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

ANNUAL REPORT 2017


FONDI KOSOVAR PER GARANCI KREDITORE
KOSOVSKI FOND ZA KREDITNO JEMSTVO
KOSOVO CREDIT GUARANTEE FUND
GUARANTEE AGREEMENT No. KCGF-06-16

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PART 1

GENERAL INFORMATION

FOREWORD BY THE MANAGING DIRECTOR

Dear readers, partners and donors of the Kosovo Credit Guarantee Fund,

The year 2017 was the first full operational year for the Kosovo Credit Guarantee Fund (FKGK). A year that made all of us, realize the importance of the FKGK guarantee scheme in the process of facilitating access to finance for Micro, Small and Medium Enterprises (MSME). The ever-increasing use of FKGK guarantee services by domestic commercial banks, is a positive sign of economic rationality for the existence of FKGK, as an institution established with the aim to support investment and private entrepreneurship in our country.

Moreover, 2017 will be remembered for several important events in the short history of consolidation of FKGK institution. This year marks the end of the USAID EMPOWER Credit Support Program, a program that for three consecutive years served as an incubator for establishment of institution of FKGK. With support from the Government of the Republic of Kosovo, the USAID EMPOWER Credit Support Program made basic preparations for creating the legal environment for establishing the institution, designed the guarantee scheme services based on best international practices on credit risk management, adapting them to the characteristics of local market, and also managed to cover all operational costs necessary for functionalization of the FKGK. Owing to this support and expertise from colleagues from USAID EMPOWER Credit Support program, the institution of FKGK today functions as an important and well-respected partner in the process of financial intermediation within our country's economy.

KfW's capital contribution in the amount of 7.0 million euro, as well as allocation of the last part of funds committed by the Ministry of Trade and Industry (MTI) in the amount of 1.0 million euro resulted in doubling the capital of institution, from 7.8 million euro at the end of 2016, to 15.8 million euro at the end of 2017. Applying a capital leverage factor, based on credit risk analysis for Kosovo market, the FKGK now has the potential to allocate guarantee limits up to 64.0 million euro, while it can support credit activity for up to 128.0 million euro, which is a significant value for influencing growth of credit activity in segment of MSME's at the level of the banking sector in Kosovo. In the wake of cooperation with the KfW, we have established the Agro-Window, a special guarantee scheme within the FKGK, which will support lending in the agribusiness sector. Such initiative beside influencing encouragement of investments in the agribusiness sector shall serve as a role model to build a more proactive approach in developing products aimed at certain segments of customers which are considered of strategic importance for the economy.

Year 2017 marked another important event in terms of establishing partnership with donors and international partners. Such was the re guarantee agreement for guaranteeing a part of the FKGK guarantee portfolio reached in cooperation with the Swedish International Development Cooperation Agency (SIDA), with mediation of Swedish Embassy in Kosovo, in the amount of 10.0 euro million. Coverage of a part of the guarantee portfolio risk from a reputable institution such as SIDA reflects confidence and seriousness in the market for services provided by the FKGK.

Also, 2017 was yet another successful year for the banking sector in Kosovo. This year, too, commercial banks in Kosovo assisted by a prudent regulator for banking supervision, demonstrated their readiness in growing their lending activity in a responsible manner, while at the same time making sure to further improve credit portfolio quality management. FKGK, as a participant in the financial intermediation process, continued to strengthen its partnership with the banking sector, hence increasing the number of partner banks benefiting from the FKGK guarantee scheme. Consequently, the FKGK already has contractual arrangements with all banks operating in the MSME segment in the Kosovo market.

BESNIK BERISHA
Managing Director

Encouraging trend of development of credit guarantee portfolio, especially during the second half of last year, reflects best the institutional positive results of the FKGK. ,. The cumulative value of the loan portfolio guaranteed by the FKGK guarantee scheme reached 30 million euro, distributed in 795 loans, a development that meets our expectations for the first year of operation. This investment activity, supported by the FKGK guarantee scheme, resulted in the creation of more than 1,203 new jobs in Kosovo economy.

Today, our portfolio has solid participation of women entrepreneur run businesses, approximately 10%, while also encourages the level of participation of enterprises from agribusiness and manufacturing sector, which at the same time are considered sectors of special importance to build country's economic independence by replacing imports and increasing export capability of national economy.

Last year experience has, inter alia, showed us which client segments, by size and enterprise development stage, is mostly in need of support from the FKGK guarantee scheme. This is also reflected in the nature of clients who have benefited from the FKGK guarantee scheme, mainly populated by small-sized enterprises with an average credit value of 38,000 euros, and which from the aspect of enterprise development stage are at the early stage of growth of their business activity. Historically, lack of collateral for this category of enterprises, very present at this stage of enterprise development, may have been the main barrier for realization of investment ideas, which would later enable them to grow their business. A natural selection of this category of clients by partner Financial Institutions (FI) to register in FKGK guarantee scheme once again confirms that our guarantee services favor this group of enterprises and they represent the main reason for existence of FKGK.

Throughout the course of achievements during 2017 we have to mention with great pride the fact that an initiative started by successful cooperation of international donors and Government of the Republic of Kosovo for establishing a local institution with ethical values and sound corporate governance practices, addressing vital economic and social issues in the country, was wonderfully managed by the Board of Directors and FKGK staff. Sound corporative governance, consisting of a professional board and experienced, committed and motivated staff to achieve institutional objectives, are the greatest assurance for realization of the initial idea of donors and founders of the FKGK. Therefore, we thank members of the Board of Directors for their engagement in paving the way for this institution over the past year, as well as FKGK staff for motivation and readiness they showed in mobilizing all their experience and energy for implementing strategic and institutional objectives.

Increased impact on financial intermediation process by increasing the loan portfolio, achievement of financial self-sustainability and strengthening human capacities of the institution will continue to be the main challenges, not only during the next 2018, but also in the years to come. Another more dynamic activity of using FKGK guarantee potential by commercial banks, especially after capital growth, will not only result in more investments in the economy, but will also have a positive impact in achieving financial sustainability of the institution. Therefore, continuous adaptation of our offer to dynamic development of banking market will be very important in order to continue the portfolio growth trend, according to our planning.

Finally, with utmost certitude we conclude that 2017 was a successful year for our institution, and we also believe that it laid firm foundations for many successful years to come.

On behalf of the FKGK, I would like to thank again our international donors and the Government of Republic of Kosovo for continuous support in building the FKGK institution. We also thank all other stakeholders, above all the Central Bank of Kosovo (CBK) and partner FIs for their cooperation and patience shown during the first years of FKGK operation.

ACRONYMS

BD	|	Board of Directors
CBK	|	Central Bank of the Republic of Kosovo
FKGK	|	Kosovo Credit Guarantee Fund
ECS	|	Empower Credit Support
FI	|	Financial Institution
NBFI	|	Non-Bank Financial Institutions
RFI	|	Registered Financial Institution
IFRS	|	International Financial Reporting Standard
MFIs	|	Microfinance Institutions
KfW	|	German Development Bank
NPL	|	Non-performing Loans
RMC	|	Risk Management Committee
AC	|	Audit Committee
MoF	|	Ministry of Finance
MTI	|	Ministry of Trade and Industry
MSME	|	Micro, Small and Medium Enterprises
GRK	|	Government of the Republic of Kosovo
SIDA	|	Swedish International Development Cooperation Agency
ESMS	|	Environmental and Social Management System
KBA	|	Kosovo Banking Association
USAID	|	United States Agency for International Development

SUMMARY OF FINANCIAL INDICATORS

MAIN FINANCIAL INDICATORS	DECEMBER 2016	DECEMBER 2017
CAPITAL	7,345,141	15,790,921
Guarantee Potential	36,725,705	63,954,606
Allocated limits	27,500,000	30,000,000
The rate of utilization of limits by partner RFIs	6.70%	38.90%
GUARANTEE BALANCE	1,848,846	11,657,827
No. of active guaranteed loans	86	738
No. of partner FIs	6	7
Guarantee average	24,813	18,399
Maturity - monthly average	26	35
NPL (in %)	0.00%	0.20%
Coverage of NPL with provisions (in %)	0.00%	341.00%
INVESTED CAPITAL	-	8,500,000

Monetary values are in euro

PART 2

INSTITUTIONAL PROFILE

ESTABLISHMENT OF FKGK AND ITS STATUS

The Kosovo Credit Guarantee Fund is an independent institution, which provides guarantees to financial institutions to cover the risk for MSME loans.

The FKGK was established in January 2016, based on the Law on Establishment of the Kosovo Credit Guarantee Fund.

The establishing Law of the FKGK was initiated by the MTI, and its development was supported by USAID Kosovo, through the Empower Credit Support Program and the German Development Bank (KfW). The Law entered into force on January 23, 2016.

MISSION

The Kosovo Credit Guarantee Fund is an independent, development oriented legal entity that provides credit guarantees for MSMEs by sharing the credit risk with financial institutions.

By guaranteeing the credit portfolios of financial institutions we aim to enhance access to finance for MSMEs, support entrepreneurship development, support domestic production and services that create an added value, new jobs and that support overall economic development.

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

INSTITUTIONAL VALUES

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

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

Partnership and cooperation: Developing sound relationships with our partners based on transparency and accountability helps achieve our common goals and develop credibility and mutual respect.

Objectivity and independence in decision-making: The FKGK maintains its objectivity and independence in decision-making, based on sound reasons and principles, promoting further development of the financial sector.

Commitment: With dedication and professionalism, FKGK employees strive to fulfill the institution's mission and objectives, believing in the institution's role and the positive impact it will have on sound economic development.

Teamwork and professionalism at work: The FKGK has a team of experts who cooperate on the basis of mutual respect. Teamwork, problem-solving, open communication and sharing of professional experience create the foundation for the FKGK's success. Every employee is expected to show integrity in the discharge of their duties and in the initiatives, they take.

