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

ANNUAL REPORT 2019

CONTENTS

PART I

BACKGROUND

FOREWORD BY THE CHAIRMAN OF THE BOARD AND THE MANAGING DIRECTOR

While we are trying to choose the best words to elaborate on the conclusion of a successful KCGF year, our focus and minds remain on the situation created by the outbreak of COVID-19 pandemic around the globe, the impact that the situation created will have on our country's economy and the role that the KCGF should play in the process of economic recovery.

Though the current situation may diminish readers' interest in being informed of past results, we still believe that the ability to cope with the future lies precisely in the results that have accompanied us in the past. We at KCGF, with the strong support of our partners, feel confident that our institution has already been built on solid foundations that will help us not only overcome the current situation, but also play an active role in discharging our fundamental mission, which would these days translate into support to the recovery of the private sector and the Kosovo economy in general.

Dear readers and partners, the KCGF has in 2019 continued to develop and strengthen its position as an institution with an important role in the economy of our country. The enhancement of the guarantee portfolio and the continuous improvement of indicators that indicate the economic and financial additionality of our guarantee scheme, has exceeded our expectations of one year ago. In 2019, the KCGF has mediated lending in the private sector in the amount of EUR 69.1 million for 1,650 MSMEs, supported by EUR 33.5 million worth of guarantees. The cumulative value of the loan portfolio guaranteed by the KCGF guarantee scheme has reached EUR 156.3 million, distributed in 4,052 loans, while the private sector investment activity, supported by these loans, has resulted in the creation of more than 6,000 new jobs in Kosovo's economy.

Today, our portfolio has a solid share of businesses run by women entrepreneurs, about 12%, and the 10% share of businesses from the agrobusiness and 17% share of businesses by manufacturing sector is also encouraging. The "Agro Window" guarantee scheme developed in cooperation with KfW, aimed to improve the investment climate in the agriculture sector, has proven to be a good initiative, supporting lending and increasing the share of the agriculture sector in the total portfolio of KCGF guarantees, at a rate that is significantly higher compared to the average in the banking sector.

The analysis of the 2019 guarantee portfolio shows a high share of new customers, without previous credit history, at a rate of 41% in the category of loans of up to EUR 100,000. This is an encouraging development, as the intermediation of our guarantee scheme provides, for the first time ever, access to finance for this category of enterprises, which have historically faced the challenges associated with the "being new in the market" syndrome.

The same analysis, in addressing the impact of the KCGF guarantee scheme on the external environment, shows significant economic and financial additionality generated by our guarantee scheme in 2019. The share of total guaranteed loans i.e. loans up to EUR 100,000 disbursed in 2019, reached 18%. Positive changes are also noted in the rate of required collateral, maturity and average allowed volume, significantly more positive in the category of guaranteed loans compared to unguaranteed loans.

Based on the latest report of the European Association of Guarantee Institutions (AECM), KCGF has exceeded the guarantee schemes of the Western Balkan countries and many EU countries in terms of impact. The total value of KCGF guarantees is about 0.62% of the Gross Domestic Product (GDP). This is a positive signal towards the reduction of the credit gap in relation to the GDP of our country, as well as the fulfillment of the mandate of the KCGF to increase access to finance for MSMEs in the country. Moreover, the joint work of the Board of Directors with the KCGF management and staff has resulted in an increased quality and efficiency of processes that facilitate the implementation of internal operations. The establishment and improvement of credit risk management practices as well as development and enhancement of the Environmental and Social Risk Management Policy are just some of the many positive changes introduced in internal policies and procedures of our institution over the past year. Additionally, there were also various activities with partner banks, business community and the general public to raise the awareness about the services and the role of the guarantee scheme provided by the KCGF. All this was achieved owing to a tireless job that was done by the KCGF staff and the Board of Directors.

For the fourth consecutive year, the KCGF investment strategy is still being channeled in the form of short-term and medium-term deposits in local banks. This institutional approach reflects the confidence of the KCGF governing structures in our country's banking sector and does, simultaneously and indirectly, by boosting liquidity in the market, provide more opportunities to enhance the lending capacity of the local banks.

The year 2019 marked the beginning of a series of collaborations with new partners for the KCGF. In May 2019, the KCGF concluded an agreement with the EIF - COSME Program on the use of the counter-guarantee scheme, in which case the value of supported loans for SMEs is expected to reach up to EUR 90,000,000 over a period of two years. This counter-guarantee scheme has directly affected the enhancement of the guarantee capacity and has, above all, boosted the credibility of the KCGF in the financial sector. Furthermore, the favorable conditions of the EIF-COSME Program counter-guarantee scheme have contributed to a tangible improvement of loan guarantee conditions offered by the KCGF in the Kosovo market.

On the other hand, in October, the Fund concluded an Implementing Entity Agreement with the Millennium Foundation Kosovo, a very important partnership that aims to provide technical assistance to the KCGF and the banking sector in order to create an environment for creditors to start lending to private investors in electricity generation from renewable energy sources i.e. solar energy, a novelty that had been missing in the domain of private investments in Kosovo.

Despite the fact that we have left behind a successful year, we will remain cautious and proactive, especially in preparing the institution to cope with the challenges that may be brought about by the economic crises that may be caused by the COVID-19 pandemic. The negative consequences in economy will be inevitable and how grave these consequences will be depends, first of all, on the duration of the very pandemic, the preventative measures adopted to curb the spread of the pandemic and the economic policies designed to counter its adverse impact on the economy. As KCGF, we feel the effects of the crisis along with the private and banking sectors, many of whom are already our customers or partners. Supported by donors and partners, the KCGF will assume its share of the responsibility at all stages of economic recovery, during and after the crisis. It is a battle that we will embark on willingly, so that we can overcome the crisis together and come out even stronger after it.

Finally, on behalf of the Board of Directors and the KCGF staff, please allow us to thank our international donors and the Government of the Republic of Kosovo for their continued support to the KCGF. We also extend our thanks to all the other stakeholders, above all the Central Bank of Kosovo (CBK) and the Partner Financial Institutions for their continued cooperation. At the same time, we leave you with our best wishes for good health and looking forward to next year's edition of the Annual Report, where we will proudly share our success story on how we managed to overcome the present challenge.

RINOR GJONBALAJ
Chairman of the Board

BESNIK BERISHA
Managing Director

ACRONYMS

AECM	|	European Association of Guarantee Institutions
ASK	|	Kosovo Agency of Statistics
BD	|	Board of Directors
CBK	|	Central Bank of the Republic of Kosovo
GDP	|	Gross Domestic Product
COSME	|	Competitiveness of Enterprises and Small and Medium Enterprises
KCGF	|	Kosovo Credit Guarantee Fund
EIB	|	European Investment Bank
EIF	|	European Investment Fund
FI	|	Financial Institution
NFBI	|	Non-Bank Financial Institution
PFI	|	Partner Financial Institution
MFI	|	Microfinance Institutions
KfW	|	German Development Bank
NPL	|	Non-performing Loans
RMC	|	Risk Management Committee
AC	|	Audit Committee
MoF	|	Ministry of Finance
MFK	|	Millennium Foundation Kosovo
MCC	|	Millennium Challenge Corporation
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 2018	DECEMBER 2019
CAPITAL	**16,286,801**	**16,771,135**
Guarantee potential	66,434,006	97,397,947
Allocated limit	50,550,000	68,400,000
Utilization rate of the limits by partner FIs	58.1%	64.16%
GUARANTEE BALANCE	**29,378,984**	**43,885,949**
No. of guaranteed loans	1,984	3,120
No. of partner FIs	8	8
Average guarantee	18,420	18,558
Average maturity	36	36
NPL (in %)	**0.35%**	**1.29**
COVERAGE OF NPL WITH PROVISIONS (IN%)	**289.0%**	**122.0**
INVESTED CAPITAL	**15,562,000**	**16,620,045**

Monetary values are in Euro.

PART II

INSTITUTION PROFILE

ESTABLISHMENT OF KCGF AND ITS STATUS

The Kosovo Credit Guarantee Fund is an independent and self-sustainable institution, which issues guarantees to financial institutions to cover the risk for MSME loans. The 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 the USAID, through its Empower Credit Support Program, and the German Development Bank (KfW). The Law on KCGF has entered into force on January 23, 2016.

MISSION

The Kosovo Credit Guarantee Fund is an independent and self-sustainable institution, that provides credit guarantees for MSMEs by sharing the credit risk with financial institutions. By guaranteeing the credit portfolios of the financial institutions, we aim to increase access to finance for MSMEs, support development of entrepreneurship and domestic production and services that provide an added value, creation of new jobs and overall economic growth.

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 the long-term economic interests of the country, the business community and the 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, other stakeholders and the general public.

PARTNERSHIPS AND COOPERATION

Establishing sound transparency and accountability-based relations with our partners helps us achieve our common goals and develop mutual trust and 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 economic development.

TEAMWORK AND PROFESSIONALISM AT WORK

KCGF has a team of experts who cooperate on the basis of mutual respect. Teamwork in 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 supervised by a Board of Directors consisting of seven (7) members:

A. One (1) ex officio member, appointed by the ex-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 2019:

RINOR GJONBALAJ
Chairman of the Board
Independent Board Member

ARTA HOXHA
Independent Board member

BESNIK BERISHA
Managing Director of KCGF
and Board member

KRESHNIK KURTISHI

Independent Board Member

MELIH CADIRCI

Independent Board Member

NOL BUZHALA

Member of the Board
ex officio –
Ministry of Trade and Industry

SALVADOR ELMAZI

Member of the Board
ex officio –
Ministry of Finance

CURRENT STAFF

KCGF STAFF IN 2019:

From left to right:

BESNIK BERISHA
Managing Director

NORA ARIFI
Senior Guarantee Manager

VERË KADRIU
Administration and Translation Assistant

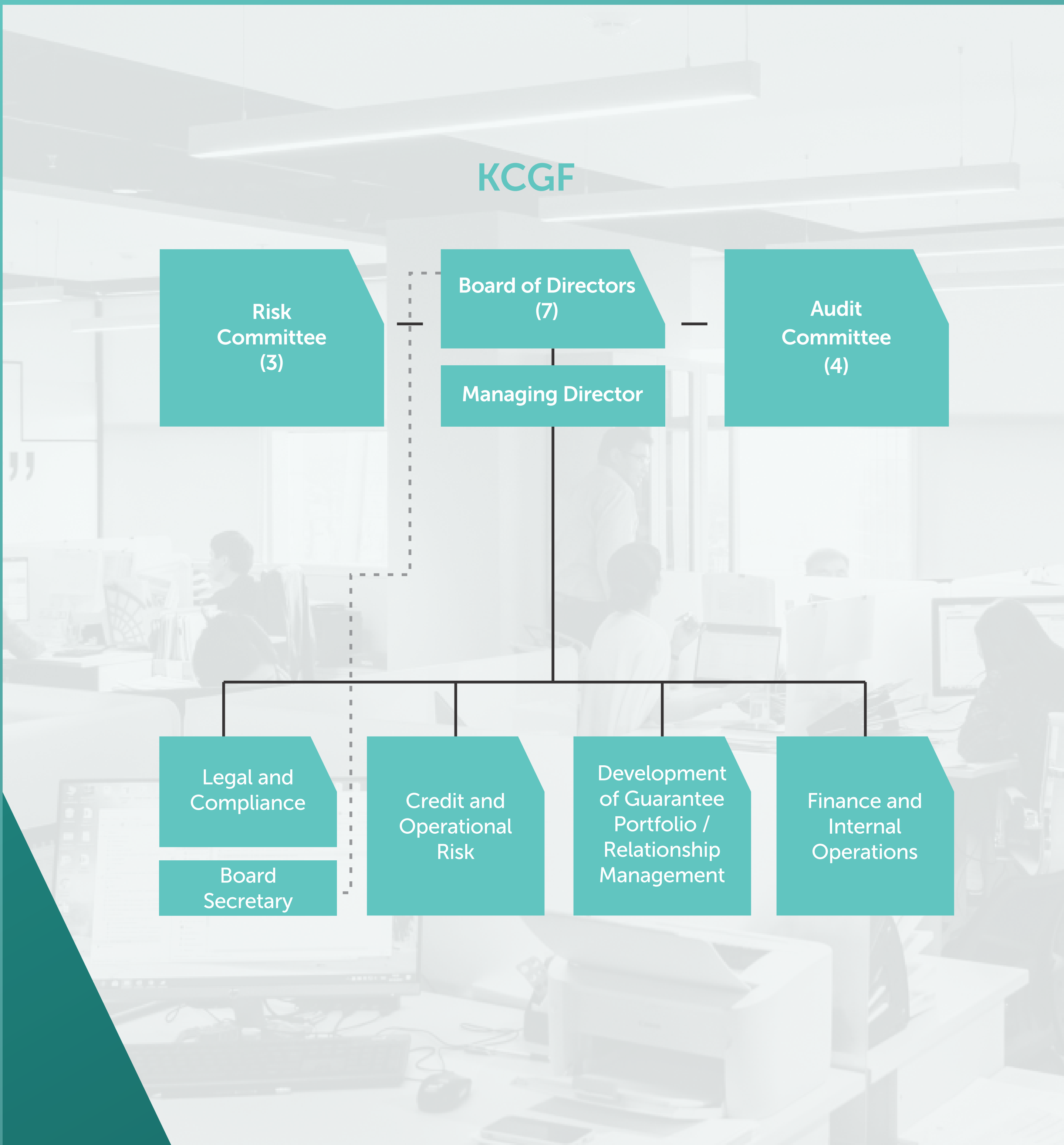
KASTRIOT KËPUSKA
Agro expert

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

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
- European Investment Fund
- Millennium Challenge Corporation/Millennium Foundation Kosovo

