



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



2021 ANNUAL REPORT



FONDY KOSOVAR PER GARANCI
KOSOVSKI FOND ZA KREDITNO
KOSOVO CREDIT GUARANTEE



CONTENTS

04 PART I - BACKGROUND

- 06 Message from the Chairman of the Board and the Managing Director
 - 10 Acronyms
 - 11 Summary of Financial Indicators
-

12 PART II - INSTITUTION PROFILE

- 14 Establishment of KCGF and its Status
 - 14 Mission
 - 15 Institutional Values
 - 16 Guarantee schemes
-

18 PART III - CORPORATE GOVERNANCE

- 20 Board of Directors and Personnel
 - 22 Organizational Chart
 - 23 Committees
 - 23 Risk Management Committee
 - 23 Audit Committee
 - 24 KCGF partners
 - 25 Board of Directors meetings and relevant committees
-

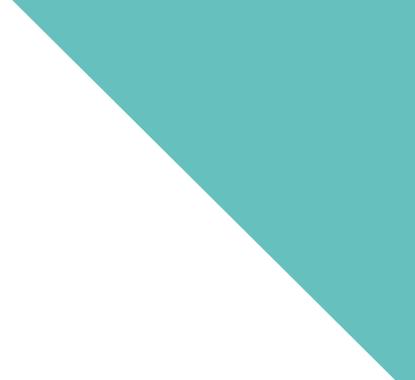
26 PART IV - KCGF Performance

- 28 Guarantee Portfolio Development
 - 32 Agro Window – developments/novelties and agriculture finance guarantees through Agro Window
 - 34 Additionality
 - 39 Credit Risk Management
 - 43 Environmental and Social Management System
 - 44 2021 Milestone
-

46 PART V - ACTIVITIES DURING 2021

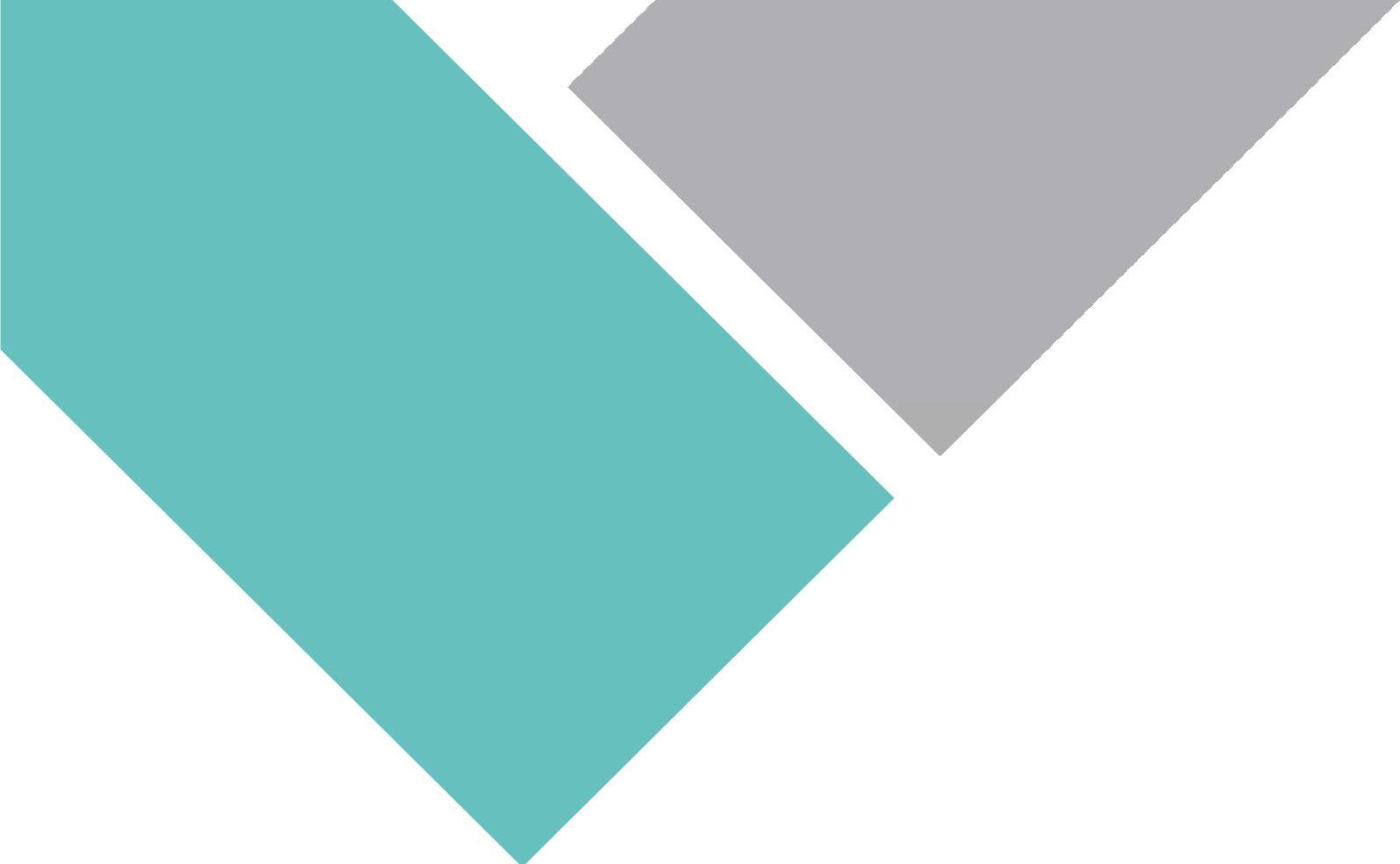
- 48 Activities during 2021
 - 58 KCGF in media
 - 59 Success stories
-

