KOSOVO CREDIT GUARANTEE FUND

Independent Auditor’s Report and Financial Statements for the year ended December 31, 2020

CONTENT

Independent Auditor's Report

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To the Board of Directors of
Kosovo Credit Guarantee Fund

Opinion

We have audited the accompanying financial statements of Kosovo Credit Guarantee Fund (the "Fund"), which comprise the statement of financial position as at 31 December 2020, 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 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund 's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Grant Thornton LLC
Prishtina

Suzana Stavrikj
Statutory auditor

GRANT THORNTON L.L.C. KOSOVO

1 June 2021

	Notes	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
ASSETS			
Cash and cash equivalents	4	28,089,205	735,567
Trade and other receivables	5	231,824	381,374
Deposits	6	24,050,187	16,891,934
Right of use asset	7	79,324	26,927
Property, plant, and equipment	8	24,605	2,032
Intangible assets	9	25,119	40,203
TOTAL ASSETS		**52,500,263**	**18,078,037**
EQUITY AND LIABILITIES			
Accrued expenses		29,275	9,206
Lease liability	7	81,302	27,468
Reserve for losses on Guarantees	16	1,445,576	688,299
Deferred revenues from donated assets	10	612,850	32,110
Accrual guarantee fees		583,813	549,819
Total liabilities		**2,752,816**	**1,306,902**
Equity			
Capital	11	48,700,921	15,790,921
Accumulated profit		1,046,526	980,214
Total equity		**49,747,447**	**16,771,135**
TOTAL EQUITY AND LIABILITIES		**52,500,263**	**18,078,037**

Authorized for issue by the management and signed on its behalf on 31 May 2021.

Besnik Berisha
Managing Director

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

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, 2020 (EUR)**	**Year ended 31 December, 2019 (EUR)**
Guarantee fees	12	1,061,886	814,289
Other income	13	349,561	461,242
Total income		**1,411,447**	**1,275,531**
Personnel expenses	14	(205,779)	(176,188)
Depreciation and amortization	7,8,9	(46,748)	(43,647)
Operating expenses	15	(106,436)	(100,395)
Net provision losses for guarantees	16	(986,172)	(470,967)
Profit for the year		66,312	484,334
Other comprehensive income		-	-
Total comprehensive profit for the year		**66,312**	**484,334**

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, 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**
As at January 1, 2020	15,790,921	980,214	16,771,135
Paid in Capital	32,910,000	-	32,910,000
Profit for the year	-	66,312	66,312
Other comprehensive income	-	-	-
As at December 31, 2020	**48,700,921**	**1,046,526**	**49,747,447**

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

	Notes	Year ended 31 December, 2020 (EUR)	Year ended 31 December, 2019 (EUR)
Cash flow from operating activities:			
Profit of the year		66,312	484,334
Adjustments for:			
Depreciation and amortization	7,8,9	46,748	25,696
Interest on deposits		(282,648)	(245,050)
Interest expenses on the lease liabilities		(4,974)	(1,430)
		(174,562)	**263,550**
Movements in working capital:			
Increase in trade and other receivables		149,550	(91,756)
Increase in accrual guarantee fee		33,994	147,135
Increase in reserves for losses on Guarantees		757,277	388,616
(Decrease)/Increase in deferred revenues from donated assets		580,740	(8,737)
Increase in accruals		20,070	(4,406)
Increase in lease liability		4,441	19,381
Interest paid for lease liabilities		4,974	1,430
Net cash (used)/generated in operating activities		**1,376,484**	**715,213**
Cash flow from investing activities:			
Acquisition of fixed assets	8,9	(30,891)	(16,467)
Increase in deposits		(7,158,876)	(1,058,045)
Received interest from deposits		283,271	152,667
Net cash used in investing activities		**(6,906,496)**	**(921,845)**
Cash from financing activities			
Repayment of lease liability		(26,350)	(18,840)
Paid in capital		32,910,000	-
Net cash generated in financing activities		**32,883,650**	**(18,840)**
Net (Decrease)/Increase in cash and cash equivalents during the year		**27,353,638**	**(225,472)**
Cash and cash equivalents at the beginning of the year		735,567	961,039
Cash and cash equivalents at the end of the year	4	**28,089,205**	**735,567**

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 USAID, KfW and the Government of Kosovo (GoK).

KCGF is created to help meet the need for increased access to finance for micro, small and medium enterprises in Kosovo, 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.

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.

