to help continue and promote lending by RFIs through the creation of specific windows (products) tailored for projects aimed at promoting investments in renewable energy production or investments that increase energy efficiency, in development projects aimed at supporting exporting enterprises, or the development of agriculture, but not leaving aside MSMEs in other activities. Other risk management measures are the payment of claims presented by RFIs, as well as the extension of the term of loans through the restructuring of loans that have been guaranteed. These measures taken by the KCGF can be considered as good instruments that have helped mitigate the effects of inflation and foster the development of SMEs.



PORTFOLIO QUALITY

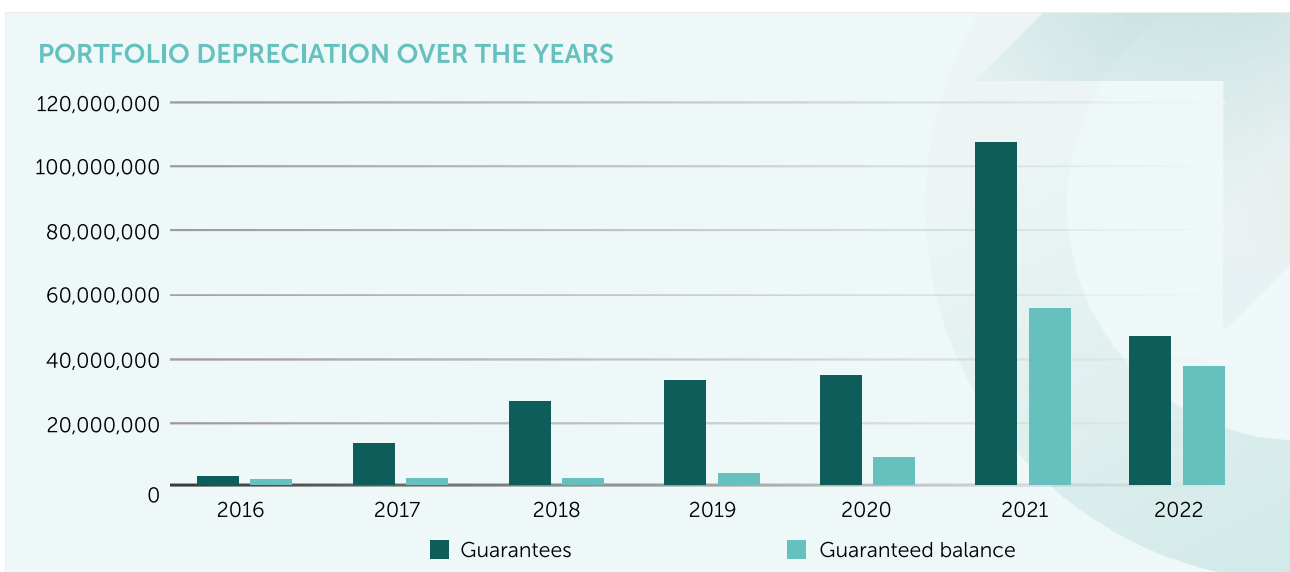
In 2022, the quality of guaranteed loans continued to be at the predicted level. The guarantee balance according to the data as of December 31, 2022, was in the amount of 116.7 million Euros, while the quality of the portfolio, measured by delinquent

and non-performing loans, marked a small increase during 2022, but that increase was at the predicted level and reflects the state of quality of the portfolio for SME loans in the market. According to year-end data, the delinquency of guaranteed loans was 1.10%, the level of non-performing loans (NPLs) was 1.94%, while the level of paid claims (including previous years) reached the value of 1.1 million Euros, which is 0.94% of the guaranteed balance.



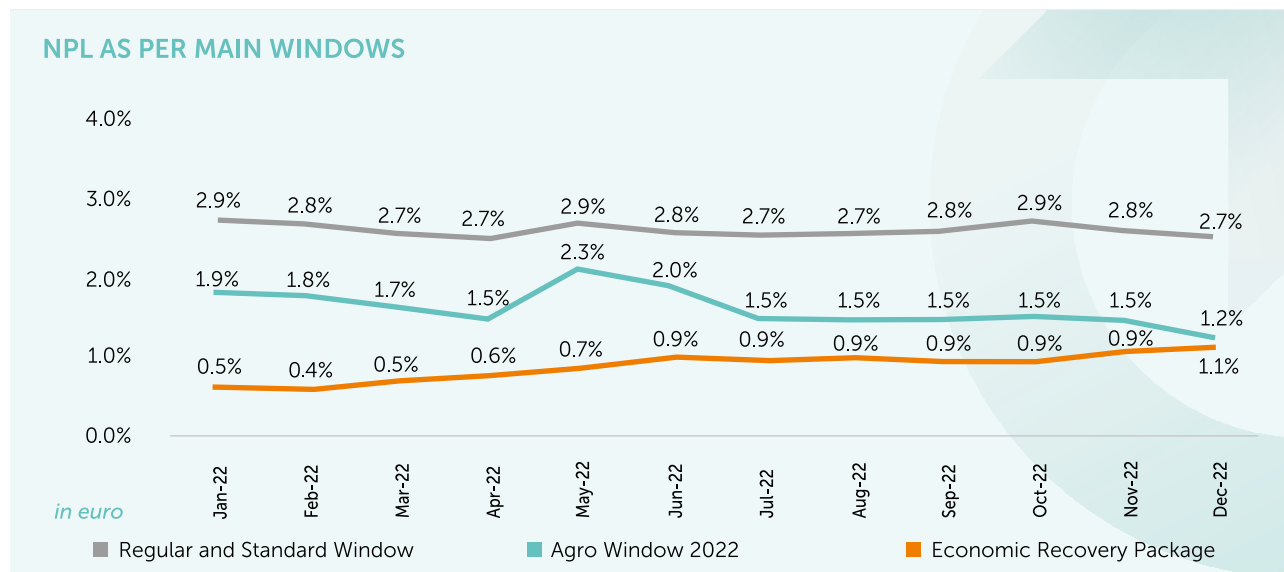
In 2022, the number of payment claims has shown an increase compared to previous years. All claims presented by RFIs for qualified loans have been evaluated in accordance with KCGF's guarantee agreement and internal policies. During 2022, the KCGF paid a total of 44 claims for guaranteed loans in the amount of 572K Euros, which at the annual level represents 0.47% of the guaranteed balance.

The average maturity of loans guaranteed by the KCGF is about 3 years, which is also reflected in KCGF's portfolio the depreciation. As can be seen in table below, the majority of KCGF's portfolio consists of loans issued from 2020 onwards, while the portfolio of previous years is almost depreciated and has a higher level of non-performing loans.



During 2022, special attention has been paid to the monitoring of the portfolio by window, in particular the windows created during the economic recovery package, due to the higher coverage and the fact that guaranteed MSMEs were mainly from

the sectors most affected during the pandemic. Based on the comparative analysis for the same period, the performance of the windows within the economic recovery package was lower than other windows.



PROVISIONING RESERVES

The KCGF continued to build up provisioning reserves according to IFRS9 standards, respectively according to the model of expected losses. Reserves for expected losses for guaranteed loans and other assets amount to 3.23 million Euros, while in the previous year they were 3.57 million Euros, marking

a 9% increase compared to the previous year. The total reserves of guarantee provisions in 2022 were 2.6% in relation to the guaranteed balance, which is close to the financial sector in Kosovo, while the coverage of non-performing loans is 131.2%, which proves sufficient coverage with reserves.

Provisioning reserves for the guaranteed portfolio

Guarantees	Guaranteed Bal.	Provisioning	Provisioning %	PAR
Phase 1:	112,469,254	1,326,585	1.2%	96.4%
Phase 2:	1,920,683	479,651	25.0%	1.6%
Phase 3:	2,303,222	1,214,963	52.8%	2.0%
Total	116,693,160	3,021,200	2.6%	100.0%

In addition to the guarantees, the KCGF also built up provisioning reserves for other assets, which include deposits in RFIs, as well as government bonds of the Republic of Kosovo.

Provisioning reserves for other assets

Other Assets	Investments	Provisioning	Provisioning %
Phase 1:	62,686,670	211,678	0.3%
Total	62,686,670	211,678	0.3%

It is worth emphasizing that the expected loss model provides very good information regarding KCGF's portfolio quality prospects, which is also used in the guaranteed fee calculation model.

STRUCTURE OF THE CAPITAL

KCGF Capital consists of funds donated by the Government of the Republic of Kosovo and international donors. In the following table, KCGF Capital from 2016 to end of 2022 is presented in detail. The Government of the Republic of Kosovo

	Government of Kosovo	USAID	KFW	Accumulated Profit	Total
Capital 2016	2,000,000 €	5,345,141 €	-	3,149 €	7,341,992 €
Capital 2017	1,000,000 €	445,780 €	7,000,000 €	179,017 €	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 €
Capital 2021	-	-	5,600,000 €	430,202 €	5,169,798 €
Capital 2022	-	-	-	2,818,066 €	2,818,066 €
Total	24,410,000 €	5,790,921 €	24,100,000 €	3,434,390 €	57,735,311 €
%	42%	10%	42%	6%	100%

contributed 42% of the capital, the same as KfW. USAID participated with 10%, and the accumulated profit participates with 6%. In 2022, there was no additional contribution to capital, but 2,818,066 million Euros were recorded as accumulated profit. The KCGF does not distribute dividends, and any profit is recapitalized to increase the capital and thus the guarantee potential.

The capitalization of the institution is of particular importance to enable the growth of the guarantee potential of the KCGF and at the same time to transmit security in the financial market. The KCGF uses a capital leverage policy that is determined depending on market/sector risk indicators, ensuring that the KCGF has sufficient capital to carry out its

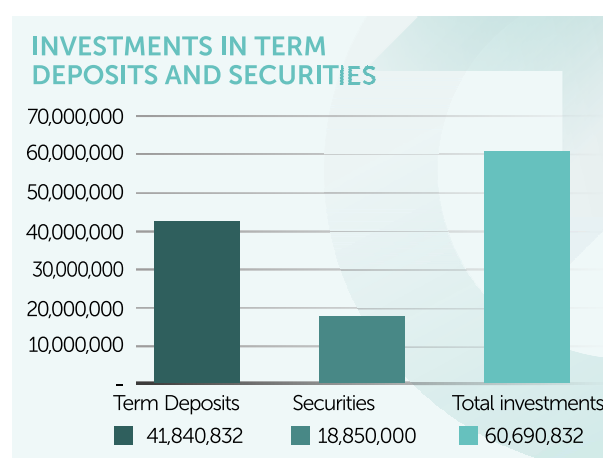
activity and absorb possible losses. The increase in guarantee potential affects the increase in lending by financial institutions, offering them comfort to explore new credit markets and in particular to support the most disadvantaged sectors, which are of great importance for the development of the private sector and as a whole of the economy of Kosovo.

INVESTMENTS OF THE CAPITAL

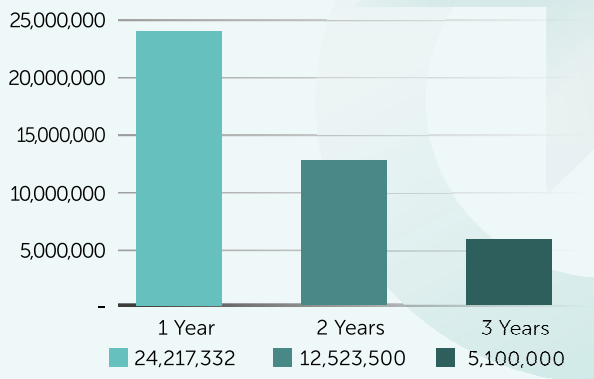
As of the end of 2022, the KCGF has managed to increase its capital over the years and thus presents itself as a stable institution in the financial market. The KCGF invests part of its capital in KCGF's partner institutions, as specified in the law, and in this way generates income from the interest earned to cover operating expenses. Income from investments is consolidated in the Income Statement, while the annual profit is reinvested or kept in the KCGF, increasing the capital, and is not distributed outside the KCGF in any form or manner, including dividends.