62 PART VI - AUDITED FINANCIAL STATEMENTS

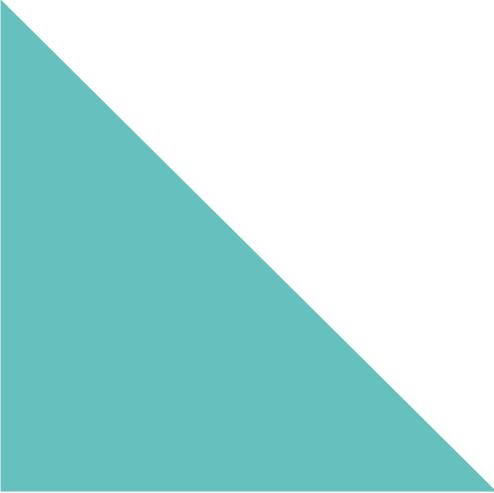


PART I



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BACKGROUND

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MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE MANAGING DIRECTOR

Kosovo Credit Guarantee Fund (hereinafter KCGF) showed once and again, for one additional year that it is an important institution for the country's economy, by supporting access to finance for micro, small and medium enterprises.

The successful implementation of the guarantee windows under the Economic Recovery Package has proven to be an essential measure within the overall program of the Government of the Republic of Kosovo, in combating the negative impacts of the COVID-19 pandemic.

The increased dynamics in the use of credit guarantee limits in KCGF, throughout the year, is the best indicator that the guarantee windows under PRE, were an important counter-cyclical tool to combat the negative impacts of the COVID-19 pandemic. Furthermore, this increase results from the windows under the economic recovery package, specially designed, to support the economic sectors that suffered the most from the pandemic and are considered strategic to improve the economic structure of our country.

The appropriate design of the guarantee windows under PRE, carefully addressing the needs of market segments, as well as the increase of the coverage rate to 80%, were proven to be important factors in restoring the market confidence, increased lending for SMEs which, in turn, had a direct impact on improving liquidity and resuming private investments in economy.

Despite the continuation of created epidemic situation, KCGF staff managed to respond successfully to the needs of institution. In order to overcome the consequences created by pandemic, the guarantee scheme was adopted to newly created circumstances in the market. The source of this motive was an internal energy, something that goes beyond personal and short-term objectives, with the aim of contributing to a larger cause, to see our country emerging even stronger. For this, we thank them each, believing that the success of the institution, above all, is the result of their tireless work, dedication and professionalism.





The positive development of our institution and its impact in real economic development can be noticed in all key indicators portraying financial and economic additionality.

There are 3961 loans guaranteed in 2021, whereas a total of 3315 private enterprises have benefited. As a result, the loan guarantee portfolio marked a significant increase in 2021 of 120%, reaching the value of 126 mil Euro. With a share of 8% of the outstanding value of active guarantees relative to the gross domestic product (GDP), as an indicator that shows the intensity of financial intermediation from guarantee schemes, Kosovo is ranked within best of all countries in the region, with the value of this indicator at the regional level not exceeding 1.8%.