Impact from the Covid-19 pandemic

The rapid development of the COVID-19 virus and its social and economic impact in Kosovo and globally has affected the economy of Kosovo. As a result of the pandemic, the economy has been negatively affected by creating a decline in aggregate demand and thus affecting the financial sector. One of the measures taken during this time, was the moratorium on loan repayment which is also reflected in the KCGF. This measure is considered effective to affect the liquidity of businesses during a difficult time. Also, the subsequent impact is in maintaining the quality of the portfolio until a moment of recovery of businesses from the limitations of the pandemic.

Despite the Pandemic, KCGF has a very stable liquidity position, as a result it continued to meet its obligations during this time. Portfolio developments and guarantee risk have been monitored and the necessary steps have been taken by allocating additional provision deemed necessary.

2. These circumstances did not affect the appropriateness of the going concern assumption of the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of preparation and statement of compliance (continued)
3.1.1 *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:

• **Amendments to IFRS 3 "Business Combinations"** - Definition of a business (effective for annual periods beginning on or after 1 January 2020).

• **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure"** - Reference at the reference rate (effective for annual periods beginning on or after 1 January 2020).

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

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

• **Amendments to IFRS 16 Leases - COVID-19 Lease Concessions** (effective for annual periods beginning on or after 1 June 2020).

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"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023).

• **Amendments to IFRS 3 "Business Combinations"** - Conceptual Framework Reference to the amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022).

• **Amendments to IFRS 4 "Insurance Contracts"** - Extension of the temporary exemption from the application of IFRS 9 (the expiry date of the temporary exemption from IFRS 9 has been extended to annual periods beginning on or after 1 January 2023).

• **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** - Interest Rate Standard Reform - Phase 2 (effective for annual periods beginning on or after 1 January 2021)

• **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 Investments in Joint Ventures and Joint Ventures** - Sale or Contribution of Assets between an Investor and a Joint Venture or Joint Venture and other changes (date of entry in force is indefinitely postponed until the completion of the research project on the equity method).

• **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of current and long-term liabilities (effective for annual periods beginning on or after 1 January 2023).

• **Amendments to IAS 16 Property, Plant and Equipment** - Revenue before Intended Use (Effective for annual periods beginning on or after 1 January 2022).

• **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Variable Contracts - Contract Performance Cost (effective for annual periods beginning on or after 1 January 2022).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation and statement of compliance (continued)
2.1.2 Standards and Interpretations issued by IASB issued but not yet effective and not early adopted by the KCGF (continued)

• **Annual Improvements to IFRS Standards Cycle 2018-2020** (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41).

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

2.2 Financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. Financial liabilities are classified and measured at amortized 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
- 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 2020 and 2019, 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 derecognized when the contractual rights to receive the cash flows from the assets have expired. Financial liabilities are derecognized when they are extinguished (i.e., when the obligation specified in the contract is discharged, 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, ProCredit Bank and NLB Bank.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

(i) Equipment and IT equipment	3 years (useful life)
(ii) Office furniture	3 years (useful life)
(iii) Leasehold improvements	as per the lease contract

2.5 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 Right of used asset

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Right of used asset (continued)

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.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 6.4%.

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

- 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Right of used asset (continued)

- 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.

2.7 Impairment of non-financial assets

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

2.8 Fund's balance

The Fund Balance is a grant provided by the Government of the Republic of Kosovo, USAID and KfW. During December 2020, to increase the capital of KCGF, grant agreements in the amount of 11.5 million Euros were signed between the German Development Bank (KfW) and the Ministry of Finance, also a loan agreement was signed between the World Bank and the Ministry of Finance and further for a grant between the Ministry of Finance and KCGF for the amount of 21.4 million Euros.

2.9 Current and deferred income taxes

According to LKCGF, the Fund is exempt from Corporate Income Tax, VAT, and tax on dividends, interest or investment income earned from funds on credit guarantees or investments, and any other levy, withholding or tax to any aspect of the operations of the Fund.

2.10 Revenue recognition

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

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

The Fund's revenues are:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Revenue recognition (continued)

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

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

Interest from investment
Investment means 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.

2.11 Expenses

KCGF’s expenses are:

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

2.12 Donations

KCGF accepts donations or Technical Assistance from donors. In the framework of Technical Assistance, KCGF receives funds and expenses specified in the contract, fixed or intangible assets and capacity building. KCGF accounts for the amounts received depending on the specifics of the contract as deferred revenues and only after their realization registers them into donation revenues in the Income Statement.

