ANNUAL REPORT 2018

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

TABLE OF CONTENTS

PART I

BACKGROUND

FOREWORD BY THE CHAIRMAN OF THE BOARD AND MANAGING DIRECTOR

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

2018 was yet another successful year for the Kosovo Credit Guarantee Fund (KCGF). We continued on our path of strengthening and consolidating the KCGF as an independent institution and gradually and sustainably increasing its contribution to the real Economy, by facilitating access to finance for micro, small and medium sized enterprises.

KCGF made significant progress during 2018 towards achieving its main objectives of supporting financial intermediation by sharing the credit risk with banking and non-banking institutions operating in Kosovo. Just in its second full year of operation, the impact of the KCGF on access to finance is already quite evident.

The KCGF institutional outcomes are clearly reflected in the encouraging trend of its guaranteed loan portfolio, especially during the second half of 2018. The cumulative value of the loan portfolio guaranteed by KCGF reached 87.1 million euro distributed in 2,262 loans. Investment activity in private sector, supported through the KCGF guarantee scheme, resulted in the creation of more than 3.201 new jobs in Kosovo's economy.

The participation of women run businesses in our portfolio stands at an encouraging 10%, while the participation of the agribusiness and manufacturing sectors in our portfolio also stand at an encouraging 25.2%. These sectors are considered of particular importance to building Kosovo's economic independence by replacing imports and increasing the export capability of the national economy. KCGF's recently launched Agro Window guarantee scheme, developed in cooperation with KfW and targeting businesses in the agriculture sector, has been enthusiastically received by partner banks. In the future, in cooperation with our partners, we plan to further increase the guarantee capacity of KCGF and to further focus our energy and efforts towards designing new guarantee products and services for strategic sectors of the economy targeting start-ups, women entrepreneurs, the manufacturing sector and investments that increase energy efficiency. We believe that with this holistic approach to certain market segments, our institution will successfully accommodate the sectors in need, while at the same time addressing specific credit risk characteristics for these sectors.

Our experience from previous years has shown us which segments of customers, by size and stage of enterprise development, are most in need of support from the KCGF guarantee scheme. This is also reflected in the nature of clients who have benefited from the KCGF guarantee scheme, mainly populated by small-sized enterprises with an average credit value of 38,000 euro, and from the aspect of maturity of the enterprise's development are in the early growth stages of their business activity. For more analysis by the KCGF, to assess the financial additionality of our guarantee scheme shows a noticeable participation of new clients without previous credit history (29%) in the total portfolio of guaranteed loans during the year 2018. Historically, for this category of enterprises, the lack of collateral, very current issue for this stage of enterprise development, and the lack of credit history, may have been the main barriers to the realization of investment ideas, which would then enable growth of their businesses.

The same analysis shows that KCGF generated significant economic and financial additionality during 2018. The participation of KCGF guaranteed loans in total disbursed loans up to 100,000 euro, in 2018 has reached 14%. This means that every seventh loan allowed in the banking sector, up to 100,000 euro, is guaranteed by the KCGF. Positive changes are also noted at the level of required collateral, duration and average disbursed volume, significantly more positive in the category of guaranteed loans compared to unguaranteed loans.

For the third consecutive year, KCGF's investment strategy continues to be channeled in the form of short-term deposits in local banks. This institutional approach reflects the confidence of KCGF's governing structures on our country's banking sector as well as indirectly, increasing liquidity in the market creates more opportunities to enhancing the lending capacity of the banks that operate in the local market.

During 2018, KCGF also began the implementation of the re-guarantee scheme provided by the Swedish Development and Cooperation Agency (SIDA), with the mediation of the Swedish Embassy in Kosovo, in the amount of 10 million euro. This re-guarantee scheme was successfully used during 2018 and as a result, 20 million euro of KCGF's portfolio is now 50% re-guaranteed through this agreement.

In cooperation with our strategic partners, including notably the World Bank and KfW, during this year we worked intensively on the development and adaptation of internationally accepted standards for environmental and social risk management.

Despite having a successful year, we are fully aware of the challenges ahead, including maintaining the quality of the guaranteed loan portfolio, the development of good risk management practices of the guarantee portfolio, increasing our impact on the financial intermediation process and maintaining operational independence and financial sustainability.

However, having consolidated its corporate governance structures, including through a professional Board of Directors and experienced staff, dedicated and motivated to achieve the institutional goals, we are ever more confident in a positive future for the KCGF. We highly appreciate the engagement and commitment our Board of Directors for paving the way towards sustainable growth in the future, as well as to the KCGF staff for their motivation and willingness to mobilize their combined experience towards the achievement of our institutional objectives.

On behalf of the Board of Directors and the KCGF staff, we thank our international donors and the Government of the Republic of Kosovo for their continued support to KCGF. We also thank all other participants, above all the Central Bank of Kosovo (CBK) and Partner Financial Institutions for their cooperation and facilitating the implementation of the strategy and objectives for which this institution was established.

RINOR GJONBALAJ
Chairman of the Board

BESNIK BERISHA
Managing Director

ACRONYMS

BD	|	Board of Directors
CBK	|	Central Bank of the Republic of Kosovo
KCGF	|	Kosovo Credit Guarantee Fund
FI	|	Financial Institution
NBFIS	|	Non-Bank Financial Institution
PFI	|	Partner 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
MSMES	|	Micro, Small and Medium Enterprise
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

KEY FINANCIAL INDICATORS	DECEMBER 2017	DECEMBER 2018
CAPITAL	**15,790,921**	**16,286,801**
Guarantee potential	63,954,606	66,434,006
Allocated limit	30,000,000	50,550,000
Utilization rate of the limits by partner FIs	38.90%	58.1%
GUARANTEE BALANCE	**12,045,906**	**29,378,984**
No. of guaranteed loans	773	1,984
No. of partner FIs	7	8
Average guarantee	18,122	18,420
Average maturity	34	36
NPL (in %)	**0.22%**	**0.35%**
COVERAGE OF NPL WITH PROVISIONS (IN%)	**349.1%**	**289.0%**
INVESTED CAPITAL	**8,500,000**	**15,562,000**

Monetary values are in euro

PART II

PROFILE OF THE INSTITUTION

ESTABLISHMENT OF KCGF AND ITS STATUS

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

KCGF was established in January 2016, based on Law No. 05/L-057 on Establishment of the Kosovo Credit Guarantee Fund (Law on KCGF). The Law on KCGF was sponsored by MTI with the support of USAID, through its Empower Credit Support Program and the German Development Bank (KfW). The Law on KCGF entered into force on January 23, 2016.

MISSION

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 governance 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

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

PARTNERSHIPS AND COOPERATION

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

OBJECTIVITY AND INDEPENDENCE IN DECISION-MAKING

The KCGF 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, KCGF employees strive to fulfill the institution's mission and objectives, believing in the institution's role and the positive impact on s economic development.

TEAMWORK AND PROFESSIONALISM AT WORK

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

PART III

CORPORATE GOVERNANCE

BOARD OF DIRECTORS AND STAFF

BOARD OF DIRECTORS AND STAFF

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

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

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

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

D. The KCGF Managing Director.

KCGF BOARD OF DIRECTORS MEMBERS IN 2017

RINOR GJONBALAJ
Chairman of the Board
Independent Board Member

ARTA HOXHA
Independent Board Member

BESNIK BERISHA
Managing Director of KCGF

KRESHNIK KURTISHI
Independent Board Member

MELIH CADIRCI
Independent Board Member

NOL BUZHALA
Member of the
Board ex officio

SALVADOR ELMAZI
Member of the
Board ex officio

KCGF STAFF IN 2018

BESNIK BERISHA,
Managing Director

ALBAN KASTRATI,
Senior Risk Manager

ARTA KRASNIQI,
General Counsel and Secretary to the Board of Directors

NORA ARIFI,
Senior Guarantee Manager

VJOSA KELMENDI,
Senior Finance and Administration Manager

VERË KADRIU,
Administration and Translation Assistant

CURRENT STAFF

From left to right:

BESNIK BERISHA
Managing Director

NORA ARIFI
Senior Guarantee Manager

VERË KADRIU
Administration and Translation Assistant

KASTRIOT KËPUSKA
Agro expert

ALBAN KASTRATI
Senior Risk Manager

PARTIN PRUTHI
Senior Legal Officer and Secretary to the Board of Directors

VJOSA KELMENDI
Senior Finance and Administration Manager

ORGANIZATIONAL STRUCTURE

COMMITTEES

RISK MANAGEMENT COMMITTEE

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

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

AUDIT COMMITTEE

The Audit Committee was established pursuant to the Law on KCGF. The Audit Committee consists of four (4) members of the Board. The Audit Committee meets at least on a quarterly basis.

The 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 KCGF. In addition, the Audit Committee reviews internal financial, operational and administrative controls.