PARTNER FINANCIAL INSTITUTIONS

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

PART IV

KCGF PERFORMANCE

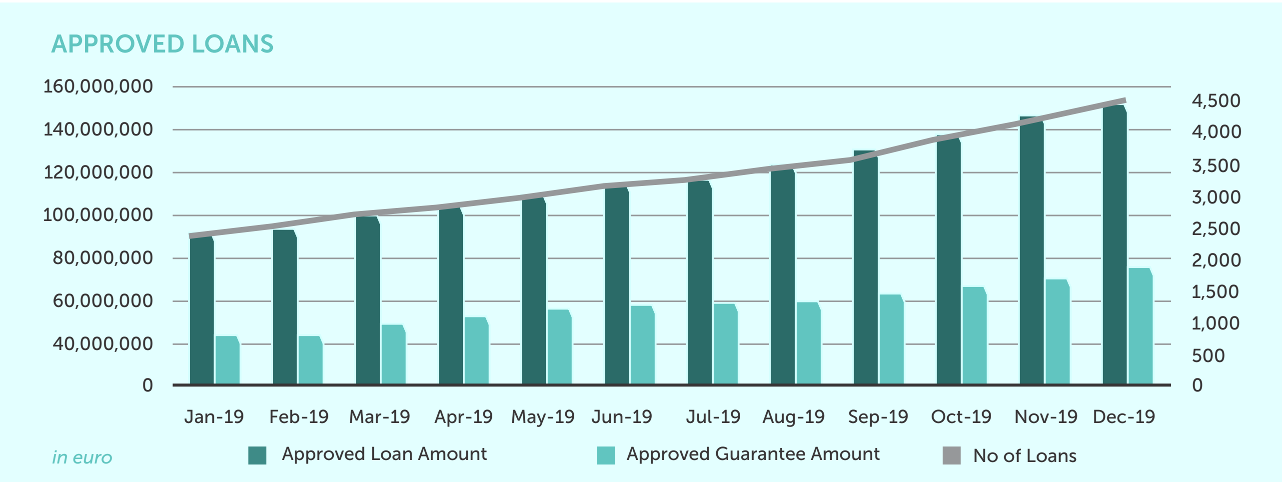
DEVELOPMENT OF GUARANTEE PORTFOLIO

FAST GROWTH WITH HIGH QUALITY

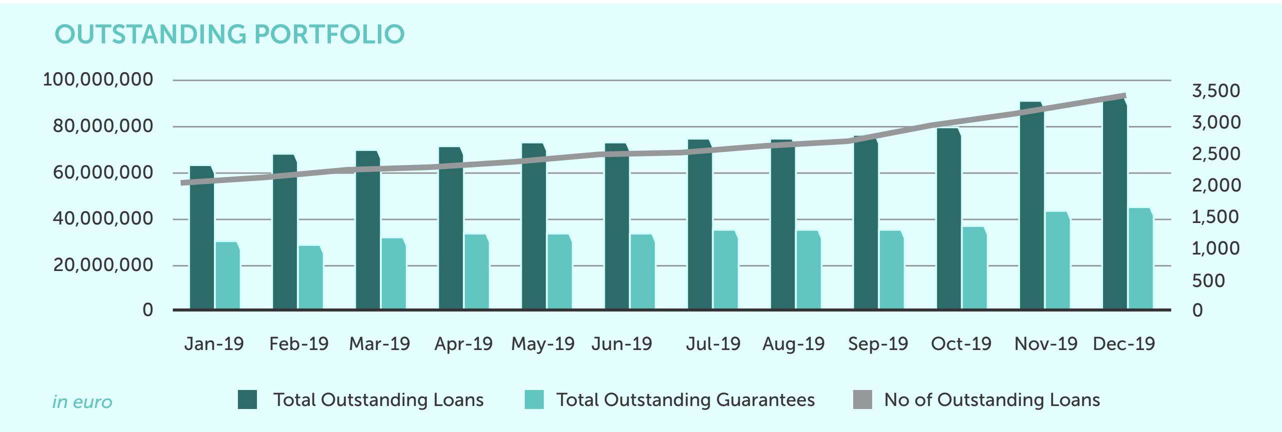
The year 2019 was yet another successful year for the KCGF, continuing to provide credit guarantees for MSMEs while sharing credit risk with financial institutions at an even higher level than in previous years.

The asymmetry of information, lack of collateral and its consequences imply that lenders seek to minimize their risk, therefore requiring credit guarantee support.

In 2019, KCGF intermediation led to EUR 69.1 million lending in the private sector distributed in 1,790 loans, supported by a guarantee amount of EUR 33.5 million. The cumulative amount of loans approved as of the end of the year reached the amount of EUR 156.3 million for 4,052 loans, backed by a cumulative amount of guarantees of EUR 75.2 million.



The total outstanding amount of the loan portfolio at the end of 2019 was EUR 90.7 million, while the total outstanding amount of the guaranteed portfolio was EUR 43.88 million.



ABOUT 99% OF THE PORTFOLIO CONSISTS OF SMALL ENTERPRISES

Micro enterprises continue to comprise the largest share in the guaranteed portfolio. The concentration of the guaranteed portfolio by number of employees is as follows (see Table 1):

Table 1. The concentration of the guaranteed portfolio by number of employees

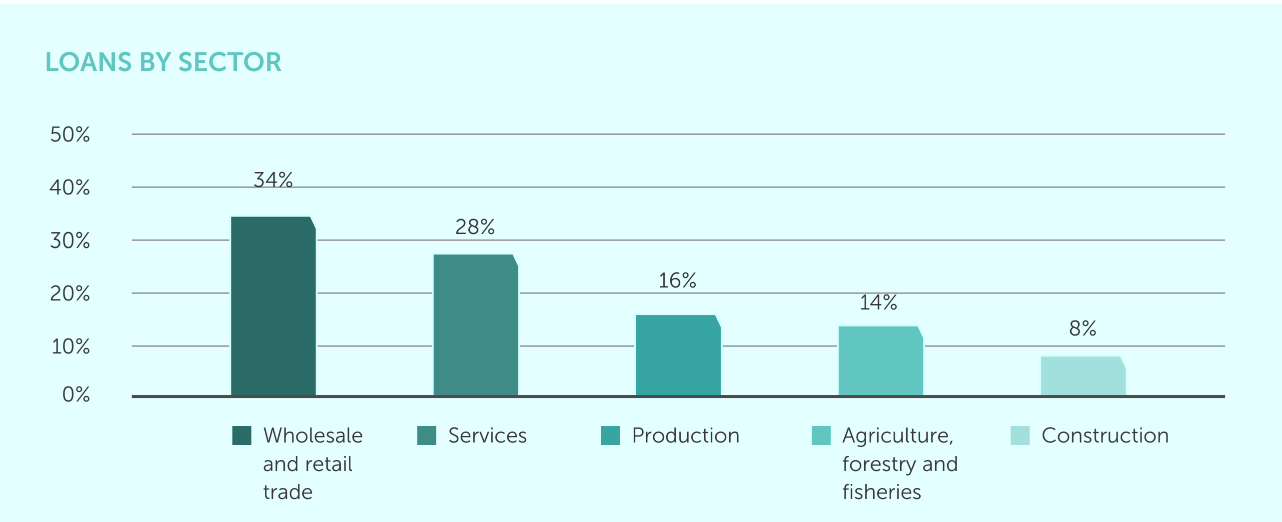
CATEGORY	CRITERIA	TOTAL
Micro	**up to 9**	**87%**
Small	**10 - 49**	**12%**
Medium	**50 - 249**	**1%**

As can be seen from Table 1, 87% of guaranteed loans belong to enterprises with a number of employees up to 9. Such a distribution of the KCGF loan guarantee portfolio is in line with the dynamics of market development, requirements coming from the private and banking sector, but also with the orientation of our institution towards access to finance for this segment.

WIDE RANGE OF ECONOMIC SECTORS BENEFITING FROM GUARANTEES

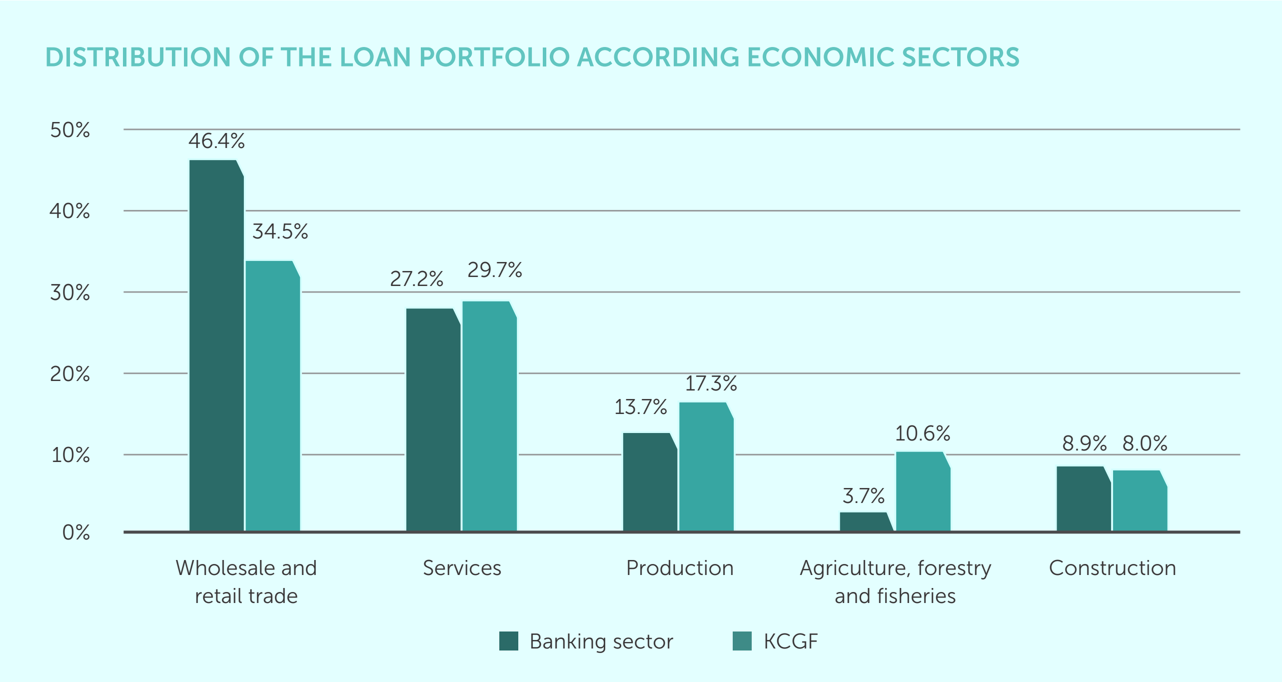
Devising approaches to stimulate the sectors that generate value-added to the economy is one of our objectives and, to this end, the KCGF, with the support of the donors and partners, is working towards strengthening strategic sectors.

The year 2019 continued to follow the same trend as last year, reflecting a wide range of economic sectors benefiting from the guarantees.



The most dominant sector in the 2019 new guaranteed loans was retail and wholesale trade with 34, followed by services with 28%, manufacturing with 16%, agriculture with 14%, and construction with 8%. Compared to one year ago, we have moderate movement across the sectors, especially in the agricultural sector.

For only three years of operation, KCGF has built a portfolio with a significantly more favorable structure than the structure of the real economy in Kosovo, as well as the structure of the credit portfolio in the banking sector.



As can be seen from the graph above, KCGF has a significantly higher share of active loans from the manufacturing and agriculture sectors, considered as the most strategic sectors of the economy, compared to credit portfolios at the banking sector level.

In KCGF, agriculture has a share of 10.6%, while at the level of the banking sector this economic activity is significantly less represented, with only 3.7%, while we have a similar situation with the production sector, where in KCGF this sector is represented with a share of 17%, while at the level of the banking sector it is significantly lower, with only 13.7%.