KCGF is ranked better than the region with the share of active enterprises that have benefited from the guarantee scheme, in relation to all active enterprises throughout the country. With 14.6 % according to AECM, Kosovo shows that the guarantee scheme has found considerable use in our country, significantly better than in neighboring countries.

The share of new clients establishing for the first time credit relations with banks reached 25%, whereas share of credit guaranteed by KCGF for new businesses with no previous bank relation reached 33%.

Meaning that every third client guaranteed by KCGF was a new credit client. Thus, thanks to the credit guarantees from KCGF, it was managed to establish a credit history with a financial institution. The demand for collateral, as one of the main barriers for lending to MSMEs, whether for new or existing clients, has been significantly reduced for guaranteed loans. Only during the last year, we noticed that a significant percentage of credited clients have been collateralized with less than 100% of the loan value, whereas 31% or 554 clients are credited with no collateral.

The active approach of the institution in building adequate windows to address the specific needs of enterprises in the sector of agriculture, manufacturing and women in business, considered as important sectors for the national economy, resulted in significantly higher representation of such sectors in our portfolio, compared to their share at the level of the loan portfolio in the banking sector. As a result, in our portfolio, the manufacturing sector is represented with 24%, while the agricultural sector with 9.7%.

In addition, the window dedicated for empowerment of women in business, during 2021 has a share of 14%, which is a higher share, compared to overall lending in banking sector for this specific segment.

Last year marked the beginning of cooperation with microfinance institutions. Thus, we fulfilled another objective, which is to cover all market segments, including micro enterprises. With the new partnership, our portfolio of financial partner institutions has been populated with seven commercial banks, four microfinance institutions and one non bank institution issuing leasing. This further reinforces the holistic approach of our institution, something that has been an institutional goal since first days of its establishment.

All these activities in the use of credit guarantees in KCGF are supported by a capital base valued at 55.4 mil Euro. The support from the Government of the Republic of Kosovo and our international donors, mainly from USAID and KfW, in the capitalization of the institution was not lacking during this period. In particular, it is worth emphasising the continued contribution from KfW, in amount of 6 mil Euro, intended for the guarantee of green loans that increase efficiency of energy consumption and generation of energy from renewable sources.

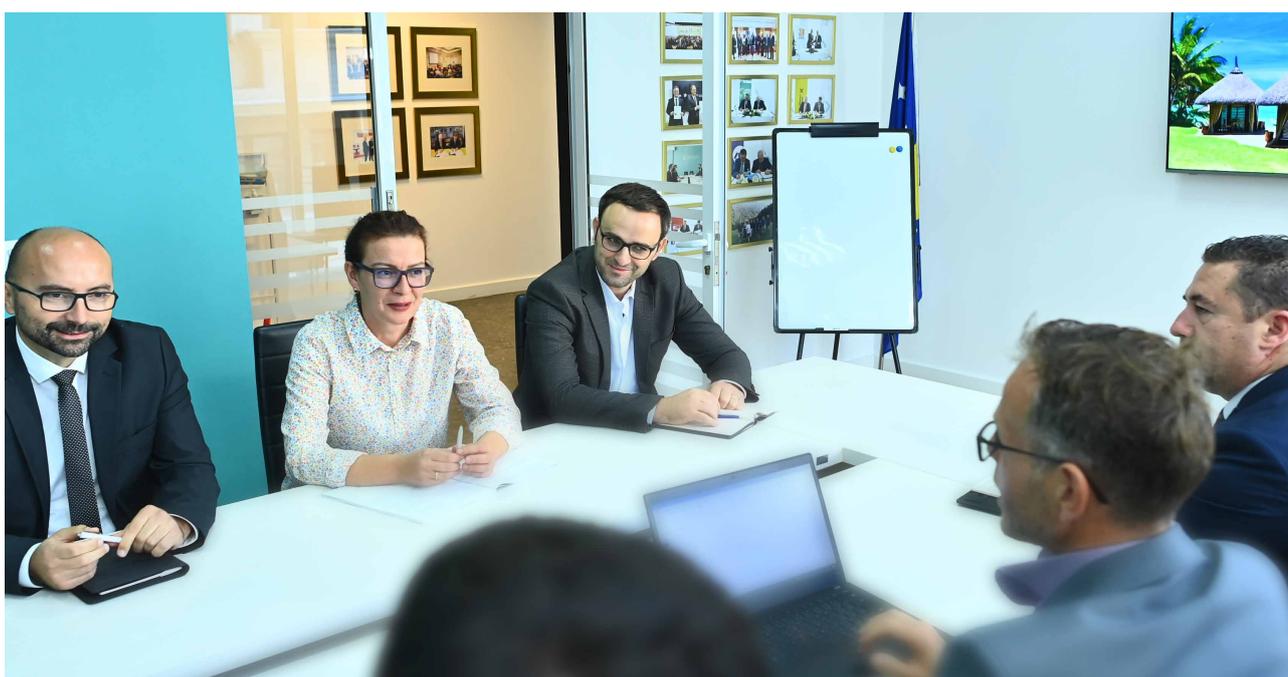
KCGF remains one of the largest depositors in the banking sector in Kosovo. For the fifth year in a row, the KCGF investment strategy to a large extent is guided in the form of short-term and mid-term deposits in local banks. This institutional approach reflects the trust of KCGF governing structures in the banking sector of our country and, at the same time, by increasing liquidity in the market it offers more opportunities to expand the lending capacity of local banks.