KCGF PARTNERS

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

DONORS

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

PARTNERS

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

PARTNER FINANCIAL INSTITUTIONS

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

PART IV

PERFORMANCE OF KCGF

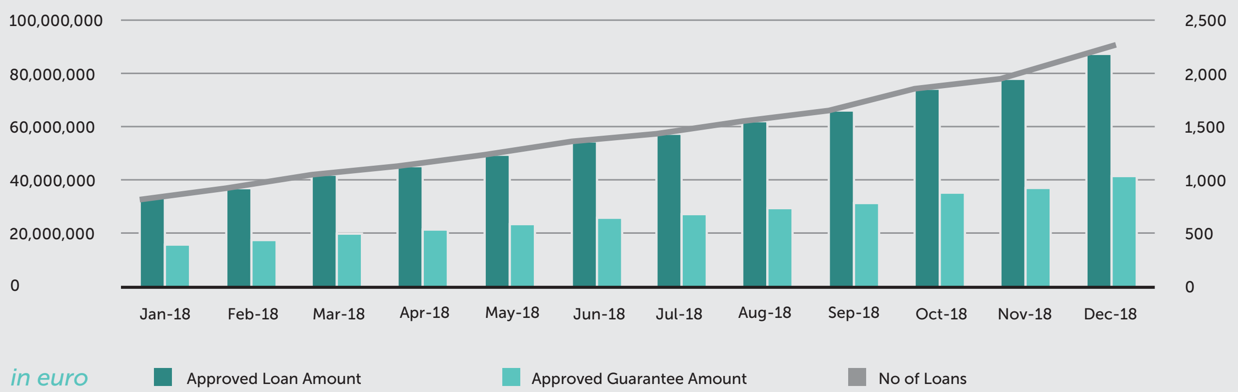
DEVELOPMENT OF GUARANTEE PORTFOLIO

HIGH QUALITY GROWTH

KCGF expanded its activity during 2018 by partnering with another financial institution - Raiffeisen Leasing Kosovo and further increasing the allocated limit for existing partner financial institutions.

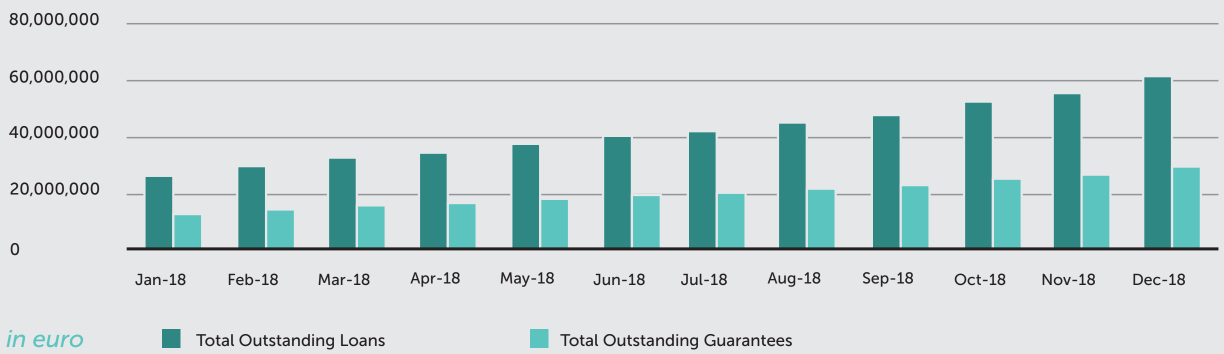
2018 was another successful year for KCGF during which it mediated in the lending of 56.2 million euro for 1,441 MSME, supported by a guarantee sum of 26.8 million euro. The cumulative amount of credits approved at the end of the year reached the amount of 87.1 million euro for 2,262 MSME, backed by a cumulative amount of guarantees of 41.6 million euro.

APPROVED LOANS



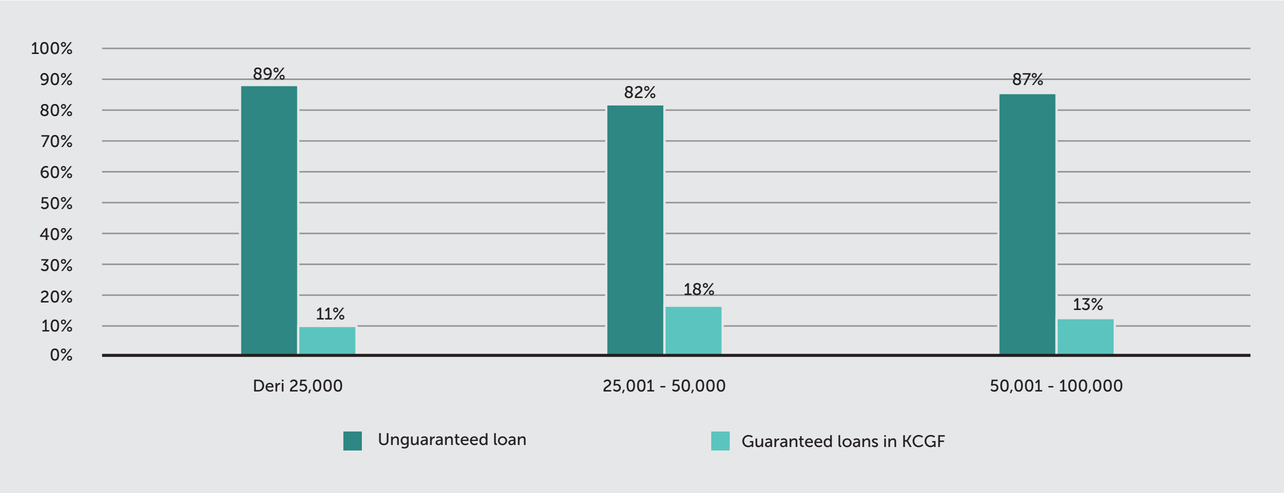
The total outstanding amount of the loan portfolio, at the end of 2018, was 61.3 million euro, while the total outstanding value of the guaranteed portfolio was 29.3 million euro.

OUTSTANDING PORTFOLIO



INCREASED PARTICIPATION OF GUARANTEED LOANS IN THE BANKING SECTOR

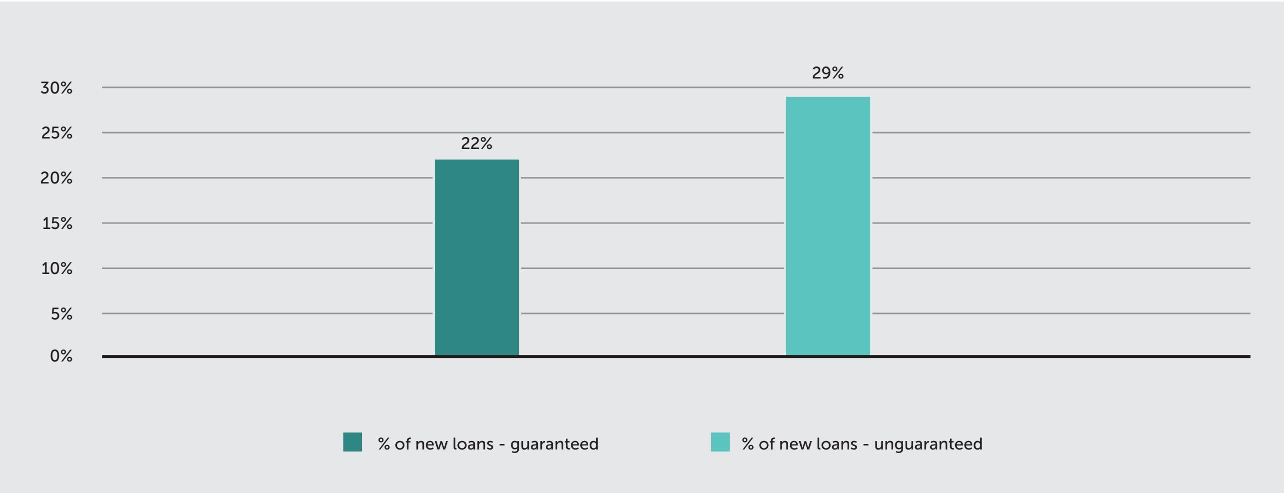
The share of loans guaranteed by the KCGF in the banking sector left a significant footprint during this reporting year. The greater participation implies higher influence of the KCGF on the lending activity in the banking sector, that for MSMEs means greater access to finance. In 2018 this share in the category of loans up to 100,000 euro was 14% while only in the 25,000-50,000 euro category was 18%. The reason for reflection in the category up to 100,000 euro is because the customer profile in the KCGF portfolio belongs to this segment in the market.



HIGHER PARTICIPATION OF NEW BUSINESSES

The share of guaranteed loans to new businesses without earlier credit experience in 2018 in the category of loans up to 100,000 euro was 34% higher than the share of unguaranteed loans of the same segment.

This report reflects the impact of the KCGF on the financial involvement of the private sector with no previous credit history, as well as the positive impact on the economy and the financial sector.