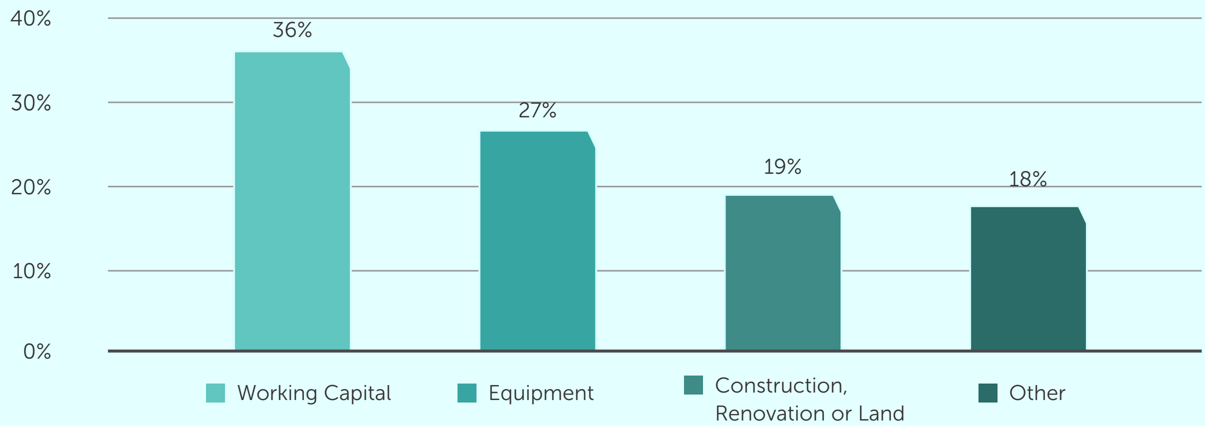
Providing incentives for sectors, such as agriculture, that generate value-added for the economy is one of our objectives, therefore the KCGF is working together with its partners towards strengthening this and other under-served sectors, which are considered to be the driving force of the economy and a growing contributor to employment and enhanced social wellbeing in general.

HIGHER DOMINATION OF CAPITAL INVESTMENTS

This year was also is characterized by investments in fixed assets (equipment and construction, renovation, land). Additionally, working capital investments had a significant share in the guarantee portfolio.

In 2019, 27% of approved loans were invested in equipment (manufacturing machinery, agricultural equipment, other equipment); 19% in land, construction or renovation; 36% in working capital; and 18% in other purposes.

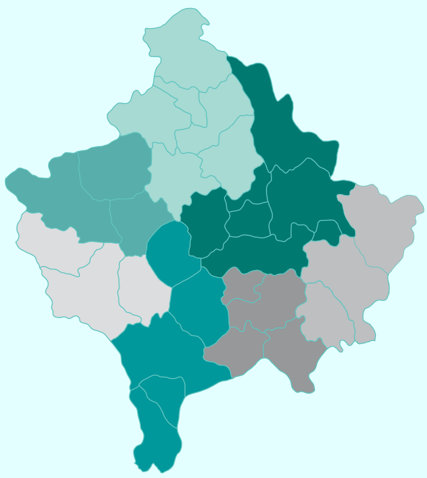
PURPOSE OF THE LOANS



UTILIZATION OF GUARANTEES IN DIFFERENT REGIONS

Utilization of guarantees in different regions in 2019 followed the trend of previous years. The Pristina region had the largest share in the guaranteed loan portfolio, with 54%.

Such a distribution of the portfolio is considered to be in line with the distribution of the banking sector credit portfolio in the respective regions.



Ferizaj / Uroševac	14%
Gjakovë / Djakovica	2%
Gjilan /Gnjilane	6%
Mitrovicë/ Mitrovica	6%
Pejë / Peć	5%
Prishtinë / Priština	54%
Prizren	13%

ADDITIONALITY

Additionality is the raison d'être for the establishment of the KCGF. It means that a bank, Micro Finance Institution, or Non-Bank Financial Institution would not have issued a loan to an MSME without an issued guarantee, hence adding a new customer contributing thus to economic growth.

To see the impact, the KCGF monitored and analyzed relevant financial and economic additionality indicators in 2019 as well. The results of the monitoring of these indicators showed us how KCGF operations have in general contributed to an improved access to finance, relaxed lending standards and improved performance of MSMEs, as presented below.

SHARE OF GUARANTEED LOANS IN THE BANKING SECTOR

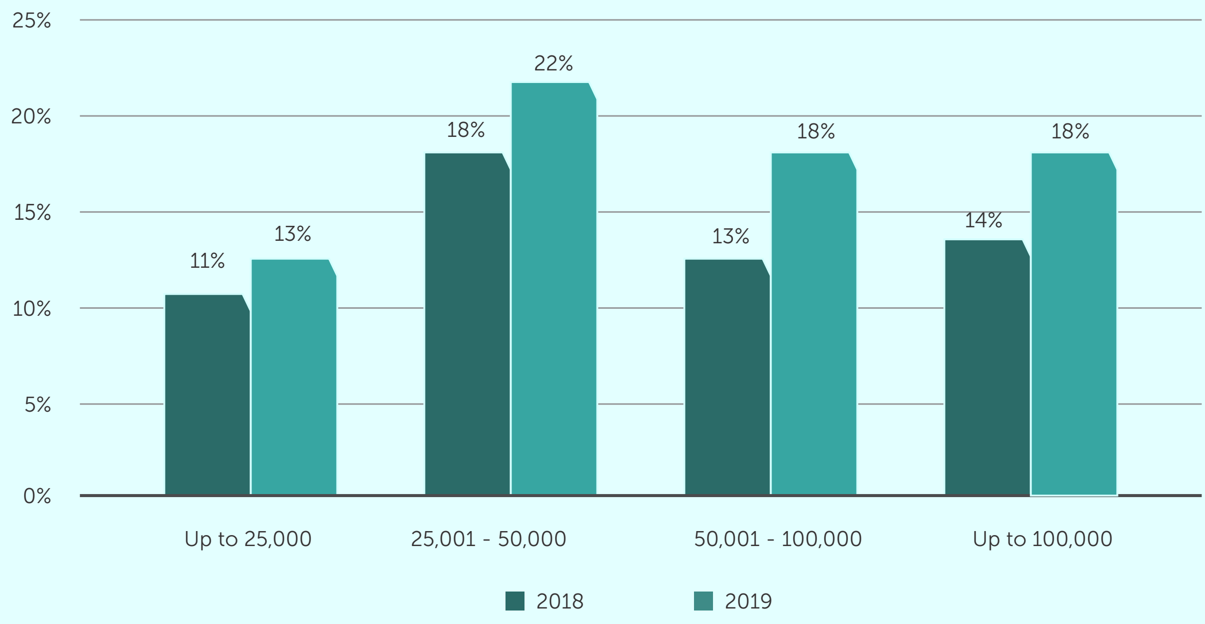
This indicator, yet again this year, shows an increase in the share of guaranteed loans in the banking sector. This increase reflects KCGF's impact on lending operations in the banking sector, which for KCGF means better access to finance for MSMEs.

In 2019, this share in the category of loans of up to EUR 100,000 was 18%, while only in the EUR 25,000-50,000 category it was 22%.

This indicator increased by 29% compared to 2018, when the share was 14%. This increase indicates that the KCGF credit guarantee scheme has boosted further the positive impact on financial intermediation.

The reason for reflection in the category of loans of up to EUR 100,000 is the fact that the client profile in KCGF portfolio belongs to this segment in the market.

KCGF SHARE IN THE SECTOR (FINANCIAL VALUE)

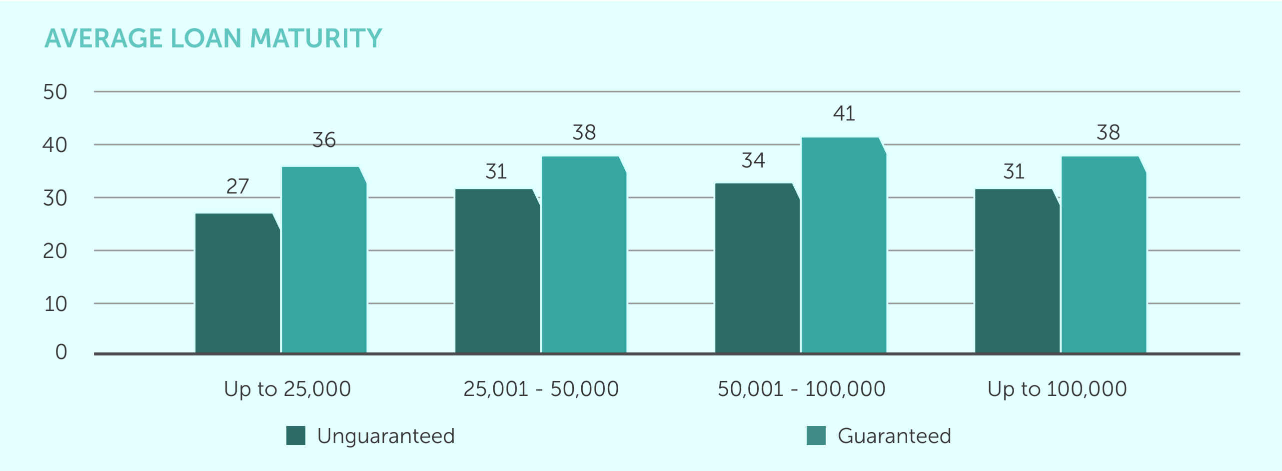


AVERAGE LOAN MATURITY - HIGHER LOAN TERMS

The guaranteed portfolio during 2019 continued to be populated by the midterm loans with average maturity of 36 months. The average loan maturity as an indicator of financial additionality in this year again showed an increase in the maturity of guaranteed loans compared to unguaranteed loans. The increase of the maturity means better the financing conditions for the borrowers, while the higher the risk for the lenders.

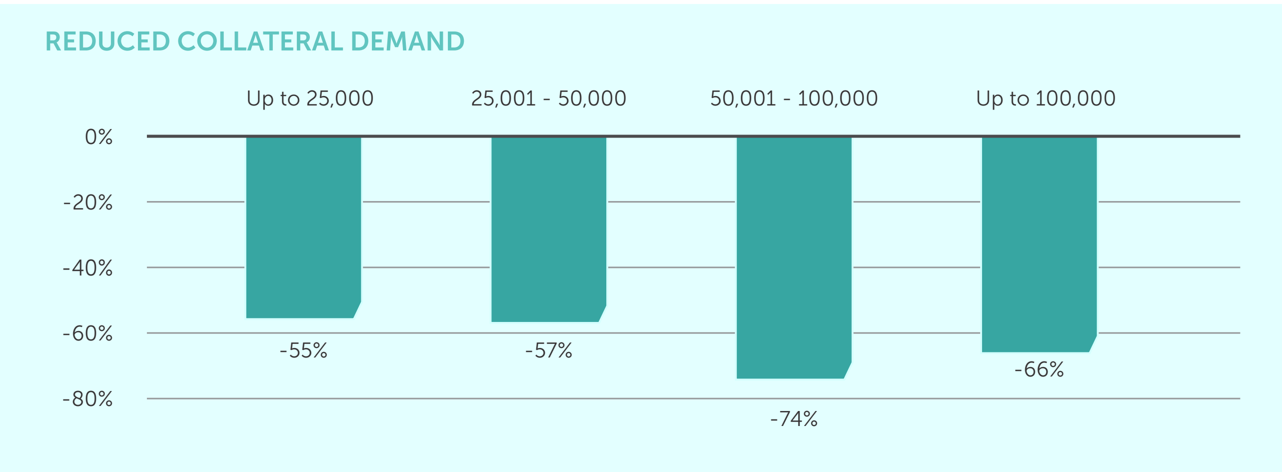
The average term of guaranteed loans up to EUR 100,000 was 38 months or 23% higher than the average amount of unguaranteed loans.

This indicator both during 2019 and 2018 resulted in more relaxed risk standards for PFIs, therefore better lending conditions for MSMEs while for MSMEs any increase in maturity will enhance the capacity of the borrower to complete the planned investment.



COLLATERAL COVERAGE

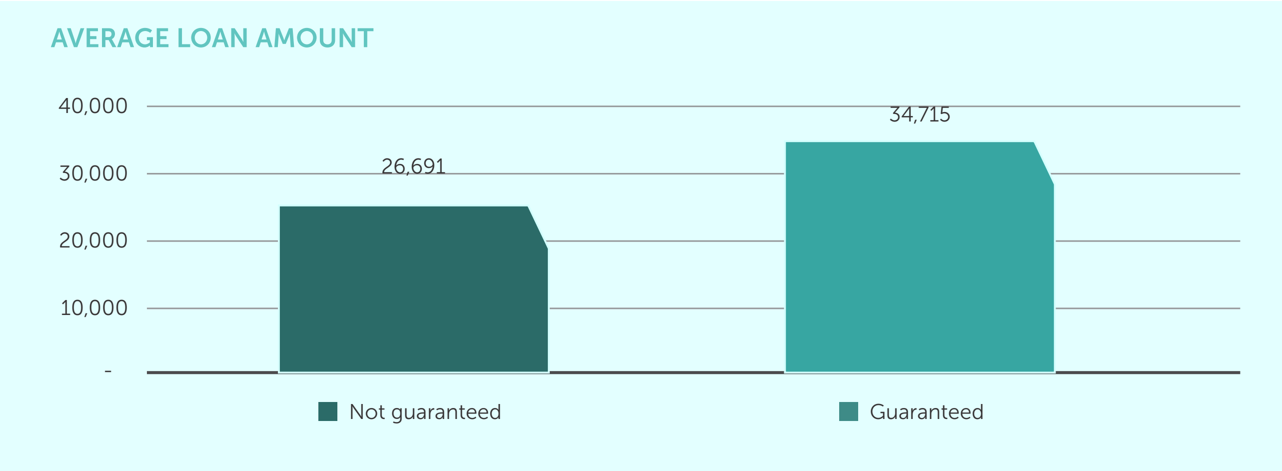
Collateral is very often one of the reasons for rejecting a loan application or one of the reasons for reducing the loan amount in the application. Therefore, in terms of guarantee scheme impact, lower collateral demand first and foremost means financial inclusion with better lending conditions for customers, shorter processing time for loan applications, and lower borrowing costs. The 2019 analysis resulted in a positive impact of KCGF guarantee scheme hence reducing collateral demand by 66%.