PART 3

CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS AND STAFF

In accordance with its founding legislation the Kosovo Credit Guarantee Fund, is governed by a Board of Directors consisting of seven members:

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

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

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

D. The FKGK Managing Director.

MEMBERS OF THE FKGK BOARD OF DIRECTORS IN 2017:

KRESHNIK KURTISHI,
ACTING CHAIRMAN OF THE BOARD

Deputy Chief of Party, USAID Partnerships for Development

BESNIK BERISHA

Managing Director, FKGK

BESIAN MUSTAFA

Chief Executive Officer, Kosovo Investment and Enterprise Support Agency, Ministry of Trade and Industry, Government of the Republic of Kosovo;

SALVADOR ELMAZI

Head of Budget Department, Ministry of Finance, Government of the Republic of Kosovo

FKGK STAFF:

VJOSA KELMENDI
Senior Finance and Office Manager

ARTA KRASNIQI
General Counsel and Secretary to the Board of Directors

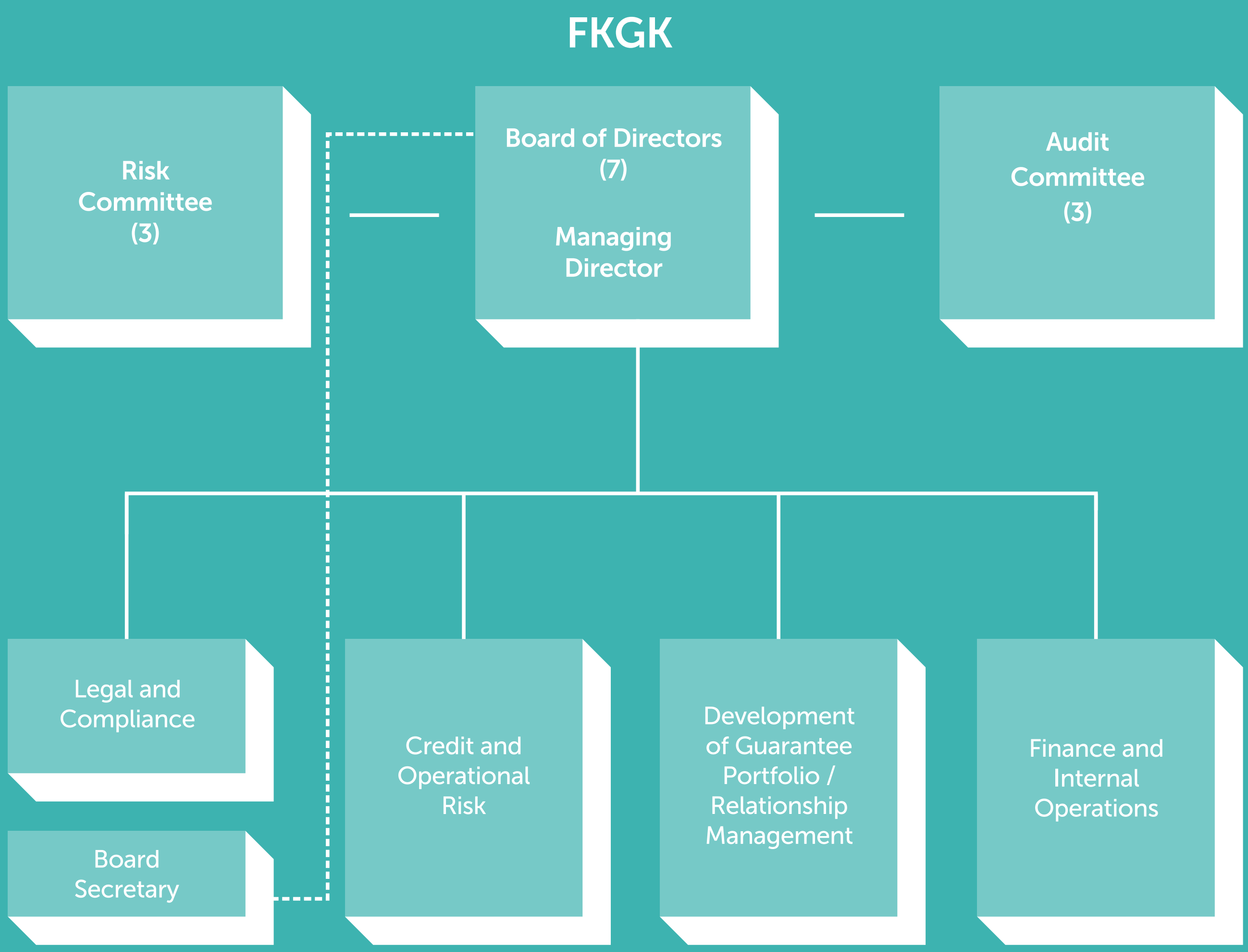
ALBAN KASTRATI
Senior Risk Manager

BESNIK BERISHA
Managing Director

NORA ARIFI
Senior Guarantee Manager

From left to the right

ORGANIZATIONAL STRUCTURE



COMMITTEES

Risk Management Committee

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

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

Audit Committee

Audit Committee was established pursuant to the Law No. 05/L-057 on the Establishment of the Kosovo Credit Guarantee Fund. The Committee is composed of three members of the Board that are designated by the Board of Directors. Audit Committee convenes on quarterly basis. Additional meetings may be held between scheduled meetings if deemed necessary by the Chairperson of the Committee.

Audit Committee is responsible for providing recommendations to the Board of Directors on issues related to risk management, internal control, financial statements, compliance requirements, internal audit, external audit and other functions relevant to the governance of FKGK. In addition, Audit Committee reviews internal financial, operational and administrative controls. It oversees the FKGK compliance with policies and procedures and monitors compliance with applicable laws and regulations. It reviews financial reports and recommends the appointment of the External Auditor. It monitors the performance of the External Auditor, reviews External Auditor's report on FKGK's financial statements and reports its findings to the Board of Directors.

FKGK PARTNERS

In order to achieve its objectives and goals, FKGK cooperates with financial institutions (banks, MFIs, NBFIs), donors, Government of the Republic of Kosovo, Central Bank of Kosovo and the MSME Community.

DONORS

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

PARTNERS

- Swedish International Development Cooperation Agency - Sida, represented by the Swedish Embassy

REGISTERED FINANCIAL INSTITUTIONS

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

PART 4

FKGK PERFORMANCE

CAPITAL STRUCTURE AND INVESTMENTS

FKGK capital consists of donated capital or funds provided to the FKGK by the Government of the Republic of Kosovo and international donors.

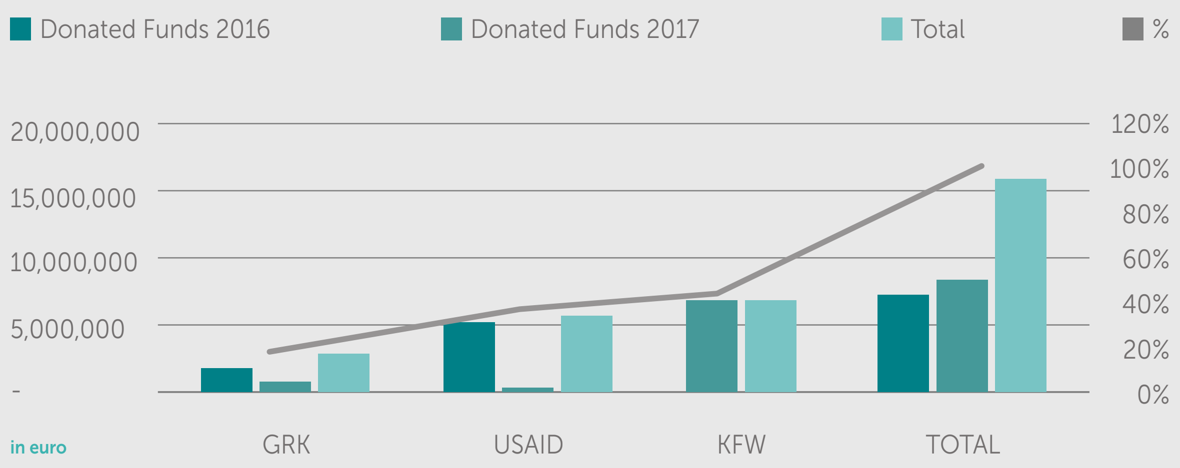
In 2016 the amount of donated capital to FKGK was 7,345,141 euros, while in 2017 this amount doubled, closing 2017 with a donated capital in the amount of 15,790,921 euro.

Doubling the capital is a result of the USAID contribution, Government of the Republic of Kosovo, and the latest KfW in December 2017.

DONORS	DONATED FUNDS 2016	DONATED FUNDS 2017	TOTAL	%
GRK	2,000,000	1,000,000	3,000,000	19%
USAID	5,345,141	445,780	5,790,921	37%
KFW	-	7,000,000	7,000,000	44%
Total	**7,345,141**	**8,445,780**	**15,790,921**	**100%**

Monetary values are in euro

DONATED CAPITAL



FKGK leverages the capital five (5) times, while the dedicated capital for the Agro Window is leveraged two (2) times. This limit ensures that the FKGK will have sufficient capital to carry out its activities and absorb potential losses.

The Fund has achieved the capacity to guarantee close to 64 million euro and considering that the maximum coverage is 50% of the loan provided by the Registered Financial Institution, this translates into 128 million euro of potential loans provided in our market, having impact on facilitation of access to finance and MSME development.