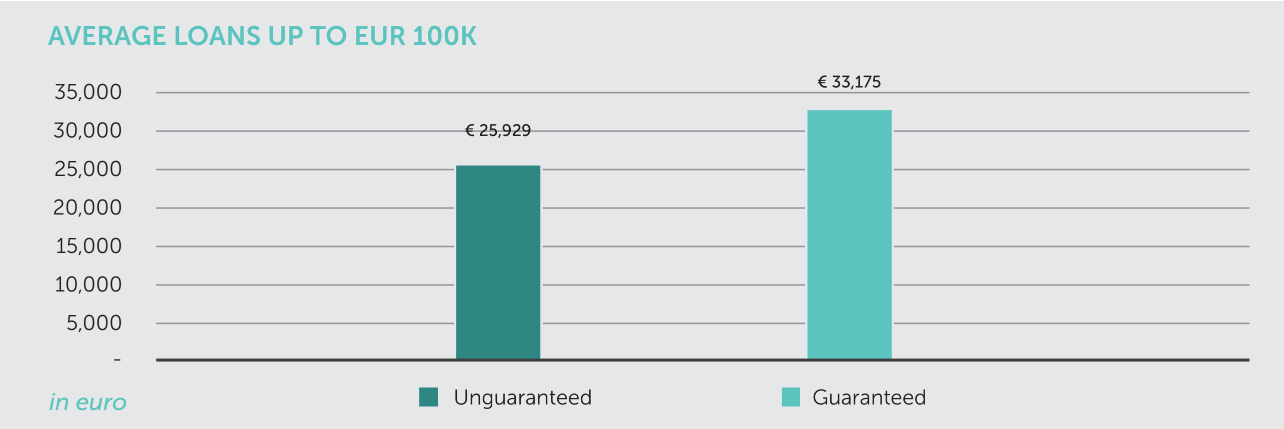


INCREASE IN THE AVERAGE LOAN AMOUNT

Asymmetry of information, lack of collateral and its consequences imply that lenders seek to minimize their risk, so they also require credit guarantee support.

The average loan value per client at the end of the year was just near 40,000 euros as in the previous year, which matches the small category of enterprises.

The average amount of guaranteed loans versus unguaranteed loans up to 100,000 euro was higher by 28%.

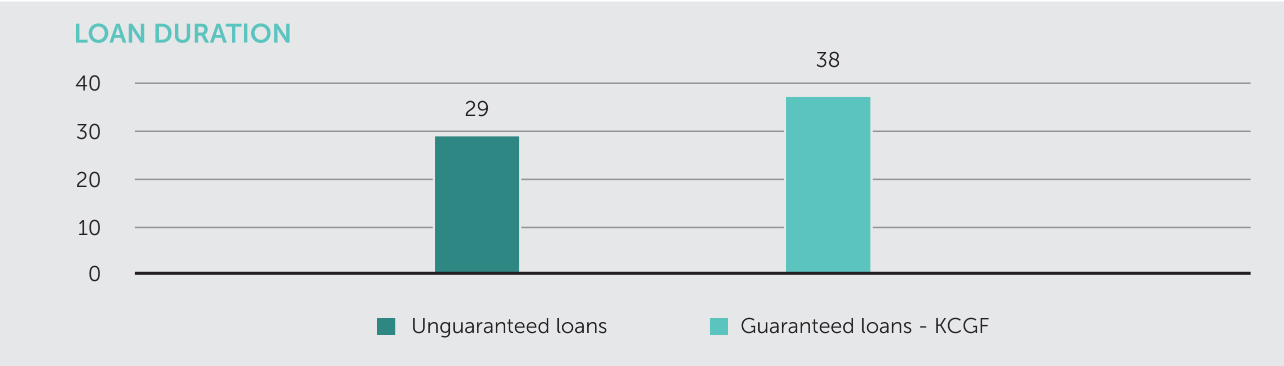


LONGER LOAN MATURITY

The portfolio guaranteed during 2018 continued to consist of medium-term loans with an average of 37 months, while the payment frequency is 86.6% with regular monthly installments.

The average duration of guaranteed loans against unguaranteed loans up to 100,000 euro was higher by 30%.

These indicators, during 2018, resulted in more relaxed risk standards by PFIs, and therefore better credit conditions for MSMEs.



ABOUT 88% OF MSMES EMPLOY LESS THAN 10 PERSONS

The guaranteed portfolio is mainly composed of micro enterprises. The concentration of guaranteed portfolio by number of employees is:

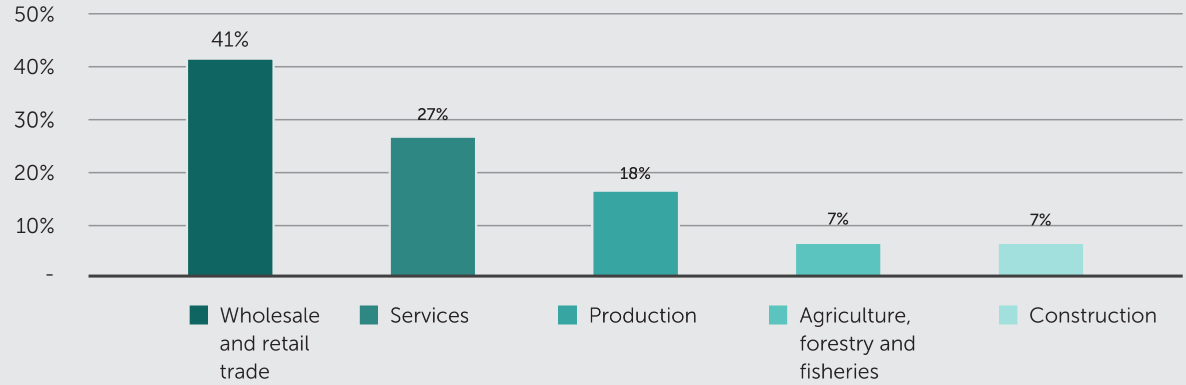
CATEGORY	CRITERIA	TOTAL
Micro	**deri 9**	**88%**
Small	**10 - 49**	**11%**
Medium	**> 50**	**1%**

Such distribution of credit guarantee portfolio fits to our orientation towards the segments of small enterprises which make up most of the private sector in our country.

WIDE RANGE OF ECONOMIC SECTORS BENEFITING FROM GUARANTEES

The distribution of KCGF's portfolio in various sectors during 2018 has continued to follow the same trend as a year ago, which simultaneously represents the trend of our country's economy.

LOANS BY SECTOR

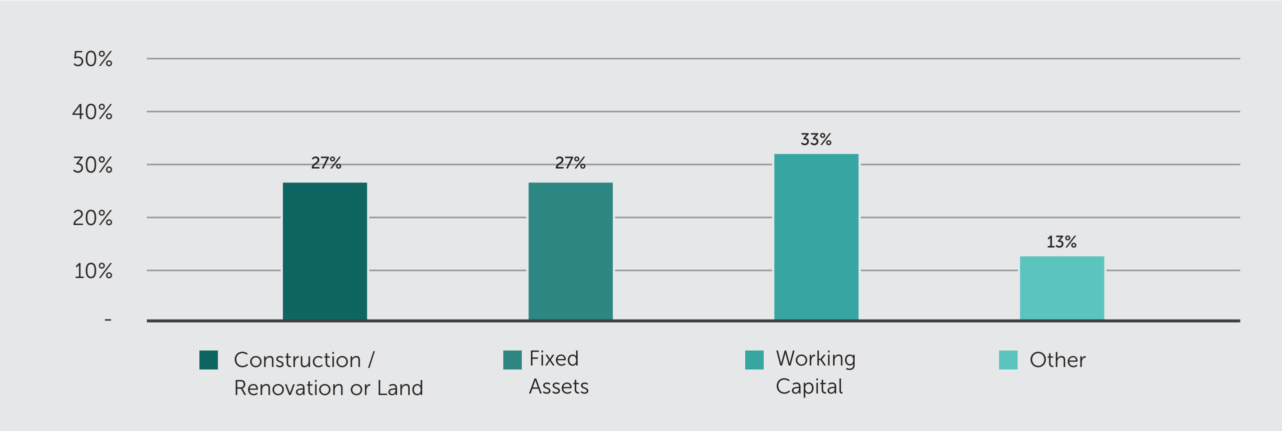


At the end of the reporting period, the dominant sector was the retail and wholesale trade at 41%, followed by services at 27%, production at 18%, agriculture at 7% and construction at 7%. While the agriculture sector continued to have a low turnout at 3.7% in the total banking sector, this share of total KCGF portfolio was 7%.

Incentivizing the sectors that create added value for the economy is one of our objectives, therefore KCGF is working together with partners towards strengthening the strategic sectors, which are the driving force of the economy and a growing contributor to employment and in enhancing the social welfare in general.