The KCGF reflects the trust in partner institutions, leaving the invested funds in their management. During planning for investments, the KCGF takes care to provide liquidity in the financial market, therefore having an impact on the increase in lending by financial institutions. The KCGF also optimizes rates of return on investments, always taking care to maintain stability in the market. During 2022,

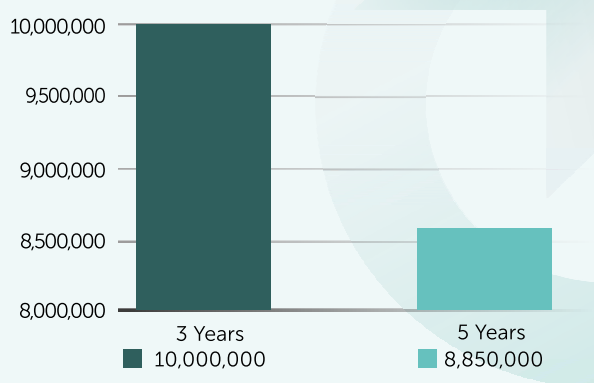
the KCGF has invested 41,840,832 Euros in term deposits with KCGF financial partner institutions, with one-year, two-year and three-year maturities, thus continuing the multi-year cooperation in this direction. In 2022, the KCGF has also invested in Securities of the Government of Kosovo in the amount of 18,850,000 Euros with three-year and five-year maturities.



TERM DEPOSITS AS PER MATURITY



SECURITIES AS PER MATURITY



The KCGF invests funds following the principles of proportional allocation according to the investment policy, whereby investments in partner financial institutions make up to 70% of total investments, while investments in Securities of the Government of Kosovo account for 30%. The break down by investment maturity shows a different composition, whereby 60% of the investments are with a maturity of up to twenty-four months and 40% of them with a maturity of over twenty-four months to sixty months. Of the investments with a maturity of up to twenty-four months, at least 30% of them must be with a maturity of up to twelve months.

As for investments with maturity over twenty-four months and up to sixty months, at least 20% of them must have maturity from thirty-six months to forty-eight months. The KCGF, based on the policy, takes care that there is also diversification of investments in partner financial institutions. According to the policy, participation limits of up to 25% for investments with maturity up to twenty-four months, 22.5% for investments with over 70% with maturity up to twenty-four months, and 20% for combined investments of which 50% with maturity up to twenty-four months and 50% with maturity up to sixty months, have been set.

CAPITAL FROM DONORS



ENVIRONMENTAL AND SOCIAL GOVERNANCE

Climate change and environmental degradation are the key issues we are facing. To address these issues, the European Union has designed the Green Deal (The European Green Deal), which envisages that by 2050, greenhouse gas emissions will drop to zero and promote sustainable growth.

These policies will be applied gradually and will come into full force for financial market participants over a longer period of time. It is essential to develop strategies, to prepare in order to be able to face such changes, because the financial sector is expected to play a key role in financing the green transition and sustainable economy. This transformation will certainly promote new business opportunities, but at the same time the financial sector will be exposed to financial risks arising from the transformation of the economy and the deterioration of physical conditions.

The importance of Environmental and Social Governance (ESG) factors for institutions depends not only on their business activities, but also on governance and management strategy. In this regard, institutions may be affected to varying degrees by policy changes along the transition path to an environmentally sustainable economy.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

Environmental and Social Risk Management is divided into two components: Assessment of

environmental and social impact from KCGF activities, and assessment of the impact from guaranteed loans.

The KCGF, as a guaranteeing institution, assesses the risks associated with guaranteed loans. This includes assessing the environmental and social impacts of operations and identifying potential risks. By carrying out thorough risk assessments, the KCGF decides which businesses to support, and guides them in implementing mitigation measures to minimize negative impacts. This allows tracking of progress, identifying areas for improvement, and ensuring that businesses adhere to their ESG commitments.

Based on these factors, the KCGF has built a system that evaluates the impact of guaranteed loans in environmental and social terms, taking into account the aspects of ESG during the decision-making process, based on the best possible practices and with smaller environmental and social impacts.

In order to assess KCGF's internal impact, measures have been taken to reduce the carbon footprint by reducing electricity consumption, recycling waste, and employing electric taxis for operations. Also, the KCGF has conducted refresher trainings with RFIs and MFIs regarding the environmental and social issues of KCGF financed and guaranteed loans. Another important component is that the environmental and social management policy has been refreshed according to donor requirements. With this update, the KCGF has limited the list of sectors and activities that are guaranteed, based on the environmental and social impact that can be caused.

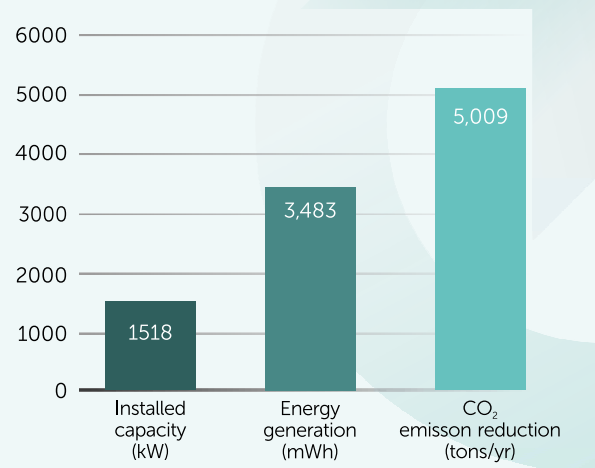


GROW

Kosovo's energy sector, mainly dominated by coal, has been affected by the increase in electricity demand and prices, lack of diversification of energy generation, loss of energy from transmission, environmental and economic costs resulting from greenhouse gas emissions. Safe and reliable energy supply is essential for Kosovo's future for private sector development, economic growth and job creation. As a potential candidate for EU membership, the need for safe and sustainable energy in Kosovo is even more pronounced. Industry analysis suggests that the most effective way for Kosovo to support its future energy requirements is to increase its renewable energy sources and invest intensively in energy efficiency. The aim of the Green Recovery Opportunities Window (GROW) is to support the provision of financing for micro, small and medium enterprises (MSMEs) to face the effects of the Covid-19 pandemic, in particular by supporting MSME investments in energy efficiency, resource efficiency and renewable energy. This will contribute to promoting employment by SMEs in Kosovo and improving their productivity and competitiveness in a sustainable manner, thus contributing to a "Green Recovery" from the pandemic.

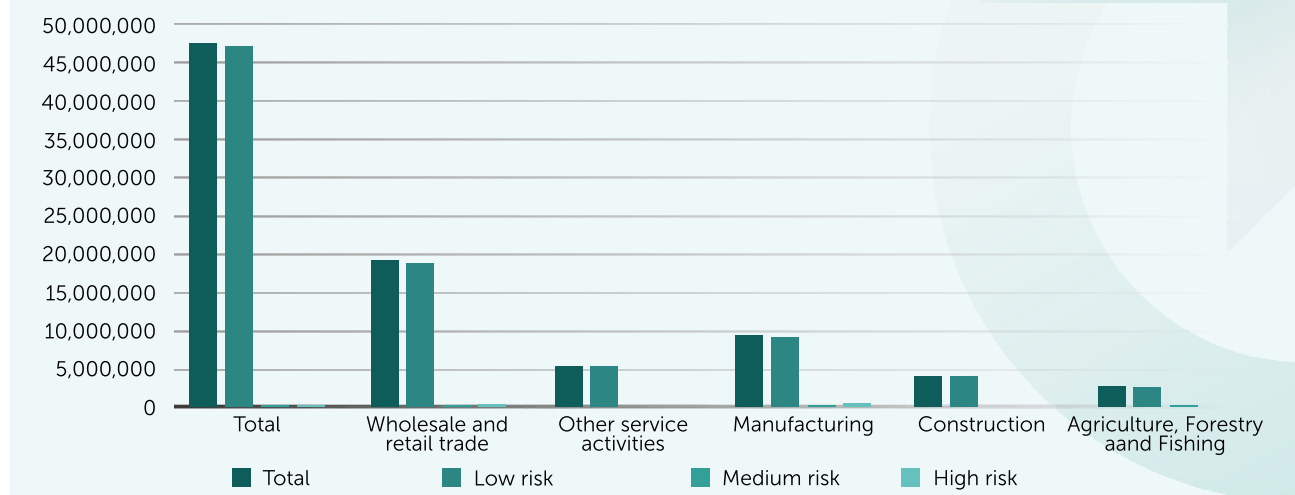
By guaranteeing loans under this window, the KCGF has had a positive impact on the environment,

IMPACT FROM GUARANTEED LOANS



helping to avoid about 5000 tons of CO₂ during the year. It should be noted that investments in renewable energy enable and investment return period of six years, which makes this industry more attractive for SMEs. Considering that Kosovo has about 250 sunny days, investments in this industry will play a role in reducing the dependence on coal, as well as aiming to achieve the goals set by renewable energy sources. In this context, the KCGF will support SMEs to implement projects that aim to reduce electricity bills and contribute to environmental protection.

DISTRIBUTION OF THE PORTFOLIO IN THE SECTOR ACCORDING TO THE ENVIRONMENTAL RISK



During 2022, there were several cases which were categorized as high risk. The investment plan of these guarantees was for the construction of business facilities. Loans aimed at building business facilities are always categorized as high risk because the environmental and social impact is higher as more resources are used. Another

aspect that is taken into account is the generation of construction waste. These cases have been monitored during the construction phase and it has been assessed whether the measures foreseen to reduce the environmental and social impact have been taken according to the regulations and laws in force.

IMPACT ON THE CARBON FOOTPRINT OF GUARANTEES

Measuring emissions related to financial activities is the starting point for financial institutions to manage risk and identify opportunities related to greenhouse gas emissions as well as changes to be made to reduce this impact. During this year, the KCGF has started to measure the impact on carbon footprints based on the guaranteed portfolio. As this component is still in its infancy and we are

analyzing the information, it is important to note that for this report, the results are based on the best data available, as well as the sector average, but do not necessarily reflect the impact of KCGF guarantees.

The impact is calculated based on KCGF's active portfolio by sector; total assets in that sector and CO₂ emissions. Below is presented the method of calculating KCGF's impact on the environment.

$$CO_2 \text{ Total emissions} = \text{Outstanding amount} \times \frac{CO_2 \text{ emissions/sector}}{\text{Total assets}}$$

The standard above has served to calculate the impact of KCGF guarantees on the environment. This method was used after consultation with the "Partnership for Carbon Accounting Financials (PCAF)". The PCAF is a partnership between financial institutions working together to develop and implement a methodology for identifying the impact of loans on greenhouse gas emissions.

The calculation was made for 16 sectors for which data on CO₂ emissions were available. Based on the calculations, it has been estimated that, for the guaranteed cases, KCGF's impact on the environment amounts to 1.81 kilotons. Guaranteed loans in the agricultural and manufacturing sectors have a greater impact in terms of the release of greenhouse gases.



