

KOSOVO CREDIT GUARANTEE FUND

**Independent Auditor's Report and
Financial Statements for the year
ended December 31, 2021**

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Independent Auditor's Report

To the Board of Directors of
Kosovo Credit Guarantee Fund

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Opinion

We have audited the accompanying financial statements of Kosovo Credit Guarantee Fund (the "Fund"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kosovo, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Grant Thornton LLC
Prishtina



Suzana Stavrikj
Statutory auditor

29 June 2022

	Notes	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
ASSETS			
Cash and cash equivalents	4	9,886,321	28,089,205
Trade and other receivables	5	225,708	231,824
Deposits	6	37,135,910	24,050,187
Investments in securities	7	14,586,422	-
Right of use asset	8	60,286	79,324
Property, plant, and equipment	9	23,884	24,604
Intangible assets	10	18,263	25,119
TOTAL ASSETS		61,936,794	52,500,263
EQUITY AND LIABILITIES			
Accrued expenses		13,096	29,275
Lease liability	8	63,661	81,302
Reserve for impairment losses on Guarantees	19	3,324,217	1,445,576
Deferred revenues	11	2,291,989	612,850
Accrual guarantee fees		1,326,586	583,813
Total liabilities		7,019,549	2,752,816
Equity			
Capital	13	54,300,921	48,700,921
Accumulated profit		616,324	1,046,526
Total equity		54,917,245	49,747,447
TOTAL EQUITY AND LIABILITIES		61,936,794	52,500,263

Authorized for issue by the management and signed on its behalf on 29 June 2022.

Beshik 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 Comprehensive Income
For the year ended December 31, 2021

	Notes	Year ended 31 December, 2021 (EUR)	Year ended 31 December, 2020 (EUR)
Guarantee fees	14	1,620,638	1,061,886
Interest Income	15	508,464	282,648
Other income	16	217,816	66,913
Total income		2,346,918	1,411,447
Personnel expenses	17	(246,394)	(205,779)
Depreciation and amortization	8,9,10	(39,818)	(46,748)
Operating expenses	18	(142,754)	(106,436)
Net provision losses for guarantees	19	(2,101,945)	(986,172)
Impairment losses for financial assets	19	(246,209)	-
(Loss) / Profit for the year		(430,202)	66,312
Other comprehensive income		-	-
Total comprehensive income for the year		(430,202)	66,312

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

Kosovo Credit Guarantee Fund
Statement of Changes in Funds balance
For the year ended December 31, 2021

	Capital (EUR)	Accumulated profit (EUR)	Total (EUR)
As at January 1, 2020	15,790,921	980,214	16,771,135
Capital	32,910,000	-	32,910,000
Profit for the year	-	66,312	66,312
Other comprehensive income	-	-	-
As at December 31, 2020	48,700,921	1,046,526	49,747,447
As at January 1, 2021	48,700,921	1,046,526	49,747,447
Capital	5,600,000	-	5,600,000
(Loss) / Profit for the year	-	(430,202)	(430,202)
Other comprehensive income	-	-	-
As at December 31, 2021	54,300,921	616,324	54,917,245

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

Kosovo Credit Guarantee Fund
Statement of Cash Flows
For the year ended December 31, 2021

	Notes	Year ended 31 December, 2021 (EUR)	Year ended 31 December, 2020 (EUR)
Cash flow from operating activities:			
(Loss) / Profit of the year		(430,202)	66,312
Adjustments for:			
Depreciation and amortization	8,9,10	39,818	46,748
Increase in impairment losses on Guarantees	19	2,101,945	986,172
Increase in impairment losses on financial assets	19	246,209	-
Interest on deposits and investments		(508,464)	(282,648)
Interest expenses on the lease liabilities		(4,559)	(4,974)
		1,444,747	811,610
Movements in working capital:			
Increase in trade and other receivables		6,116	149,550
Increase in accrual guarantee fee		742,773	33,994
Paid claims		(223,304)	(228,895)
(Decrease)/Increase in deferred revenues from donated assets		1,679,139	580,740
Increase in accruals		16,180	20,070
Increase in the lease liability		22,828	4,441
Interest paid for lease liabilities		4,559	4,974
Net cash (used)/generated in operating activities		3,693,038	1,376,484
Cash flow from investing activities:			
Acquisition of fixed assets	9,10	(13,203)	(30,891)
Increase in investments in deposits		(13,262,155)	(7,158,876)
Increase in investments in securities		(14,656,199)	-
Received interest from investments		457,835	283,271
Net cash used in investing activities		(27,473,722)	(6,906,496)
Cash from financing activities			
Repayment of the lease liability		(22,200)	(26,350)
Increase in capital		5,600,000	32,910,000
Net cash generated in financing activities		5,577,800	32,883,650
Net (Decrease)/Increase in cash and cash equivalents during the year		(18,202,884)	27,353,638
Cash and cash equivalents at the beginning of the year		28,089,205	735,567
Cash and cash equivalents at the end of the year	4	9,886,321	28,089,205