CAPITAL INVESTMENTS WITH HIGHER DOMINATION

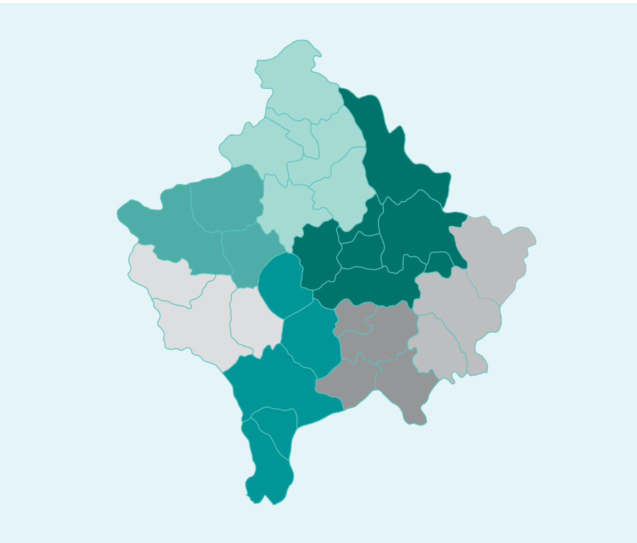
Investments in fixed assets (equipment and construction/ reconstruction/ land), which generate income, dominated the guarantee portfolio during 2018. Also, investment in working capital, important for expanding business had significant participation in the guarantee portfolio.



27% of loans approved in 2018 were invested in equipment (manufacturing machinery, agriculture equipment, other equipment); 27% in land, construction or reconstruction; 33% in working capital and 13% for other purposes.

USE OF GUARANTEES IN DIFFERENT REGIONS

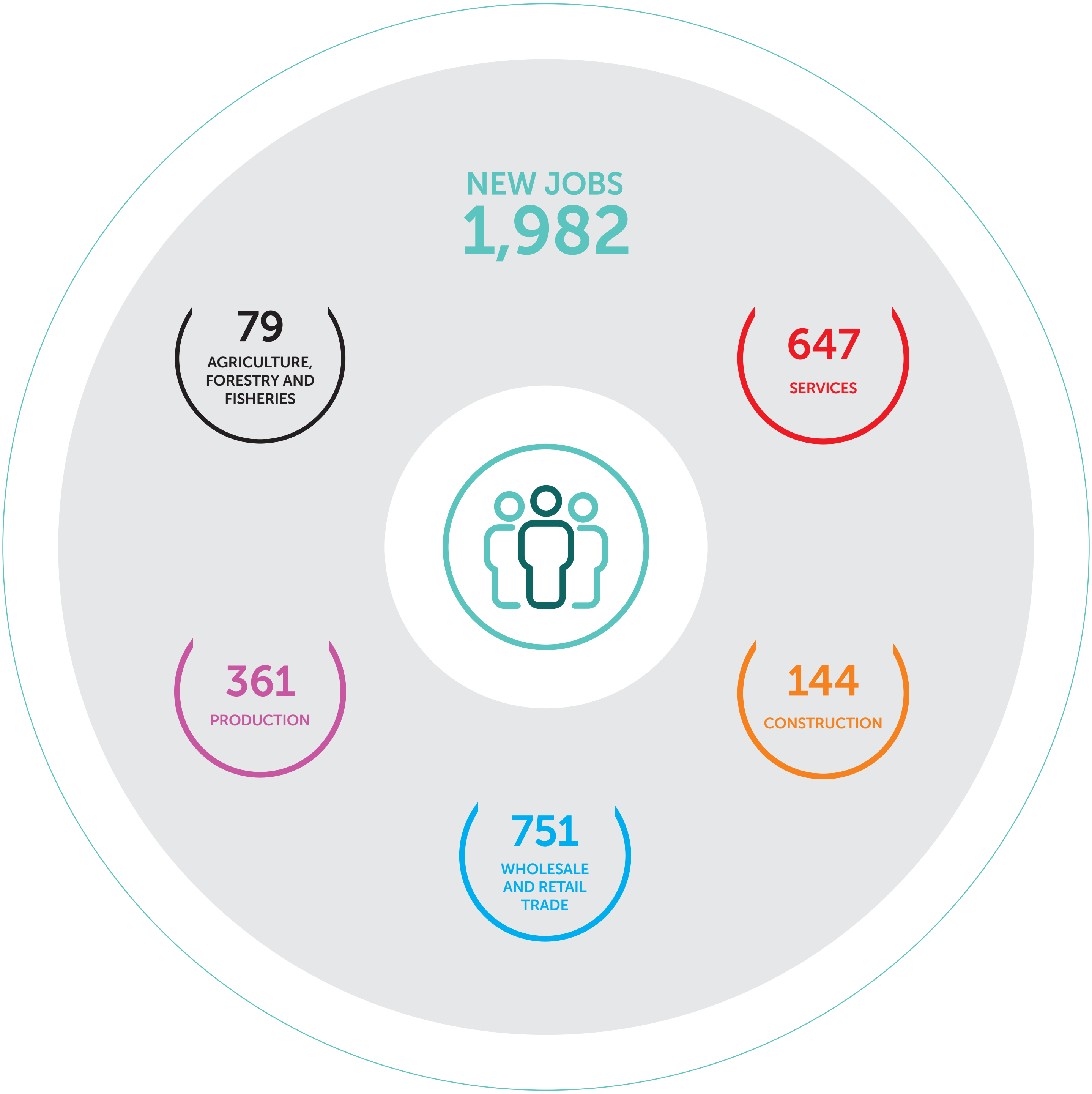
In 2018, Pristina region with a share of 56%, had the largest share in the portfolio of loans placed under guarantee.



Ferizaj / Uroševac	10%
Gjakovë / Djakovica	3%
Gjilan /Gnjilane	5%
Mitrovicë/ Mitrovica	5%
Pejë / Peć	7%
Prishtinë / Priština	56%
Prizren	14%

CREATION OF NEW JOBS

Creating new jobs is one of the main objectives of the establishment of the KCGF.
1.441 loans for MSMEs during 2018 envisioned 1982 new jobs.



This indicator shows the impact of investments in relevant sectors, financed through loans issued by banks and backed by the KCGF credit guarantee scheme, on creating jobs in the MSME sector. As seen from the table above, these new jobs in 2018 come mainly from the trade and services sectors somewhere at 71%.

TURNOVER INCREASE

Realization of investments in addition to access to loans results in increased turnover of beneficiary enterprises. During 2018 this was the case of the guarantee beneficiaries. By the end of 2018, 1,441 loans approved as a result of realized investments, predicted turnover increase over the base turnover at 58.1 million euro or 12%.

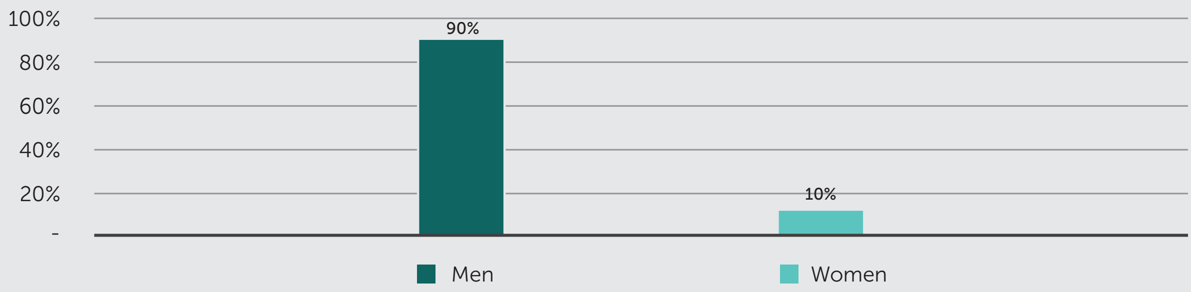
LOANS FOR WOMEN IN BUSINESS

Women participate with a lower level of formal borrowing compared to men, being forced to take one part of funding for their businesses from the family and private lenders. This is related to the lack of collateral, since only 15% of them have property registered in their name.

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

In 2018, out of 1.441 loans for MSMEs, 10% were provided to women business owners/ co- owners.

DISTRIBUTION BY GENDER



CREDIT RISK MANAGEMENT

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

Since KCGF 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 PFIs, allocating limits, and qualification criteria for loans. This approach implies that in the process of registering and allocating limits, the KCGF performs a thorough assessment, as well as creates mechanisms for controlling and monitoring loans and PFIs.

Pursuant to these guidelines, during 2018 KCGF reviewed and approved application for reevaluation of the limits for several registered PFIs. Additionally, during the past year, KCGF continued practicing regular monthly meetings for analyzing the trends in the banking sector in general, and for each PFI in particular, as well analyzing the development of the guaranteed portfolio. Monitoring and analysis of these trends is one of the most important competencies in KCGF, which would enable identification of potential problems and their management at an early stage.