INFORMATION ON ENERGY

Energy consumption shows expenses for electricity for heating, cooling, as well as daily operations of the office. Compared to 2021, the KCGF spent about 2 mWh less electricity in 2022, indirectly affecting the carbon footprint by about 163 tons of CO₂. Considering the energy crisis, we have implemented measures to save electricity, resulting in the saving noted above. During 2022, internal training was held with the staff on environmental issues, introducing all the components that affect the consumption of electricity, as well as the measures to be taken.

PAPER USAGE

Compared to the previous year, paper usage has increased considering that new agreements and contracts were signed this year. The KCGF aims to minimize paper usage, by initiating the implementation of digital signature. This mechanism will help our institution reduce paper

usage by up to 70%. It is worth noting that the KCGF recycles used papers, reducing the impact this activity has on the environment. In the framework of awareness campaigns, on each anniversary of its establishment the KCGF has made a tradition of planting trees, in its commitment to contribute to the environment, and it planted 12 trees in 2022. With this activity, the KCGF has contributed about 250 kg of CO₂ absorbed and at the same time served as an awareness campaign which will continue in the following years.

ELECTRONIC WASTE

KCGF staff has been made aware of the impact of electronic waste on the environment. For this reason, printer toners and batteries are refilled and recycled. All other waste that cannot be reused is sent to special centers for recycling. By recycling these devices, the KCGF plays a role in preventing soil and water contamination.





PART V



2022 MILESTONES

AMENDMENT OF LAW No. 05/L-057 ON THE ESTABLISHMENT OF THE KCGF

In 2022, upon recommendation of the KCGF and the proposal of the Government, the Assembly of the Republic of Kosovo adopted the amendment of Law No. 05/L-057 on the Establishment of the Kosovo Credit Guarantee Fund. The amendment of the Law of the KCGF established the legal basis that enabled the increase of the credit coverage up to 80%, the provision of credit guarantees for farmers with a farm identification number but who are not registered with the KBRA, the possibility of providing credit guarantees at portfolio level, all of which have been materialized in the special guarantee agreements the KCGF has signed with Registered Financial Institutions with the final goal of supporting Micro, Small and Medium Enterprises and the private sector, and thus influencing growth of employment and economic development in general.

LAUNCHING OF GROW – GREEN RECOVERY AND OPPORTUNITY WINDOW

While the war in Ukraine has disrupted markets and led to an increase in the prices of electricity and natural gas, Kosovo, although lignite is its main energy source, has also been affected by these prices, especially in the winter season when consumption is the highest, and it is forced to import electricity from other countries. For Kosovo companies, safe and reliable power supply is essential to ensure stability and consistency in the provision of services and products in the market, which in turn ensure growth and even penetration in regional markets. As a potential candidate for EU membership, the need for safe and sustainable energy in Kosovo is even more pronounced.

Therefore, the KCGF proposed the new Green Recovery Opportunities Window (GROW), which was launched thanks to the cooperation and joint support between MCC/MFK and KfW.



Through the credit guarantee for green investments, the goal of the window will be to promote employment by SMEs, and improve the competitiveness and productivity of SMEs in a sustainable manner. Thus, it will contribute to the economic recovery of the national economy, after the crisis from the pandemic, through green investments. This guarantee window will improve financing conditions, in order to increase lending, which will promote economic growth, reduce dependence on fossil resources, and promote energy conservation. We believe that lending supported by credit guarantees within the GROW Window, will manage to mobilize much-needed investments in the generation of photovoltaic energy for self-consumption for SMEs, investing in projects/equipment that enhance energy efficiency.

This window is implemented in several stages:

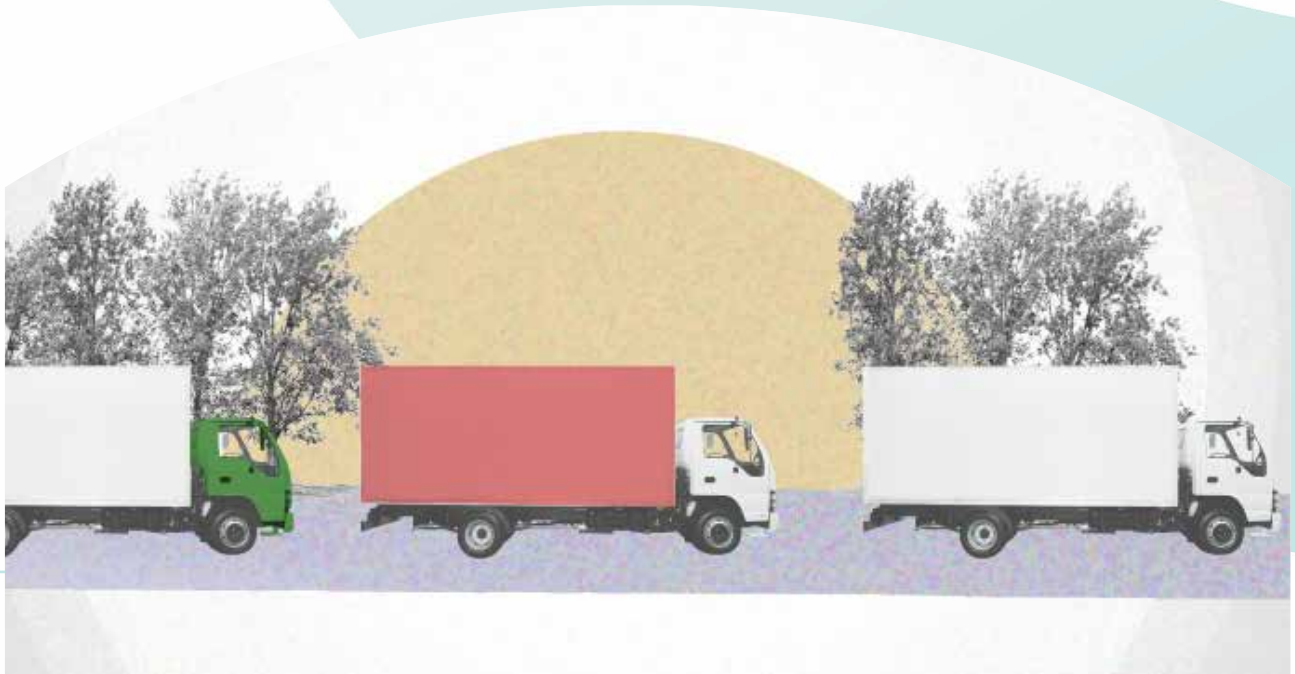
- the pilot stage started with ProCredit Bank in June 2022;
- stage two, the full implementation of the energy window, is expected to take place during the second part of 2023 with all RFIs.

In addition to the guarantee scheme, this window also entails a technical assistance component with the aim of increasing the capacities of RFIs by providing tailored training for staff to guide clients towards green investments.

LAUNCHING OF EXPORT WINDOW

The opportunities for economic development through export are many and Kosovo has, over the years, demonstrated that it has the potential to export highly competitive products and services. Its location, low cost of production, favorable tax system, as well as the young population, are advantages exporting companies can use for easier penetration in international markets and to put themselves on the suppliers' map.

However, the enterprises involved in this segment are often faced with difficulties of financing nature, starting from the lack of access to finance due to the lack of collateral, to the lack of other financing mechanisms that suit the nature of the operation, because these companies are often considered small for international development banks or too risky for commercial banks. Knowing the importance of exporting enterprises and the potential needs of such enterprises to realize their potential, from the first days of our operation we have aimed to support this sector.



In this regard, the Export Window was launched in December 2022, in partnership with the banks of our country, and it is intended for businesses that deal with exports as a new opportunity, thus becoming an accelerator and driver of businesses that, in addition to access to finance, through the Export Window, enhance opportunities and open the doors for investment and distribution of quality products and services not only in Kosovo and the region, but also beyond. The Export Window that we have started piloting with partner banks is dedicated to all companies that, with their investment, plan to start selling products in foreign markets, or those that already have a part of their sales destined for export, meanwhile with the next investment they plan to further strengthen and consolidate their position in international markets. One of the novelties of this window are the more favorable conditions, starting from the highest coverage with guarantees up to 500K Euros, the increase in the value of the loan that can qualify in this window up to 3.0 million Euros, up to the coverage of losses as a whole based on the new capital provided by the Government of the Republic of Kosovo (GoK) through a loan from the European Development Bank (EBRD).

This scheme will support all investments in working capital or even investments in equipment, technology, and real estate, whose purpose will be to enable businesses to penetrate foreign markets with appropriate quality. The special feature of this window is the non-financial component realized with the support of USAID Kosovo Compete Activity, which will support the KCGF through technical assistance to enrich this window with other characteristics according to the needs of the market, as well as to raise the awareness of the sector regarding financing opportunities and appropriate financial mechanisms to support the realization of investments. Through this window, the KCGF, in addition to fulfilling an objective at the very beginning of operations, will also be a link in the chain of this success that will extend beyond national borders.

STARTED THE EIB PROJECT IMPLEMENTATION

Another milestone in 2022 is that KCGF started the implementation of the agreement reached on 28th June 2021 between the European Investment Bank (EIB) and the Ministry of Finance of Kosovo. Through this agreement capital increase for KCGF will enable our credit guarantee scheme to facilitate access to finance for micro, small and medium sized businesses (MSMEs), and more favorable financing. In October 2022 KCGF started implementation of the Standard Window through capital by EIB.

Through this agreement will be supported micro, small and medium-sized businesses with less than 250 employees, giving them access to a valuable source of low-cost financing with a flexible loan installment payment plan (repayment).



KCGF ACHIEVEMENTS

UNTIL 31ST DECEMBER 2022



12,084
LOANS



14%
WOMEN

OWNERS /
COOWNERS



611
MILLION EURO

TURNOVER
INCREASE



506.3
MILLION EURO

GUARANTEED
LOANS
BY KCGF



8,871
BENEFICIARIES

MSMEs



20,266

NEW JOBS



PART VI



ACTIVITIES DURING 2022

LAUNCHING OF NEW WINDOW GROW

GROW Green
Recovery and
Opportunity
Window



17 June 2022 – The Kosovo Credit Guarantee Fund (KCGF) and partners launched a new guarantee window GROW – Green Recovery Opportunity Window, which will support the investments of Kosovar businesses in renewable energy and energy efficiency. Project Grow, designed and funded by the Millennium Foundation of Kosovo (MFK) through MCC, today started the second phase of the project.

Through the capital in amount of 6 million euros, donated by the German Government through the German Development Bank (KfW), and counter guarantee issued by the American federal agency DFC, the new window implemented by KCGF will help partner financial institutions in lending to less served sectors.

As a part of the pilot phase, during the launching ceremony it was signed the agreement with ProCredit bank, as the first financial partner offering this type of service for it's customers. Soon will follow the cooperation with other financial institutions.

LAUNCHING OF EXPORT WINDOW



December 2022 – USAID Kosovo Compete Activity together with the Kosovo Credit Guarantee Fund (KCGF) brought a new product for export-focused companies. Kosovo Credit Guarantee Fund and USAID Kosovo Compete Activity, launched a new financial facility “EXPORT WINDOW”.

Through the Export Window new guarantees can be issued to our partner financial institutions for the benefit of micro, small and medium enterprises, in particular to businesses focused in export. In this event were present representatives of: Kosovo Government; Central Bank of Kosovo; USAID; Embassy of Sweden; Bank Association; Businesses for the wood processing, food processing, and the Information and Communication Technology; Donors; Commercial Banks; Microfinance Institutions and other partners.