2.13 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Provisions (continued)

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.

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).

2.14 Commitments and contingencies

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

KCGF is not exposed to foreign exchange risk, since all assets, liabilities and transactions are in EUR. KCGF is also not exposed to interest rate risk, since all assets and liabilities are with fixed interest rates.

3.3 Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower to honor its financial or contractual obligations to a bank. KCGF's risks 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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Credit risk (continued)

KCGF requirements. The registration policy sets the key principles that financial institutions should have to be registered in KCGF:

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

For ensuring the guarantee commitments that KCGF is taking within its risk bearing capacity and that its portfolio is well diversified, KCGF has adopted 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 31,2020				
		Current			
	Up to 1 year (EUR)	1 to 2 years (EUR)	2 to 5 years (EUR)	Over 5 years (EUR)	Total (EUR)
Financial assets					
Cash and cash equivalents	28,089,205	-	-	-	28,089,205
Trade and other receivables	231,824	-	-	-	231,824
Deposits	19,877,488	4,172,699	-	-	24,050,187
Total financial assets	**48,198,517**	**4,172,699**	**-**	**-**	**52,371,216**
Financial liabilities					
Payables and other liabilities	1,492,493	18,770	44,891	-	1,556,154
Total financial liabilities	**1,492,493**	**18,770**	**44,891**	**-**	**1,556,154**

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Liquidity risk (continued)

	December 31,2019				
		Current			
	Up to 1 year (EUR)	1 to 2 years (EUR)	2 to 5 years (EUR)	Over 5 years (EUR)	Total (EUR)
Financial assets					
Cash and cash equivalents	735,567	-	-	-	735,567
Trade and other receivables	381,374	-	-	-	381,374
Deposits	12,223,243	4,668,691	-	-	16,891,934
Total financial assets	**13,340,184**	**4,668,691**	**-**	**-**	**18,008,875**
Financial liabilities					
Payables and other liabilities	715,658	9,315	-	-	724,973
Total financial liabilities	**715,658**	**9,315**	**-**	**-**	**724,973**

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 2020, and 2019, 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 2020 (EUR)	Fair value 2020 (EUR)
Financial assets		
Cash and cash equivalents	28,089,205	28,089,205
Trade and other receivables	231,824	231,824
Deposits	24,050,187	24,050,187
Total financial assets	**52,371,216**	**52,371,216**
Financial liabilities		
Payables and other liabilities	1,474,852	1,474,852
Total financial liabilities	**1,474,852**	**1,474,852**

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

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. 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 several factors. Details are provided in Note 2.11.

Useful life of depreciable assets

Management reviewed the useful lives of depreciable assets on 31 December 2020. 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**Error! Reference source not found.**. However, the factual results may differ due to the technological obsoleteness.

4. CASH AND CASH EQUIVALENTS

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Cash at Central Bank of Kosovo	27,906,366	686,131
Current Accounts	182,354	49,127
Petty cash	485	309
Total cash and cash equivalents	**28,089,205**	**735,567**

5. TRADE AND OTHER RECEIVABLES

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Receivables from clients Accrual	223,834	374,942
Advances	7,990	6,432
Total receivables	**231,824**	**381,374**

5. TRADE AND OTHER RECEIVABLES (continued)

Receivables from clients as of 31 December 2020 and 2019 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 31.12.2020 are in amount of 23,778,921 EUR (2019: 16,620,045 EUR) with a minimum interest rate of 0.5% and maximum interest rate 2.1% (2019: minimum interest rate of 1.2% and maximum interest rate 2.1%).
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, 2020 (EUR)	As at December 31, 2019 (EUR)
Deposits in banks in Kosovo	23,778,921	16,620,045
Accrued interest	271,266	271,889
	24,050,187	16,891,934
Current maturity of long-term deposits	(19,877,488)	(12,223,243)
Non-current deposits	**4,172,699**	**4,668,691**

7. RIGHT-OF-USE ASSET AND LEASE LIABILITY

7.1 Right-of-use

Right of use assets comprise of a building leased for KCGF office.