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 guarantees 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 is 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 regulate 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 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.

The support of the guaranteed portfolio of KCGF by SIDA and COSME will further enhance the ability of the Fund to ensure a higher level of credit guarantees, while at the same time increasing the financial sustainability of the sector. The sustainability will reflect the facilitation of financial intermediation, hence 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 within the Note below.

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

2.1.1 *Standards and Interpretations effective in the current period*

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

- Covid-19-Related Rent Concessions beyond 30 June (Amendments to IFRS 16).
- Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

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

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

- **IFRS 17 “Insurance Contracts”** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IFRS 3 “Business Combinations”** - Conceptual Framework Reference to the amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022).
- **Amendments to IFRS 4 “Insurance Contracts”** - Extension of the temporary exemption from the application of IFRS 9 (the expiry date of the temporary exemption from IFRS 9 has been extended to annual periods beginning on or after 1 January 2023).
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Classification of current and long-term liabilities (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IAS 16 Property, Plant, and Equipment** - Revenue before Intended Use (Effective for annual periods beginning on or after 1 January 2022).
- **Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”** - Variable Contracts - Contract Performance Cost (effective for annual periods beginning on or after 1 January 2022).
- **Annual Improvements to IFRS Standards Cycle 2018-2020** (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41).

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

2.2 Financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI, or FVTPL. Financial liabilities are classified and measured at amortized 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 2021, and 2020, 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 Company for subsequent measurement of property, plant, and equipment is the cost model under IAS 16 - acquisition cost less any accumulated depreciation and any accumulated impairment losses.

Gains or losses from 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 the end of the useful life of the right-of-use asset or the end of the lease term.

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

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

Lease payments included in the measurement of the lease liability comprise the following:

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

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the 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%.

The Fund uses one or more of the following practical expedients according to IFRS 16.C10, applying it on a lease-by-lease basis:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Right of use asset (continued)

- Using a single discount rate to a portfolio of leases with similar characteristics.
- Adjusting the right-of-use asset for any recognized onerous lease provisions, 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 Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.
- Excluding initial direct costs from the measurement of the right-of-use asset.
- Using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

At the inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- the Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - the Company has the right to operate the asset; or
 - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

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

2.7 Impairment of non-financial assets

The carrying value of non-financial assets is reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of such assets is 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. 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.

2.9 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Guarantees 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 has 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, taking into account 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) as long as 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 12months 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 considered also the developments and macroeconomic perspective. Thus, ECL takes into account the expectations of future market conditions. In order 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, neither 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 the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but 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 which 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 set 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 with fixed interest rates.

3.3 Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower to honor its financial or contractual obligations to a bank. KCGF's risks lie, correspondingly, with the banks. If nonperforming loans at a bank increase, putting their portfolio at risk, this will in turn increase KCGFs, in the sense that KCGFs may be called on the guarantees issued. This will have an impact on KCGF's capital position and expected fee incomes. Therefore, KCGF's counterparties' (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 the guarantee commitments that KCGF is 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 the methodology for assessing RFI and allocating limits to RFI. The methodology defines that the main criteria for allocating an initial limit are market share and risk profile. However, exposure limits may be adjusted by the KCGF. Reasons for adjustment would include failure to use the allocated limit significantly or at all, poor quality of loans submitted for 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 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 purposes 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, 2021			
	Up to 1 year (EUR)	1 to 2 years (EUR)	2 to 5 years (EUR)	Over 5 years (EUR)
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	-	-	-