KCGF HELD VIRTUAL ROUNDTABLE “ ECONOMIC RECOVERY PACKAGE – RESULTS AND IMPACT”

26 January 2022 - Kosovo Credit Guarantee Fund (KCGF) organized a virtual roundtable “ECONOMIC RECOVERY PACKAGE- RESULTS and IMPACT” where presented the results and the achievements of the Economic Recovery Package during 2021.



KCGF SIGNS THE AGREEMENT WITH THE AGENCY OF FINANCE IN KOSOVO (AFK)

9 March 2022 - Kosovo Credit Guarantee Fund signs the Agreement with The Agency of Finance in Kosovo (AFK), in the premises of the Kosovo Credit Guarantee Fund (KCGF). The agreement was signed to guarantee agricultural loans within the KCGF Agro Window. This event marks the further expansion of the agreements that KCGF implemented with Microfinance Institutions by offering agricultural loan guarantees to local farmers and Agro businesses. Agro Window is a guarantee scheme within the KCGF in order to support farmers and Agro businesses by guaranteeing loans for this sector. So far, there are around EUR 11.4 mio active guarantees within this sector. The total capital of Agro Window reaches the value of EUR 11.5 mio which is fully financed by the German Government, through the German Development Bank - KfW.



“AGRO WORKSHOP” ORGANIZED BY KCGF

15 March 2022 - Kosovo Credit Guarantee Fund held “Agro Workshop” for partner banks and microfinancial institutions. Training was attended by the FRI representatives/staff. Topics of the training: Developments in agro loans; Increase/ decrease of FI agro portfolio; Participation in Agro Financing; Financing of the farmers with NIF; NPL in agro sector; paid Claim’s; Guarantee of Agro Grants!



START UP VIDEO CAMPAIGN LAUNCHED

22 March 2022 – KCGF launched a video add for StartUps as part of its support to new and creative ideas and entrepreneurship! Kosovo Credit Guarantee Fund through its partner FRI offers cooperation and support for Start-up businesses.



KCGF HELD A LECTURE TITLED “ROLE OF GUARANTEE SCHEMES” IN RIT KOSOVO

29 March 2022 - Kosovo Credit Guarantee Fund held a lecture titled “ Role of guarantee schemes” in RIT Kosovo, in the class of prof. Fadil Sahiti. The lecture was held for students of business management section, in order to introduce students with the work, contribution, results and function of KCGF and guarantee schemes in general.



KCGF HELD A LECTURE TITLED “ROLE OF GUARANTEE SCHEMES” IN RIINVEST

8 April 2022 - Kosovo Credit Guarantee Fund Kosovo Credit Guarantee Fund held a lecture titled “ Role of guarantee schemes” in the class of professor Gëzim Turkeshi in Riinvest. The lecture was organized for students of management and business section, to bring informations about the work, contribution, results and function of KCGF and guarantee schemes in general.



KCGF HELD A TRAINING FOR AFK

7 April 2022 – Kosovo Credit Guarantee Fund Kosovo Credit Guarantee Fund held a training for “Agjencioni për Financim në Kosovë – AFK” staff members. Main focus of the training was role of KCGF and Agro Window specifically, offering a wider inclusion for financing of local farmers. Also, AFK staff members were trained on Social and Environmental Management System.



KCGF PARTICIPATED IN THE WORKSHOP “KEY ACCOUNT MANAGEMENT” ORGANIZED BY KGEC

21 April 2022 – Kosovo Credit Guarantee Fund participated in the workshop “Key Account Management” organized by Kosovar-German Economic Chamber (KGEC). Training was held by mr. Kastriot Këpuska, Agro Expert from KCGF. The “Key Account Management” workshop is a very important step toward differentiation and optimisation of business results and increase of income. In this training were discussed different topics: Cooperation with Financial Institutions (Banks and Microfinances); Process of due dilligence. Synchronisation of objectives; Negotiation of contracts with those Fis; Importance of formal and non-formal relations for an effective communication; Staff training for Financial Institutions; Sharing the conditions of requestes by donors and partner institutions; How to accept cases of guarantee loans; The need for new products, etc.

KCGF HELD A LECTURE TITLED “ROLE OF GUARANTEE SCHEMES” IN UBT

22 April 2022 – Kosovo Credit guarantee Fund held a lecture in UBT, “Role of Guarantee schemes” in the class of Prof. Shpresim Vranovci. Lecture was organized for students of management and business section, aiming to present and know the work and operation of KCGF and guarantee schemes in general.



KCGF HELD A LECTURE TITLED “ROLE OF GUARANTEE SCHEMES” IN AAB

22 April 2022 – In the occassion of the “World Week of Creativity and Innovation” , KCGF held a lecture in the Faculty of Economics at AAB College titled “The role of guarantee schemes” .

The lecture was held by Mr. Alban Kastrati, Senior Risk Manager. He revealed the role of KCGF in financing small enterprises and (SMEs) in the economy of Kosovo, especially in those sectors that banks hesitate to take financial risk, such as agriculture, startups, loans for women businesses, loans for green economy etc.



KCGF MARKS ITS SIXTH ANNIVERSARY – FUNDS WEEK

May 2022 - Kosovo Credit Guarantee Fund (KCGF) celebrates its 6th anniversary during "KCGF Week". Many activities were organized during the second week of May to mark the KCGF anniversary: Lecture in Prishtina University – Faculty of Economics; Interview in Radio Kosova; Brunch for partners; It became tradition to remark anniversaries by planting trees. In this occasion KCGF staff members planted twelve linden trees in the school yard of the Fushë Kosova Secondary Economic School, in coordination with its municipal authorities.



KCGF PART OF INDEP INTERVIEW

May 2022 – KCGF part of the interview conducted by INDEP, as part of the discussions on the actions of the "Revival Package". As a continuation of the activities that aim to raise awareness about the Economic Revival package, approved in July 2021, the Institute for Development Policy (INDEP) invited to the next discussion, the Managing Director of the Kosovo Credit Guarantee Fund, Mr. Besnik Berisha.

KCGF PUBLISHED THE DOCUMENTARY ABOUT STARTUP BUSINESSES

15 July 2022 – The Kosovo Credit Guarantee Fund (KCGF) published the documentary about StartUp businesses. What are the programs offered for StartUps in Kosovo? What kind of support does young entrepreneurs get? What are the challenges they face? Do they have access in finance? The main contributors in the documentary were the representatives from TEB Bank, Venture UP and KCGF.

KCGF PART OF THE KOSOVO SOLAR PANEL FORUM 2022

21 July 2022 – KCGF was present and part of the panel in the Kosovo SOLAR Forum 2022. New guarantee Window was presented in this panel as the newest service for businesses as well as the overall KCGF activities.



KCGF and USAID KOSOVO COMPETE ACTIVITY - SIGNED MoU

20 August 2022 – USAID Kosovo Compete Activity and Kosovo Credit Guarantee Fund signed a memorandum of understanding which will enable creation of a new guarantee window for export. This guarantee window will support access to finance for Kosovar exporters. This is a big step toward introduction of new forms of financing in the private sector.

KCGF STARTED THE CAMPAIGN ON STANDARD WINDOW

December 2022 – Kosovo Credit Guarantee Fund is implementing the Standard Window through the capital by European Investment Bank (EIB) according to the agreement signed between the European Investment Bank (EIB) and the Ministry of Finance of Kosovo.

This inclusive window will facilitate access to finance for micro, small and medium sized businesses (MSMEs) and more favorable financing.



KCGF DELEGATION ATTENDED THE AECM ANNUAL EVENT

September 2022 - The representing team from KCGF consisting of: Rinor Gjonbalaj- Chairman of the Board; Besnik Berisha- Managing Director and Vjosa Balaj- Senior Finance Manager attended the biggest annual event organized by AECM - European Association of Guarantee Institutions in Vienna. This year's focus was sustainable financing for MSME and Startups. KCGF was part of the panel titled "Making MSMEs fit for future" and was represented by the KCGF Managing Director.



CONTINUES THE CAMPAIGN FOR GROW

September 2022 – GROW – Green Recovery Opportunity Window - will support Kosovar businesses' investments in renewable and energy efficiency. KCGF - The Kosovo Credit Guarantee Fund launched a new guarantee scheme GROW, in June 2022 and started the piloting phase by signing the first agreement with ProCredit Bank. Soon, will be signed agreements with other partner banks. During September KCGF and MFK continued the media campaign for GROW. This campaign continued with the presence of the GROW features in digital and traditional media during the entire month September.

SIX YEARS SINCE THE APPROVAL OF THE FIRST CREDIT GUARANTEE BY KCGF

September 2022 – In September of this year has been six years since the first credit guarantees were approved. Through loan guarantee, the Fund has improved the performance of MSMEs with investments made by guaranteed loans. It has facilitated access to finance by helping development of the economy through business development, creativity, and innovation. The Kosovo Credit Guarantee Fund welcomes cooperation with financial institutions in Kosovo and proudly takes its place as an significant factor in economic development in the Republic of Kosovo.

THE EU REPORT ON KOSOVO APPRAISES THE WORK OF THE KOSOVO CREDIT GUARANTEE FUND

September 2022 – The Kosovo Credit Guarantee Fund welcomes the report published by the European Commission on Kosovo. This report appraises that in the first half of this year, in addition to many positive aspects from the continuous measures undertaken for stability in the financial sector, the increase of guaranteed loans by the Kosovo Credit Guarantee Fund (KCGF) for micro, small and medium enterprises, has influenced the mitigation of the impact by the crisis created during the Covid19 pandemic.

KOSOVO CREDIT GUARANTEE FUND STARTED THE IMPLEMENTATION OF THE STANDARD WINDOW

October 2022 – Kosovo Credit Guarantee Fund started the implementation of the Standard Window through capital by European Investment Bank (EIB) KCGF started the implementation of the agreement reached on 28th June 2021 between the European Investment Bank (EIB) and the Ministry of Finance of Kosovo. Through this agreement capital increase for KCGF will enable our credit guarantee scheme to facilitate access to finance for micro, small and medium sized businesses (MSMEs) , and more favorable financing.

KCGF PART OF THE FOOD SECTOR FORUM

October 2022 – The Kosovar Credit Guarantee Fund was part of the panel on the topic: “Relevant financial products in the food sector” at the Food Sector Forum. Forum was attended by various local businesses from the sector.



THE THIRD SESSION OF THE EQUIPMENT LEASING PARTNERSHIP FORUM IS HELD

October 2022 – Financial leasing is a valuable tool which can help companies to reduce the high investment costs of acquiring modern processing equipment in the food processing and wood sectors! Recently, the third session of the Equipment Leasing Partnership Forum, organized by the USAID Kosovo Compete Activity, provided essential information and success stories on equipment leasing. Private sector company representatives also learned about the Kosovo Credit Guarantee Fund’s new Energy Efficiency window – GROW, and the Export Finance window which are offering larger and preferential funding opportunities for export-oriented MSMEs, in all viable sectors. Also, the USAID KESS Activity informed companies about their offer on energy efficiency diagnostics for MSMEs.



KOSOVO BANK ASSOCIATION MARKS ITS 20TH ANNIVERSARY

November 2022 – Kosovo Bank Association marked 20th anniversary of its establishment. On this occasion it was organised a conference with key stakeholders and different panels focusing in financing. Kosovo Credit Guarantee Fund also was represented in the panel titled: “Boosting domestic production and exports by increasing overall access to finance for MSMEs, represented by KCGF Chairman of the Board Mr. Rinor Gjonbalaj.