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
As at January 1	26,927	44,878
Depreciation charge for the year	(7,480)	(17,951)
Write off	(19,447)	-
Right of use asset	95,189	-
Depreciation charge for the year	(15,865)	-
As at December 31	79,324	26,927
Net book value as at 31 December	**79,324**	**26,927**

7.2 Lease liability

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
As at January 1	27,468	44,878
Lease payment for the year	(7,850)	(18,840)
Interest expenses	362	1,430
Write off	(19,980)	-
Right of use asset	95,189	-
Lease payment for the year	(18,500)	-
Interest expenses	4,613	-
Lease liability as at 31 December	**81,302**	**27,468**

8. PROPERTY, PLANT AND EQUIPMENT

	Equipment (EUR)	IT Equipment (EUR)	Office furniture (EUR)	Leasehold improvements (EUR)	Total (EUR)
Historical cost					
As at January 1, 2019	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**
Write off	**(1,972)**	**(50,431)**	**(19,947)**	**-**	**(72,350)**
Additions during the period	1,979	616	3,746	20,588	26,929
As at December 31, 2020	**4,689**	**616**	**3,746**	**20,588**	**29,639**
Accumulated depreciation					
As at January 1, 2019	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**
Write off	**(1,972)**	**(50,431)**	**(19,947)**	**-**	**(72,350)**
Depreciation for the period	1,275	32	574	2,475	4,356
As at December 31, 2020	**1,953**	**32**	**574**	**2,475**	**5,034**
NET VALUE					
As at December 31, 2020	**2,736**	**584**	**3,172**	**18,113**	**24,605**
As at December 31, 2019	**2,032**	**-**	**-**	**-**	**2,032**

As at 31 December 2020 and 2019, 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, 2019	78,669	78,669
Additions during the period	13,923	13,923
As at December 31, 2019	**92,592**	**92,592**
Additions during the period	3,962	3,962
As at December 31, 2020	**96,554**	**96,554**
Accumulated amortization		
As at January 1, 2019	34,795	34,795
Amortization for the period	17,594	17,594
As at December 31, 2019	**52,389**	**52,389**
Amortization of the year	19,046	19,046
As at December 31, 2020	**71,435**	**71,435**
NET VALUE		
As at December 31, 2020	**25,119**	**25,119**
As at December 31, 2019	**40,203**	**40,203**

As at 31 December 2020 and 2019, 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. With a donation from KfW, the fund has upgraded the system again in 2019 in the amount of 13,923 euros and in 2020 in the amount of 3,962 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

10.1 Deferred revenue from donated assets

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Equipment	-	-
IT Equipment	-	-
Office furniture	-	-
Software	19,394	32,110
Total in kind contributions	**19,394**	**32,110**

10. DEFERRED REVENUES FROM DONATED ASSETS (continued)

10.1 Deferred revenue from donated assets (continues)

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
At the beginning	32,110	40,847
Additions during the year	3,962	13,923
Depreciation and amortization (Note 13)	(16,678)	(22,660)
At the end of the year	**19,394**	**32,110**

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.

10.2 Deferred revenue from guarantee fee subsidy

	As at December 31, 2020 (euro)	As at December 31, 2019 (euro)
Fee subsidy	500,000	-
Total deferred revenues from subsidy fee	**500,000**	**-**

	As at December 31, 2020 (euro)	As at December 31, 2019 (euro)
At the beginning	-	-
Additions during the period	500,000	-
Utilized	-	-
At the end of the year	**500,000**	**-**

KCGF in the framework of the contract signed between KCGF and the Ministry of Finance on December 31, 2020, receives as an advance the subsidy of the guarantee fee, in the amount according to the contract, distributed over a period of time. KCGF records the amount as deferred income and only after the realization of the guarantee, it records it as income in the statement of comprehensive income.

10.3 Deferred revenue from technical assistance

	As at December 31, 2020 (euro)	As at December 31, 2019 (euro)
FSSP technical assistace	93,456	-
Total deferred revenues from technical assistance	**93,456**	**-**

	As at December 31, 2020 (euro)	As at December 31, 2019 (euro)
At the beginning	-	-
Additions during the period	100,000	-
Utilized (Note 12)	(6,544)	-
At the end of the year	**93,456**	**-**

KCGF in the framework of the contract signed on September 17, 2020 between KCGF and the Government of the Republic of Kosovo represented by Ministry of Finance and the implementation of the Financial Sector Strengthening Project, receives as an advance the technical assistance, according to the budgeted amount, which is determined according to the need to cover costs. KCGF records the amount as deferred revenue and only after the realization of expenditures dedicated to the implementation of the project, it records it as income in the comprehensive income statement.