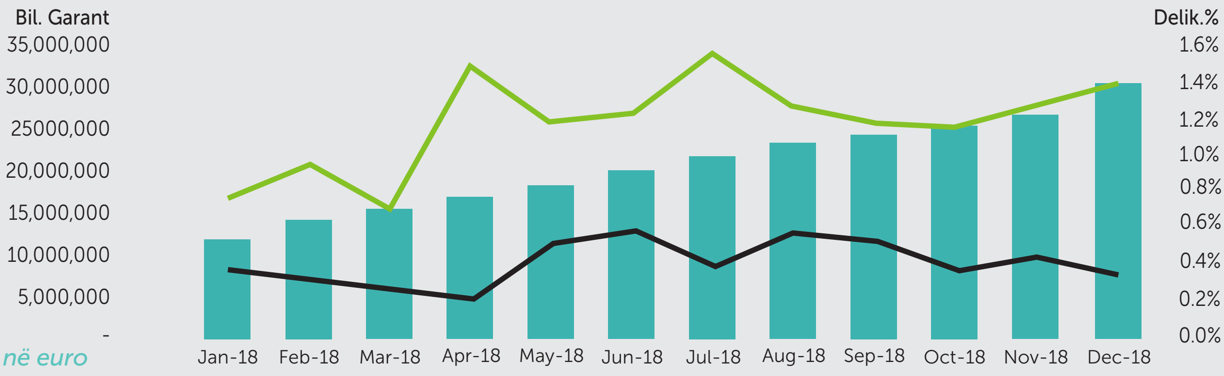
In 2018, KCGF started utilizing the re-guarantee scheme offered by SIDA, which would allow risk sharing up to 50% with a re-guarantee limit of up to 10 million euro. This form of coverage of the guarantee portfolio against a part of the credit risk was a further opportunity for distributing the credit risk and increasing the KCGF's guarantee capacity, based on the existing capital.

In order to cover losses that may arise from guarantees, in 2018 KCGF continued to provision the guarantees. KCGF impairs guarantees in three stages, which is triggered by changes of client credit classification from data received on a monthly basis by registered PFIs.

PORTFOLIO QUALITY

In its third year of operation, there has been a significant increase in KCGF's portfolio by maintaining a desirable level of NPLs and without any claim from banks to reimburse the lost loans.
On December 31, 2018, NPLs participation in guaranteed portfolio was 0.35%, while the level of delinquent loans was 1.23%.

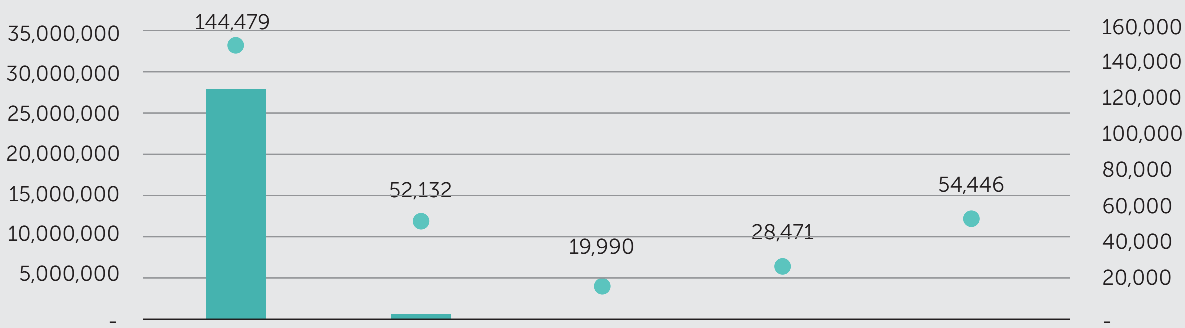
PERFORMANCE BY CREDIT QUALITY



	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Balance	12,4	13,9	15,5	16,2	17,7	19,3	20,1	21,4	22,5	25,2	26,4	29,3
Deliquency	0.77%	0.90%	0.72%	1.3%	1.1%	1.1%	1.4%	1.1%	1.1%	1.1%	1.1%	1.2%
NPL	0.4%	0.3%	0.3%	0.3%	0.5%	0.5%	0.4%	0.5%	0.5%	0.4%	0.4%	0.4%

Despite the good quality of the portfolio, KCGF 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 1.0%, while the coverage of the NPL was 289%.

GUARANTEE BALANCE AND PROVISIONING RESERVES



in euro	Standard	Watch	Substandard	Doubtfull	Loss
Balance	28,895,894	260,658	99,951	35,588	68,057
Provisioning	144,479	52,132	19,990	28,471	54,446

CAPITAL STRUCTURE AND INVESTMENTS

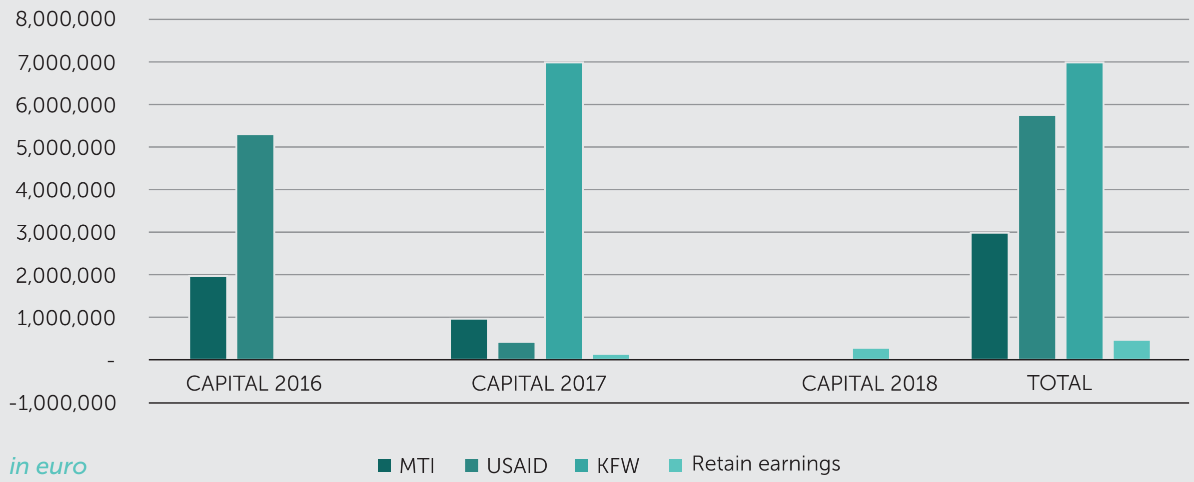
KCGF's capital currently consists of funds provided to the KCGF by the Government of the Republic of Kosovo and donors.

In 2016 the amount of donated capital to KCGF 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 contribution by USAID, MTI and lately by KfW in December 2017. During 2018, the KCGF did not receive new capital from donors or the Government of the Republic of Kosovo, but has been working intensively in the development of several projects that are expected to result in new capital donations or grants in the near future.

	MTI	USAID	KFW	RETAINED EARNINGS	TOTAL
CAPITAL 2016	2,000,000	5,345,141	-	(3,149,00)	7,341,922
CAPITAL 2017	1,000,000	445,780	7,000,000	179,017.00	8,624,797
CAPITAL 2018	-	-	-	320,012	320,012
TOTAL	3,000,000	5,790,921	7,000,000	495,880	16,286,801
%	18%	36%	43%	3%	100%

Monetary values are in euro

KCGF CAPITAL



in euro

The KCGF leverages (multiplies) its capital five (5) times in the regular window as well as two (2) times in the Agro Window, which is the maximum permitted value of the equity exposure. This limit is determined depending on the market/sector risk indices and ensures that the KCGF has sufficient capital to carry out its activity and absorb potential losses.

With the actual capital and leverage factor, 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.

The increase of donated capital has a direct impact on the two main sources of KCGF income. Increased amount of provided guarantees, as one of the two main sources of institutional financing, also affects KCGF revenues through the fee paid by the banks. The fee is determined on the basis of market analysis and reflects the anticipated losses for the issued guarantees.

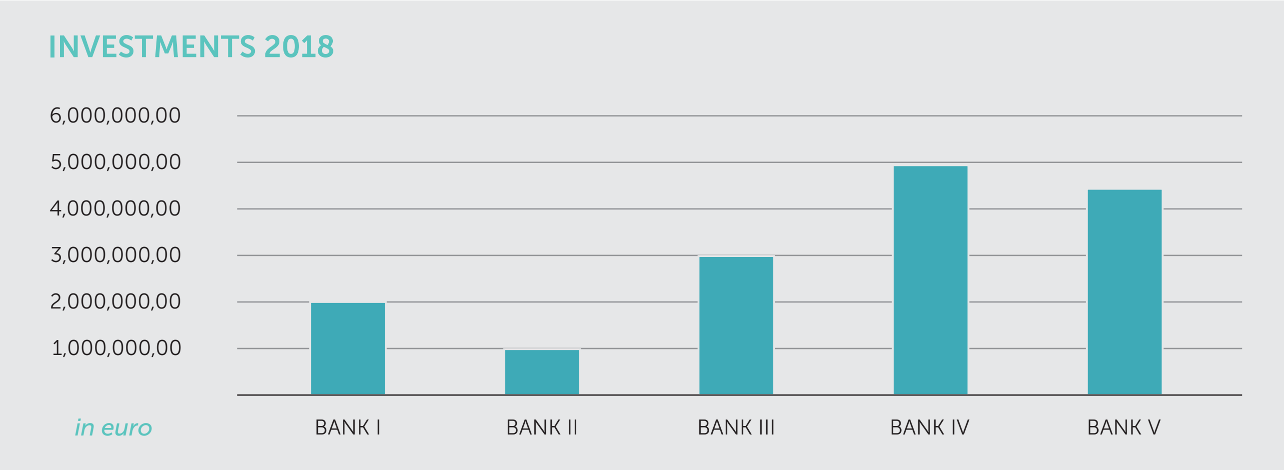
The other main source of income for KCGF is the interest or income from KCGF's capital investments.