KCGF HELD ORIENTATION SESSIONS WITH RFI ON STANDARD AND AGRO WINDOW

December 2022 – Kosovo Credit Guarantee Fund, after launching its Standard and Agro Window, initiated a new cycle of orientation sessions, tailored for the staff of registered financial institutions. Orientation sessions contain important informations on Standard Window (emphasising the export component), Agro Window as well as on Environmental and Social Management System (ESMS). First session was held with staff members of NLB Bank, to continue with Banka Ekonomike; Banka për Biznes; Raiffeisen Leasing Kosovo; AFK, KEP, KRK and FINCA.



Pictured moments from the information session held with staff members of Banka Ekonomike.



Pictured moments from the information sessions held with staff members of Bank for Business.



Pictured moments from the information session held with staff members of Raiffeisen Leasing.



Pictured moments from the information sessions held with staff members of microfinance institutions AFK FINCA KEP and KRK.

KCGF PART OF THE GLOBAL ENTREPRENEURSHIP WEEK

December 2022 – The Export Finance Facility, the new financial product of the Kosovo Credit Guarantee Fund, developed by USAID, was presented as part of the Global Entrepreneurship Week. This product will be accessible to all viable MSMEs with up to 249 workers, operating in all applicable sectors, predominantly on export-oriented activities. The new Finance Facility and other finance mechanisms were discussed during the Export and Start up Financing event organized by USAID Kosovo Compete Activity.



KCGF PART OF THE BPB BUSINESS ACADEMY PANEL

December 2022 – The Kosovo Credit Guarantee Fund, represented by Mr. Besnik Berisha, Managing Director - Part of the panel on the occasion of conclusion of the second cycle of Business Academies from BPB.



SUCCESS STORIES

METAL - IN - SOLAR PANNELS - A SMART INVESTMENT

Metal manufacturing is a difficult industry, we witnessed on site when visited the factory with over 25 workers, numerous machines for the iron processing; altering them into metal wires, as a ready product for market needs. Metal-IN, a business that started operating in 2011, and managed to offer its products not only in the local market but also in different countries in the region and Europe.

The owner of the business, Mr. Nexhmi Lahu, an expert in the industry, with long experience in the Construction Reinforcement Factory (FAN) privatized in 2006, explained to us when the factory started it's operation as well as the challenges this industry faces. While site seeing processing units, from the first point- where the raw material is brought, further through the entire process steps, it leaves an impression how important and the same time how difficult the entire working process is. It requires continuous focus, because metal processing is a difficult, demanding and dangerous at the same time. The noise of the machines, the wide and open space, gives the feeling of a real factory where producing occurs. "The noise of the machines, for me is music of start of the day, if I don't hear these voices in the morning, it means we have a problem and the production has not started yet" - said Mr. Lahu while we visited at his office. There are several steps we have to go through the process until the final product is ready. Each machine works through the production process and requires a high consumption of electric energy. "Meaning that the production cost is high. Therefore, installation of solar panels are considered as the right solution for this type of production. Thus, we are considering it as an investment with a long-term impact."

METAL-IN has used the loan for investment in solar panels, as this industry is a major consumer of electricity. Therefore, solar panels are considered a wise investment, which in a period of six to seven years, would return the investment. Through this investment, Metal In will reduce electricity bill costs by up to 50% and avoid the release of about 300 tons of carbon dioxide (CO₂) per year, that will have a positive contribution in protection of the environment. The owner of "Metal In" is considering the possibility of increasing capacities of solar panels, to further reduce electricity costs. Mr. Lahu said: " Of course, this investment is expected to happen in the future, after the construction of the annex building of the existing factory. But, we are waiting for the changes in legal framework , that will allow us to sell electricity locally. Yet, this legal framework isn't approved ".



VE-TRO-ISOL AG Sh.pk. GO HEALTHY

The road to Ferizaj is always pleasant, because each time we visit the area, something has changed: new businesses, new constructions, investments, creating the real impression that a lot's of work is done here. This time we visited a special business in this city, VE-TRO-ISOL AG Shpk is a business wwe were warmly welcomed by the owner Mr. Skyfter Ajvazi.

The smell of different herbs was felt everywhere, as well as the smell of various fruits collected and then dried and preserved, that are prepared for export. "Different herbs from the soil of Kosovo are collected by the locals and brought fresh, products for which we take care to dry and preserve, always natural and 100% organic, which are exported mainly to Italy". told us Mr. Ajvazi. The sllogan of our business is to have a quality and pure organic products, so that the customer can enjoy the flavor of real tea. We produce nine different types of tea: mountain fruit tea; peppermint tea; linden tea; green; wild apple; chamomile; hibiscus as well as orange, lemon and ginger. Also, mushrooms of special types are dried here: porcini and chanterelle." - said Mr. Ajvazi. VE-TRO-ISOL AG Shpk has eight regular employees, and each season, depending on the need, it employs 20-50 seasonal workers who collect tea and various fruits.

In our company, workers are the main assets. We as employer offer for them good working and employment conditions. Businesses in Kosovo are facing the challenge of liquidity; Debt collection is often challenging. Therefore, loans help us and facilitate access to finance whenever we need to make an investment. The recent loan guaranteed by the Kosovar Credit Guarantee Fund, has made possible the investment to purchase different products, which has been processed in order to fulfill the demand for export. Thus, we managed to export about 200 tons of products per year! The brand "Go Healthy", as part of the business VE-TRO-ISOL AG Shpk, proved to be a special brand, which is positioned in our market and abroad, as a brand that offers guaranteed quality.



INNO HOME - NEWEST FACTORY IN THE MARKET

Inno Home, the newest factory in the market, is a testament to the power of great ideas and united investors in driving innovation. Thanks to the financial leasing provided by Raiffeisen Leasing Kosova, along with the support of the Guarantee scheme of KCGF and facilitation from USAID Kosova Compete Activity, the factory has been fully equipped with the necessary machinery and equipment to fuel its development and production. The collaboration between Inno Home, Kosovo Credit Guarantee Fund, Raiffeisen Leasing Kosova and USAID Kosova Compete Activity exemplifies the synergy between private and public entities, as well as the commitment to driving economic progress and innovation in Kosovo.



JAHA SOLAR - THE FIRST CLIENT USING THE "GROW WINDOW"

Through the loan issued by ProCredit Bank Kosova, JAHA SOLAR became the first client to use the guarantee scheme of the Kosovo Credit Guarantee Fund - GROW. JAHA Solar exports over 50% of its products to European countries. To date, it has developed projects in Kosovo, Montenegro, Albania and Macedonia. In 2017, the capacity of installations was only 1MW, while in 2022 it reached the capacity of 20 MW and it is expected that by the end of the year it will reach the capacity of 30 MW. "For the project and the GROW window, we understood through ProCredit Bank one of our main partners for the development of the solar project in our country. The funding process was easy, the requirements were clear and the procedures were quick. The loan guaranteed by the Kosovar Fund for Credit Guarantee has facilitated the process of completing several projects and at the same time has influenced the growth of business in the country" said Vigan Ibërdemaj - Project Manager at JAHA Solar. The given opportunity was one of the main problems related to the financing of businesses in Kosovo. This investment had a positive impact at the time when I was faced with the energy crisis. As a result, many businesses became independent and reduced the use of energy produced by power plants in Kosovo. Also, it had a positive impact on the environment by avoiding the release of greenhouse gases such as carbon dioxide into the atmosphere - said Mr. Iberdemaj.





PART VII



AUDITED FINANCIAL STATEMENTS

KOSOVO CREDIT GUARANTEE FUND

**Independent Auditor's Report and
Financial Statements for the year
ended December 31, 2022**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Kosovo Credit Guarantee Fund

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kosovo Credit Guarantee Fund ("the Fund" or "KCGF"), which comprise: the statement of financial position as at December 31, 2022, 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 December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with 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), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on other information

Management is responsible for other information disclosed in Annex 1 to this financial statements. Other information comprises of schedule disclosing the balances and transactions with World Bank.

Our opinion on the financial statements does not cover other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 judgement 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 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.


Amir Dërmata
Engagement Partner
BDO Kosova L.L.C.
June 23, 2023
Ukshin Hoti, Building C 4/3, Ent. A, 2nd Floor,
Pristina, Kosovo


BDO Kosova L.L.C.
audit, accounting and financial advisory
Pristina, Kosovo

Kosovo Credit Guarantee Fund
Statement of Financial Position
(All amounts in EUR, unless stated otherwise)

	Notes	As at December 31, 2022	As at December 31, 2021
ASSETS			
Property, plant, and equipment	9	30,954	23,884
Intangible	10	17,509	18,263
Right of Use (ROU)	8	41,248	60,286
Total non-current assets		89,711	102,433
Deposits	6	42,174,250	37,135,910
Treasury Bonds	7	18,781,139	14,586,422
Trade and other receivables	5	282,333	225,708
Cash on hand and at banks	4	2,052,322	9,886,321
Total current assets		63,290,044	61,834,361
Total assets		63,379,755	61,936,794
EQUITY AND LIABILITIES			
Capital	13	54,300,921	54,300,921
Accumulated profit		3,434,390	616,324
Total equity		57,735,311	54,917,245
Accrued expenses		11,553	13,096
Lease liability	8	44,891	63,661
Total non-current liabilities		56,444	76,757
Reserve for losses on Guarantees	19	3,021,000	3,324,217
Deferred revenues	11	1,346,980	2,291,989
Accrual guarantee fees	12	1,220,020	1,326,586
Total current liabilities		5,588,000	6,942,792
Total equity and liabilities		63,379,755	61,936,794

Authorized for issue by the management and signed on its behalf on June 23, 2023.


Besnik Berisha
Managing Director




Vjosa Balaj
Senior Finance Manager

The accompanying notes on pages 7 to 35 form an integral part of these financial statements.

Kosovo Credit Guarantee Fund
Statement of Profit or Loss and Other Comprehensive Income
(All amounts in EUR, unless stated otherwise)

		Year ended December 31, 2022	Year ended December 31, 2021
	Notes		
Guarantee fees	14	2,457,527	1,620,638
Interest income	15	855,819	508,464
Other income	16	368,359	217,816
Gross profit		3,681,705	2,346,918
Personnel expenses	17	(287,630)	(246,394)
Operating expenses	18	(297,530)	(138,194)
Depreciation expenses	9,10	(21,155)	(20,781)
ROU depreciation	8	(19,038)	(19,038)
Net provision losses for guarantees	19	(269,387)	(2,101,945)
Net provision losses for other assets	19	34,531	(246,209)
Total expenses		(860,209)	(2,772,561)
Lease liability cost Total expenses	18	(3,430)	(4,559)
Net Profit for the year		2,818,066	(430,202)
Other comprehensive income		-	-
Total comprehensive income for the year		2,818,066	(430,202)

The accompanying notes on pages 7 to 35 form an integral part of these financial statements.

Kosovo Credit Guarantee Fund
Statement of Changes in Equity
(All amounts in EUR, unless stated otherwise)

	Capital	Accumulated profit	Total
Balance at 1 January 2021	48,700,921	1,046,526	49,747,447
Net profit for the year	-	(430,202)	(430,202)
Paid in capital	5,600,000	-	5,600,000
Other comprehensive income	-	-	-
Balance as at December 31, 2021	54,300,921	616,324	54,917,245
Balance at 1 January 2022	54,300,921	616,324	54,917,245
Net profit for the year	-	2,818,066	2,818,066
Other comprehensive income	-	-	-
Balance as at December 31, 2022	54,300,921	3,434,390	57,735,311

The accompanying notes on pages 7 to 35 form an integral part of these financial statements.