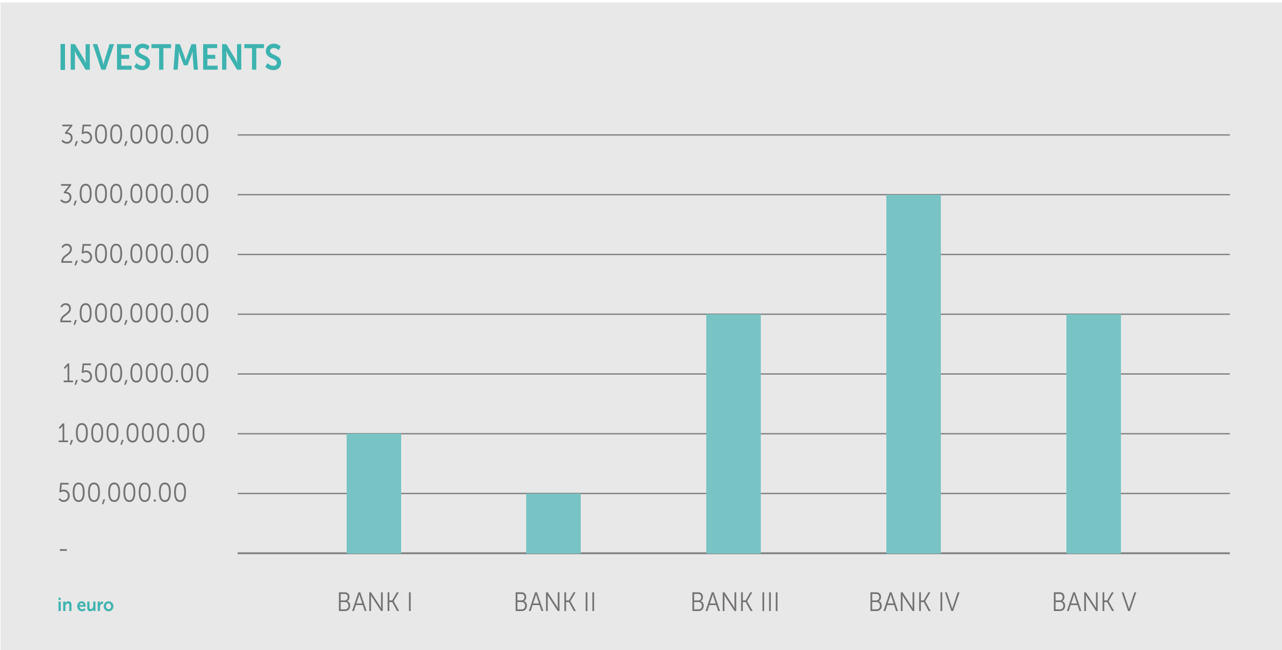
Increased amount of provided guarantees, as one of the two main sources of institutional financing, also affects FKGK revenues and consequently self-sustainability of the institution.
The increase in donated capital has a direct impact on the two main sources of FKGK funding. Another main source of FKGK funding is interest or investment income from FKGK capital investments.

The FKGK capital funds are invested in accordance with the provisions of the Law No. 05/L-057 on the Establishment of the Kosovo Credit Guarantee Fund and Investment Policy approved by the Board of Directors, to protect FKGK capital and thus support guarantees, as well as to generate supporting revenues for sustainability of FKGK and maintain adequate liquidity.

Effective governance of liquidity risk is essential for maintaining the confidence of donors and partner FIs, and enabling core business to continue generating revenues, even under adverse circumstances.

FKGK is engaged in using appropriate 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, FKGK has prepared an investment policy that clearly sets out an investment framework consistent with FKGK mandate and its strategic objectives.

During 2017, FKGK invested 8,500,000 euros in FIs registered with FKGK, mainly with a one-year maturity period. Funds received as capital donated by KfW at the end of 2017 are planned to be invested in Registered Financial Institutions at the beginning of 2018, thus increasing cooperation in this area as well.



The investment income and guarantee fees are used by the FKGK to cover its operating costs and costs for paying losses on credit guarantees. Any redundant collected fees that exceed operating costs and any eventual credit loss are held in FKGK for the purpose of its operation and are not distributed out of the FKGK in any form or manner, including dividend.

GUARANTEE PORTFOLIO DEVELOPMENT

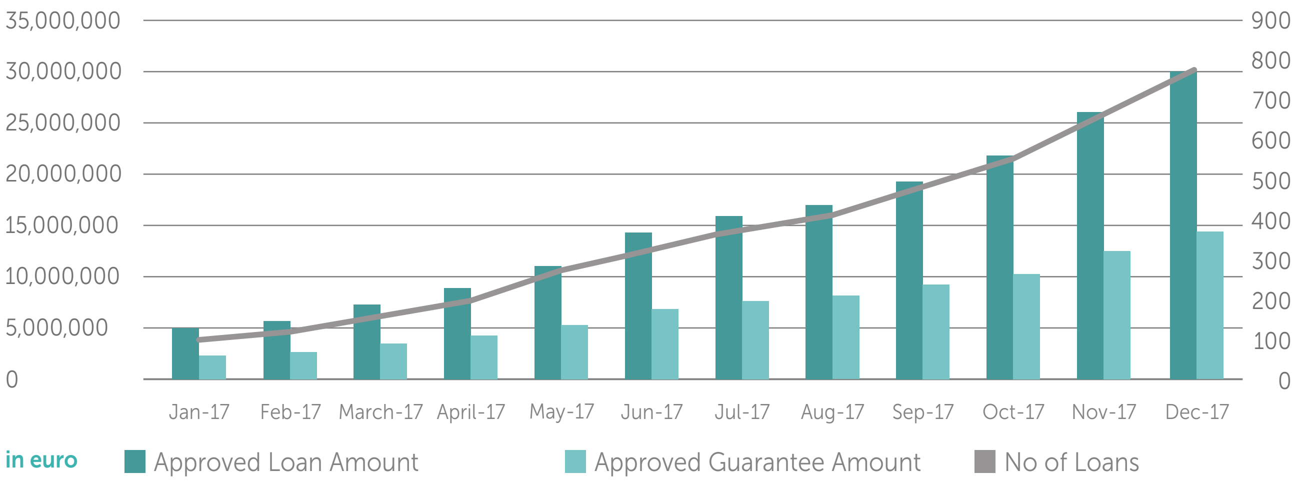
Moderate increase with high quality

FKGK started receiving loans for guarantees from FIs at the end of September 2016. Activities expanded in 2017 by including all important banks in the guarantee agreement.

Although we are dealing with a new portfolio, FKGK guarantee portfolio in 2017 is characterized by growth and high quality. During 2017, FKGK mediated lending in the amount of 25.5 million euro for 700 MSMEs, supported by a guarantee amount of 12.3 million euro, reaching the cumulative amount approved loans in 30 million euro for 785 MSMEs, supported by a guarantee amount of 14.4 million euro.

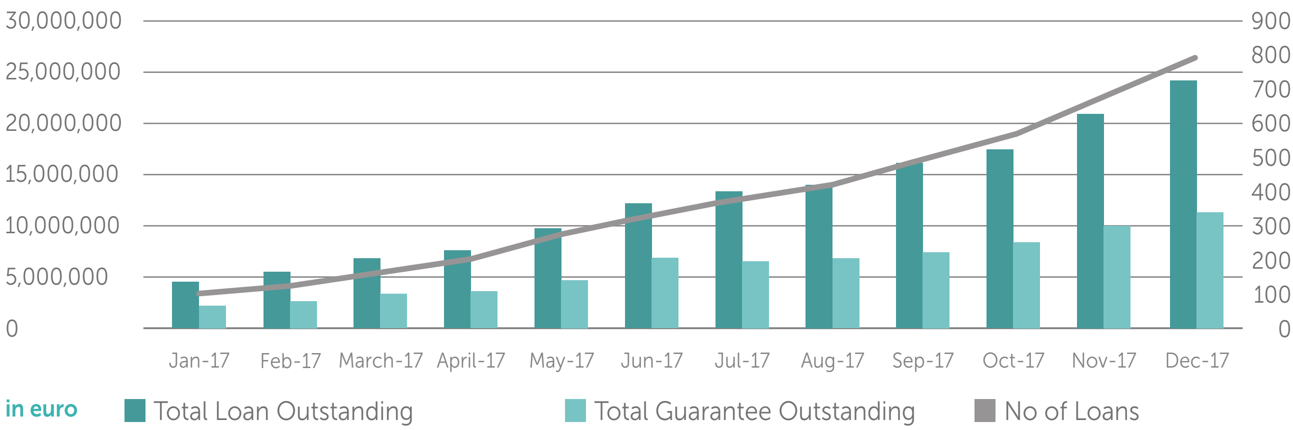
APPROVED LOANS

(cumulative amount)



The total amount of outstanding loan portfolio approved for guarantee at the end of 2017 was 24.2 million euro, distributed in 738 loans, while total outstanding value of the guarantee portfolio was 11.6 million euro.

OUTSTANDING PORTFOLIO



Average maturity and average loan value

Average loan amount per customer at the end of the year was around 40,000 euro, a value that matches the small category of enterprises that lack collateral, and therefore require credit guarantee support.

Guarantee portfolio consists of mid-term loans with an average of 36 months, while the payment frequency is almost 85% with regular monthly installments.