The KCGF capital fund is invested in accordance with the provisions of Law no. 05/L-057 establishing the Kosovo Credit Guarantee Fund and Investment Policy approved by the Board of Directors, to protect KCGF capital and thus support guarantees, as well as to generate supporting revenues for sustainability of KCGF 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.

KCGF 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, KCGF has prepared an investment policy that clearly sets out an investment framework consistent with KCGF mandate and its strategic objectives.

During 2018, the KCGF invested 15,562,000 euro in time deposits in Financial Institutions in KCGF, with a maturity of one (1) and two (2) years, thus increasing co-operation in this area as well.



Revenues are consolidated in the Income Statement and the profit for the year is reinvested or held in KCGF by increasing the capital and not distributed outside the KCGF in any form or manner, including dividends.

THE 2018 FEATURE AGRO WINDOW

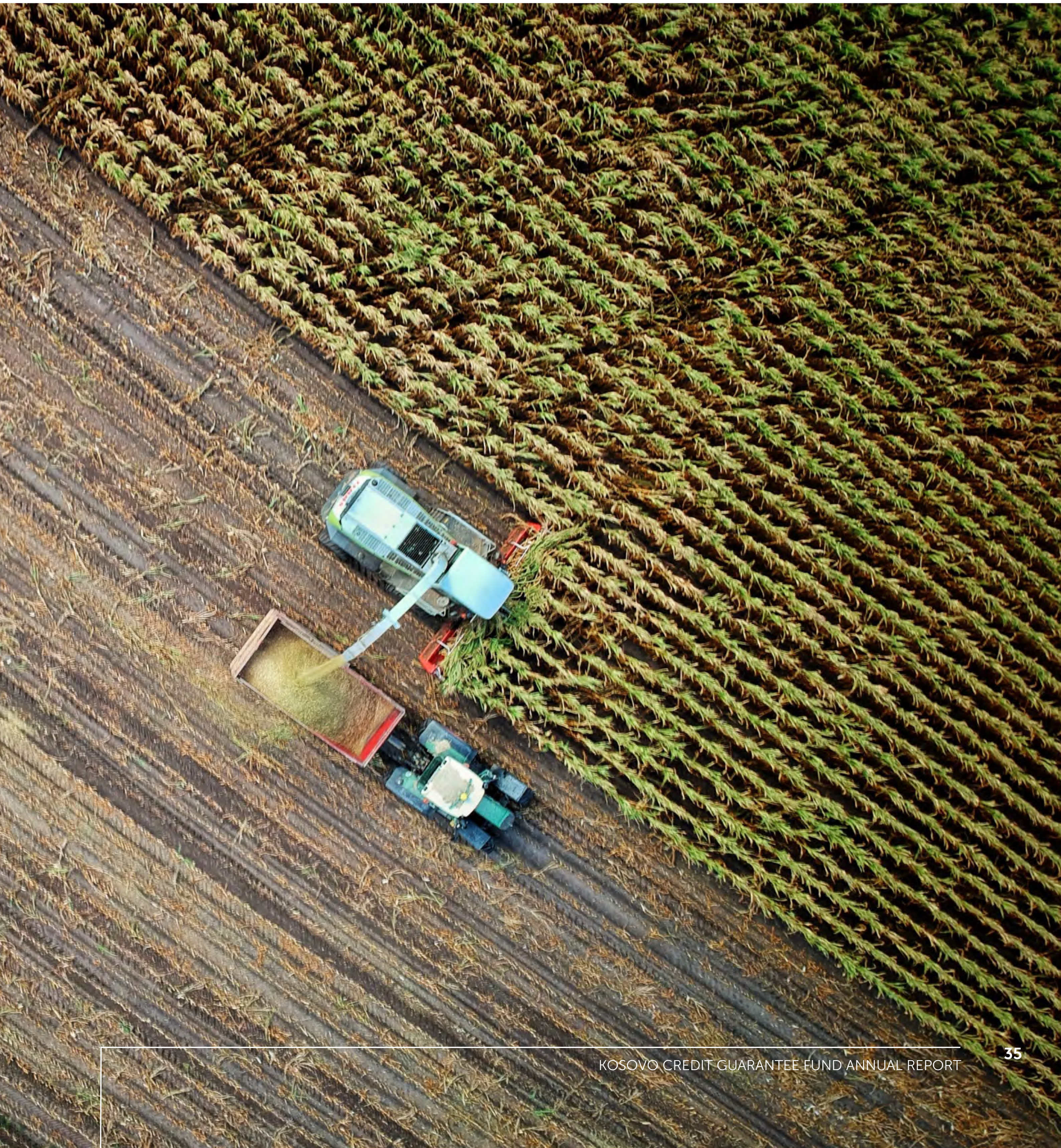
The agribusiness sector is considered by all relevant stakeholders in Kosovo as one of the sectors that can generate new employment as such by reducing the high unemployment rate, impact on economic growth and change the very negative balance that is in favor of imported food products.

Starting from these principles, the German Development Bank KfW signed the agreement with KCGF to increase the KCGF capital that will be used to support the agri-sector by guaranteeing the financing of farmers and agribusinesses within the Agro Window. The capital contribution and technical assistance that KfW has provided is 5 million euro for capital increase to be used for this sector and 450,000 euro to be used for technical assistance. As a result of this contribution to capital, it will be possible for Partner Financial Institutions to guarantee a total of up to 20 million euro loans to the agribusiness sector with very favorable guarantee conditions.

Starting from December 2018 onwards, the KCGF signed agreements with all banks active in lending to the agribusiness sector. These agreements will have an impact on the financing of this sector by financial institutions. So far this sector has been considered to be far less funded than it has actually contributed to gross domestic production. Such low funding is assumed to have occurred mainly due to the lack of collateral or technical-property related difficulties associated with this collateral. This gap may be filled by guaranteeing these loans at Agro Window.

It is worth pointing out that guaranteeing this sector includes all links in the value chain, ranging from agricultural inputs and raw materials, through to the final processed product.

Within the support of this important sector for our country's economy, KCGF will support farmers with registered businesses and holding fiscal numbers. Formalization of the agricultural sector is an important step that will impact the economic growth, investment and employment of young people.



PART V

ACTIVITIES DURING 2018

SIGNING NEW AGREEMENTS

March 2018

THE AGRO WINDOW IS LAUNCHED BY THE KOSOVO CREDIT GUARANTEE FUND IN COOPERATION WITH KFW

The Kosovo Credit Guarantee Fund (KCGF) in cooperation with KfW, supported by German Development Cooperation, launches the Window Agro.

July 2018

KCGF BECOMES A MEMBER OF THE EUROPEAN ASSOCIATION FOR GUARANTEE INSTITUTIONS - AECM

KCGF becomes a member of AECM. Membership of KCGF in AECM will enable KCGF to benefit from sharing of best practices with guarantee institutions with experience in various operational issues, while acquiring various information from research conducted with respect to the guarantee sector.

September 2018

KCGF SIGNED AN AGREEMENT WITH RAIFFEISEN LEASING KOSOVO

The Kosovo Credit Guarantee Fund (KCGF) signed a guarantee agreement with Raiffeisen Leasing in Kosovo (RLKO). RLKO is the first Non-Bank Financial Institution (NBFIs) to sign a guarantee agreement with KCGF. The agreement aims to expand the leasing for Kosovar businesses, to contribute further to achieving institutional goals.

December 2018

THE KOSOVO CREDIT GUARANTEE FUND STARTS THE IMPLEMENTATION OF THE AGRO WINDOW

December 2018 - KCGF launches implementation of Agro Window after signing a guarantee agreement with ProCredit Bank and Banka e Biznesit, Banka Kombëtare Tregtare, NLB, JSC and Raiffeisen Bank Kosovo.

THE FUND SIGNED AGREEMENTS TO INCREASE THE GUARANTEE LIMIT WITH PARTNER BANKS

During 2018 KCGF signed agreements to increase the credit guarantee limit with BPB, TEB and PCB. New agreements will enable Banks to obtain additional collateral security for loans issued to micro, small, and medium enterprises (MSMEs), hence providing easier access to finance for Kosovan companies.