	December 31, 2020			
	Up to 1 year (EUR)	Current 1 to 2 years (EUR)	2 to 5 years (EUR)	Over 5 years (EUR)
Financial assets				
Cash and cash equivalents	28,089,205	-	-	-
Trade and other receivables	231,824	-	-	-
Deposits	19,877,488	4,172,699	-	-
Total financial assets	48,198,517	4,172,699	-	-
Financial liabilities				
Payables and other liabilities	1,474,852	-	-	-
Total financial liabilities	1,474,852	-	-	-

3.5 Operational Risk

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

Similarly, 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;

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Operational Risk (continued)

conflict of interest; fraud; hostile action, and so on. The KCGF's operational risk management focuses on proactive measures in order to ensure business continuity as well as the accuracy of information used internally and reported externally, 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 as a result 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 (not adjusted) on the active markets for identical assets or liabilities.
- Level 2: other incoming data, aside from the quoted prices, included in Level 1 which are available for asset or liability observing, directly (i.e., as prices), or indirectly (i.e., made of prices) and
- Level 3: incoming data on the asset or liability that are not based on data available for market observing.

As of 31 December 2021, and 2020, 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 2021 (EUR)	Fair value 2021 (EUR)
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	14,656,199
Total financial assets	62,080,570	62,080,570
Financial liabilities - at amortized cost		
Payables and other liabilities	3,583,522	3,583,522
Total financial liabilities	3,583,522	3,583,522
	Carrying value 2020 (EUR)	Fair value 2020 (EUR)
Financial assets - at amortized cost		
Cash and cash equivalents	28,089,205	28,089,205
Trade and other receivables	231,824	231,824
Deposits	24,050,187	24,050,187
Total financial assets	52,371,216	52,371,216
Financial liabilities - at amortized cost		
Payables and other liabilities	1,474,852	1,474,852
Total financial liabilities	1,474,852	1,474,852

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 2021. 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, 2021 (EUR)	As at December 31, 2020 (EUR)
Cash at Central Bank of Kosovo	9,175,123	27,906,366
Current Accounts	711,080	182,354
Petty cash	118	485
Total cash and cash equivalents	9,886,321	28,089,205

5. TRADE AND OTHER RECEIVABLES

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Receivables from clients	217,637	223,834
Advances	8,071	7,990
Total receivables	225,708	231,824

Receivables from clients as of 31 December 2021 and 2020 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 31.12.2021 are in the amount of 37,042,829 EUR (2020: 23,778,921 EUR) with a minimum interest rate of 0.5% and maximum interest rate of 2% (2020: the minimum interest rate of 0.5% and maximum interest rate of 2.1%).

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, 2021 (EUR)	As at December 31, 2020 (EUR)
Deposits in banks in Kosovo	37,042,829	23,778,921
Accrued interest	269,513	271,266
Total deposits	37,312,342	24,050,187
Current maturity of long-term deposits	(23,912,342)	(19,877,488)
Non-current deposits	13,400,000	4,172,699
Impairment	(176,432)	-
Total	37,135,910	24,050,187

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 31.12.2021 are in the amount of 14,603,817 EUR (2020: n/a) with a minimum interest rate of 1.1% and maximum interest rate of 2.1% (2020: n/a), and minimum maturity of 3 years and maximum maturity of 5 years.

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

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Investment securities - at amortized cost		
Government bonds	14,603,817	-
Accrued interest	52,382	-
Total Investments in Securities	14,656,199	-
Impairment	(69,777)	-
Total	14,586,422	-

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, 2021 (EUR)	As at December 31, 2020 (EUR)
Carrying Amount at January 1	79,324	26,927
Additions	-	95,189
Disposal	-	(19,447)
Depreciation charge for the year	(19,038)	(23,345)
Carrying Amount at 31 December	60,286	79,324

8.2 Lease liability

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
As at January 1	81,302	27,468
Lease Liability for the new contract	-	95,189
Disposal of Right of use asset	-	(19,980)
Lease payment for the year	(22,200)	(26,350)
Interest expenses	4,559	4,975
Lease liability as at 31 December	63,661	81,302

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

	2021	2020
Less than one year	18,770	17,641
Two to five years	44,891	63,661
More than five years		
Total lease liabilities at 31 December	63,661	81,302