About 87% of MSMEs are enterprises with less than 10 employees

Guaranteed portfolio is mainly composed of micro enterprises. Concentration of guaranteed portfolio by number of employees (Definition set out in Law No. 03/L-031, as well as in the Law on Establishment of KGCF) is:

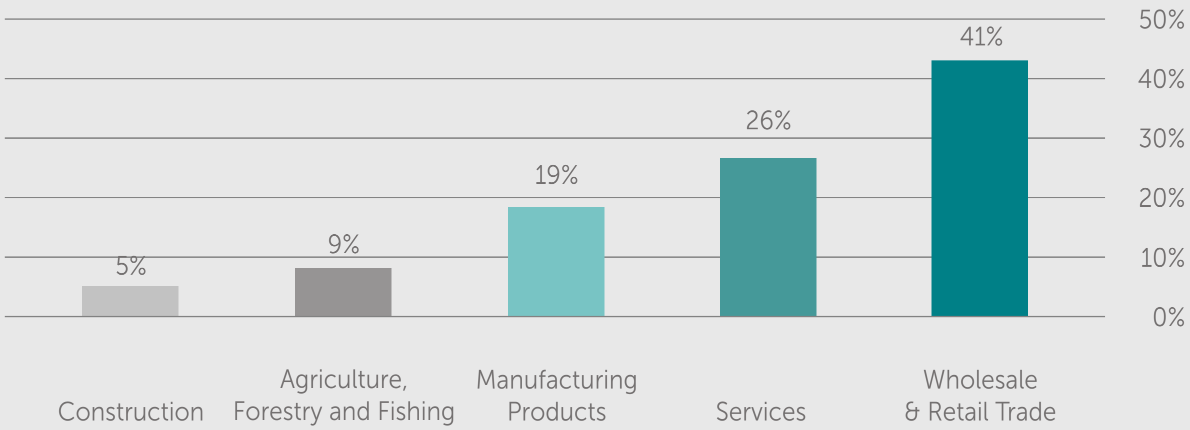
CATEGORIES	CRITERIA	TOTAL
Micro	up to 9	87%
Small	10 - 49	12%
Medium	>50	1%

Such distribution of credit guarantee portfolio fits to our orientation towards the segments of commercial enterprises (micro and small enterprises), which make the majority of private sector in our country.

Wide range of economic sectors benefiting from guarantees

At the end of the reporting period, the loan guarantee portfolio was spread across a wide range of business sectors. The most dominant sector was retail and wholesale with 41%, followed by services with 26%, manufacturing with 19%, agriculture with 9% and construction with 5%.

LOANS BY SECTORS



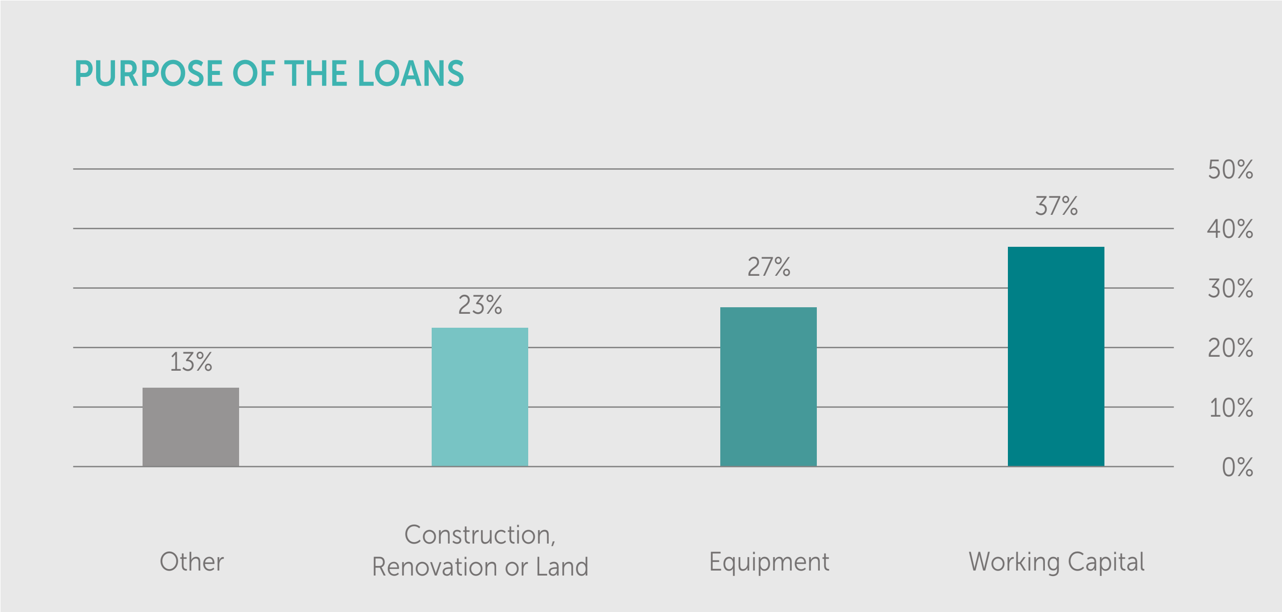
The distribution of the FKGK portfolio across different sectors continues to reflect country's economy.

Although the agricultural sector continued to have a low share in the overall banking sector, around 4%, this share in total portfolio of FKGK was 9%.

Since one of our objectives is to stimulate sectors that generate added value for economy, we have to work harder in empowering manufacturing and agrobusiness enterprises, enterprises that are the driving force of economy and a growing contributor to employment and improvement of social welfare in general.

Capital investments, with higher domination

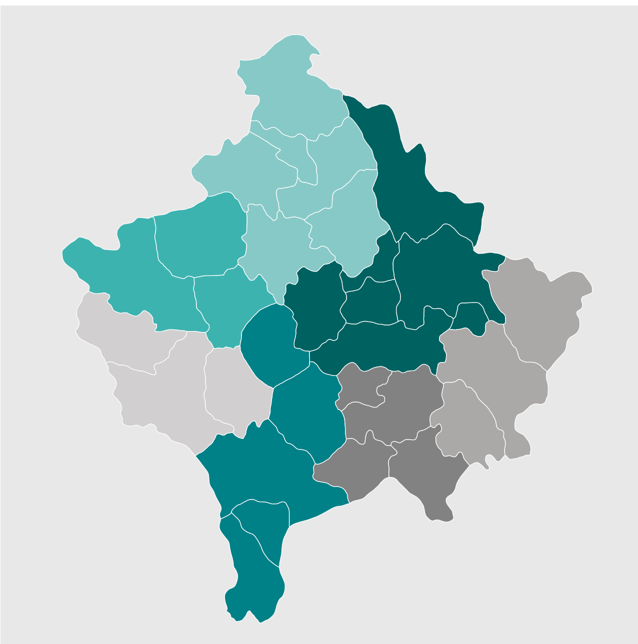
27% of loans approved in 2017 were invested in equipment (manufacturing machinery, agriculture equipment, other equipment); 23% in land, construction or reconstruction; 37% in working capital and 13% for other purposes.



Investments in fixed assets (equipment and construction/ reconstruction/ land), which generate income, dominated the guarantee portfolio during 2017. Also, investment in working capital, important for expanding business had significant participation in the guarantee portfolio.

Use of guarantees in different regions

In 2017, Pristina region with a share of 44%, had the largest share in the portfolio of loans placed under the guarantee.