AVERAGE LOAN AMOUNT

By the end of 2019, KCGF portfolio was populated by small enterprises with an average loan amount of EUR 38,000. This value corresponds to the small category of enterprises that lack collateral, and therefore need financial support.

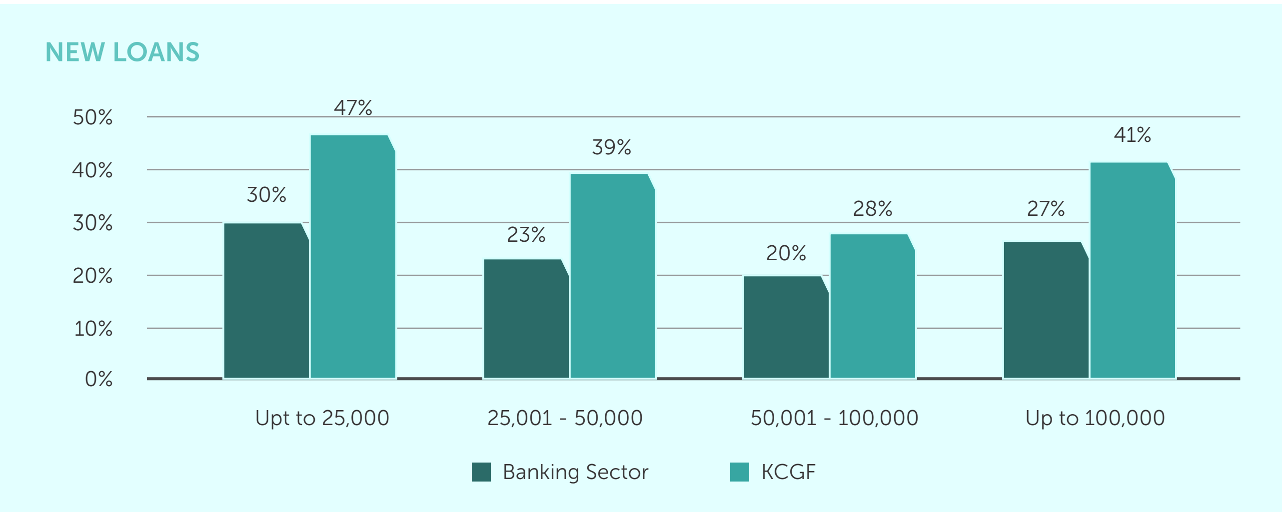
Also, this year resulted in higher average loan amount guaranteed by 30% compared to unguaranteed loans in the category of loans up to EUR 100,000. The increase of the average amount of credit through KCGF mediation for this category reflects the impact of the guarantee scheme on better lending standards by banks during the loan approval process.



NEW CLIENTS/FINANCIAL INCLUSION

The higher share of this category of clients (who have never taken a loan) in the general portfolio of loan clients infers lower perception of risk by banks in relation to newly established enterprises, hence higher level of financial inclusion for new businesses.

The share of guaranteed loans to new businesses without previous borrowing experience in 2019 in the category of loans up to EUR 100,000 was at 41%, whereas the share of unguaranteed loans in same segment was 27%. This ratio reflects the impact of KCGF on the financial inclusion of the private sector without previous borrowing experience, and therefore the positive impact on the finance sector and economy in general.



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

The share of KCGF-guaranteed loans in total tax-paying businesses is another important indicator of the inclusion of MSMEs in the guarantee scheme.

Based on the information provided by the Tax Administration of Kosovo, in 2019 we had approximately 53,203 active businesses, while the number of the MSME that benefited from the KCGF credit guarantees until 2019 was 3,456 - bringing the share of guaranteed MSME-s in the MSME sector to 6.5% at the end of 2019.

This share is growing year-over-year, thereby reflecting the importance of the KCGF as an extended hand for the development of the MSME sector and the economy in general.

SHARE OF KCGF GUARANTEED OUTSTANDING LOAN VOLUME IN GDP

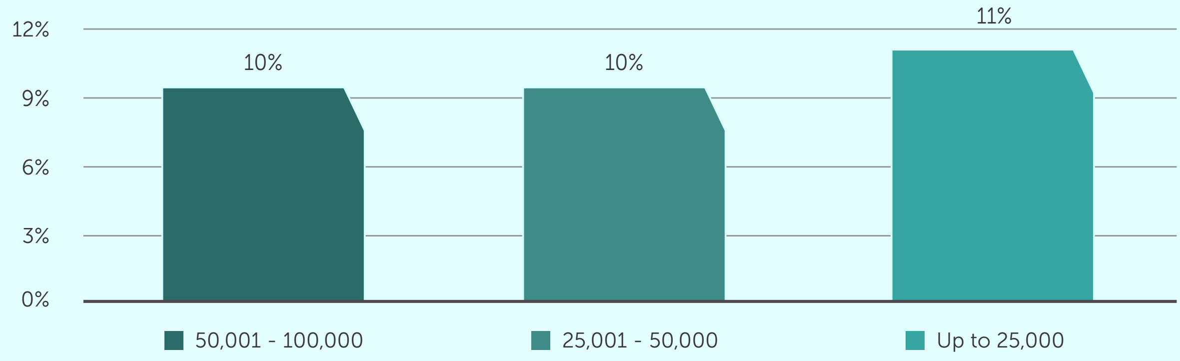
To understand the importance of the KCGF guarantee facility to the national economy, we have calculated the share of KCGF-guaranteed outstanding loan volume in the GDP by the end of 2019. At the end of 2019, this share was 0.62%, with a marked increase of 21% compared to 2018 (this ratio was 0.51% at the end of 2018).

In relation to Central and Eastern European countries implementing guarantee schemes under the membership of the AECM, Kosovo has, in three short years of operations, managed reached the average of these countries (0.71% according to AECM), has exceeded the guarantee schemes of Western Balkan and stands in a relatively better position than many credit guarantees schemes, despite the fact that most of these countries have long standing experience with guarantee schemes, when compared to Kosovo. Such an increase in the share of guaranteed loan volume both in the total volume of sector loans (MSME loans) and in the GDP in Kosovo is a positive sign towards reducing the lending gap in relation to the GDP of our country.

PROJECTED ANNUAL TURNOVER GROWTH

Implementation of investments in addition to access to finance should result in turnover growth for beneficiary enterprises. During 2019, this was the case with the guarantee beneficiary enterprises as well. By the end of 2019, there were 1,790 MSME loans approved at a volume of EUR 69.1 million, whereby as a result of implemented investments the projected turnover growth over the baseline turnover was EUR 72.9 million or 11% over the current baseline

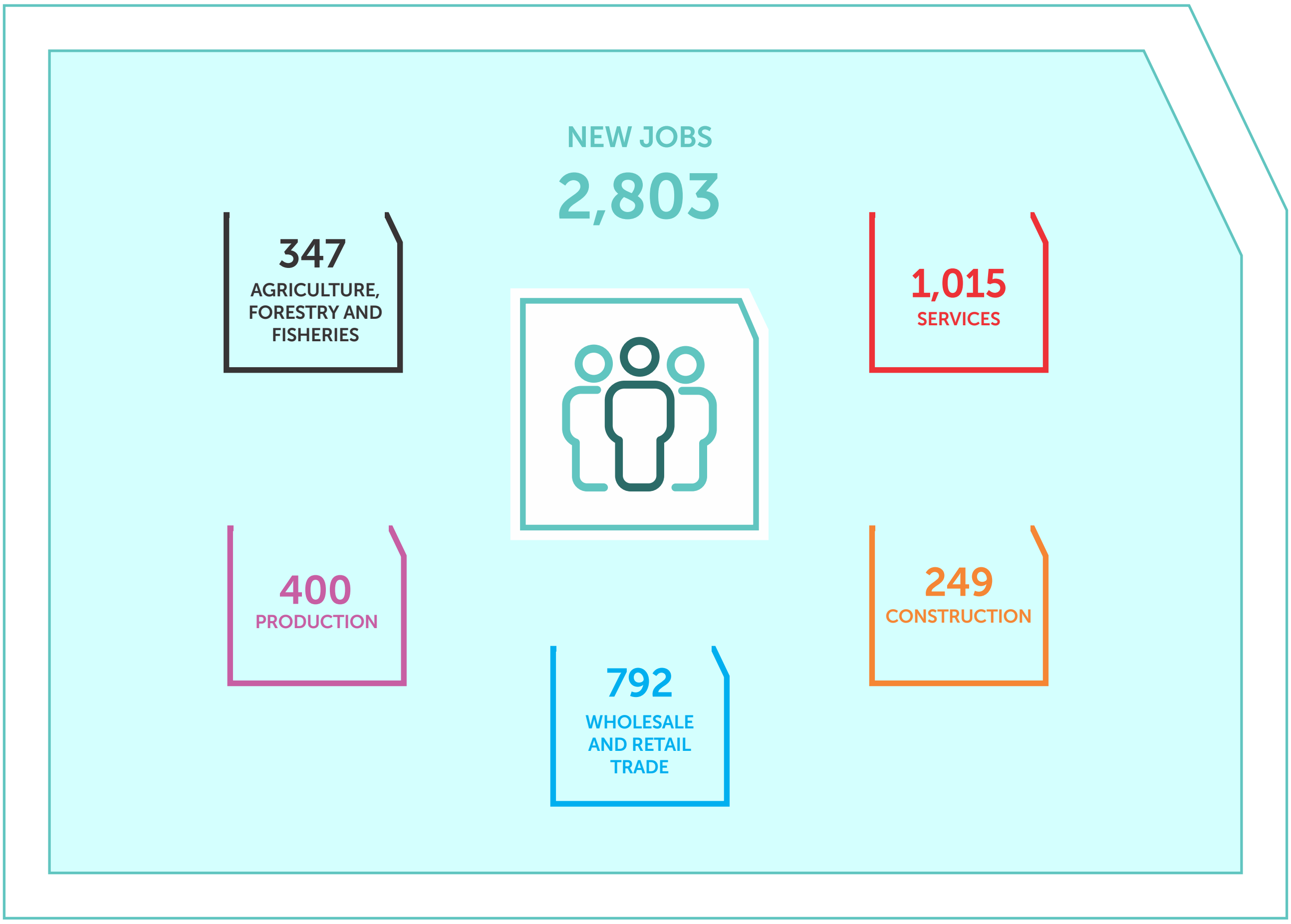
ANNUAL TURNOVER GROWTH (PROJECTED)

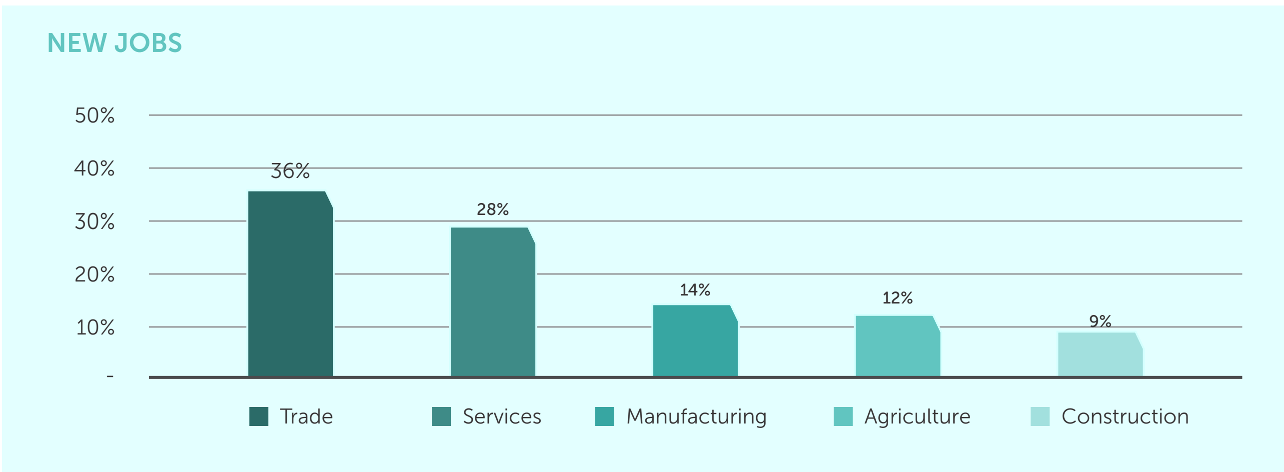


NEW JOBS PROJECTED

The creation of new jobs is one of the main objectives of the establishment of the KCGF. As a result of investments made by loans through the support of the KCGF guarantee scheme, during 2019, from 1,790 approved loans, 2,803 new jobs are projected or an increase of 28% over the current baseline.