9. PROPERTY, PLANT, AND EQUIPMENT

	Equipment (EUR)	IT Equipment (EUR)	Office furniture (EUR)	Leasehold improvements (EUR)	Total (EUR)
Historical cost					
As at January 1, 2020	4,682	50,431	19,947	-	75,060
Additions during the period	1,979	616	3,746	20,588	26,929
As at December 31, 2020	6,661	51,047	23,693	20,588	101,989
Write off	(1,972)	(50,431)	(19,947)	-	(72,350)
<i>Additions during the period</i>	-	6,150	-	531	6,681
As at December 31, 2021	4,689	6,766	3,746	21,119	36,320
Accumulated depreciation					
As at January 1, 2020	2,650	50,431	19,947	-	73,028
Depreciation for the period	1,275	32	574	2,475	4,356
As at December 31, 2020	3,925	50,463	20,521	2,475	77,384
Write off	(1,972)	(50,431)	(19,947)	-	(72,350)
Depreciation for the period	1,553	245	1,248	4,356	7,402
As at December 31, 2021	3,506	277	1,822	6,831	12,436
NET VALUE					
As at December 31, 2021	1,183	6,489	1,924	14,288	23,884
As at December 31, 2020	2,736	584	3,171	18,113	24,604

As at 31 December 2021 and 2020, KCGF uses all property and equipment for its activities and there are no encumbrances over KCGF assets.

10. INTANGIBLE ASSETS

	Software (EUR)	Total (EUR)
Historical cost		
As at January 1, 2020	92,592	92,592
Additions during the period	3,962	3,962
As at December 31, 2020	96,554	96,554
Additions during the period	6,522	6,522
As at December 31, 2021	103,076	103,076
Accumulated amortization		
As at January 1, 2020	52,389	52,389
Amortization for the period	19,046	19,046
As at December 31, 2020	71,435	71,435
Amortization of the year	13,378	13,378
As at December 31, 2021	84,813	84,813
NET VALUE		
As at December 31, 2021	18,263	18,263
As at December 31, 2020	25,119	25,119

As of 31 December 2021, and 2020, 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. 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, 2021 (EUR)	As at December 31, 2020 (EUR)
IT Equipment (FSSP TA - Note 11.3)	6,111	-
Leasehold improvements (FSSP TA - Note 11.3)	524	-
Software (FSSP TA - Note 11.3)	4,677	-
Software (USAID TA)	-	6,682
Software (KfW TA)	9,135	12,712
Total in-kind contributions	20,447	19,394

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
At the beginning	19,394	32,110
Additions during the year (Note 11.3)	12,067	3,962
- IT Equipment (FSSP TA)	6,150	-
- Leasehold improvements (FSSP TA)	531	-
- Software (FSSP TA)	5,386	-
- Software (KfW TA)	-	3,962
- Depreciation and amortization (USAID TA)	(6,682)	(13,365)
- Depreciation and amortization (KfW TA)	(3,577)	(3,313)
- Depreciation and amortization (FSSP TA)	(755)	-
Depreciation and amortization (Note 16)	(11,014)	(16,678)
At the end of the year	20,447	19,394

11.2 Deferred revenue from guarantee fee subsidy

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Fee subsidy	2,260,814	500,000
Total deferred revenues from subsidy fee	2,260,814	500,000

11. DEFERRED REVENUES (CONTINUED)

11.2 Deferred revenue from guarantee fee subsidy (continued)

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
At the beginning	500,000	-
Additions during the period	4,500,000	500,000
Utilized (Note 12, Note 14)	(1,124,235)	-
Returned	(1,614,951)	-
At the end of the year	2,260,814	500,000

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 income 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 31.12.2020, the Kosovo Credit Guarantee Fund has received the amount of 5 million euros (received in two parts, dated 18 February 2021 in the amount of EUR 1.5 million and on 17 August in the amount of EUR 3.5 million) 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 as 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 the amount of 1,614,951 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, 2021 (EUR)	As at December 31, 2020 (EUR)
FSSP technical assistance	10,728	93,456
Total deferred revenues from technical assistance	10,728	93,456

11. DEFERRED REVENUES (CONTINUED)

11.3 Deferred revenue from technical assistance (continued)

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
At the beginning	93,456	-
Additions during the period	-	100,000
Utilized FSSP TA (Note 11.1)	(12,067)	-
Utilized FSSP TA (Note 16)	(70,661)	(6,544)
At the end of the year	10,728	93,456

KCGF in the framework of the contract signed on September 17, 2020, between KCGF and the Government of the Republic of Kosovo represented by the Ministry of Finance and the implementation of the Financial Sector Strengthening Project, receives an advance the technical assistance, according to the budgeted amount, which is determined according to the need to cover costs.