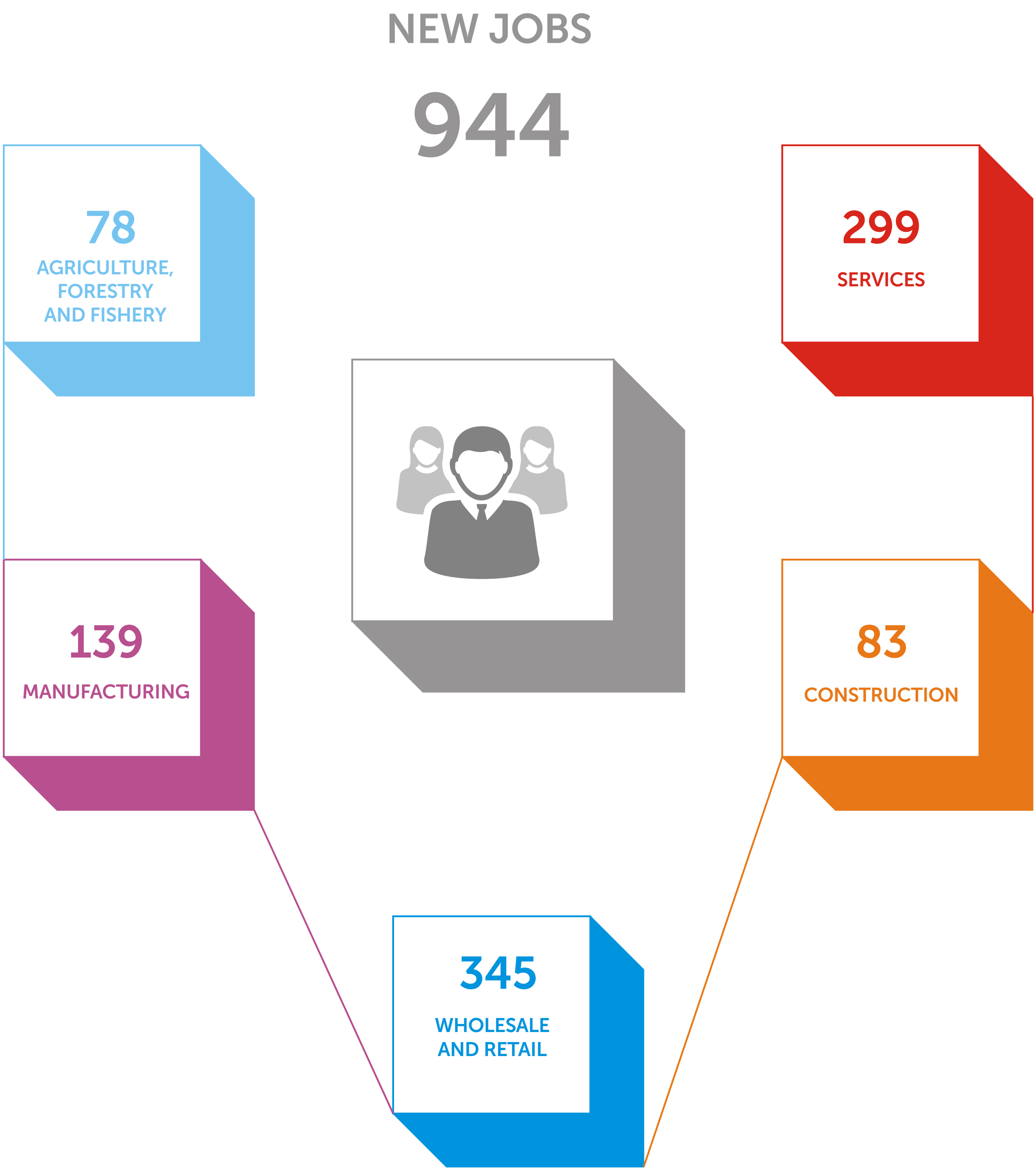


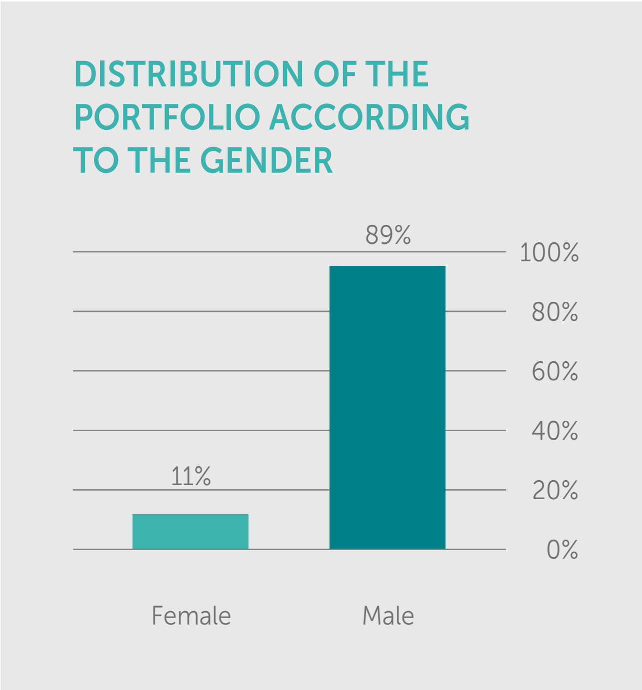
Loans by Regions	APPROVED AMOUNT
Ferizaj / Uroševac	1,972,000
Gjakovë / Djakovica	1,497,000
Gjilan / Gnjilane	1,963,100
Mitrovicë / Mitrovica	2,298,200
Pejë / Peć	2,455,000
Prishtinë / Priština	11,176,526
Prizren	4,195,000
TOTAL	25,556,826

Monetary values are in euro

Creation of new jobs

Creating new jobs is one of the main objectives of the establishment of the FKGK.
700 loans for MSMEs during 2017 envisioned 944 new jobs. These new jobs come mainly from the trade and services sector, about 68%.





Loans for women in business

Women today participate with a low level of formal borrowing compared to men, being forced to take one part of funding for their businesses from informal funding. This is related to the lack of collateral, since only 15% of them have property registered on their name.

Because of this FKGK has set as one of important institutional objectives to provide better opportunities for less served economic sectors and population categories, including women.

In 2017, out of 700 loans for MSMEs, 11% were provided to women business owners/ co-owners.

CREDIT RISK MANAGEMENT

Credit risk management has been adopted to FKGK's activity, which implies that FKGK does not deal directly with the borrower but that FKGK partially guarantees MSME loans issued by FIs registered in FKGK.

Since FKGK does not deal directly with the borrower, it has developed ex-ante and ex-post mechanisms to ensure that its requirements are met. Therefore, more attention in risk management is given to setting criteria for registration of FIs, allocating limits, and qualification criteria for loans. This approach implies that in the process of registering and allocating limits, the FKGK performs a thorough assessment, as well as creates mechanisms for controlling and monitoring loans and FIs.

Pursuant to these guidelines, during 2017 FKGK reviewed and approved application for registration of one FI and reassessed limits for several registered FIs. Additionally, during the past year, FKGK developed the practice of regular monthly meetings for analyzing the trend in banking sector in general, and for each FI in particular, as well guarantee portfolio analysis. Monitoring and analysis of these trends is one of the most important competencies in FKGK, which would enable identification of potential problems and their management at an early stage.

In order to cover losses that may arise from guarantees, in 2017 FKGK continued to provision guarantees pursuant to IFRS 9 (International Financial Reporting Standard 9).

FKGK impairs guarantees in three stages, which is triggered by changes of client credit classification fromdatas received on a monthly basis by registered FIs.

Since FKGK historical data are quite short, the model of expected loss has been developed based on market data, respectively data from the registered FIs. According to the developed model, NPL coverage in December 2017 was 341%, whereas coverage in the banking sector was 150%, which results that FKGK has more conservative approach to provisioning aspect.

Portfolio quality

In the second year of operation, there has been a significant increase in FKGK portfolio by maintaining a desirable level of NPLs and without any claim from banks to reimburse the lost loans.

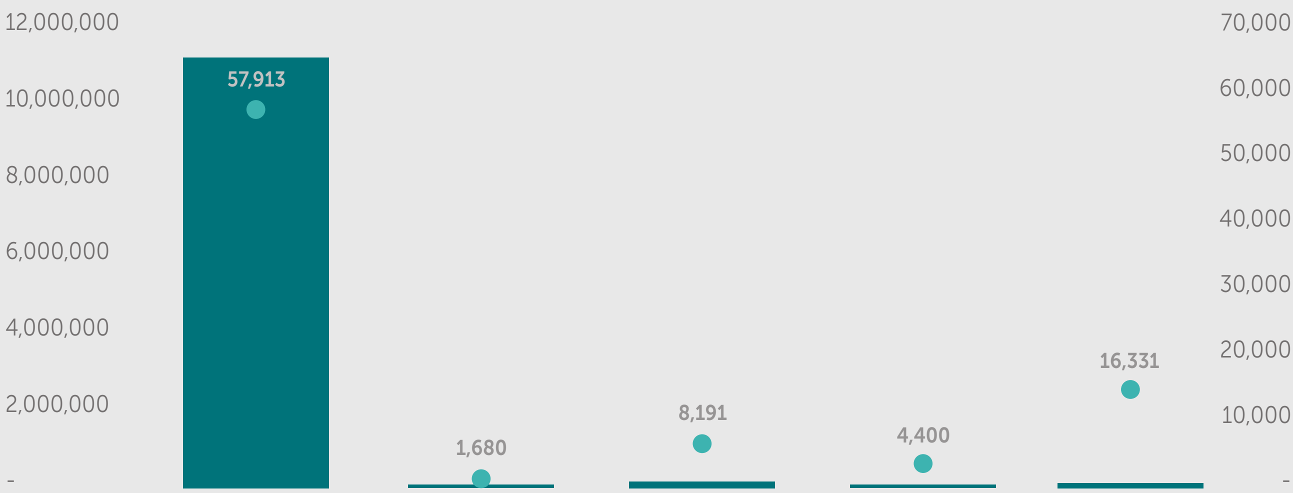
On December 31, 2017, NPLs participation in guaranteed portfolio was 0.22%, while the level of delinquent loans was 0.42%.

PERFORMANCE ACCORDING TO LOAN QUALITY

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Total (mil)	2,163	2,569	3,191	3,596	4,613	5,799	6,480	6,760	7,510	8,522	10,188	11,658
Standard	99.8%	98.6%	98.9%	98.5%	97.5%	98.0%	98.7%	99.3%	99.3%	99.4%	99.3%	99.4%
Watch	0.0%	0.0%	0.0%	0.6%	1.4%	0.5%	0.5%	0.0%	0.0%	0.1%	0.2%	0.1%
Sub-standard	0.2%	1.2%	0.9%	0.8%	1.0%	1.1%	0.4%	1.4%	0.4%	0.3%	0.3%	0.4%
Doubtful	0.0%	0.2%	0.2%	0.1%	0.1%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Loss	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.3%	0.2%	0.2%	0.2%

Despite the good quality of the portfolio, FKGK continued to build provisioning reserves according to the expected loss model. According to the impairment model, the provisioning reserves cover the entire guarantee portfolio with 0.76%, while the coverage of the NPL was 341%.

GUARANTEE BALANCE AND PROVISIONING RESERVES (ACCORDING TO LOANS CLASSIFICATION)



in euro

	Standard	Watch	Sub-Standard	Doubtful	Loss
Balance	11,582,557	8,402	40,955	5,500	20,413
Provisioning	57,913	1,680	8,191	4,400	16,331

SPECIAL FEATURE OF 2017 - SIDA

In 2017, FKGK signed a portfolio re-guarantee agreement with SIDA, in the amount of 10.0 million euro. The agreement provides the possibility of transferring credit risk up to 50% of the principal amount of the part of loans guaranteed by FKGK. This form of coverage of guarantee portfolio against portion of credit risk represents another opportunity to increase FKGK's guarantee capacity, based on the existing capital.

The way how this re-guarantee scheme works is similar to how we guarantee the portfolio of FIs registered in FKGK. More concretely, the agreement between FKGK and SIDA functions as follows: SIDA, as a guaranteeing party covers 50% of the risk of new loans guaranteed by FKGK (guaranteed party), and distributed by partner banks, up to the limit of 40.0 million euro. All this is done in compensation of a commission as equivalent to the risk assumed by the guaranteeing party.

This agreement was achieved thanks to the mediation by the Swedish Embassy in Kosovo, which besides supporting negotiations between SIDA and FKGK has shown willingness to cover part of expenses for commission from the baseline value, resulting with financial quantification of the credit risk in the MSME market in Kosovo. Owing to the support from the Swedish Embassy in covering a part of expenses, FKGK performs these services on much favorable terms.