As it can be seen from the following graph, the new jobs foreseen during 2019 come mainly from the trade and services sectors, with 64%.





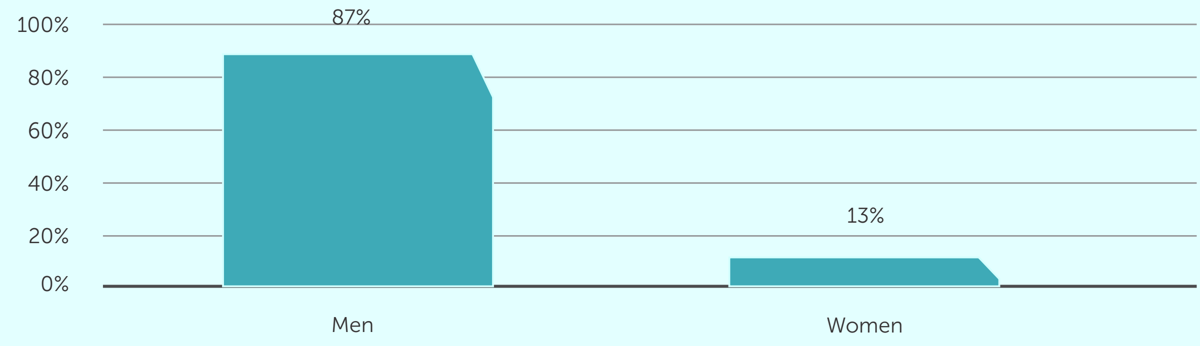
LOANS FOR WOMEN IN BUSINESS

This indicator focuses on the inclusion of women owners of SMEs in the lending process.

Women entrepreneurs participate in formal lending at a lower rate than men entrepreneurs. Because of this, the KCGF has introduced the institutional objective of providing better opportunities for under-served economic sectors and population categories, including women.

During 2019, the share of loans for women in business was 13%. This participation increased compared to the previous year. Increasing participation is a message that the impact of the KCGF credit guarantee has begun to be seen in this target segment as well.

PARTICIPATION OF WOMEN BUSINESS OWNERS



AGRO-FINANCING GUARANTEE THROUGH AGRO-WINDOW

The banks consider the Agro Window a good guarantee opportunity for agro-loans, given the specifics of this sector and the difficulties of providing real estate collateral in rural areas, primarily due to property rights related uncertainties.

The agriculture sector financing by banks continues to be considered low in relation to the financing of other sectors. As of the end of 2019, this sector participated with 3.7% of outstanding bank loans, which is a decrease of 0.2% compared to the previous year. Such share in financing does not correspond to the share that this sector holds in GDP (according to ASK 7.9% in 2018 and 6.8% in 2019). The drop in the share of financing also comes as a result of the growing share in other sectors. Labor informality in this sector, in addition to the migration of the labor force abroad, is considered to be the reason behind this rate of bank financing in the agriculture sector.

The KCGF, through its Agro-Window, has enabled guarantees for over EUR 9.7 million in agro-loans. Among the positive effects of guaranteeing such loans is the fact that during 2019 there were EUR 11.9 million or 24.7% more agro-loans financed in total banking sector compared to the previous year (EUR 48.3 million).

Based on the data reported by partner banks, it has been recorded that extending financing guarantees to these agro-loans has led to the creation of 355 new jobs in this sector.

The support that this sector receives from the KCGF will be further strengthened through the German Development Bank (KfW) pledge to support this type of backing by providing additional capital to the KCGF. This would ensure financing for more than EUR 69 million in agro-loans by the banking sector.

CREDIT RISK MANAGEMENT

The KCGF operations are related to taking risks in extending partial loan guarantees for MSMEs, which have been assessed by Partner Financial Institutions (PFIs). Consequently, credit risk arising from information asymmetry, lack of collateral or other risks when lending to MSMEs, also becomes part of the KFCG risk for guaranteed loans.

The KCGF's risk management approach is comprehensive, starting with identifying and analyzing the risks for the KCGF, onwards to establishing appropriate risk management controls and building an adequate monitoring system. The KCGF's strategy for risk management and mitigation is implemented by:

- limiting exposures at the general level, at the PFI level and against MSMEs (indirectly affecting the diversification of the guaranteed portfolio);

- determining clear eligibility conditions and criteria, whereby in case of non-compliance by the PFIs, then the KCGF has the option to cancel obligations until the fulfillment of conditions as required by the KCGF;

- counter-guaranteeing the portfolio from the guarantee scheme of credible institutions, enabling a shared risk from guaranteed loans;

- Periodic monitoring of developments in the financial sector, monitoring of PFIs, and monitoring of the performance of customers under guarantee.

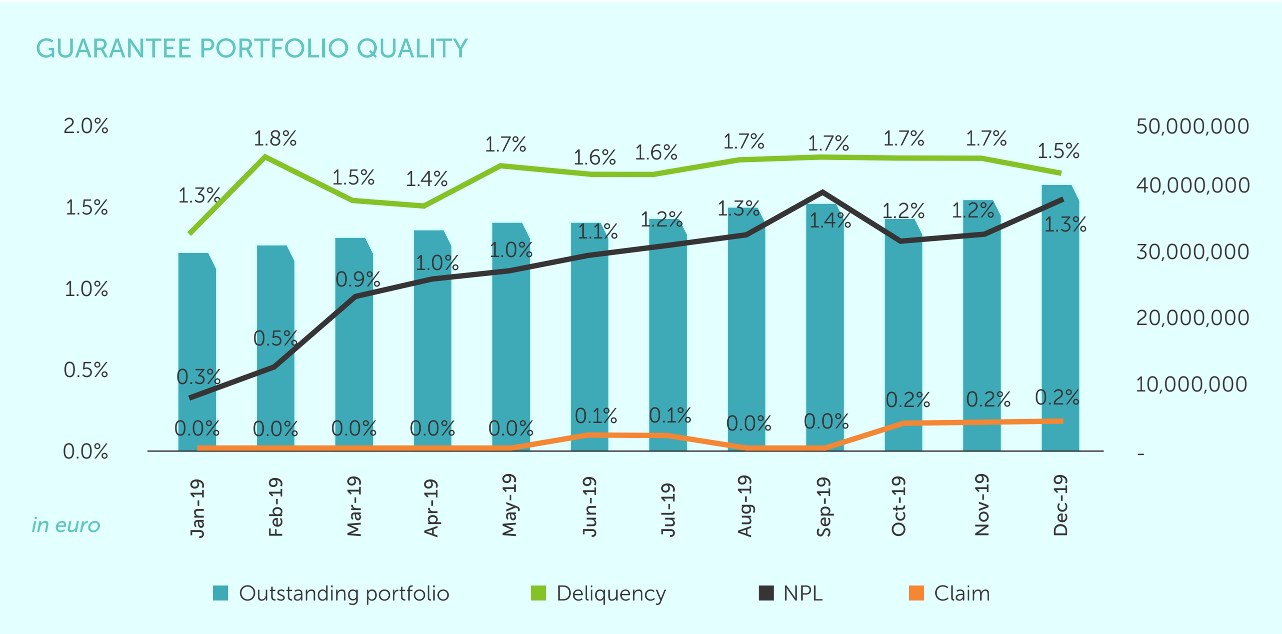
In accordance with its internal policies and processes, the KFCG reviewed and approved the requirements for the reassessment of limits of almost all PFIs during 2019 and initiated the first payments on applications for loans eligible for KCGF guarantee. Additionally, during the past year, the KCGF continued its practice of regular monthly meetings for analyzing banking sector trends in general, and for each PFI in particular, in addition to conducting guarantee portfolio analysis. Monitoring and analysis of such trends is one of the most important roles of the KCGF, leading to the identification of potential problems and their management at an early stage.

During 2019, the KCGF utilized the entire limit allocated from the SIDA counter-guarantee scheme, which enabled a risk sharing of 50%, in the counter-guaranteed limit amount of EUR 9.51 million. Furthermore, during 2019, the KCGF started its cooperation with EIF by signing an agreement on the COSME counter-guarantee scheme, which also provides the option of risk sharing through 50% coverage of loans guaranteed by the KCGF that are eligible for the COSME Program. Counter-guarantee schemes have enabled the KCGF to partially share credit risk, boost its guarantee capacity but also reduce provisioning costs.

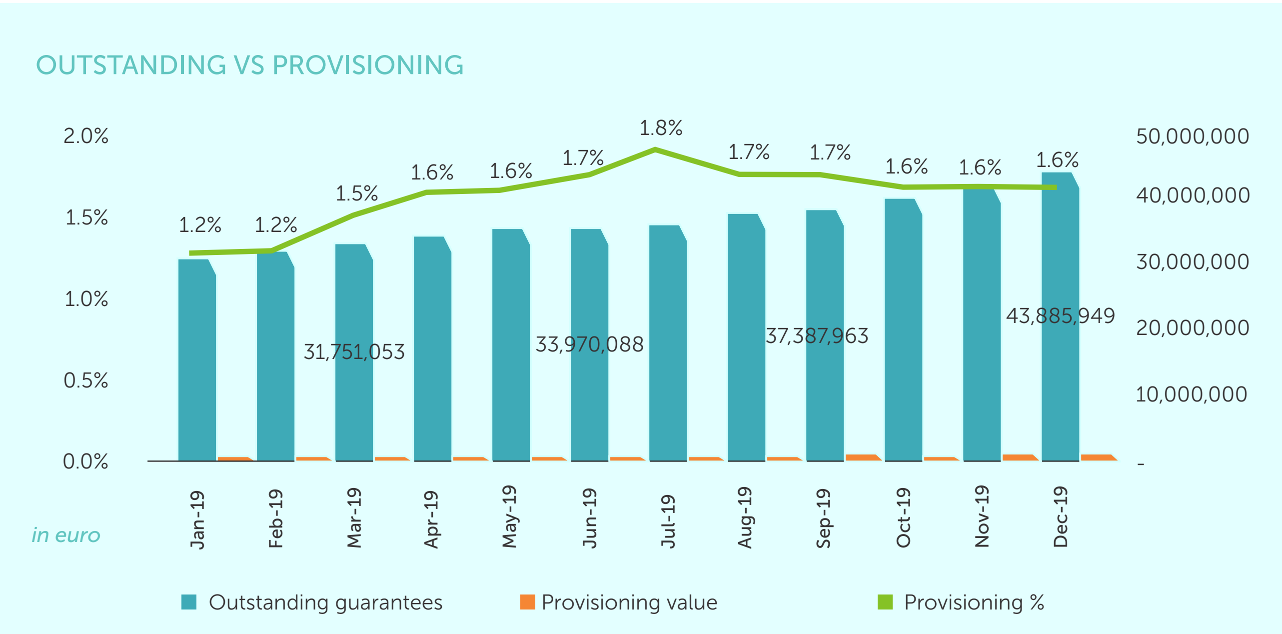
In order to cover losses that may arise from guarantees, in 2019, the KCGF continued with guarantee provisioning. The KCGF impairs guarantees in three stages, triggered by customer credit rating according to data received on a monthly basis from registered PFIs.

PORTFOLIO QUALITY

On December 31, 2019, the KCGF's guarantee balance was in the amount of EUR 43.88 million, where the delinquency in the guaranteed portfolio was 1.50% while NPLs were at 1.29%. Despite the deterioration in portfolio quality compared to the previous year, its quality was at the projected level, as the KCGF entered the fourth year of operations, and expectations are that the performance of guaranteed loans will converge to the segment it guarantees. In 2019, a total of four (4) applications on guaranteed loans were paid out to three IPFs, marking the first year where such claims were filed and paid. Their value was at EUR 82,300, which in relation to the guaranteed balance was at 0.19%.



The KCGF continued to build provisioning reserves according to the expected losses model, whereby, as of December 31, 2019, the total provisioning reserves were EUR 688,229, representing a coverage of 1.6% in relation to the guaranteed balance, while the coverage of NPLs was 122%.