Kosovo Credit Guarantee Fund
Statement of Cash Flows
(All amounts in EUR, unless stated otherwise)

	Year ended December 31, 2022	Year ended December 31, 2021
Operating activities		
Net profit for the year before tax	2,818,066	(430,202)
<i>Adjustments for:</i>		
Depreciation and amortization expense	40,193	39,818
Losses from disposal of assets	108	-
Operating loss before working capital changes	<u>2,858,367</u>	<u>(390,384)</u>
(Increase)/decrease in trade and other receivables	(56,625)	6,115
Decrease in accrued expenses	(1,543)	(16,180)
Change in deferred revenues	(910,478)	1,679,140
Change in accrual guarantee fees	(106,566)	742,773
Net cash generated in operating activities	<u>1,783,155</u>	<u>2,021,464</u>
Cash flows from investing activities		
Increase in deposits	(5,038,340)	(13,262,155)
Increase in treasury bonds	(4,194,717)	(14,656,199)
Purchase of property, plant, and equipment	(27,579)	(13,203)
Change in reserve for losses on guarantees	(303,217)	1,878,641
Change in reserve for losses on other assets	(34,531)	246,209
Net cash used in investing activities	<u>(9,598,384)</u>	<u>(25,806,707)</u>
Cash flows from financing activities		
Decrease in Lease Liability	(18,770)	(17,641)
Paid in capital	-	5,600,000
Net cash (used)/generated by financing activities	<u>(18,770)</u>	<u>5,582,359</u>
Decrease in cash and cash equivalents during the year	(7,833,999)	(18,202,884)
Cash and cash equivalents, the beginning of the year	<u>9,886,321</u>	<u>28,089,205</u>
Cash and cash equivalents, end of the year	<u>2,052,322</u>	<u>9,886,321</u>

The accompanying notes on pages 7 to 35 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, through a joint initiative between International Donors in Kosovo (mainly USAID and KfW) and the 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 *hereinafter (LKCGF) was established the KCGF as an independent, not-for-profit, public institution, autonomous, legal entity and determined its authority, structure, governance, operations, scope, 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 in 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, create jobs, increase local production and value-added services, 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’ Board of Directors and Executives.

KCGF is governed by a Board of Directors composed of seven members: One ex-officio member appointed by the Ministry of Trade and Industry of the Republic of Kosovo; One ex-officio member appointed by the Ministry of Finance of the Republic of Kosovo; four independent members, appointed by donors, and the KCGF Managing Director, 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 was established to provide 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 by the LKCGF and internal policies approved by the Board of Directors.
- b. Setting the conditions for registering qualified Kosovo Financial Institutions in the KCGF, according to the Policy that regulates 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 under the provisions of the LKCGF and the Guarantee Agreement, in provisions of the LKCGF and the Policy that regulates the handling of the claims.

1. GENERAL (CONTINUED)

KCGF's minimum capital is 300,000.00 Euros as defined in 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 its own management.

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.

On May 11, 2022, the Kosovo Credit Guarantee Fund (KCGF) signed the portfolio Guarantee Agreement with the Development Finance Corporation (DFC).

The support of the guaranteed portfolio of KCGF by SIDA, COSME and SIDA 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 increasing access to finance for micro, small, and medium-sized enterprises to promote economic growth and job creation for women, men, 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 by 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 in 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.

2.1.1 *Standards, amendments and interpretations that are already effective*

In the current year, the Fund has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2022.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

2.1.2 *Standards, amendments and interpretation issued but not yet effective*

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Fund intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

The following amendments are effective for the period beginning 1 January 2023:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- The following amendments are effective for the period beginning 1 January 2024:
- IFRS 16 Leases (Amendment - Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment - Classification of Liabilities as Current or Non-current)
- IAS 1 Presentation of Financial Statements (Amendment - Non-current Liabilities with Covenants)

These standards, amendments or interpretations are not expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

The Fund 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 costs.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Financial assets and financial liabilities (continued)

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 of 31 December 2022, and 2021, financial assets and liabilities of the Fund are subsequently measured at amortized cost and include cash and cash equivalents, deposits, securities, trade, and other receivables and liabilities. Loss allowances for expected credit losses (ECL) are presented in the statement of financial position as a deduction from the gross carrying amount of the assets. The calculation of ECL for financial assets measured at amortized cost is disclosed in Note 2.13.

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, canceled, or expires).

2.3 Cash and cash equivalents

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

2.4 Property, Plant, and Equipment

In the financial statement property, plant, and equipment are measured at the 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 Fund for subsequent measurement of property, plant, and equipment is the cost model under IAS 16 - acquisition cost less accumulated depreciation and impairment losses.

Gains or losses from the 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 licenses 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 use 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 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.

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 Fund is reasonably certain to exercise, lease payments in an optional renewal period if the Fund is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Fund 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 Fund's estimate of the amount expected to be payable under a residual value guarantee, or if the Fund 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 Fund 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%.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Right of use asset (continued)

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 for a portfolio of leases with similar characteristics.
- Adjusting the right-of-use asset for any recognized onerous lease provisions, instead 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 Fund 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 the inception of a contract, the Fund 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 Fund assesses whether:

- the contract involves using an identified asset - this may be specified explicitly or implicitly and should be physically distinct or substantially represent all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- the Fund has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- the Fund 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 Fund has the right to operate the asset; or
 - the Fund 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 greater than 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 a 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. In December 2021, to increase the capital of KCGF, a grant agreement in the amount of 5.6 million Euros was signed between the German Development Bank (KfW) and the Ministry of Finance.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

- (i) Revenues from guarantee fees;
- (ii) Interest from investments.

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 an accrual basis for a period of 12 months. The guarantee fees are recognized as revenues in the statement of comprehensive income at the end of each month by debiting Accrual Guarantee Fee and credit Guarantee Fees Income.

Interest from investment

Investment means investments of surplus funds where the overriding 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)

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 contributions are recognized as employee benefit expenses when they are due.

2.12 Donations

KCGF accepts donations or Technical Assistance from donors. In the framework of Technical Assistance, KCGF receives funds for 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment provisions

An impairment 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. In the year 2021, KCGF upgraded the model which calculates the historical data of the KCGF adapted from the macroeconomic model to derive the expected losses in the guaranteed portfolio, which is in line with the requirements of IFRS 9. The ECL calculations are based on the following input parameters:

- *Probability of Default (PD)*: This expresses the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon, i.e., over 12-month for stage 1 exposures and over the entire lifetime for stage 2 and stage 3 exposures.
- *Exposure at Default (EAD)*: This is an estimate of the exposure at a future default date, considering expected changes in the exposure after reporting date, including repayments of principal and interest and expected drawdowns on committed facilities. For Guarantees, EAD will be based on the outstanding guaranteed amount.
- *Loss Given Default (LGD)*: This represents an estimate of the loss arising from a default event. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive.

The impairment of credit guarantees according to the model is done in three stages, based on changes in credit quality since initial recognition.

The guiding principle of IFRS 9 is that Expected Credit Loss (ECL) reflects the general pattern of deterioration or improvement in 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) if there is no significant deterioration in credit quality.
- Lifetime ECLs (Stages 2 and 3), which apply 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 months 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 are 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment provisions (continued)

Starting from the year 2021, the probability of default has also been considered the developments and macroeconomic perspective. Thus, ECL considers the expectations of future market conditions. To achieve those forward-looking estimates, econometric models describing dependencies between macroeconomic factors and historical default rates have been developed, and based on them the scaling factors to be incorporated into lifetime PD estimates will be derived. The macroeconomic factors included in the calculations are GDP, Unemployment rates, and Inflation Rates.

In addition, the ECL is calculated also for financial assets measured at amortized cost (Deposits and Securities). The ECL calculation for financial assets is based on external ratings where for each counterparty KCGF assigns a rating. As Kosovo does not have a rating, nor the deposit Financial Institutions are not rated, the Albanian most recent assessment is used.

2.14 Commitments and Contingencies

Contingent liabilities are not recognized in 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 is 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 the effect of uncertain 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 the 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 coordinate activities to direct and control an organization regarding risk.

The KCGF Risk Management Policy sets out the key principles to establish an appropriate system of risk oversight and management. The key principles for risk management are implemented in the 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 sets forth risk appetites for credit risk and liquidity risk and approves key risk policies, limits, and strategies. The Board also ensures that KCGF is taking appropriate measures to achieve a 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 the 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 at 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 lie, correspondingly, with the banks. If nonperforming loans at a bank increase, putting their portfolio at risk, this will in turn increase KCGF's, in the sense that KCGF's may be called on the guarantees issued. This will have an impact on KCGF's capital position and expected fee income. Therefore, KCGF's counterparties' (Registered Financial Institutions' "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 KCGF requirements.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Credit risk (continued)

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 that the guarantee commitments that KCGF are taking within its risk-bearing capacity and that its portfolio is well-diversified, KCGF has adopted a Credit Guarantee Risk 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 a 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 a 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.

For addressing the capital investment, KCGF has adopted an investment policy that ensures the safety of the invested capital and accordingly evaluates the counterparty risk, hence setting the limits in accordance with the risk involved for each counterparty. KCGF manages investment risk by determining the percentage distribution of the amount invested in term deposits with Financial Institutions and the Government of Kosovo Securities as well as the breakdown by investment maturity, where currently the maximum maturity is 5 years. Investments in deposits and Securities of the Government of Kosovo are categorized in Stage 1 according to IFRS 9, and no deterioration is expected.

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 the capital that it is holding as liquid assets should provide support for 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 purpose of optimizing potential returns within acceptable risk parameters, KCGF has prepared an investment policy that clearly sets out an investment framework consistent with the KCGF mandate and its strategic objectives.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Liquidity risk (continued)

	December 31, 2022			
	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years
Financial assets				
Cash and cash equivalents	2,052,322	-	-	-
Trade and other receivables	282,333	-	-	-
Deposits	32,747,840	9,546,130	-	-
Securities	-	-	18,870,642	-
Total financial assets	35,082,495	9,546,130	18,870,642	-
Financial liabilities				
Payables and other liabilities	3,244,232	-	-	-
Total financial liabilities	3,244,232	-	-	-
	December 31, 2021			
	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years
Financial assets				
Cash and cash equivalents	9,886,321	-	-	-
Trade and other receivables	225,708	-	-	-
Deposits	23,912,342	8,300,000	5,100,000	-
Securities	-	-	14,656,199	-
Total financial assets	34,024,371	8,300,000	19,756,199	-
Financial liabilities				
Payables and other liabilities	3,583,522	-	-	-
Total financial liabilities	3,583,522	-	-	-

3.5 Operational Risk

Operational risk can arise due to internal events such as the potential for failures or inadequacies in any of 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, the operational risk may arise due to internal events, such as the 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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Operational Risk (continued)

The KCGF's operational risk management focuses on proactive measures to ensure business continuity as well as the accuracy of information used internally and reported externally, competent, and well-informed staff, and its adherence to established rules and procedures as well as security arrangements to protect the physical and ICT infrastructure of 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 that may occur because of events such as third-party claims resulting from errors and omissions, employee or third-party fraud, and natural disasters.

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. The fair value hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund can access at the measurement date.
- Level 2: Other than quoted market prices included within Level 1 that are observable for the asset or liability either directly or indirectly and
- Level 3: Unobservable inputs for the asset or liability.