Regarding institutional development, this means more confidence in FKGK and confidence in the banking market for credit guarantee services offered by us, while from the operational viewpoint the main benefit is the distribution of credit risk and more guaranteeing potential based on existing capital.

This agreement will further accelerate access to finance for MSMEs, resulting in more private sector investments, more competitiveness capabilities for Kosovar enterprises, improved trade balance, more employment and greater economic development.


COMPANY STATISTICS

PART 5

ACTIVITIES IN 2017

SIGNING NEW AGREEMENTS

The Fund Signed the Agreement for Increasing Guarantee Limit with Banka për Biznes

16 June 2017

The BPB is one of the first Banks that has signed the Guarantee Agreement with FKGK and has utilized the total allocated limit.

The agreement for new limit aims to further increase lending for Kosovar businesses, contribute to job creation, economic growth, as well as enhance opportunities for underserved economic sectors and populations including women, minorities, farmers, entrepreneurs, and youth.

FKGK Signed the Guarantee Agreement with Banka Kombëtare Tregtare Kosovo Branch

16 June 2017

The agreement will enable the Bank to obtain additional collateral security for loans issued to micro, small, and medium enterprises (MSMEs), hence providing easier access to finance for Kosovan companies.

BKT is the seventh bank that has signed the guarantee agreement with FKGK.

Signing of Guarantee Agreement between FKGK and SIDA

6 December 2017

FKGK signed a Guarantee Agreement in the amount of 10 million euro with SIDA, represented by the Embassy of Sweden in Pristina in December 2017.

The support to the FKGK guarantee portfolio by SIDA aims to 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 financial sector This sustainability will reflect in facilitation of financial intermediation, hence positively impacting on facilitating and promoting lending to MSMEs, economic growth and employment in Kosovo.

FKGK signed an agreement with KfW, supported by the German Development Cooperation

6 December 2017

The 7.45 million euro agreement provides contribution to FKGK total capital for basic guaranteeing scheme in the amount of 2 million euro, and5.45 million euro for the launch of Agro-Window.

From this amount, 450 thousand euros are foreseen for technical assistance. The signing of these agreements will increase the contribution to the development of the guarantee portfolio and the achievement of Fund's goals.

WORKSHOPS/SEMINARS

FKGK and the Kosovo Banking Association organized a meeting with Banks

18 October 2017

FKGK together with the Kosovo Banking Association (KBA) organized a half-day workshop with FKGK partner FIs.

The purpose of the meeting was to discuss the role of guarantee schemes, implementation of the Guarantee Agreement, impact of the Fund on lending activity and the overall economic development.

As a result of this meeting, some analyzes and decisions were initiated with regard to increasing efficiency and advancement of services.

FKGK, USAID and KBA held a meeting with Agrobusinesses

9 November 2017

Roundtable with FIs and Agrobusinesses was intended to encourage discussion among related parties in order to identify the barriers that hinder lending in this sector.

The discussions outlined important conclusions that participants pledged to address in order to increase access to finance for this important sector of the economy.

ANALYZES TO INCREASE EFFICIENCY AND IMPROVE THE QUALITY OF SERVICES

Definition of MSMEs

In order to reflect characteristics of the guarantee service in relation to the concentration of the guarantee portfolio in different categories of clients, FKGK conducted a survey related to definition of entrepreneurship in Kosovo, as well as in partner FIs, concentration of guaranteed portfolio in certain categories, as well as possible barriers that would enable us to give specific recommendations in order to achieve institutional objectives.

One of the recommendations was also to raise maximum exposure limit for MSMEs, which could qualify for the FKGK guarantee scheme.

RFI Survey

To get a better insight on functioning of FKGK, a survey was conducted with registered IFs in FKGK.

As a result of this survey, a report was drafted covering issues related to FKGK activity, utilization, advantages and challenges, or the operational issues which have to be addressed.

Study on implementation of the Environmental and Social Management System

The study on implementation of the Environmental and Social Management System (ESMS) by partner IFs, aimed to identify level of the ESMS implementation, and based on Partner IFs and local experiences, to compile a policy related to the management of the impact of lending on the environment.

Such policy will be in line with our institutional efforts to contribute to economic development with full responsibility for the environment and society.

MEETINGS OF THE BOARD OF DIRECTORS AND RELEVANT COMMITTEES

FKGK Board of Directors meetings in 2017:

During 2017 the FKGK Board of Directors held a total of six (6) meetings, of which four were regular meetings and two ad hoc meetings. In July, the Board remained without a member due to the withdrawal of one of the independent board members. In these meetings, the Board took strategic decisions about institutional progress and those related to adoption of proposals presented by FKGK management.

Meetings of Credit Risk Management Committee and Audit Committee

During 2017, the Credit Risk Management Committee (CRM) and Audit Committee (AC) held three regular meetings each. At these meetings, respective committees took decisions and recommendations for final approval by the FKGK Board of Directors.

The following table presents the meetings of the Board and the subsidiary committees of the FKGK Board of Directors:

NUMBER OF BOARD MEETINGS	SCHEDULE OF BOARD MEETINGS	PARTICIPATION OF BOARD MEMBERS	PARTICIPATION OF BOARD MEMBERS	NUMBER OF DECISIONS MADE
1.	February 2017	6/6	8	5
2.	April 2017	4/6	3	1
3.	May 2017	6/6	13	7
4.	July 2017	5/6	13	4
5.	August 2017	5/6	6	2
6.	October 2017	5/6	15	4
		Total	58	23

NUMBER OF MEETINGS OF RISK MANAGEMENT COMMITTEE (RMC)	SCHEDULE OF RMC MEETINGS	PARTICIPATION OF RMC MEMBERS	NUMBER OF DISCUSSED TOPICS	NUMBER OF DECISIONS / RECOMMENDATIONS MADE
1.	April 2017	2/3	7	5
2.	July 2017	3/3	8	1
3.	October 2017	3/3	2	7
		Total	17	13

NUMBER OF MEETINGS OF AUDIT COMMITTEE (AC)	SCHEDULE OF AC MEETINGS	PARTICIPATION OF AC MEMBERS	NUMBER OF DISCUSSED TOPICS	NUMBER OF ADOPTED DECISIONS / RECOMMENDATIONS MADE
1.	April 2017	3/3	7	3
2.	July 2017	2/3	5	2
3.	October 2017	2/3	5	2
		Total	17	7

PART 6

STATEMENTS

AUDITED FINANCIAL STATEMENTS

KOSOVO CREDIT GUARANTEE FUND

Independent Auditors' Report and Financial Statements for the year ended December 31, 2017

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Tel: +381 38 221 172
Fax: +381 38 221 170
www.bdokosovo.com

BDO Kosova L.L.C.
Str. Perandori Justinian, Nr. 120
10000 Prishtina Kosova

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, 2017, 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, 2017, 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.

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 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 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.

BDO Kosova L.L.C.
June 12, 2018
Str. Perandori Justinian, No.120
10 000 Pristina, Kosovo

Kosovo Credit Guarantee Fund
Statement of Financial Position
As at December 31, 2017

	Notes	As at December 31, 2017 (EUR)	As at December 31, 2016 (EUR)
ASSETS			
Current assets			
Cash and cash equivalents	4	7,567,694	7,379,611
Deposits	5	8,500,000	-
Receivables and other receivables	6	151,665	8,209
Total current assets		**16,219,359**	**7,387,820**
Non-current assets			
Property, plant and equipment	7	25,939	-
Intangible assets	8	52,600	-
Total non-current assets		**78,539**	-
TOTAL ASSETS		**16,297,898**	**7,387,820**
EQUITY AND LIABILITIES			
Current liabilities			
Deferred Guarantee Fees		166,635	35,609
Provision losses for loan guarantees		88,514	10,219
Deferred revenues from donated assets	9	72,716	-
Accrued expenses		3,244	-
Total current liabilities		**331,109**	**45,828**
EQUITY			
Capital	10	15,790,921	7,345,141
Accumulated profit/(loss)		175,868	(3,149)
Total equity		**15,966,789**	**7,341,992**
TOTAL EQUITY AND LIABILITIES		**16,297,898**	**7,387,820**

Authorized for issue by the management and signed on its behalf on June 12, 2018.

Besnik Berisha
Managing Director

Vjosa Balaj
Senior Finance Manager

The accompanying notes on pages 7 to 21 form an integral part of these financial statements.

	Notes	Year ended 31 December 2017 (EUR)	Year ended 31 December 2016 (EUR)
Guarantee fees	**11**	134,165	7,070
Other income	**12**	269,364	-
Total income		**403,529**	**7,070**
Personnel expenses	**13**	(87,043)	
Depreciation	**7,8**	(20,415)	
Operative expenses	**14**	(38,759)	
Net provision losses for guarantees	**15**	(78,295)	(10,219)
Profit/(Loss) for the year		**179,017**	**(3,149)**
Other comprehensive income		-	-
Total comprehensive profit / loss for the year		**179,017**	**(3,149)**

The accompanying notes on pages 7 to 21 form an integral part of these financial statements.