CAPITAL STRUCTURE AND INVESTMENTS

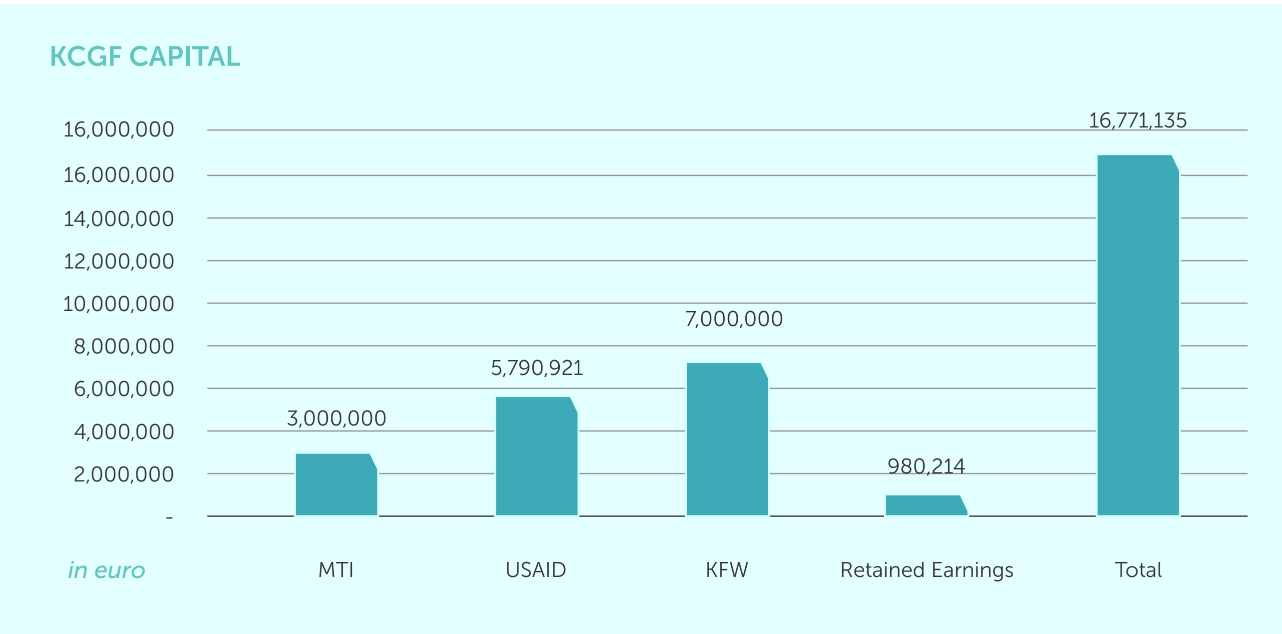
The KCGF capital consists of funds donated to the KCGF by the Government of the Republic of Kosovo and international donors.

In 2016, when the KCGF was established, the amount of the donated capital to the KCGF was EUR 7,345,141, while this amount doubled in 2017, closing 2017 with a donated capital in the amount of EUR 15,790,921. The doubling of the capital was a result of contributions in donations by USAID, MTI, and KfW in late December 2017. During 2018 and 2019, the KFCG did not receive any new capital from neither donors nor the Government of the Republic of Kosovo but has worked hard on the development of several projects, which are expected to result in capital or donations in the near future.

Table 2. Structure of Capital

	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
CAPITAL 2019	-	-	-	484,334	484,334
TOTAL	3,000,000	5,790,921	7,000,000	980,214	16,771,135
%	18%	35%	42%	6%	100%

Monetary values are in euro



The KCGF applies a policy for capital leverage that is determined depending on the market/sector risk indicators, ensuring that the KCGF has sufficient capital to carry out its operations and absorb potential losses.

The increase of donated capital has a direct impact on the two main sources of KCGF income. An 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 based on market analysis and reflects the anticipated losses on the extended guarantees.

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

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

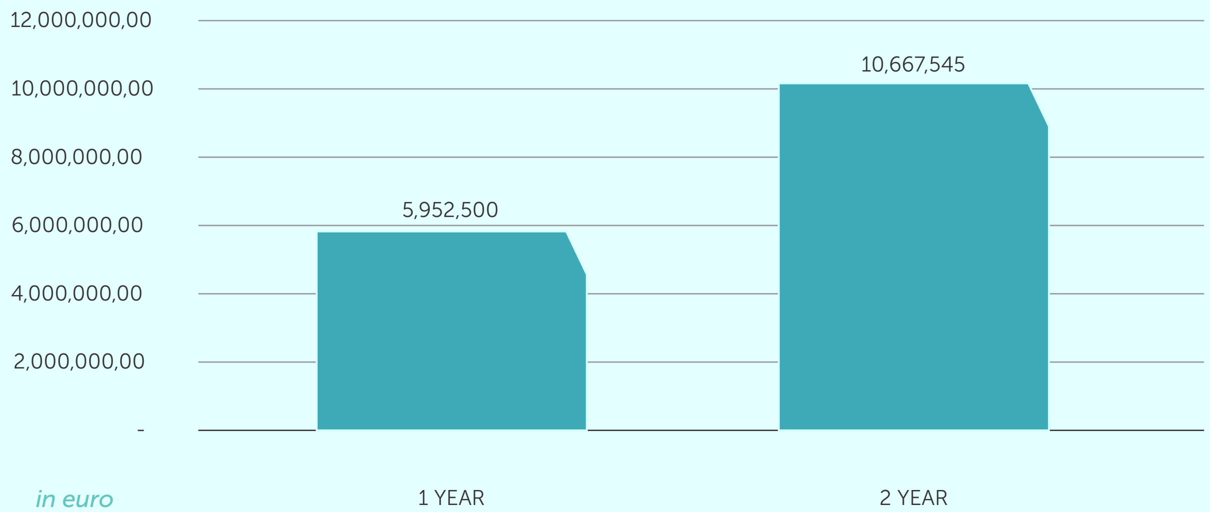
Effective governance of liquidity risk is essential for maintaining the confidence of donors and the PFIs and enabling core business to continue to bring in revenues, even under adverse circumstances.

The KCGF is engaged in using appropriate performance measurement techniques that balance risk and reward within the context of effective risk management. For purposes of optimizing potential returns within acceptable risk parameters, the KCGF has developed an investment policy that clearly sets out an investment framework consistent with the KCGF mandate and its strategic objectives.

During 2019, the KCGF invested EUR 16,620,045 in term deposits with its Partner Financial Institutions, with a maturity of one (1) and two (2) years, thus expanding co-operation in this direction.

Revenues are consolidated in the Income Statement, and the annual profit is reinvested or retained at the KCGF, increasing the capital, and is not distributed outside the KCGF in any form or manner, including dividends.

TERM DEPOSITS ACCORDING TO MATURITY



2019 MILESTONES

KCGF BECOMES PART OF COSME PROGRAM

After the ratification of the COSME agreement in the Assembly of Kosovo in August 2018, the opportunity was given to the Financial Institutions in Kosovo to apply for the COSME Program.

One of the key objectives of COSME is to provide greater access to financing for SMEs at different stages of their life cycle, such as: establishment, expansion, or transfer of business.

Such an objective, in line with the objectives of our Institution, at that time encouraged the KCGF to seize the opportunity and express interest by applying to the COSME Program.

This initiative was concluded in May 2019, when the KCGF and EIF, part of the European Investment Bank (EIB), signed the European Union COSME Program Guarantee Agreement to support small and medium enterprises (SMEs), making the KCGF the first candidate from Kosovo with a transaction approved under the COSME Credit Guarantee Facility.

As the first candidate from Kosovo with a transaction approved under the COSME Credit Guarantee Facility, for a period of two years, the KCGF is expected to support SME loans amounting to EUR 90,000,000.

The purpose of entering into such an agreement is to transfer up to 50% of the credit risk on the remaining amount of the guaranteed part. Such a goal is related to a range of benefits that this Program would provide to all related parties.

In addition to sharing the credit risk with a credible institution such as EIF, our Institution stands to benefit from further enhancement in financial sustainability, reputation, and credibility. Such a credibility boost means increased access to finance for MSMEs, greater private sector investments, better competitiveness for Kosovo enterprises, improved trade balance, increased employment, and economic growth and development in general.

IMPLEMENTATION OF AGREEMENT FOR RENEWABLE ENERGY

On October 3, 2019, the Millennium Foundation Kosovo, supported by the U.S. Millennium Challenge Corporation (MCC), has signed an Implementing Entity Agreement with the Kosovo Credit Guarantee Fund (KCGF), to build expertise and open a Project Lending and Renewable Energy Guarantee Window.

The agreement marks a step towards an important development aimed at increasing lending and investment in the solar energy sector and thus supporting renewable energy in Kosovo which will help Kosovo's economic development and affect the improvement of the environment in Kosovo.

This agreement focuses on three key interventions aimed at financing renewable energy in Kosovo:

1. Providing technical assistance and capacity building to establish a renewable energy guarantee window in project financing
2. Acceleration of investment projects in renewable energy - solar, ready for bank financing, through quality control of documentation and fulfillment of standard requirements by banks;
3. Standardizing the market through a toolkit for training and project standardization to help KCGF partner banks assess risk factors when evaluating solar generation projects.

The implementation of the above-mentioned interventions and the launch of the guarantee window for the financing of solar renewable energy projects, will open doors for the commercial banks in Kosovo towards expanding borders in the credit market, while at the same time catalyzing the renewable energy sector will positively affect the improvement of the environment in which we live.

PART V

ACTIVITIES DURING 2019

CONCLUSION OF NEW AGREEMENTS

FEBRUARY 2019

KOSOVO CREDIT GUARANTEE FUND IMPLEMENTS AGRO-WINDOW

The KCGF fully implements the Agro-Window after the signing of the guarantee agreement with TEB Bank and Banka Ekonomike, by entering into contractual relations with all Partner Financial Institutions.

MAY 2019

ANNIVERSARY CEREMONY AND SIGNING OF AGREEMENT WITH EIF

On the third anniversary of its launch, the KCGF and EIF, part of the European Investment Bank (EIB), signed the European Union COSME Program Guarantee Agreement to support small and medium enterprises (SMEs).

SEPTEMBER/OCTOBER 2019

SIGNING OF AGREEMENTS WITH PFIS

The KCGF signs guarantee agreements with all PFIs related to the COSME Program, thereby launching the implementation of the Program. Additionally, during 2019, the KCGF signed agreements on credit limit increase with BPB, RBKO, TEB, and BEK. The new limit agreements will allow banks to further expand lending and provide easier access to finance for MSMEs.

OCTOBER 2019

SIGNING OF KCGF/MFK IMPLEMENTATION AGREEMENT

KCGF and MFK, supported by the MCC, signed the Renewable - Solar Energy Implementation Agreement. The agreement aims to increase lending and investment in the solar energy sector, which will have a positive impact on improving the environment in which we live.

DECEMBER 2019

KCGF SIGNED THE MEMORANDUM OF UNDERSTANDING WITH CBK

The KCGF signed a new cooperation agreement with CBK. The Memorandum will provide even greater facility to the Fund in increasing the efficiency of internal processes in addition to information sharing between the KCGF and the CBK.

WORKSHOPS SEMINARS

During 2019, the KCGF attended various conferences, presenting the role of guarantee schemes, their impact on the overall economic development, in addition to highlighting the achievement of the KCGF objectives. Some of the events are listed below:

JANUARY 2019

CONFERENCE ON AGRICULTURE SECTOR FINANCING ORGANIZED BY IFC

The KCGF attended the Conference on Agriculture Sector Financing organized by IFC, notably the discussion panel on funding opportunities for the agriculture sector.

SEPTEMBER 2019

ROUND TABLE ON INFORMALITY IN AGRICULTURE SECTOR

The KCGF together with KfW organized the Round Table on Agriculture Sector Informality and its impact on increasing access to finance for agrobusinesses.

SEPTEMBER 2019

CONFERENCE PRESENTING THE 2019 BOTTLENECK STUDY

The KCGF attended the Conference presenting the 2019 Bottleneck Study organized by the Kosovo Chamber of Commerce, notably the discussion panel on access to finance and informality.

OCTOBER 2019

4TH EDITION OF THE GREEN FESTIVAL

The KCGF attended the Green Festival, notably the discussion panel on Financing and Supporting Energy Efficiency and Renewable Energy Projects – in the private sector in Kosovo.

DECEMBER 2019

EVENT ORGANIZED BY D4D FOR KCGF

The KCGF attended the Tuesday Salon discussion organized by D4D on "How to get easier access to finance".

ORIENTATION AND REFRESHER TRAINING WITH PARTNER FINANCIAL INSTITUTIONS

Orientation and refresher training with PFIs aims to raise the awareness of PFI staff on KCGF services, credit guarantees features, how such services make a difference and bring benefits to all related parties, i.e. PFIs, MSMEs, and the economy in general.

During 2019, the KCGF staff developed a series of orientation trainings for credit officers responsible for credit and risk analysis, who engage directly with the KCGF (staff and system), and the customers (MSMEs).

Such trainings were specific to the implementation of the COSME Program, the Agriculture Window, and provided a refresher course on standard products.

The table below (Table 3), provides a summary of trainings for PFI staff:

Table 3. Summary of the trainings for PFI-s

TYPE	NUMBER OF TRAININGS	NUMBER OF STAFF
ORIENTATION TRAINING AND MIS	7	22
ORIENTATION TRAINING ON AGRICULTURE WINDOW AND REFRESHER TRAINING	9	98
ORIENTATION TRAINING ON COSME AND AGRICULTURE WINDOW	14	206
TOTAL	30	326

MEETINGS OF THE BOARD OF DIRECTORS AND RELEVANT COMMITTEES

KCGF Board of Directors meetings

During 2019, the KCGF Board of Directors held a total of four (4) meetings, of which three were regular meetings and one ad hoc. At the board meetings, several important decisions were made on the further development of the KCGF, and the KCGF relations with third parties. Since one of the Institutional values is transparency, whereby we disclose information on working practices, policies and financial and operational results, during 2019, at the Board of Directors meetings, in the open part for the public, we had a guest Minister of Economic Development. as well as the Chief Executive Officer of the Kosovo Bank Association.