As of 31 December 2022, and 2021, the Fund has no financial assets measured at fair value.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 December 31, 2022	Fair value December 31, 2022
Financial assets - at amortized cost		
Cash and cash equivalents	2,052,322	2,052,322
Trade and other receivables	282,334	282,334
Deposits	42,293,970	42,293,970
Securities	18,870,642	18,608,402
Total financial assets	63,499,268	63,237,028
Financial liabilities - at amortized cost		
Payables and other liabilities	3,244,232	3,244,232
Total financial liabilities	3,244,232	3,244,232

	Carrying value December 31, 2021	Fair value December 31, 2021
Financial assets - at amortized cost		
Cash and cash equivalents	9,886,321	9,886,321
Trade and other receivables	225,708	225,708
Deposits	37,312,342	37,312,342
Securities	14,656,199	14,642,694
Total financial assets	62,080,570	62,067,065
Financial liabilities - at amortized cost		
Payables and other liabilities	3,583,522	3,583,522
Total financial liabilities	3,583,522	3,583,522

3.8 Critical accounting estimates and judgments

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 judgment in applying the KCGF accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis.

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.8 Critical accounting estimates and judgments (continued)

Impairment of credit guarantees

The Fund reviews its credit guarantee contracts to assess whether an impairment loss should be recorded in profit or loss. Management's judgment 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 2.13.

The useful life of depreciable assets

Management reviewed the useful lives of depreciable assets on 31 December 2022. Management estimates the determined useful life of assets and represents the expected usefulness (utility) of assets. The carrying values of such assets are analyzed in Notes 9. However, the factual results may differ due to technological obsolescence.

4. CASH AND CASH EQUIVALENTS

	As at December 31, 2022	As at December 31, 2021
Cash at Central Bank of Kosovo	1,777,895	9,175,123
Current Accounts	276,253	711,080
Petty cash	629	118
Total	2,054,777	9,886,321
Impairment	(2,455)	-
Total cash and cash equivalents	2,052,322	9,886,321

5. TRADE AND OTHER RECEIVABLES

	As at December 31, 2022	As at December 31, 2021
Receivables from RFI's	273,084	217,637
Advances	9,249	8,071
Total receivables	282,333	225,708

Receivables from clients as of 31 December 2022 and 2021 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 bank's status update of the outstanding guarantee.

6. DEPOSITS

The total deposits as of December 31, 2022 are in the amount of 41,840,832 EUR (2021: 37,042,829 EUR) with a minimum interest rate of 0.8% and maximum interest rate of 2.6% (2021: minimum interest rate of 0.5% and maximum interest rate of 2%).

These 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, 2022	As at December 31, 2021
Deposits in banks in Kosovo	41,840,832	37,042,829
Accrued interest	453,138	269,513
Total	<u>42,293,970</u>	<u>37,312,342</u>
Impairment allowance	<u>(119,720)</u>	<u>(176,432)</u>
Total deposits	<u><u>42,174,250</u></u>	<u><u>37,135,910</u></u>

These investments are in compliance with article 22 - "Investment of KCGF Capital Fund" of the Law on the Establishment of the Kosovo Credit Guarantee Fund.

7. INVESTMENTS IN SECURITIES

The total investments in securities as of 31.12.2022 are in the amount of 18,791,668 EUR (2021: 14,603,817 EUR) with a minimum interest rate of 1.1% and maximum interest rate of 2.1% (2021: a minimum interest rate of 1.1% and maximum interest rate of 2.1%), and minimum maturity of 3 years and maximum maturity of 5 years.

The investments are classified as amortized cost and all investments are invested in securities issued by the Government of Kosovo.

	As at December 31, 2022	As at December 31, 2021
Investment securities - at amortized cost		
Government bonds	18,791,668	14,603,817
Accrued interest	78,974	52,382
Total	<u>18,870,642</u>	<u>14,656,199</u>
Impairment allowance	<u>(89,503)</u>	<u>(69,777)</u>
Total Investments in Securities	<u><u>18,781,139</u></u>	<u><u>14,586,422</u></u>

These investments are in compliance with article 22 - "Investment of KCGF Capital Fund" of the Law on the Establishment of the Kosovo Credit Guarantee Fund.

8. RIGHT-OF-USE ASSET AND LEASE LIABILITY

8.1 Right-of-use

Right of use assets comprises a building leased for the KCGF office.

	As at December 31, 2022	As at December 31, 2021
Carrying Amount at January 1	60,286	79,324
Additions	-	-
Disposal	-	-
Depreciation charge for the year	(19,038)	(19,038)
Carrying Amount at 31 December	<u>41,248</u>	<u>60,286</u>

8.2 Lease liability

	As at December 31, 2022	As at December 31, 2021
As at January 1	63,661	81,302
Additions	-	-
Lease payments	(22,200)	(22,200)
Accrued interest	3,430	4,559
Lease liability as at 31 December	<u>44,891</u>	<u>63,661</u>

The following table presents the maturity analysis of the lease liability:

	As at December 31, 2022	As at December 31, 2021
Less than one year	19,971	18,770
Two to five years	24,920	44,891
More than five years	-	-
Total lease liabilities at 31 December	<u>44,891</u>	<u>63,661</u>

Kosovo Credit Guarantee Fund
Notes to the Financial Statement for the year ended December 31, 2022
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9. PROPERTY, PLANT, AND EQUIPMENT	Equipment	IT Equipment	Office furniture	Leasehold improvements	Total
Historical cost					
As at January 1, 2021	4,689	616	3,746	20,588	29,639
Additions during the period	-	6,150	-	532	6,682
As at December 31, 2021	4,689	6,766	3,746	21,120	36,321
Additions during the period	12,550	5,073	1,915	1,310	20,848
Disposals during the period	(679)	-	-	-	(679)
As at December 31, 2022	16,560	11,839	5,661	22,430	56,490
Accumulated depreciation					
As at January 1, 2021	(1,953)	(32)	(574)	(2,475)	(5,034)
Depreciation for the period	(1,553)	(245)	(1,249)	(4,356)	(7,403)
As at December 31, 2021	(3,506)	(277)	(1,823)	(6,831)	(12,437)
Depreciation for the period	(4,354)	(2,802)	(1,623)	(4,891)	(13,670)
Disposals for the period	571	-	-	-	571
As at December 31, 2022	(7,289)	(3,079)	(3,446)	(11,722)	(25,536)
NET VALUE					
As at December 31, 2021	1,183	6,489	1,923	14,289	23,884
As at December 31, 2022	9,271	8,760	2,215	10,708	30,954

As at 31 December 2022 and 2021, KCGF uses all property and equipment for its activities and there are no encumbrances over KCGF assets.

10. INTANGIBLE ASSETS

	Software
Historical cost	
As at January 1, 2021	96,554
Additions during the period	6,522
As at December 31, 2021	<u>103,076</u>
Additions during the period	6,731
As at December 31, 2022	<u>109,807</u>
Accumulated amortization	
As at January 1, 2021	71,435
Amortization for the period	13,378
As at December 31, 2021	<u>84,813</u>
Amortization of the year	7,485
As at December 31, 2022	<u>92,298</u>
NET VALUE	
As at December 31, 2021	<u>18,263</u>
As at December 31, 2022	<u>17,509</u>

As of 31 December 2022, and 2021, 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 acquired and activated in July 2016 and its initial value was 66,825 euros. KCGF in 2017 and 2018 upgraded the system with its own funds in the amount of 11,844 euros. With a donation from KfW, the Fund upgraded the system again in 2019 and 2020 in the amount of 17,885 euros. In 2021, with the technical assistance from the project FSSP, the Fund upgraded the system in the amount of 5,386 euros, and with its own funds in the amount of 1,136 euros. In 2022, with technical assistance from the project FSSP, the Fund upgraded the system in the amount of 5,080 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.

11. DEFERRED REVENUES

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

11. DEFERRED REVENUES (CONTINUED)

11.1 Deferred revenue from donated assets

	As at December 31, 2022	As at December 31, 2021
Equipment	8,480	-
IT Equipment (FSSP TA - Note 11.3)	4,061	6,111
IT Equipment (MFK TA)	4,369	-
Leasehold improvements (FSSP TA - Note 11.3)	1,293	524
Office furniture (FSSP TA)	1,542	-
Software (FSSP TA - Note 11.3)	8,538	4,677
Software (KfW TA)	5,557	9,135
Total in-kind contributions	33,840	20,447

	As at December 31, 2022	As at December 31, 2021
At the beginning	20,447	19,394
Additions during the year (Note 11.3)	25,110	12,067
Equipment(FSSP TA)	11,950	-
- IT Equipment (FSSP TA)	-	6,150
- IT Equipment (MFK TA)	4,853	-
- Office furniture (FSSP TA)	1,916	-
- Leasehold improvements (FSSP TA)	1,311	531
- Software (FSSP TA)	5,080	5,386
- Depreciation and amortization (USAID TA)	-	(6,682)
- Depreciation and amortization (KfW TA)	(3,577)	(3,577)
- Depreciation and amortization (FSSP TA)	(7,718)	(755)
- Depreciation and amortization (MFK TA)	(484)	-
Depreciation and amortization (Note 16)	(11,779)	(11,014)
At the end of the year	33,778	20,447

11.2 Deferred revenue from guarantee fee subsidy

	As at December 31, 2022	As at December 31, 2021
Fee subsidy	1,233,171	2,260,814
Total deferred revenues from subsidy fee	1,233,171	2,260,814

11. DEFERRED REVENUES (CONTINUED)

11.2 Deferred revenue from guarantee fee subsidy (continued)

	As at December 31, 2022	As at December 31, 2021
At the beginning	2,260,814	500,000
Additions during the period	-	4,500,000
Utilized (Note 12, Note 14)	(781,031)	(1,124,235)
Returned	(246,612)	(1,614,951)
At the end of the year	<u>1,233,171</u>	<u>2,260,814</u>

KCGF in the framework of the contract signed between KCGF and the Ministry of Finance of Kosovo on December 31, 2020, received as an advance the subsidy of the guarantee fee, in the amount according to the contract, distributed over a period of time. KCGF recorded the amount as deferred revenue and only after the realization of the guarantee, records it as income in the statement of comprehensive income. The contract was terminated on December 31, 2021.

In the framework of the Agreement between the Kosovo Credit Guarantee Fund and the Ministry of Finance, for the Subsidy of Guarantee Fees dated December 31, 2020, the Kosovo Credit Guarantee Fund has received the amount of 5,000,000 euros (received in two parts, dated 18 February 2021 in the amount of 1,500,000 euros and on 17 August in the amount of 3,500,000 million euros) for subsidizing tariffs for cases guaranteed under the Economic Recovery Package (PRE) in accordance with Law no. 07 / L -016 for Economic Recovery - COVID. Since the duration of the Law no. 07 / L-016 on Economic Recovery was until December 31, 2021, and a result, the validity of the guarantee windows as a special measure within the PRE has been up to this date, including the use of a dedicated budget of 5.0 million euros to subsidize guarantee fees. In agreement with the Ministry of Finance, Labor and Transfers, it was decided that the unused funds from the amount of subsidy of guarantee fees, in 2021 in the amount of 1,614,951 euros, and 2022 in the amount of 246,612 euros, were returned to the Government of the Republic of Kosovo.

The initial maturity of the loan or lease was used as the basis for the calculation, assuming that each loan guaranteed under this window will be amortized according to the initial payment plan and eventual prepayments and restructurings that may occur during the maturity of the exposures are not taken into account. In addition to all revolving products (Overdrafts and Credit Lines), it is calculated that they will be re-extended for five cycles (years), as allowed in the Guarantee Agreement with partner banks. For Loans and Leases marked with irregular payment plans, the calculation is performed by taking into account the payment plans which are requested by the Banks.