KCGF records the amount as deferred revenue and only after the realization of expenditures dedicated to the implementation of the project, 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 33,284 euros, assets in the amount of 12,067 euros and other consulting and administrative expenses in the amount of 37,377 euros. This value is recorded as other income in the amount of 70,661 euro and is reflected in disclosure 15, 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, 2021 (EUR)	As at December 31, 2020 (EUR)
- Accrual Guarantee Fee	407,184	344,848
- Accrual Guarantee Fee (covered by Ministry of Finance) (Note 11.2)	666,345	-
- Accrual Annual Fee	253,057	238,965
Total accrual fees	1,326,586	583,813

13. CAPITAL

As at 31 December 2021 and 2020, capital consists of funds provided to the KCGF as grants as follows:

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Funds received from USAID	5,790,921	5,790,921
Funds received from KfW	24,100,000	18,500,000
Funds received from GoK	24,410,000	24,410,000
	54,300,921	48,700,921

In December 2021, KfW donated an additional capital of EUR 5,600,000 to support the green recovery sector through KCGF. In April 2020, KfW donated an additional capital of EUR 6,500,000 to Agro Window as part of the development of this KfW-supported sector. While in November 2020, KfW donated another 5,000,000 EUR to support the windows under the Recovery Package, dedicated to the recovery of businesses during the pandemic crisis. 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 EUR 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, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Guarantee fees	1,162,748	1,061,886
Release of deferred revenue for Guarantee fees covered by the Ministry of Finance (Note 11.2)	457,890	-
Total guarantee fees	1,620,638	1,061,886

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 Guarantees Fees Income. The total fee income as of 31.12.2021 is in the amount of 1,620,638 EUR (2020: 1,061,886 EUR) with a minimum fee of 0.5% and a maximum fee of 2% (2020: a minimum fee of 0.5% and a maximum fee of 2%).

15. INTEREST INCOME

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Interest income from deposits	349,757	282,648
Interest income from Government bonds	158,707	-
Total interest income	508,464	282,648

16. OTHER INCOME

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Funds for operating expenses	57,029	43,691
Release of deferred revenue for FSSP TA (Note 11.3)	70,661	6,544
Recovery	79,112	-
Release of deferred revenue for in-kind fixed asset donation (Note 11.1)	11,014	16,678
Total other income	217,816	66,913

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, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Salaries	203,106	170,005
Pension contribution	23,466	19,407
Tax salaries	19,822	16,367
Total personnel expenses	246,394	205,779

18. OPERATING EXPENSES

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Re-guarantee expenses	11,734	28,209
Office rent & utilities	2,196	4,585
Maintenance & Repair Exp.	19,576	16,667
Translator and other Professional services	66,834	25,171
Expenses for Membership & Subscription	5,501	5,701
Interest expenses on the lease liabilities	4,559	4,975
Publications, Branding, and Marketing	9,554	4,619
Phone and internet expenses	4,201	3,914
Training, Conferences, and Seminars	724	609
Bank fees	1,516	1,709
Other expenses	16,359	10,277
Total operating expenses	142,754	106,436

On December 6, 2017, the Fund signed the Guarantee Agreement with the Swedish International Development Cooperation Agency (SIDA), represented by the Embassy of Sweden in Pristina.

With the mediation of the Swedish Embassy in Kosovo, KCGF has benefited from the portfolio reinsurance scheme. This reinsurance scheme has a single-use character and enables the transfer of 50% of the risk to the part guaranteed by the KCGF, while as compensation the KCGF pays a reimbursement fee, calculated on the guaranteed part.

19. IMPAIRMENT PROVISION LOSSES

19.1 Impairment provision for guarantees

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Additional provision	5,342,113	2,779,511
Release of provision	(3,240,168)	(1,793,339)
Total net provision expenses	2,101,945	986,172

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.

The movement of the reserve for losses on guarantees for 2021 and 2020 is as follows:

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
As at 1 January	1,445,576	688,299
Additional provision	5,342,113	2,779,511
Release of provision	(3,240,168)	(1,793,339)
Claims paid	(223,304)	(228,895)
As at 31 December	3,324,217	1,445,576

The paid claims refer to 20 claims requested by 5 banks (2020: 16 claims, requested by 6 banks).