MEETINGS OF THE CREDIT RISK MANAGEMENT COMMITTEE AND AUDIT COMMITTEE

During 2019, the Credit Risk Management Committee (CRM) held four (4) regular meetings and Audit Committee (AC) held four (4) regular meetings. At these meetings, respective committees took decisions and recommendations for KCGF management and for final approval by the KCGF Board of Directors.

The following table (Table 4) presents the meetings of the Board and the subsidiary committees of the KCGF Board of Directors:

Table 4. Summary of the Board and the subsidiary committees

Schedule of the Board meetings	Participation of Board members	Number of topics discussed	Number of decisions made
April 2019	7/7	5	4
May 2019	7/7	5	5
August 2019	7/7	5	4
November 2019	7/7	3	1
Total:		18	14
Schedule of RMC meetings	**Participation of RMC members**	**Number of topics discussed**	**Number of decisions/ recommendations made**
May 2019	4/4	6	3
July 2019	4/4	5	3
November 2019	4/4	1	0
December, 2019	4/4	1	0
Total:		13	6
Schedule of AC meetings	**Participation of AC members**	**Number of topics discussed**	**Number of decisions/ recommendations made**
May 2019	4/4	6	4
July 2019	4/4	5	5
November 2019	4/4	4	0
December 2019	4/4	1	1
Total:		16	10

PART VI

AUDITED FINANCIAL STATEMENTS

KOSOVO CREDIT GUARANTEE FUND

Independent Auditor's Report and Financial Statements for the year ended December 31, 2019

CONTENT

Grant Thornton

Independent Auditor's Report

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To the Board of Directors of Kosovo Credit Guarantee Fund

Opinion

We have audited the financial statements of Kosovo Credit Guarantee Fund (the "Fund"), which comprise the separate statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other matter

The financial statements of the Fund as of and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion in their report on 25 April 2019.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

GRANT THORNTON L.L.C. KOSOVO

Grant Thornton LLC
Prishtina,
3 September 2020

Suzana Stavrikj
Statutory auditor

	Notes	As at December 31, 2019 (EUR)	As at December 31, 2018 (EUR)
ASSETS			
Cash and cash equivalents	4	735,567	961,039
Trade and other receivables	5	381,374	289,618
Deposits	6	16,891,934	15,741,506
Right of use asset	7	26,927	-
Property, plant, and equipment	8	2,032	7,591
Intangible assets	9	40,203	43,874
TOTAL ASSETS		**18,078,037**	**17,043,628**
EQUITY AND LIABILITIES			
Accrued expenses		9,206	13,613
Lease liability	7	27,468	-
Reserve for losses on Guarantees		688,299	299,683
Deferred revenues from donated assets	10	32,110	40,847
Accrual guarantee fees		549,819	402,684
Total liabilities		**1,306,902**	**756,827**
Equity			
Capital	11	15,790,921	15,790,921
Accumulated profit		980,214	495,880
Total equity		**16,771,135**	**16,286,801**
TOTAL EQUITY AND LIABILITIES		**18,078,037**	**17,043,628**

Authorized for issue by the management and signed on its behalf on 03 September 2020.

Besnik Berisha
Managing Director

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

Vjosa Balaj
Senior Finance Manager

The accompanying notes on pages 7 to 29 form an integral part of these financial statements.

	Notes	Year ended 31 December, 2019 (EUR)	Year ended 31 December, 2018 (EUR)
Guarantee fees	12	814,289	463,714
Other income	13	461,242	392,316
Total income		**1,275,531**	**856,030**
Personnel expenses	14	(176,188)	(163,141)
Depreciation and amortization	7,8,9	(43,647)	(33,162)
Operating expenses	15	(100,395)	(128,546)
Net provision losses for guarantees	16	(470,967)	(211,169)
Profit for the year		484,334	320,012
Other comprehensive income		-	-
Total comprehensive profit for the year		**484,334**	**320,012**

The accompanying notes on pages 7 to 29 form an integral part of these financial statements.

	Capital (EUR)	Accumulated profit (EUR)	Total (EUR)
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**
As at January 1, 2019	15,790,921	495,880	16,286,801
Profit for the year	-	484,334	484,334
Other comprehensive income	-	-	-
As at December 31, 2019	**15,790,921**	**980,214**	**16,771,135**

The accompanying notes on pages 7 to 29 form an integral part of these financial statements.

	Notes	Year ended 31 December, 2019 (EUR)	Year ended 31 December, 2018 (EUR)
Cash flow from operating activities:			
Profit of the year		484,334	320,012
Adjustments for:			
Depreciation and amortization	8,9	25,696	33,162
Interest on deposits		(245,050)	(180,513)
		264,980	**172,661**
Movements in working capital:			
Increase in other receivables		(91,756)	(207,446)
Increase in accrual guarantee fee		147,135	236,049
Increase in reserves for losses on Guarantees		388,616	211,170
(Decrease)/Increase in deferred revenues from donated assets		(8,737)	(31,869)
Increase in accruals		(4,406)	10,368
Increase in lease liability		541	-
Net cash (used)/generated in operating activities		**696,373**	**390,933**
Cash flow from investing activities:			
Acquisition of fixed assets	8,9	(16,467)	(6,088)
Increase in deposits		(1,058,045)	(7,062,000)
Received interest from deposits		152,667	70,500
Net cash used in investing activities		**(921,845)**	**(6,997,588)**
Cash from financing activities			
Paid in capital		-	-
Net cash generated in financing activities		**-**	**-**
Net (Decrease)/Increase in cash and cash equivalents during the year		**(225,472)**	**(6,606,655)**
Cash and cash equivalents at the beginning of the year		961,039	7,567,694
Cash and cash equivalents at the end of the year	4	**735,567**	**961,039**

The accompanying notes on pages 7 to 29 form an integral part of these financial statements.

1. GENERAL

The Kosovo Credit Guarantee Fund ("KCGF" or "the Fund") is an independent and sustainable institution that issues guarantee to financial institutions to cover the risk for MSME (Micro, Small and Medium Enterprises) loans.

KCGF was established, because 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 (Ministry of Trade and Industry), 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 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 (Law on Establishment of the Kosovo Credit Guarantee Fund). KCGF's governing bodies are the Board of Directors and the Managing Director. The Board of Directors shall be the highest governance body of KCGF.
The KCGF's fiscal identification number is 601642061.

KCGF operations and all administrative activities since June 10, 2017 are independent and under 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.
On May 14, 2019, the Kosovo Credit Guarantee Fund (KCGF) signed the Guarantee Agreement with the European Investor Fund under the COSME LGF (loan guarantee facility) program.
The support of the guaranteed portfolio of KCGF by SIDA and COSME, will further enhance the ability of the Fund to ensure a higher level of credit guarantees, while at the same time increasing the financial sustainability of the sector. The sustainability will reflect the facilitation of financial intermediation hence increase of access to finance of micro, small and medium size enterprises, 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. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in note 3.8.

2.1.1 *Standards and Interpretations effective in the current period*

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

- **IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019)**

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation and statement of compliance (continued)

2.1.1 *Standards and Interpretations effective in the current period (continued)*

The Fund recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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

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

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

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

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and lease liabilities in "other liabilities" in the statement of financial position (note 9).

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 6.49%.

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

- Using a single discount rate to a portfolio of leases with similar characteristics.
- Adjusting the right-of-use asset for any recognized onerous lease provisions, in-stead of performing an impairment review.
- Applying a recognition exemption for leases for which the lease term ends within 12 months of the date of initial application and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.
- Excluding initial direct costs from the measurement of the right-of-use asset.
- Using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation and statement of compliance (continued)

2.1.1 *Standards and Interpretations effective in the current period (continued)*

Policy applicable from 1 January 2019

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

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

This policy is applied to contracts entered, or changed, on or after 1 January 2019.
At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component based on their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Policy applicable before 1 January 2019

For contracts entered before 1 January 2019, the Fund measured the Right of Use Asset equals to the Lease Liability. In determining whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  i) the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output.
  ii) the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  iii) facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

• **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019)

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation and statement of compliance (continued)

2.1.1 *Standards and Interpretations effective in the current period (continued)*

• **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019)

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 IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019)

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.

• **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019)

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, its 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 remeasure 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.

• **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019)
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. The adoption of these amendments to the existing standards has not led to any material changes in the KCGF's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation and statement of compliance (continued)

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

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

• **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),

• **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (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).

• **Amendments to IFRS 9 "Financial Instruments"**, **IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),

• **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

• **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),

• **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The KCGF has elected not to adopt these standards, amendments to existing standards and new interpretations in advance of their effective dates.

2.2 Financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. Financial liabilities are classified and measured at amortized cost.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Financial assets and financial liabilities (continued)

- o the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At the initial recognition, KCGF measures a financial asset or liability at its fair value plus or minus, in the case of a financial asset or liability not at fair value through profit and loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or liability, such as fees and commissions.

As at 31 December 2019 and 2018, financial assets and liabilities of the Fund are subsequently measured at amortized cost and include of cash and cash equivalents, deposits, trade and other receivables and liabilities.

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired. Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, or expires).

2.3 Cash and cash equivalents

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

2.4 Property, Plant and Equipment

In the financial statement's property, plant and equipment are measured at historical cost of acquisition less accumulated depreciation and impairment loss.

Initial recognition

Upon their initial acquisition property, plant and equipment are valued at acquisition cost, which comprises the purchase price, including customs charges and any directly attributable costs of bringing the asset to working condition. The directly attributable costs include costs for site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes etc.

Subsequent measurement

The approach chosen by the Company for subsequent measurement of property, plant and equipment, is the cost model under IAS 16 - acquisition cost less any accumulated depreciation and any accumulated impairment losses.

Gains or losses from derecognition of an item of property, plant, and equipment (calculated as the difference between the proceeds and the carrying amount of the item) are recognized net within other income/other costs in profit or loss.

Depreciation methods

The Fund applies the straight-line depreciation method for property, plant, and equipment as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Property, Plant and Equipment (continued)

Depreciation methods (continued)

(i) Equipment and IT equipment 3 years (useful life)
(ii) Office furniture 3 years (useful life)

2.5 Intangible assets

In the financial statements the intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. They include software programs and license for their use**.** The Fund applies the straight-line depreciation method for the intangible assets with a determined useful life of 5 years.

2.6 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax-discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

Impairment losses are recognized in the statement of comprehensive income.

2.7 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.

2.8 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.

2.9 Revenue recognition

Revenue from services is recognized when all the following conditions are satisfied:

- the amount of revenue can be measured reliably.
- it is probable that the economic benefits associated with the transaction will flow to the entity.
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the cost incurred for the transaction and the cost to complete the transaction can be measured reliably.

The Fund’s revenues are:

(i) Revenues from guarantee fees
(ii) Interest from investment

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Revenue recognition (continued)

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.

2.10 Expenses

KCGF's expenses are:

(i) Re-guarantee expenses (fees paid for a counter guarantee)
(ii) Operating expenses (general administrative expenses)
(iii) Personnel expenses (salaries, board fees)
(iv) Provision expenses (provision for guarantee losses) – Note 2.11

The fund registers the expenses under the accrual basis of accounting. The difference between revenues and expenses represents the net income/loss during the accounting period, which is transferred into the accumulated profit as part of the capital of the fund.

KCGF pays only contributions to a publicly administered pension plan on a mandatory basis. The Fund has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2.11 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 (Registering Financial Institutions) regarding credit classification is 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, based on 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 the second stage, 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Provisions (continued)

The guiding principle of IFRS 9 is that Expected Credit Loss (ECL) reflects the general pattern of deterioration or improvement in the credit quality. The amount of ECL recognized as a loss allowance or provision depends on the extent of credit deterioration since initial recognition.
Under the general approach, there are two measurement bases:

- 12-month ECLs (Stage 1), which applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality.
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

Stage 1 - involves identifying financial instruments that have not deteriorated. For these instruments 12-month expected credit losses would be recognized. That is, an estimate would be made of the probability of a default occurring in the 12 months following the reporting date. That probability would be multiplied by the shortfall in lifetime cash flows (that is, the present value of the difference of all principal and interest contractually due and the amount the entity expects to receive) In essence, the 12 month expected credit losses represent a portion of the lifetime credit losses.
Stage 2 - involves identifying financial instruments that have deteriorated significantly in credit quality since they were first recognized, and do not exhibit objective evidence of a credit loss event. For these instruments, lifetime expected credit losses would be recognized; interest revenue would still be calculated on the gross carrying amount for these instruments. In contrast to 12-month expected credit losses, lifetime expected credit losses represent estimates based on the probability of a default event occurring at any time over the life of an instrument and is not only weighted by the likelihood of possible default events over the next 12 months.
Stage 3 - is for those financial instruments that do show objective evidence of impairment at the reporting date. For such instruments, lifetime expected credit losses are recognized, but unlike for financial assets in Stages 1 or 2, the interest revenue on these assets is calculated on the net carrying amount (i.e. the gross carrying amount less the loss allowance for expected credit losses).