	Capital (EUR)	Accumulated (loss)/profit (EUR)	Total (EUR)
As at January 1, 2016	**-**	**-**	**-**
Paid in capital	7,345,141	-	7,345,141
Loss for the year	-	(3,149)	(3,149)
As at December 31, 2016	**7,345,141**	**(3,149)**	**7,341,992**
Addition paid in capital	8,445,780	-	8,445,780
Profit for the year	-	179,017	179,017
As at December 31, 2017	**15,790,921**	**175,868**	**15,966,789**

	Notes	Year ended 31 December 2017 (EUR)	Year ended 31 December 2016 (EUR)
Cash flow from operating activities:			
Profit/(Loss) for the year		179,017	(3,149)
Adjustments for:			
Depreciation	**7,8**	20,415	-
		199,432	**(3,149)**
Movements in working capital:			
Increase in receivables		(143,456)	(8,209)
Increase in deferred guaranty fees		131,026	35,609
Increase in provision losses for loan guarantees		78,295	10,219
Increase in deferred revenues from donated assets		72,715	-
Increase in accruals		3,244	-
Net cash generated in operating activities		**341,256**	**34,470**
Cash flow from investing activities:			
Additional assets		(98,953)	-
Deposits		(8,500,000)	-
Net cash used in investing activities		**(8,598,953)**	**-**
Cash flow from financing activities:			
Paid in capital		8,445,780	7,345,141
Net cash generated in financing activities		**8,445,780**	**7,345,141**
Net increase in cash and cash equivalents during the year		**188,083**	**7,379,611**
Cash and cash equivalents at the beginning of the year		7,379,611	-
Cash and cash equivalents at the end of the year	4	**7,567,694**	**7,379,611**

The accompanying notes on pages 7 to 21 form an integral part of these financial statements.

1. GENERAL

The Kosovo Credit Guarantee Fund is an independent and sustainable institution that issues guarantee to financial institutions to cover the risk for MSME loans.
KCGF was established, as a result of joint initiative between International Donors in Kosovo (mainly USAID and KFW) and Government of Kosovo, in January 2016, based on the Law on Establishment of the Kosovo Credit Guarantee Fund.
Through "Law on Establishment of the Kosovo Credit Guarantee Fund" Law No. 05/L -057 established the KCGF as an independent, not-for-profit, public institution, autonomous, legal entity and determined its authority, structure, governance, operations, scope, and policies and procedures for the issuance of Credit Guarantees.
The founding law of the KCGF was initiated by MTI, while USAID in Kosovo, through the EMPOWER Credit Support Program (ECS) supported the institution on becoming operational. The law entered into force on 23 January 2016. KCGF capital consists of funds donated by MTI, USAID and KfW.

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

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

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

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

For the purpose of its main function, KCGF is responsible for:

a. Issuing Credit Guarantees in accordance with the LKCGF and internal policies approved by the Board of Directors;
b. Setting the conditions for registering qualified Kosovo Financial Institutions in the KCGF reflected in the Policy on the Registration of Financial Institutions;
c. Setting the conditions for issuing Credit Guarantees by the KCGF.
d. Setting the Guarantee Fees of the KCGF.
e. Depositing or investing directly or through delegation of authority the assets of KCGF within the limitations of the LKCGF.
f. Paying Payable Amounts on Credit Guarantees to Registered Financial Institutions pursuant to the provisions of the LKCGF and the Guarantee Agreement, in accordance with the provisions of the LKCGF and the Policy on Handling Claims.

1. GENERAL (CONTINUED)

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

KCGF operations and all administrative activities since June 10, 2017 are independent and under the management of the Fund backed by technical assistance from USAID.

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.
The support of the guaranteed portfolio of KCGF by 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 increase of access to finance of micro, small and medium size enterprises, in order to promote economic growth and job creation for woman, man and youth of all ethnicities in Kosovo.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

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

The preparation of these financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies.

2.2 New standards, interpretations and amendments effective from 1 January 2017

A number of new standards issued by International Accounting Standards Board, interpretations and amendments issued by the International Financial Reporting Interpretations Committee are effective for the first time for periods beginning on (or after) 1 January 2017.
Note: not all new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2017 effect the Fund financial statements.

IAS 8:28 - The effect of the initial application of an IFRS on the Fund's accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 New standards, interpretations and amendments effective from 1 January 2017 (continued)

The following new standards, amendments and interpretations are effective for the first time for periods beginning on or after 1 January 2017:

- Annual Improvements to IFRSs (2014 – 2016 Cycle): IFRS 12 Disclosure of interests in other entities
- IAS 12 Income Taxes (Amendment – Recognition of Deferred Tax Assets for Unrealized Losses)
- IAS 7 Statement of Cash Flows (Disclosure Initiative Amendments).

The scope of IFRS 12 was clarified to make it clear that the disclosure requirements in this Standard, except for those in paragraphs B10 - B16, apply to interests irrespective of whether they are classified as held for sale, as held for distribution to owners or as discontinued operations in accordance with IFRS 5.

The amendment to IAS 12 Income Taxes clarifies the accounting for deferred tax assets related to debt instruments measured at fair value but are not deemed to be impaired (for example, an investment in a fixed rate bond where the fair value has declined due to changes in interest rates, but the asset is not considered to have become impaired in value). Specifically it clarifies that deferred taxes should be recognized for deductible temporary differences arising from unrealized losses on debt instruments measured at fair value if all other recognition criteria for deferred taxes are met, regardless of whether it is planned to recover the instrument through sale or by holding it to maturity.

The amendment to IAS 7 aims to improve information about changes in liabilities arising from financing activities. One way to provide this disclosure would be to provide a reconciliation of the opening and closing carrying amounts for each item for which cash flows have been or would be classified as financial activities. The reconciliation would include:

- Changes from financing cash flows;
- Changes arising from obtaining or losing control of subsidiaries or other businesses;
- Other non-cash exchanges (e.g. changes in foreign exchange rates, new finance leases and changes in fair value);

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2017 that had a significant effect on the financial statements.

2.3 New standards, interpretations and amendments effective in periods after year end December 31, 2017

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective in future accounting periods that the Fund has decided not to adopt early. The most significant of these are:

- IFRS 9 Financial Instruments (mandatorily effective for periods beginning on or after 1 January 2018); and
- IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 New standards, interpretations and amendments effective in periods after year end December 31, 2017 (continued)

IFRS 9 Financial Instruments
The Fund has identified that the adoption IFRS 9, which replaces IAS 39 Financial Instruments:

The Fund will need to apply from 1 January 2018 an expected credit loss model when calculating impairment losses on its trade and other receivables (both current and non-current). This will result in increased impairment provisions and greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions. In applying IFRS 9 the Fund must consider the probability of a default occurring over the contractual life of its trade receivables and contracts asset balances on initial recognition of those assets.

IFRS 16 Leases
Adoption of IFRS 16 will result in the Fund recognizing right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Fund does not recognize related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

Other
The Fund does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Fund.

The following is a list of other new and amended standards which, at the time of writing, had been issued by the IASB but which are effective in future periods. The amount of quantitative and qualitative detail to be given about each of the standards will, much like the amount of detail to be given about IFRSs 9, 15 and 16, depend on each Fund's own circumstances.

- IFRIC 22 Foreign Currency Translations and Advance Consideration (effective 1 January 2018)
- Amendments to IFRS 2 classification and Measurement of Share-based payment Transactions (effective 1 January 2018)
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018)
- Amendments to IAS 40: Transfers of Investment Property (effective 1 January 2018)
- Annual Improvements to IFRS Standards 2014-2016 cycle dealing with matters in IFRS 1 First-time Adoption and IAS 28 Investments in Associates and Joint Ventures (effective1 January 2018)
- IFRIC 23 Uncertainty over Income Tax Positions (effective 1 January 2019)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective 1 January 2019)
- Amendments to IAS 28:Long-term Interests in Associates and Joint Ventures (effective 1 January 2019)
- IFRS 17 Insurance Contracts (effective 1 January 2021)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial assets

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity and available - for - sale financial assets. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets. The Fund has no assets classified in this category.

Receivables
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets. As of the reporting date this category includes cash and cash equivalents.

2.5 Cash and cash equivalents

Cash and cash equivalents include cash in hand and balances with banks. The Fund has a bank account opened with Central Bank of the Republic of Kosovo and a current account with Banka për Biznes.

2.6 Funds balance

Funds Balance provided by the Government of the Republic of Kosovo and USAID as a grant. During December 2017, grant agreements are signed in amount of 7.450 million EUR between the German Development Bank (KfW) and the Ministry of Finance, dedicated to increasing the KCGF Capital for 7.0 million EUR, whereas 450 thousand EUR is for technical assistance.

2.7 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.

2.8 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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Revenue recognition (continued)

The Fund's revenues are:

(i) revenues from guarantee fees
(ii) interest from investment

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

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

2.9 Provisions

Provisioning policy specifies the process of setting aside certain reserves for all credits that are placed under guarantees that are expected or have incurred credit loss. The provisioning policy is made in accordance with IFRS 9. The impairment of credit guarantees is done in three stages, based on changes in credit quality since initial recognition. The information provided by RFI regarding credit classification will be the key trigger for moving credit guarantee into stages and for measuring credit risk. Impairment in first stage is accounted for all credit guarantees irrespective of the credit quality, on the basis of expected loss over a period of 12 months. The credit guarantee will move to second stage (or from second to third) if there is a significant deterioration in the credit quality, if the contractual cash flows on the financial asset are not fully recoverable in the event of default. In both these stages, the impairment allowance is recognized based on the lifetime expected losses. The transfer of financial assets from one stage to another is symmetrical, which means that any financial asset can move back, if there is a significant improvement in the credit quality.

2.10 Commitments contingencies

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

3. FINANCIAL RISK MANAGEMENT

3.1 Introduction and overview

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

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

3.2 Risk Governance Structure

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower to honor its financial or contractual obligations to a bank. KCGF’s risks lies, correspondingly, with the banks. Should impaired loans at a particular bank increases, putting their portfolio at risk, this will in turn increase KCGF’s, in the sense that KCGF may be called on the guarantees issued. This will have an impact on KCGF’s capital position and expected fee incomes. Therefore, KCGF’s counterparties’ (RFI) credit assessment and their policies will influence the quality of KCGF’s guaranteed portfolio.