WORKSHOPS SEMINARS

KCGF during 2018 was part of a number of conferences, on which presented the role of guarantee schemes, the impact on the overall economic development as well as the achievement of the KCGF objectives. Some of these events are presented below:

WORKSHOP WITH JOURNALISTS OF ECONOMY

June 2018 - KCGF participates in the workshop with journalists of economy organized by the Kosovo Banking Association (KBA) in cooperation with the European Fund for South Eastern Europe - Development Department (EFSE-DF) on reporting from the banking system in Kosovo.

KCGF PARTICIPATES IN THE APPAREL CONVENTION

November 2019 - KCGF was part of the Apparel Convention in the panel on funding opportunities for the apparel sector.

KCGF PARTICIPATES IN THE CONVENTION OF KOSOVO MANUFACTURERS

November 2019 - KCGF was part of the Convention of Kosovo Manufacturers in the Discussion Panel on the Potential Support to Exports Financing in Kosovo.

KCGF PARTICIPATES IN THE GROWING FINANCING CONVENTION

December 2019 - KCGF was part of the Conference "EU Promotes Entrepreneurship and SMEs: COSME Program" in the panel "EU Promotes Entrepreneurship and SMEs: COSME Programs".

KCGF PARTICIPATES IN THE ANNUAL BANKING CONVENTION

December 2019 - KCGF was part of the Annual Conference of Kosovo Banks in the main conference panel on "Financing of Development: Banks for Sustainable Economic Development of Kosovo."

ORIENTATING AND REFRESHING TRAINING WITH PARTNER FINANCIAL INSTITUTIONS

Orienting and refreshing training with Partner Financial Institutions (PFIs) aims to raise the awareness PFI staff regarding KCGF's services, the characteristics of credit guarantees, changes and the benefits that these services bring to all related parties, i.e. to their own PFIs, MSMEs and the economy in general.

During 2018, KCGF staff attended a series of orientation trainings for the Agriculture Window and refresher courses for credit officers responsible for credit and risk analysis, and who interact directly with the KCGF (personnel and system), and with clients (MSMEs).

The table below shows the summary of trainings for PFI staff:

TYPE	NUMBER OF TRAININGS	NUMBER OF PERSONS
ORIENTATION TRAINING AND MIS	1	21
ORIENTATION TRAINING FOR AGRICULTURE WINDOW AND REFRESHER TRAINING	8	161
REFRESHER TRAINING	1	10
TOTAL	10	192

ANALYZES TO ENHANCING EFFICIENCY AND IMPROVING THE QUALITY OF SERVICES

INDICATORS OF ADDITIONALITY

Additionality to the economy is the main reason for the establishment of the KCGF. This means that banks, MFIs, or NBFIs would not issue credit to a MSME without the guaranty - thus adding a new client and contributing to economic growth.

Access to credit should generate employment, increase production, turnover, exports and other variables of the economy.

In order to assess the effect of the additionality, KCGF has identified the indicators, developed the evaluation methodology (ex ante and ex post) and conducted the first monitoring of indicators, to continue to monitoring them on a regular annual basis.

Among the indicators monitored during 2018 (also presented in the Portfolio Development section) we will note:

- Financial Additionality Indicators, and
- Economic Additionality Indicators

The monitoring results of these indicators showed expanding operations that would otherwise been rejected. They also showed that thanks to the KCGF's activity, conditions for access to finance have improved.

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 KCGF activity, use, advantages and challenges, or the operational issues which have to be addressed.

SURVEY ON IMPLEMENTATION OF THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

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

During 2018, this analysis continued with the World Bank to result in the establishment of a framework for Environmental and Social Management. 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

KCGF BOARD OF DIRECTORS MEETINGS

During 2018 the KCGF Board of Directors held a total of five (5) meetings, of which four were regular meetings and one ad hoc. To fill in the vacancies of Board members, 3 (three) new independent members of the Board were elected as nominated by international donors. MTI, by an internal decision, appointed another person to serve on the KCGF Board, and that person has been assessed as appropriate to serve on the KCGF Board of Directors.

MEETINGS OF THE CREDIT RISK MANAGEMENT COMMITTEE AND AUDIT COMMITTEE

During 2018, the Credit Risk Management Committee (CRM) held four (4) regular meetings and Audit Committee (AC) held three (3) regular meetings. At these meetings, respective committees took decisions and recommendations for final approval by the KCGF Board of Directors.

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

No. of board meetings	Schedule of the Board meetings	Participation of Board members	Number of topics discussed	Number of decisions made
1	Feb 2018	4/4	15	4
2	June 2018	5/5	12	6
3	Sep 2018	6/6	10	11
4	October 2018	6/6	5	2
5	December 2018	6/7	7	8
		Total:	49	31

Number of meetings of the Risk Management Committee (RMC)	Schedule of RMC meetings	Participation of RMC members	Number of topics discussed	Number of decisions/ recommendations made
1	January 2018	4/4	4	1
2	May 2018	4/4	4	2
3	August 2018	4/4	4	3
4	October 2018	4/4	4	2
		Total:	16	8

Number of meetings of Audit Committee (AC):	Schedule of AC meetings	Participation of AC members	Number of topics discussed	Number of decisions/ recommendations made
1	January 2018	3/3	3	2
2	May 2018	5/5	6	1
3	August 2018	5/5	6	1
		Total:	15	4

PART VI

AUDITED FINANCIAL STATEMENTS

KOSOVO CREDIT GUARANTEE FUND

Independent Auditors' Report and
Financial Statements for the year ended December 31, 2018

CONTENTS

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 ("Fund" or "KCGF"), which comprise: the statement of financial position as at December 31, 2018, 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, 2018, 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 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, acounting and financial advisory
Prishtina, Kosova

BDO Kosova L.L.C.
Amir Dërmala
Engagement Partner
June 12, 2019
Str. Perandori Justinian No.120
10 000 Pristina, Kosovo

	Notes	As at December 31, 2018 (EUR)	As at December 31, 2017 (EUR)
ASSETS			
Current assets			
Cash and cash equivalents	4	961,039	7,567,694
Deposits	5	15,562,000	8,500,000
Trade and other receivables	6	469,124	151,665
Total current assets		**16,992,163**	**16,219,359**
Non-current assets			
Property, plant and equipment	7	7,591	25,939
Intangible assets	8	43,874	52,600
Total non-current assets		**51,465**	**78,539**
TOTAL ASSETS		**17,043,628**	**16,297,898**
EQUITY AND LIABILITIES			
Current liabilities			
Deferred Guarantee fees		4,542	166,635
Provision losses for loan guarantees		299,684	88,514
Deferred revenues from donated assets	9	40,847	72,716
Accrued expenses		9,070	3,244
Accrual Guarantee fees		402,684	-
Total current liabilities		**756,827**	**331,109**
Equity			
Capital	10	15,790,921	15,790,921
Accumulated profit		495,880	175,868
Total equity		**16,286,801**	**15,966,789**
TOTAL EQUITY AND LIABILITIES		**17,043,628**	**16,297,898**

Authorized for issue by the management and signed on its behalf on June 12, 2019.

Besnik Berisha
Managing Director

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

Vjosa Balaj
Senior Finance Manager

	Notes	Year ended 31 December 2018 (EUR)	Year ended 31 December 2017 (EUR)
Guarantee fees	11	463,714	134,165
Other income	12	392,316	269,364
Total income		856,030	403,529
Personnel expenses	13	(163,141)	(87,043)
Depreciation	7,8	(33,162)	(20,415)
Operative expenses	14	(128,546)	(38,759)
Net provision losses for guarantees	15	(211,169)	(78,295)
Profit for the year		320,012	179,017
Other comprehensive income		-	-
Total comprehensive profit for the year		320,012	179,017

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.

	Capital (EUR)	Accumulated profit (EUR)	Total (EUR)
As at January 1, 2017	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
Other comprehensive income	-	-	-
As at December 31, 2017	15,790,921	175,868	15,966,789
As at January 1, 2018	15,790,921	175,868	15,966,789
Profit for the year	-	320,012	320,012
Other comprehensive income	-	-	-
As at December 31, 2018	15,790,921	495,880	16,286,801

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.