11. CAPITAL

As at 31 December 2020 and 2019, capital consists of funds provided to the KCGF as grants as follows:

	As at December 31, 2020	As at December 31, 2019
Funds received from USAID	5,790,921	5,790,921
Funds received from KfW	18,500,000	7,000,000
Funds received from GoK	24,410,000	3,000,000
	48,700,921	**15,790,921**

In April 2020, KfW donated an additional capital of EUR 6,500,000 to Agro Window as part of the development of this KfW-supported sector. While in November 2020, KfW donated another 5,000,000 EUR to support the windows under the Recovery Package, dedicated to the recovery of businesses during the pandemic crisis.
During this year, the implementation of the World Bank project for Financial Sector Strengthening Project began, where the Government of Kosovo donated to the KCGF 21,410,000 EUR capital.

12. GUARANTEE FEES

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Guarantee fees	1,061,886	814,289
Total guarantee fees	**1,061,886**	**814,289**

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, 2020 (EUR)	As at December 31, 2019 (EUR)
Funds for operating expenses	50,235	193,532
In kind fixed asset donation (Note 10.1)	16,678	22,660
Interest income from deposits	282,648	245,050
Total other income	**349,561**	**461,242**

Funds for operating expenses are part of the technical assistance under the contract between KCGF and the Kosovo Millennium Foundation, for the implementation of the project "Financial Facilitation Activity of the Independent Energy Producer", as well as the contract between KCGF and the Government of the Republic of Kosovo represented by Ministry of Finance in the framework of the implementation of the Project with the World Bank for the Financial Sector Strengthening Project (FSSP). It is important to note that the funds are used only to cover operating expenses according to the plan set out in the relevant contract.

14. PERSONNEL EXPENSES

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Salaries	170,005	145,568
Pension contribution	19,407	16,475
Tax salaries	16,367	14,145
Total personnel expenses	**205,779**	**176,188**

15. OPERATING EXPENSES

	As at December 31, 2020 (EUR)	As at December 31, 2019 (EUR)
Re-guarantee expenses	28,209	34,631
Office rent & utilities	4,585	5,809
Maintenance & Repair Exp.	16,667	19,840
Translator and other Professional services	25,171	15,498
Expenses for Membership & Subscription	5,701	5,825
Interest expenses on the lease liabilities	4,975	1,430
Publications, Branding and Marketing	4,619	5,407
Phone and internet expenses	3,914	3,250
Training, Conferences and Seminars	609	-
Bank fees	1,709	491
Other expenses	10,277	8,214
Total operating expenses	**106,436**	**100,395**

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, 2020 (EUR)	As at December 31, 2019 (EUR)
Additional provision	2,779,511	1,049,323
Release of provision	(1,793,339)	(578,356)
Total net provision expenses	**986,172**	**470,967**

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 2020 and 2019 is as follows:

	For the year ended at 31 December 2020 (EUR)	For the year ended at 31 December 2019 (EUR)
As at 1 January	688,299	299,683
Additional provision	2,779,511	1,049,323
Release of provision	(1,793,339)	(578,355)
Claims paid	(228,895)	(82,352)
As at 31 December	**1,445,576**	**688,299**

The claims paid refer to 16 claims, paid requested by 6 banks (2019: 4 claims, requested by 3 banks).

16. NET PROVISION LOSSES FOR GUARANTEES (CONTINUED)

	For the year ended at 31 December 2020 (EUR)	For the year ended at 31 December 2019 (EUR)
Stage 1	697,610	174,917
Stage 2	216,435	108,072
Stage 3	531,531	405,310
As at 31 December	**1,445,576**	**688,299**

17. CONTINGENCIES AND COMMITMENTS

	As at December 31, 2020 (EUR)	
	Number of Guarantees	Outstanding Guaranteed Amount
Total	**4,268**	**55,997,787**

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

Litigation and claims

As of 31 December 2020, there are no litigations or claims against FKGK (2019: 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.

18. RELATED PARTY TRANSACTIONS (CONTINUED)

	Receivables (EUR)	Liabilities (EUR)	Revenues (EUR)	Expenses (EUR)
As at December 31, 2020				
Board Members	-	-	-	20,375
Total	**-**	**-**	**-**	**20,375**

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

19. EVENTS AFTER THE REPORTING DATE

After 31 December 2020 – the reporting date until the approval of these financial statements, there are no adjusting events reflected in the financial statements or events that are materially significant for disclosure in these financial statements.