For the purpose of 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. The registration policy sets the key principles that financial institutions should have in order to be registered in KCGF:

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Liquidity risk

Effective liquidity risk governance is essential in order to maintain the confidence of donors and RFI, and to enable the core business to continue to generate revenue, even under adverse circumstances. Reliable arrangements, analysis of liquidity requirements, and contingency planning (for example, a stand-by line of credit, or counter guarantee arrangement) are crucial elements of strong liquidity.

KCGF acknowledges that capital that it is holding as liquid assets should provide support towards the achievement of its objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques that balance risk and reward, within the context of effective risk management.

For the purposes of optimizing potential returns within acceptable risk parameters, KCGF has prepared an investment policy that clearly sets out an investment framework consistent with KCGF mandate and its strategic objectives.

	31 December 2017 Current			
	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	7,567,694	-	-	-
Deposits	-	8,500,000	-	-
Total financial asset	**7,567,694**	**8,500,000**	**-**	**-**
Financial liabilities				
Payables and other liabilities	258,393	-	-	-
Total financial liabilities	**258,393**	**-**	**-**	**-**

	31 December 2016 Current			
	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	7,379,611	-	-	-
Total financial asset	**7,379,611**	**-**	**-**	**-**
Financial liabilities				
Payables and other liabilities	45,828	-	-	-
Total financial liabilities	**45,828**	**-**	**-**	**-**

3.5 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can be created by a wide range of different external events ranging from power failures to floods or earthquakes.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Operational Risk (continued)

Similarly, operational risk can arise due to internal events such as the potential for failures or inadequacies in any of the KCGF's processes and systems, or those of its outsourced service providers. Operational risk arising from human resources management may refer to a range of issues such as mismanaged or poorly trained employees; the potential of employees for negligence, willful misconduct; conflict of interests; fraud; rogue trading; and so on. The KCGF's operational risk management focuses on proactive measures in order to ensure business continuity as well as the accuracy of information used internally and reported externally, a competent and well-informed staff, and its adherence to established rules and procedures as well as on security arrangements to protect the physical and ICT infrastructure of the KCGF.

KCGF's Operational Risk Management Framework:

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

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

3.6 Financial instruments presented at fair value

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

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

As of 31 December 2017, 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 2017 (EUR)	Fair value 2017 (EUR)
Financial assets		
Cash and cash equivalents	7,567,694	7,567,694
Deposits	8,500,000	8,500,000
Total financial assets	**16,067,694**	**16,067,694**
Financial liabilities		
Payables and other liabilities	258,393	258,393
Total financial liabilities	**258,393**	**258,393**

4. CASH AND CASH EQUIVALENTS

	As at December 31 2017 (EUR)	As at December 31 2016 (EUR)
Cash at Central Bank of Kosovo	7,542,060	7,379,611
Current Accounts	25,224	-
Petty cash	410	-
Total cash and cash equivalents	**7,567,694**	**7,379,611**

5. DEPOSITS

The total deposits invested during 2017 are in amount of 8,500,000 EUR. The investments, which should have a maximum maturity of 5 years, are limited to organizations that meet the criteria as approved by KCGF’s Board of Directors.

6. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	As at December 31 2017 (EUR)	As at December 31 2016 (EUR)
Receivable from clients	65,495	8,209
Accrual interest of bank deposits	69,493	-
Advances	16,677	-
Total receivables	**151,665**	**8,209**

7. PROPERTY, PLANT AND EQUIPMENT

	Equipment	**IT Equipment**	**Office furniture**	**Total**
	(EUR)	**(EUR)**	**(EUR)**	**(EUR)**
Historical cost				
As at January 1, 2016	-	-	-	-
Additions during the period	-	-	-	-
As at December 31, 2016	**-**	**-**	**-**	**-**
Transfer	1,972	50,431	19,947	72,350
Additions during the period	-	-	-	-
As at December 31, 2017	**1,972**	**50,431**	**19,947**	**72,350**
Accumulated depreciation				
As at January 1, 2016	-	-	-	-
Depreciation for the period	-	-	-	-
As at December 31, 2016	**-**	**-**	**-**	**-**
Transfer	1,100	16,901	15,890	33,891
Depreciation for the period	369	9,441	2,710	12,520
As at December 31, 2017	**1,469**	**26,342**	**18,600**	**46,411**
NET VALUE				
As at December 31, 2017	**503**	**24,089**	**1,347**	**25,939**
As at December 31, 2016	**-**	**-**	**-**	**-**

After June 10, 2017 KCGF has been transferred all the competencies related to KCGF, also transferring the assets that were managed until then under USAID management.

8. INTANGIBLE ASSETS

	Software (EUR)	Total (EUR)
Historical cost		
As at January 1, 2016	-	-
Additions during the period	-	-
As at December 31, 2016	**-**	**-**
Transfer	66,825	**66,825**
Additions during the period	5,922	**5,922**
As at December 31, 2017	**72,747**	**72,747**
Accumulated depreciation		
As at January 1, 2016	-	-
Depreciation for the period	-	-
As at December 31, 2016	**-**	**-**
Transfer	12,252	**12,252**
Depreciation for the period	7,895	**7,895**
As at December 31, 2017	**20,147**	**20,147**
NET VALUE		
As at December 31, 2017	**52,600**	**52,600**
As at December 31, 2016	**-**	**-**

9. DEFERRED REVENUES FROM DONATED ASSETS

	As at December 31 2017 (EUR)	As at December 31 2016 (EUR)
Equipment	503	
IT Equipment	24,090	-
Office furniture	1,346	-
Software	46,777	-
Total in kind contributions	**72,716**	**-**

10. CAPITAL

Funds provided to the KCGF by the Government of the Republic of Kosovo and USAID as a grant.

As at 31 December 2016 Funds consist:
- Funds received from USAID in the amount of EUR 5,345,141.
- Funds received from Government of Republic of Kosovo (through Ministry of Trade and Industry) in the amount of EUR 2,000,000.

Additional grant funds during 2017:
- Funds received from KfW in the amount of EUR 7,000,000.
- Funds received from Government of Republic of Kosovo in the amount of EUR 1,000,000.
- Funds received from USAID in the amount of EUR 445,780.

11. GUARANTEE FEES

	Year ended December 31, 2017 (EUR)	Year ended December 31, 2016 (EUR)
Guarantee fees	134,165	7,070
Total guarantee fees	**134,165**	**7,070**

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 (2%) multiplied by the Approved Amount of the guarantee. The income from the guarantee fee is recognized on accrual basis for a period of 12 months.
The guarantee fees are recognized as revenues in statement of comprehensive income at the end of each month by debiting Accrual Guarantee Fee and credit Guarantees Fees Income.

12. OTHER INCOME

	Year ended December 31, 2017 (EUR)	Year ended December 31, 2016 (EUR)
Funds for operative expenses	179,555	-
Depreciation on donated assets	20,316	-
Interest from deposits	69,493	-
Total other income	**269,364**	**-**

Funds for operative expenses are the purpose of the activity of USAID to support KCGF as it grows its nascent business of providing partial credit guarantees to facilitate expansion of local bank lending to the micro-, small-, and medium-enterprise (MSME) sector in Kosovo. The activity will cover KCGF’s business operating costs (such as salaries, office rent, etc., for a limited time after the expiration of USAID’s ECS project on June 10, 2017. Based upon KCGF’s current and anticipated cost structure and burn rate, and detailed financial forecasts including growing utilization rates and revenues, the proposed amount of funding should be sufficient to enable KCGF to achieve financial self-sufficiency (positive cash-flow from operations) not later than the end of 2018. It is important to note that funds under this award will only be used for operating expense coverage, and not for loan losses. KCGF has a separate pool of funds (the KCGF capital account) dedicated to covering loan losses, which in any case are not expected to materialize until well after year-end 2018, the period covered by this award.

13. PERSONNEL EXPENSES

	Year ended December 31, 2017 (EUR)	Year ended December 31, 2016 (EUR)
Salaries	71,591	-
Pensional contribution	15,452	-
Total personnel expenses	**87,043**	**-**

14. OPERATING EXPENSES

	Year ended December 31, 2017 (EUR)	Year ended December 31, 2016 (EUR)
Office rent & utilities	11,267	-
Maintenance & Repair Exp.	7,380	-
Translator and other Professional services	6,090	-
Publications, Branding and Marketing	4,315	-
Phone and internet expenses	2,133	-
Training, Conferences and Seminars	1,385	-
Bank fees	807	-
Other expenses	5,382	-
Total operating expenses	**38,759**	**-**

15. NET PROVISION EXPENSES

	Year ended December 31, 2017 (EUR)	Year ended December 31, 2016 (EUR)
Provision expenses	128,223	10,219
Provision income	(49,928)	-
Total net provision expenses	**78,295**	**10,219**

Provisioning policy specifies the process of setting aside certain reserves for all credits that are placed under guarantees that are expected or have incurred credit loss. The provisioning policy is made in accordance with IFRS 9

16. CONTINGENCIES AND COMMITMENTS

	As at December 31, 2017	
	Number of Guarantees	Outstanding Guaranteed Amount (EUR)
Total	739	11,657,827

Other that the ones disclosed above there are no contingencies or commitments in existence as at the balance sheet date.

17. RELATED PARTY TRANSACTIONS

Related parties consist of the directors of the Fund. Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

18. EVENTS AFTER THE REPORTING DATE

There are no significant subsequent events after the reporting date which requires adjustment or disclosure to these financial statements.

Kosovo Credit Guarantee Fund

Address:
Antton Çetta No. 5/A,
10,000 Pristina, Republic of Kosovo

Phone: +381 (0) 38 225 600 ext.208
Fax: +381 (0) 38 225 400

E-mail: info@fondikgk.org
www.fondikgk.org