	Notes	Year ended 31 December 2018 (EUR)	Year ended 31 December 2017 (EUR)
Cash flow from operating activities:			
Profit for the year		320,012	179,017
Adjustments for:			
Depreciation	7,8	33,162	20,415
Interest on deposits		(180,513)	(69,493)
		172,661	129,939
Movements in working capital:			
Increase in trade and other receivables		(207,446)	(73,963)
(Decrease)/increase in deferred guarantee fees		(162,093)	131,026
Increase in provision losses for loan guarantees		211,170	78,295
(Decrease)/Increase in deferred revenues from donated assets		(31,869)	72,715
Increase in accruals		5,826	3,244
Net cash (used)/generated in operating activities		(11,751)	341,256
Cash flow from investing activities:			
Acquisition of fixed assets		(6,088)	(98,953)
Increase in deposits		(7,062,000)	(8,500,000)
Increase in accrual guarantee fee		402,684	-
Received interest from deposits		70,500	-
Net cash used in investing activities		(6,594,904)	(8,598,953)
Cash flow from financing activities:			
Paid in capital		-	8,445,780
Net cash generated in financing activities		-	8,445,780
Net (Decrease)/Increase in cash and cash equivalents during the year		(6,606,655)	188,083
Cash and cash equivalents at the beginning of the year		7,567,694	7,379,611
Cash and cash equivalents at the end of the year	4	961,039	7,567,694

The accompanying notes on pages 7 to 25 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 Adoption of new and revised International Financial Reporting Standards

2.2.1 Standards and Interpretations effective in the current period

The following new standards and amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee.

Note: not all new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2018 effect the Company financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new and revised International Financial Reporting Standards (continued)

2.2.1 Standards and Interpretations effective in the current period (continued)

IFRS 9 Financial Instruments: Classification and Measurement

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, hedge accounting, and de-recognition.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: (Amendments to IFRS 4)

The overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after 1 January 2018 and only available for three years after that date. Amends IFRS 4 Insurance Contracts provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., sales of property, plant and equipment or intangibles).

Broad disclosure will be required, including sharing of total revenue; information about performance obligations; changes in balance sheets of assets and contract liabilities between periods, key judgments and estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new and revised International Financial Reporting Standards (continued)

2.2.1 Standards and Interpretations effective in the current period (continued)

IFRS 15: Revenue from Contracts with Customers (Clarifications)

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

IAS 40: Transfers to Investment Property (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.
A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new and revised International Financial Reporting Standards (continued)

2.2.1 Standards and interpretations effective in the current period (continued)

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018.The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The IASB has issued the Annual Improvements to IFRSs 2014 - 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. The overview of IASB has issued the Annual Improvements to IFRSs 2014 - 2016 Cycle is presented below:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards*: This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- *IAS 28 Investments in Associates and Joint Ventures*: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The adoption of these Amendments and Standards had no material impact on the financial statements of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTNUED)

2.2 Adoption of new and revised International Financial Reporting Standards (continued)

2.2.2 Standards and Interpretations issued by IASB issued but not yet effective and not early adopted by the Company

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

IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The adoption of this Standard had no material impact on the financial statements of the Company.

IFRS 17: Insurance contracts

The standard is effective for annual periods beginning on or after 1 January 2021. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new and revised International Financial Reporting Standards (continued)

2.2.2 Standards and Interpretations issued by IASB issued but not yet effective and not early adopted by the Company (continued)

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied

The IASB has issued the Annual Improvements to IFRS Standards 2015-2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019.

The overview of the Annual Improvements to IFRSs 2015 - 2017 Cycle issued by the IASB is presented below:

- *IFRS 3 and IFRS 11:* The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.
- *IAS 12:* The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
- *IAS 23:* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new and revised International Financial Reporting Standards (continued)

2.2.2 Standards and Interpretations issued by IASB issued but not yet effective and not early adopted by the Company (continued)

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments are in cases when plan amendment, curtailment or settlement occurs, it is then mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

Amendments to References to the Conceptual Framework in IFRS Standards
Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

IFRS 3: Definition of a Business (Amendments to IFRS 3)

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

These amendments clarify;

- that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

IAS 1, IAS 8: Definition of Material (Amendments to IAS 1 and IAS 8)

The amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The amendments clarifies the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

The adoption of these Amendments and Standards will not have material impact on the financial statements of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 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
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.

2.4 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 current accounts with Bankën për Biznes, Bankën Ekonomike, TEB Bank, Banka Kombëtare Tregtare and NLB Bank.

2.5 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.

2.6 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.

2.7 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)

2.7 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

2.8 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.

2.9 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. If nonperforming 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 2018 Current			
	Up to 2 year (EUR)	1 to 2 years (EUR)	2 to 5 years (EUR)	Over 5 years (EUR)
Financial assets				
Cash and cash equivalents	961,039	-	-	-
Deposits	-	15,562,000		
Total financial assets	961,039	15,562,000		
Financial liabilities				
Payables and other liabilities	313,296	-	-	-
Total financial liabilities	313,296	-	-	-

	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 assets	7,567,694	8,500,000	-	-
Financial liabilities				
Trade and other payables	258,393	-	-	-
Total financial liabilities	258,393	-	-	-

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Operational Risk

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

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

KCGF's Operational Risk Management Framework:

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

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

3.6 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 2018, 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 2018 (EUR)	Fair value 2018 (EUR)
Financial assets		
Cash and cash equivalents	961,039	961,039
Deposits	15,562,000	15,562,000
Total financial assets	16,523,039	16,523,039
Financial liabilities		
Trade and other payables	313,296	313,296
Total financial liabilities	313,296	313,296

4. CASH AND CASH EQUIVALENTS

	As at December 31, 2018 (EUR)	As at December 31, 2017 (EUR)
Cash at Central Bank of Kosovo	903,366	7,542,060
Current Accounts	57,393	25,224
Petty cash	280	410
Total cash and cash equivalents	961,039	7,567,694

5. DEPOSITS

The total deposits invested during 2018 are in amount of 15,562,000 EUR (2017: 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. TRADE AND OTHER RECEIVABLES

	As at December 31, 2018 (EUR)	As at December 31, 2017 (EUR)
Receivables from clients	283,854	65,495
Accrual interest of bank deposits	179,506	69,493
Advances	5,764	16,677
Total receivables	469,124	151,665

7. PROPERTY, PLANT AND EQUIPMENT

	Equipment	IT Equipment	Office furniture	Total
	(EUR)	(EUR)	(EUR)	(EUR)
Historical cost				
As at January 1, 2017	-	-	-	-
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
Additions during the period	166	-	-	166
As at December 31, 2018	2,138	50,431	19,947	72,516
Accumulated depreciation				
As at January 1, 2017	-	-	-	-
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
Depreciation for the period	459	16,708	1,347	18,514
As at December 31, 2018	1,928	43,050	19,947	64,925
NET VALUE				
As at December 31, 2018	210	7,381	-	7,591
As at December 31, 2017	503	24,089	1,347	25,939

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, 2017	-	-
Transfer	66,825	66,825
Additions during the period	5,922	5,922
As at December 31, 2017	72,747	72,747
Additions during the period	5,922	5,922
As at December 31, 2018	78,669	78,669
Accumulated amortization		
As at January 1, 2017	-	-
Transfer	12,252	12,252
Amortization for the period	7,895	7,895
As at December 31, 2017	20,147	20,147
Amortization for the year	14,648	14,648
As at December 31, 2018	34,795	34,795
NET VALUE		
As at December 31, 2018	43,874	43,874
As at December 31, 2017	52,600	52,600

9. DEFERRED REVENUES FROM DONATED ASSETS

	As at December 31, 2018 (EUR)	As at December 31, 2017 (EUR)
Equipment	55	503
IT Equipment	7,379	24,090
Office furniture	-	1,346
Software	33,413	46,777
Total in kind contributions	40,847	72,716

10. CAPITAL

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

- 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, 2018 (EUR)	Year ended December 31, 2017 (EUR)
Guarantee fees	463,714	134,165
Total guarantee fees	463,714	134,165

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.

12. OTHER INCOME

	Year ended December 31, 2018 (EUR)	Year ended December 31, 2017 (EUR)
Funds for operative expenses	179,935	179,555
Depreciation on donated assets	31,868	20,316
Interest from deposits	180,513	69,493
Total other income	392,316	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, 2018 (EUR)	Year ended December 31, 2017 (EUR)
Salaries	134,541	71,591
Pension contribution	28,600	15,452
Total personnel expenses	163,141	87,043

14. OPERATING EXPENSES

	Year ended December 31, 2018 (EUR)	Year ended December 31, 2017 (EUR)
Office rent & utilities	20,811	11,267
Maintenance & Repair Exp.	11,744	7,380
Translator and other Professional services	58,182	6,090
Publications, Branding and Marketing	10,302	4,315
Phone and internet expenses	3,630	2,133
Training, Conferences and Seminars	5,294	1,385
Bank fees	375	807
Other expenses	18,208	5,382
Total operating expenses	128,546	38,759

15. NET PROVISION EXPENSES

	Year ended December 31, 2018 (EUR)	Year ended December 31, 2017 (EUR)
Provision expenses	520,108	128,223
Provision income	(308,939)	(49,928)
Total net provision expenses	211,169	78,295

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, 2018	
	Number of Guarantees	Outstanding Guaranteed Amount (EUR)
Total	1961	29,378,984

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 ANNUAL REPORT

Address:
Anton Çetta Nr. 5/A
10,000 Prishtina, Republic of Kosovo

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

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