19. IMPAIRMENT PROVISION (CONTINUED)

19.1 Impairment Provision losses for guarantees (continued)

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Stage 1	1,776,402	697,610
Stage 2	601,669	216,435
Stage 3	946,146	531,531
As at 31 December	3,324,217	1,445,576

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	53,815,012	1,257,775	875,235	55,948,022
New guarantees originated	109,590,315	1,319,676	445,998	111,355,989
Modification of contractual cash flows	-	-	-	-
Derecognitions	(40,071,154)	(755,189)	(162,250)	(40,988,593)
Claims	-	-	(223,304)	(223,304)
Changes in interest accrual	-	-	-	-
Changes in the principal and disbursement fee amount	-	-	-	-
Transfers to Stage 1	(1,110,331)	543,685	566,646	-
Transfers to Stage 2	169,142	(456,214)	287,072	-
Transfers to Stage 3	144,027	65,330	(209,357)	-
Foreign exchange and other movements	-	-	-	-
As at 31.12.2021	122,537,011	1,975,063	1,580,040	126,092,114
	Stage 1	Stage 2	Stage 3	Total
As of 1 January	697,610	216,435	531,025	1,445,070
New guarantees originated	1,397,079	400,465	214,474	2,012,018
Modification of contractual cash flows	-	-	-	-
Derecognitions	155,018	(8,830)	(55,755)	90,433
Claims	-	-	(223,304)	(223,304)
Changes in interest accrual	-	-	-	-
Changes in the principal and disbursement fee amount	-	-	-	-
Transfers to Stage 1	(477,950)	150,442	327,507	-
Transfers to Stage 2	2,470	(178,450)	175,980	-
Transfers to Stage 3	2,175	21,607	(23,781)	-
Foreign exchange and other movements	-	-	-	-
As at 31.12.2021	1,776,402	601,669	946,146	3,324,217

19. IMPAIRMENT PROVISION (CONTINUED)

19.2 Impairment Provision losses for financial assets

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Deposits	37,312,342	24,050,187
Investment securities measured at amortized cost	14,656,199	-
Allowances for impairment	(246,209)	-
Total investments	51,722,332	24,050,187

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

	Stage 1	Stage 2	Stage 3	Total
Investments as of 1 January	24,050,187			24,050,187
New assets originated or purchased	41,645,510			41,645,510
Assets derecognized or matured	(13,727,156)			(13,727,156)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange and other movements	-	-	-	-
As at 31.12.2021	51,968,541	-	-	51,968,541

	Stage 1	Stage 2	Stage 3	Total
As of 1 January	114,549	-	-	114,549
New assets originated or purchased	198,354	-	-	198,354
Assets derecognized or matured	(66,694)	-	-	(66,694)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange and other movements	-	-	-	-
As at 31.12.2021	246,209	-	-	246,209

20. CONTINGENCIES AND COMMITMENTS

	As at December 31, 2021 (EUR)	
	Number of Guarantees	Outstanding Guaranteed Amount
Total	<u>6,729</u>	<u>126,092,114</u>
	As at December 31, 2020 (EUR)	
	Number of Guarantees	Outstanding Guaranteed Amount
Total	<u>4,268</u>	<u>55,997,787</u>

Litigation and claims

As of 31 December 2021, there are no litigations or claims against FKGK (2020: 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.

	Receivables (EUR)	Liabilities (EUR)	Revenues (EUR)	Expenses (EUR)
As at December 31, 2021				
Board Members	-	-	-	16,800
Total	-	-	-	<u>16,800</u>
As at December 31, 2020				
Board Members	-	-	-	20,375
Total	-	-	-	<u>20,375</u>

22. EVENTS AFTER THE REPORTING DATE

After 31 December 2021 - 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.

Impact of Ukraine conflict

The current conflict between Ukraine and Russia presents a challenge to financial institutions around the world that operates globally and especially to those exposed to customers and suppliers who are or will become, subject to sanctions. The conflict is having an impact on energy prices such as oil and natural gas, as well as food and commodity prices which seem to further push up the level of inflation, which is expected to last for a longer period.

The fund is not exposed to international transactions, or transactions related to companies subject to sanctions and therefore we do not forecast any negative impact. Moreover, there is still too early to predict any possible negative impact of the conflict on our country's economy, and we do not anticipate having any significant negative impact.