KOSOVO CREDIT GUARANTEE FUND

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

CONTENT

	Page
Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Profit or Loss and Other Comprehensive Income	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 34
Annex 1 - Financial strengthening support project transactions	35

Tel: +381 38 60 00 31
Fax: +381 38 60 00 32
www.bdokosovo.com

BDO Kosova L.L.C.
Str. Ukshin Hoti C4/3, Ent. A, Floor II
10000 Pristina, Kosovo

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, international commissions, 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.

BDO Kosova L L C
audit, accounting and financial advisory
Prishtina,Kosova

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

	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

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

Vjosa Balaj
Senior Finance Manager

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

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
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.

	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**

	Year ended December 31, 2022	Year ended December 31, 2021
Operating activities		
Net profit for the year before tax	2,818,066	(430,202)
Adjustments for:		
Depreciation and amortization expense	40,193	39,818
Losses from disposal of assets	108	-
Operating loss before working capital changes	**2,858,367**	**(390,384)**
(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	**1,783,155**	**2,021,464**
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	**(9,598,384)**	**(25,806,707)**
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	**(18,770)**	**5,582,359**
Decrease in cash and cash equivalents during the year	**(7,833,999)**	**(18,202,884)**
Cash and cash equivalents, the beginning of the year	**9,886,321**	**28,089,205**
Cash and cash equivalents, end of the year	**2,052,322**	**9,886,321**

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 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 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 obsoleteness.

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	42,293,970	37,312,342
Impairment allowance	(119,720)	(176,432)
Total deposits	42,174,250	37,135,910

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	18,870,642	14,656,199
Impairment allowance	(89,503)	(69,777)
Total Investments in Securities	18,781,139	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, 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	**41,248**	**60,286**

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	**44,891**	**63,661**

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	**44,891**	**63,661**

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

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	**1,233,171**	**2,260,814**

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	**80,031**	**10,728**

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)
At the end of the year	**80,031**	**10,728**

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	-
Total accrual fees	**1,220,020**	**1,326,586**

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%).

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**

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	(211,678)	(246,209)
Total investments	**63,007,710**	**51,722,332**

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	(23,657,229)	-	-	(23,657,229)
As at 31.12.2022	**63,219,389**	-	-	**63,219,389**

	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	(129,313)	-	-	(129,313)
As at 31.12.2022	**211,678**	-	-	**211,678**

20. CONTINGENCIES AND COMMITMENTS

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

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

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	**61,915**

	Expenses
As at December 31, 2021	
Board Members	16,800
Total	**16,800**

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.

	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.