11.3 Deferred revenue from technical assistance

	As at December 31, 2022	As at December 31, 2021
FSSP technical assistance	80,031	10,728
Total deferred revenues from technical assistance	<u>80,031</u>	<u>10,728</u>

11. DEFERRED REVENUES (CONTINUED)

11.3 Deferred revenue from technical assistance (continued)

	As at December 31, 2022	As at December 31, 2021
At the beginning	10,728	93,456
Additions during the period	170,012	-
Utilized FSSP TA (Note 11.1)	(25,110)	(12,067)
Utilized FSSP TA (Note 16)	(75,599)	(70,661)
	<u>80,031</u>	<u>10,728</u>
At the end of the year	<u>80,031</u>	<u>10,728</u>

KCGF in the framework of the contract signed on September 17, 2020, between KCGF and the Government of the Republic of Kosovo represented by the Ministry of Finance and the implementation of the Financial Sector Strengthening Project, receives advance 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, records it as income in the comprehensive income statement. These funds cover the expenses of the staff engaged in the project in the amount of 69,908 euros, assets in the amount of 20,257 euros, and other consulting and administrative expenses in the amount of 10,544 euros. This value is recorded as other income in the amount of 75,599 euros and is reflected in disclosure 16, also the value of assets is recorded as income in the relevant period and is reflected in disclosures 9 and 10.

12. ACCRUALS

	As at December 31, 2022	As at December 31, 2021
- Accrual Guarantee Fee	466,575	407,184
- Accrual Guarantee Fee (covered by Ministry of Finance) (Note 11.2)	-	666,345
- Accrual Annual Fee	292,085	253,057
- Accrual Annual Fee (covered by Ministry of Finance) (Note 11.2)	461,360	-
	<u>1,220,020</u>	<u>1,326,586</u>
Total accrual fees	<u>1,220,020</u>	<u>1,326,586</u>

13. CAPITAL

As at 31 December 2022 and 2021, capital consists of funds provided to the KCGF as grants as follows:

	As at December 31, 2022	As at December 31, 2021
Funds received from USAID	5,790,921	5,790,921
Funds received from KfW	24,100,000	24,100,000
Funds received from GoK	24,410,000	24,410,000
Total	54,300,921	54,300,921

In December 2021, KfW donated an additional capital of 5,600,000 euros to support the green recovery sector through KCGF. In April 2020, KfW donated an additional capital of 6,500,000 euros to Agro Window as part of the development of this KfW-supported sector. While in November 2020, KfW donated another 5,000,000 euros to support the windows under the Recovery Package, dedicated to the recovery of businesses during the pandemic crisis, and in 2021 another 5,600,000 euros. In 2020, the implementation of the World Bank project for the Financial Sector Strengthening Project began, where the Government of Kosovo donated to the KCGF 21,410,000 euros capital. From this capital, through FSSP, to address the request for financial support of MSMEs affected by the crisis caused by COVID-19, KCGF designed and implemented six windows in different sectors and generated revenues which are disclosed in Note 14. The windows within the Recovery Package have enabled the guarantee of loans up to 80%.

14. GUARANTEE FEES

	Year ended December 31, 2022	Year ended December 31, 2021
Guarantee fees	1,471,774	1,162,748
Release of deferred revenue for Guarantee fees covered by the Ministry of Finance (Note 11.2)	985,753	457,890
Total guarantee fees	2,457,527	1,620,638

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 an accrual basis for a period of 12 months.

The guarantee fees are recognized as revenues in the statement of comprehensive income at the end of each month by debiting Accrual Guarantee Fee and Credit Guarantee Fees Income. The total fee income as of 31.12.2022 is in the amount of 2,457,527 euros (2021: 1,620,638 Euros) with a minimum fee of 0.5% and a maximum fee of 2% (2021: a minimum fee of 0.5% and a maximum fee of 2%).

Kosovo Credit Guarantee Fund
Notes to the Financial Statement for the year ended December 31, 2022
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15. INTEREST INCOME

	Year ended December 31, 2022	Year ended December 31, 2021
Interest income from deposits	574,576	349,757
Interest income from Government bonds	281,243	158,707
Total interest income	855,819	508,464

16. OTHER INCOME

	Year ended December 31, 2022	Year ended December 31, 2021
Funds for operating expenses	218,384	57,029
Release of deferred revenue for FSSP TA (Note 11.3)	75,599	70,661
Recovery	62,597	79,112
Release of deferred revenue for in-kind fixed asset donation (Note 11.1)	11,779	11,014
Total other income	368,359	217,816

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.

17. PERSONNEL EXPENSES

	Year ended December 31, 2022	Year ended December 31, 2021
Salaries	236,950	203,106
Pension contribution	27,394	23,466
Tax salaries	23,286	19,822
Total personnel expenses	287,630	246,394

Kosovo Credit Guarantee Fund
Notes to the Financial Statement for the year ended December 31, 2022
(All amounts in EUR, unless stated otherwise)

18. OPERATING EXPENSES

	Year ended December 31, 2022	Year ended December 31, 2021
Re-guarantee expenses	183,296	11,734
Translator and other Professional services	30,300	66,834
Maintenance & Repair Exp.	25,034	19,576
Publications, Branding, and Marketing	16,068	9,554
Training, Conferences, and Seminars	8,290	724
Expenses for Membership & Subscription	5,501	5,501
Interest expenses on the lease liabilities	3,430	4,559
Office rent & utilities	2,196	2,196
Phone and internet expenses	4,211	4,201
Bank fees	977	1,516
Other expenses	21,657	16,358
Total operating expenses	300,960	142,753

19. IMPAIRMENT PROVISION LOSSES

19.1 Impairment provision for guarantees

	Year ended December 31, 2022	Year ended December 31, 2021
Additional provision	5,184,809	5,342,113
Release of provision	(4,915,422)	(3,240,168)
Total net provision expenses	269,387	2,101,945

A 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.

	Year ended December 31, 2022	Year ended December 31, 2021
As at 1 January	3,324,217	1,445,576
Additional provision	5,184,809	5,342,113
Release of provision	(4,915,422)	(3,240,168)
Claims paid	(572,604)	(223,304)
As at 31 December	3,021,000	3,324,217

The paid claims refer to 44 claims requested by 5 banks (2021: 20 claims, requested by 5 banks).

19. IMPAIRMENT PROVISION (CONTINUED)

19.1 Impairment Provision losses for guarantees (continued)

	As at December 31, 2022	As at December 31, 2021
Stage 1	1,326,386	1,776,402
Stage 2	479,651	601,669
Stage 3	1,214,963	946,146
As at 31 December	3,021,000	3,324,217

Changes in the corresponding gross carrying amount and ECLs are as follow:

	Stage 1	Stage 2	Stage 3	Total
Gross outstanding amount as of 1 January	122,537,011	1,975,063	1,580,040	126,092,114
New guarantees originated	46,582,422	45,000	20,000	46,647,422
Derecognitions	(55,445,654)	(97,990)	69,871	(55,473,773)
Claims	-	-	(572,604)	(572,604)
Transfers to Stage 1	(1,581,053)	936,226	644,827	-
Transfers to Stage 2	349,404	(951,754)	602,351	1
Transfers to Stage 3	27,124	14,139	(41,263)	-
As at December 31, 2022	112,469,254	1,920,684	2,303,222	116,693,160

	Stage 1	Stage 2	Stage 3	Total
As of 1 January	1,776,403	601,669	946,146	3,324,218
New guarantees originated	504,980	203,798	231,494	940,272
Derecognitions	(419,751)	(251,135)	-	(670,886)
Claims	-	-	(572,604)	(572,604)
Transfers to Stage 1	(539,368)	206,626	332,742	-
Transfers to Stage 2	3,891	(285,084)	281,193	-
Transfers to Stage 3	230	3,778	(4,008)	-
As at December 31, 2022	1,326,385	479,652	1,214,963	3,021,000

19. IMPAIRMENT PROVISION (CONTINUED)

19.2 Impairment Provision losses for financial assets

	Year ended December 31, 2022	Year ended December 31, 2021
Cash	2,054,777	-
Deposits	42,293,970	37,312,342
Investment securities measured at amortized cost	18,870,642	14,656,199
Allowances for impairment	<u>(211,678)</u>	<u>(246,209)</u>
Total investments	<u>63,007,710</u>	<u>51,722,332</u>

Changes in the corresponding gross carrying amount and ECLs are as follow:

	Stage 1	Stage 2	Stage 3	Total
Investments as of 1 January	51,722,332	-	-	51,722,332
New assets originated or purchased	35,154,286	-	-	35,154,286
Assets derecognized or matured	<u>(23,657,229)</u>	<u>-</u>	<u>-</u>	<u>(23,657,229)</u>
As at 31.12.2022	<u>63,219,389</u>	<u>-</u>	<u>-</u>	<u>63,219,389</u>

	Stage 1	Stage 2	Stage 3	Total
As of 1 January	246,209	-	-	246,209
New assets originated or purchased	94,782	-	-	94,782
Assets derecognized or matured	<u>(129,313)</u>	<u>-</u>	<u>-</u>	<u>(129,313)</u>
As at 31.12.2022	<u>211,678</u>	<u>-</u>	<u>-</u>	<u>211,678</u>

20. CONTINGENCIES AND COMMITMENTS

	As at December 31, 2022	
	Number of Guarantees	Outstanding Guaranteed Amount
Total	<u>6,720</u>	<u>116,693,160</u>

	As at December 31, 2021	
	Number of Guarantees	Outstanding Guaranteed Amount
Total	<u>6,729</u>	<u>126,092,114</u>

Litigation and claims

As of 31 December 2022, there are no litigations or claims against FKGK (2021: no litigations or claims against FKGK).

21. 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 (remuneration fee for meetings, pension contribution) as per the Statute, including the Managing Director of KCGF.

	Expenses
As at December 31, 2022	
Board Members	61,915
Total	<u>61,915</u>

	Expenses
As at December 31, 2021	
Board Members	16,800
Total	<u>16,800</u>

22. EVENTS AFTER THE REPORTING DATE

After 31 December 2022 - 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
Annex 1 - Financial strengthening support project transactions
World Bank
For the year ended December 31, 2022 and as of December 31, 2022

	2022	2021
Property, plant, and equipment (FSSP)	15,177	6,681
Intangible assets (FSSP)	5,080	5,386
Total non-current assets (FSSP)	20,257	12,067
Deposits (FSSP)	6,410,000	6,410,000
Treasury Bonds (FSSP)	15,000,000	15,000,000
Accrual interest	101,378	204,552
Receivables to be reimbursement	13,508	37,377
Cash and cash equivalents (FSSP)	94,919	50,556
Total current assets (FSSP)	21,619,805	21,702,485
Capital (FSSP)	21,410,000	21,410,000
Total capital (FSSP)	21,410,000	21,410,000
Accrued expenses (FSSP)	-	-
Total non-current liabilities (FSSP)		
Deferred revenues (FSSP)	80,031	10,728
Accrual guarantee fees (FSSP)		666,345
Accrual annual fees (FSSP)	461,360	
Total current liabilities (FSSP)	541,391	677,073
Guarantee fees (FSSP)	985,753	457,890
Interest income (FSSP)	119,675	67,073
Other income (FSSP)	83,318	71,415
Total income (FSSP)	1,188,746	596,378
Personnel expenses (FSSP)	(69,908)	(33,283)
Operating expenses (FSSP)	(5,692)	(37,377)
Depreciation expenses (FSSP)	(7,718)	(755)
Total expenses (FSSP)	(83,318)	(71,415)

The table shows the items in the FS that are directly related to the IDA financing funds, and the reinvestment of revenues from these operations is not considered because they cannot be correctly identified due to the nature of the accounting data.



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