2.12 Commitments and contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but 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 regarding risk.

The KCGF Risk Management Policy sets out the key principles which to establish an appropriate system of risk oversight and management. The key principles for risk management are implemented in 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.

3.3 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 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 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 to be registered in KCGF:

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Credit risk (continued)

- 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.
Maximum exposure to credit risk for all financial assets is presented in the Statement of financial position and within the notes.

3.4 Liquidity risk

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

	December 31,2019			
	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	735,567	-	-	-
Trade and other receivables	381,374	-	-	-
Deposits	12,223,243	4,668,691	-	-
Total financial assets	**13,340,184**	**4,668,691**	**-**	**-**
Financial liabilities				
Payables and other liabilities	697,505	-	-	-
Total financial liabilities	**697,505**	**-**	**-**	**-**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Liquidity risk (continued)

	December 31,2018			
	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	961,039	-	-	-
Trade and other receivables	289,618	-	-	-
Deposits	7,679,923	8,061,583	-	-
Total financial assets	**8,930,580**	**8,061,583**	**-**	**-**
Financial liabilities				
Payables and other liabilities	313,296	-	-	-
Total financial liabilities	**313,296**	**-**	**-**	**-**

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. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2019, and 2018, the Fund has no financial assets measured at fair value.

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 2019 (EUR)	Fair value 2019 (EUR)
Financial assets		
Cash and cash equivalents	735,567	735,567
Trade and other receivables	381,374	381,375
Deposits	16,891,934	16,891,934
Total financial assets	**18,008,875**	**18,008,876**
Financial liabilities		
Payables and other liabilities	697,505	697,505
Total financial liabilities	**697,505**	**697,505**

	Carrying value 2018 (EUR)	Fair value 2018 (EUR)
Financial assets		
Cash and cash equivalents	961,039	961,039
Trade and other receivables	289,618	289,618
Deposits	15,741,506	15,741,506
Total financial assets	**16,992,163**	**16,992,163**
Financial liabilities		
Payables and other liabilities	313,296	313,296
Total financial liabilities	**313,296**	**313,296**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.8 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management also needs to exercise judgement in applying the KCGF accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis.

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

Impairment of credit guarantees

The Funds reviews its credit guarantee contracts to assess whether an impairment loss should be recorded in profit or loss. In particular management's judgement is required in the estimation amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors. Details are provided in Note 2.11.

Useful life of depreciable assets

Management reviewed the useful lives of depreciable assets at 31 December 2019. Management estimates the determined useful life of assets represents the expected usefulness (utility) of assets. The carrying values of such assets are analyzed in Notes 8. However, the factual results may differ due to the technological obsoleteness.

4. CASH AND CASH EQUIVALENTS

	As at December 31, 2019 (EUR)	As at December 31, 2018 (EUR)
Cash at Central Bank of Kosovo	686,131	903,366
Current Accounts	49,127	57,393
Petty cash	309	280
Total cash and cash equivalents	**735,567**	**961,039**

5. TRADE AND OTHER RECEIVABLES

	As at December 31, 2019 (EUR)	As at December 31, 2018 (EUR)
Receivables from clients Accrual	374,942	283,854
Advances	6,432	5,764
Total receivables	**381,374**	**289,618**

5. TRADE AND OTHER RECEIVABLES (continued)

Receivables from clients as at 31 December 2019 and 2018 are past due. Receivables from clients are paid in the following month as the Fund generates the fees invoices in the following month, after the banks report of the status update of the outstanding of the guarantee.

6. DEPOSITS

The total deposits as at 31.12.2019 are in amount of 16,620,045 EUR (2018: 15,562,000 EUR) with a minimum interest rate of 1.2% and maximum interest rate 2.1% (2008: minimum interest rate of 1% and maximum interest rate 1.75%).
The investments, which should have a minimum maturity of 1 year and a maximum maturity of 5 years, are limited to banks that meet the criteria as approved by KCGF's Board of Directors.

	As at December 31, 2019 (EUR)	As at December 31, 2018 (EUR)
Deposits in banks in Kosovo	16,620,045	15,562,000
Accrued interest	271,889	179,506
	16,891,934	15,741,506
Current maturity of long-term deposits	(12,223,243)	(7,679,923)
Non-current deposits	**4,668,691**	**8,061,583**

7. RIGHT-OF-USE ASSET AND LEASE LIABILITY

7.1 Right-of-use

	Building (EUR)	Total (EUR)
As at January 31, 2019	44,878	44,878
Depreciation charge for the year	(17,951)	(17,951)
As at December 31, 2019	26,927	26,927
Net book value as at 31 December 2019	**26,927**	**26,927**

7.2 Lease liability

	Building (EUR)	Total (EUR)
As at January 31, 2019	44,878	44,878
Lease payment for the year	(18,840)	(18,840)
Interest expenses	1,430	1,430
Lease liability as at 31 December 2019	**27,468**	**27,468**

8. PROPERTY, PLANT AND EQUIPMENT

	Equipment (EUR)	IT Equipment (EUR)	Office furniture (EUR)	Total (EUR)
Historical cost				
As at January 1, 2018	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**
Additions during the period	2,544	-	-	2,544
As at December 31, 2019	**4,682**	**50,431**	**19,947**	**75,060**
Accumulated depreciation				
As at January 1, 2018	1,469	26,343	18,600	46,412
Depreciation for the period	458	16,709	1,347	18,514
As at December 31, 2018	**1,927**	**43,052**	**19,947**	**64,926**
Depreciation for the period	723	7,379	-	8,102
As at December 31, 2019	**2,650**	**50,431**	**19,947**	**73,028**
				-
NET VALUE				-
As at December 31, 2019	**2,032**	**-**	-	**2,032**
As at December 31, 2018	**211**	**7,379**	**-**	**7,590**

As at 31 December 2019 and 2018, KCGF uses all property and equipment for its activities and there are no encumbrances over KCGF assets.

9. INTANGIBLE ASSETS

	Software (EUR)	Total (EUR)
Historical cost		
As at January 1, 2018	72,747	72,747
Additions during the period	5,922	5,922
As at December 31, 2018	**78,669**	**78,669**
Additions during the period	13,923	13,923
As at December 31, 2019	**92,592**	**92,592**
Accumulated amortization		
As at January 1, 2018	20,147	20,147
Amortization for the period	14,648	14,648
As at December 31, 2018	**34,795**	**34,795**
Amortization of the year	17,594	17,594
As at December 31, 2019	**52,389**	**52,389**
NET VALUE		
As at December 31, 2019	**40,203**	**40,203**
As at December 31, 2018	**43,874**	**43,874**

As at 31 December 2019 and 2018, there are no encumbrances over KCGF intangible assets.

Management Information System is the Fund's software which was originally donated by USAID. This system was purchased and activated in July 2016 and its initial value was 66,825 euros. KCGF during 2017 and 2018 has upgraded the system with own funds in the amount of 11,844 euros. Also, in 2019, the fund has upgraded the system again with a donation from KfW in the amount of 13,923 euros. The Fund has recognized the system as an asset in the financial statements and has accounted for deferred income in relation to the amount of the donation.

10. DEFERRED REVENUES FROM DONATED ASSETS

	As at December 31, 2019 (EUR)	As at December 31, 2018 (EUR)
Equipment	-	55
IT Equipment	-	7,379
Office furniture	-	-
Software	32,110	33,413
Total in kind contributions	**32,110**	**40,847**

10. DEFERRED REVENUES FROM DONATED ASSETS (continued)

	As at December 31, 2019 (EUR)	As at December 31, 2018 (EUR)
At the beginning	40,847	72,716
Additions during the year	13,923	-
Depreciation and amortization	(22,660)	(31,869)
At the end of the year	**32,110**	**40,847**

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

11. CAPITAL

Capital consists of funds provided to the KCGF as grants as follows:

- 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.
- 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.

12. GUARANTEE FEES

	As at December 31, 2019 (EUR)	As at December 31, 2018 (EUR)
Guarantee fees	814,289	463,714
Total guarantee fees	**814,289**	**463,714**

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.

13. OTHER INCOME

	As at December 31, 2019 (EUR)	As at December 31, 2018 (EUR)
Funds for operative expenses	193,532	179,935
In kind fixed asset donation	22,660	31,868
Interest income from deposits	245,050	180,513
Total other income	**461,242**	**392,316**

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 2019. It is important to note that funds under this award will only be used for operating expense coverage, and not for loan losses.

14. PERSONNEL EXPENSES

	As at December 31, 2019 (EUR)	As at December 31, 2018 (EUR)
Salaries	145,568	134,541
Pension contribution	16,475	15,385
Tax salaries	14,145	13,215
Total personnel expenses	**176,188**	**163,141**

15. OPERATING EXPENSES

	As at December 31, 2019 (EUR)	As at December 31, 2018 (EUR)
Re-guarantee expenses	34,631	7,126
Office rent & utilities	5,809	20,811
Maintenance & Repair Exp.	19,840	11,744
Translator and other Professional services	15,498	58,182
Expenses for Membership & Subscription	5,825	2,751
Publications, Branding and Marketing	5,407	10,302
Phone and internet expenses	3,250	3,630
Training, Conferences and Seminars	-	5,294
Bank fees	491	375
Other expenses	9,644	8,331
Total operating expenses	**100,395**	**128,546**

15. OPERATING EXPENSES (continued)

On December 6, 2017, the Fund signed the Guarantee Agreement with the Swedish International Development Cooperation Agency (SIDA), represented by the Embassy of Sweden in Pristina.
With the mediation of the Swedish Embassy in Kosovo, KCGF has benefited from the portfolio reassurance scheme. This reinsurance scheme has a single use character and enables the transfer of 50% of the risk to the part guaranteed by the KCGF, while as compensation the KCGF pays a reimbursement fee, calculated on the guaranteed part.

16. NET PROVISION LOSSES FOR GUARANTEES

	As at December 31, 2019 (EUR)	As at December 31, 2018 (EUR)
Additional provision	1,049,323	520,108
Release of provision	(578,356)	(308,939)
Total net provision expenses	**470,967**	**211,169**

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.

Movement of reserve for losses on guarantees for 2019 and 2018 is as follows:

	For the year ended at 31 December 2019 (EUR)	For the year ended at 31 December 2018 (EUR)
As at 1 January	299,683	88,514
Additional provision	1,049,323	520,108
Release of provision	(578,355)	(308,939)
Claims paid	(82,352)	-
As at 31 December	688,299	299,683

The claims paid refer to four (4) claims paid requested by 3 banks.

17. CONTINGENCIES AND COMMITMENTS

	As at December 31, 2019 (EUR)	
	Number of Guarantees	Outstanding Guaranteed Amount
Total	**3,133**	**43,885,949**

17. CONTINGENCIES AND COMMITMENTS (continued)

	As at December 31, 2018 (EUR)	
	Number of Guarantees	**Outstanding Guaranteed Amount**
Total	**1,961**	**29,378,984**

Litigation and claims

As of 31 December 2019, there are no litigations or claims against FKGK (2018: no litigations or claims against FKGK).

18. RELATED PARTY TRANSACTIONS

Related parties consist of the Board of Directors of the Fund. Parties are considered related if one party could control the other party or exercise significant influence over the other party in making financial or operational decisions. The expenses shown below include compensation paid to Board Members (renumeration fee for meetings, pension contribution) as per the Statute.

As at December 31, 2019	**Receivables (EUR)**	**Liabilities (EUR)**	**Revenues (EUR)**	**Expenses (EUR)**
Board Members	-	-	-	19,580
Total	**-**	**-**	**-**	**19,580**

As at December 31, 2018	**Receivables (EUR)**	**Liabilities (EUR)**	**Revenues (EUR)**	**Expenses (EUR)**
Board Members	-	-	-	13,820
Total	**-**	**-**	**-**	**13,820**

19. EVENTS AFTER THE REPORTING DATE

Since the outbreak of the COVID-19 epidemic the Fund closely monitors the development of the situation and implements measures proposed by the Government of the Republic of Kosovo and its relevant institutions. The development of the situation with the Covid-19 virus and its social and economic impact in Kosovo and globally, may result in deterioration of the payment of loan installments by MSME, consequently increase of claims form banks. Given the dynamics of the spread of this pandemic and the dynamic measures being taken to prevent and manage it, we expect to have an impact on our business results, but it is currently impossible to estimate the financial impact.
However, the institution has analyzed the guarantee portfolio and according to the composition of economic activities, projected the potential impact that the pandemic crisis will have on the quality of the guarantee portfolio. Based on this approach, accordingly, the institution, increased credit risk provision reserves, to prepare the institution, if the projections materialize. This conservative approach confirms once more the prudent risk practices that the institution follows.

In accordance with the Financing Agreement entered between Government of Kosovo, and the Kosovo Credit Guarantee Fund (KCGF) and KfW, dated April 2020, the Fund has received additional capital in the amount of 6,500,000.00 EUR.

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

KOSOVO CREDIT GUARANTEE FUND

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