History has taught us that economy as an activity, at it's very beginning has risen as a necessity to bring change in the way how it responds to demands that continuously grow, influenced by the modernization of society, and limited resources in nature. This is the same principle that leads us in KCGF, even after years of its operation.

Thus, our contribution towards creation of a different mindset in doing business remains the main purpose of the existence of our institution, which will bring change, eventhough a marginal one in economic life or society in general.

Today, while we are whitwitnessing a systematic degradation of the environment we live, poor labour conditions, it is necessary for us as a financial intermediation institution to set clear selection creteria how we support investments which, besides economic growth are also environment friendly and respect workers dignity.

We believe that a balanced intercommunioin between man and nature, can bring sustainable economic development and coexistence of humans and nature, as well as for the future generations. Today, at KCGF, we expect the same approach also from our financial partners, so that investments supported by their lending not only don't damage but also have a positive impact in improving the environment around us.





To achieve this environmental balance, for the second year in a row, KCGF works according to international standards for Environmental and Social Risk Management, and a prerequisite for financial institutions to be eligible for KCGF partnership is to have implemented and practiced such standards.

Although, we've left behind successful years, working towards consolidation of the institution, bringing the change in the private sector through continuous support for MSMEs and increase their access to finance, and most recently supported the economic recovery from the crisis caused by the pandemic, we have set ambitious plans for ourselves, as in the past.

Positioning or adapting the institution according the dynamics and needs of the ever-increasing private sector, achieving a positive impact on the economy and society, as well as preparing the institution to support our country's economy both in normal and unforeseen circumstances, will remain an important mission, not yet fulfilled by our institution.

RINOR GJONBALAJ

Chairman of the Board

Increasing the competitiveness of enterprises in the local market and especially in the international market, which would result in increased export; increased investments which in addition to enhancing efficiency in the allocation of resources within the enterprise are also friendly to nature, provide opportunity for successful new entrepreneurial ideas, are goals deeply incorporated in our mission, as they can be part of the overall economic development plans for our country.

Finally, on behalf of the KCGF Board of Directors and it's staff members, allow us to thank our international donors and the Government of the Republic of Kosovo for their continued support We also thank all other collaborators, most notably the Central Bank of Kosovo (CBK) and all partner financial institutions, for their continuous cooperation. At the same time, we at KCGF promise that will continue to give our full potential to fulfill our mission, that Kosovar entrepreneurship succeed both locally and internationally.

BESNIK BERISHA

Managing Director

ACRONYMS

AC		Audit Committee
BD		Board of Directors
CBK		Central Bank of the Republic of Kosovo
EBRD		European Bank for Reconstruction and Development
EIB		European Investment Bank
EIF		European Investment Fund
ERP		Economic Recovery Package
ESMP		Environmental and Social Management Policy
ESMS		Environmental and Social Management System
FI		Financial Institution
FSSP		Financial Sector Strengthening Project
GoK		Government of the Republic of Kosovo
IFC		International Finance Corporation
KAS		Kosovo Agency of Statistics
KBA		Kosovo Banking Association
KCGF		Kosovo Credit Guarantee Fund
KfW		German Development Bank
MCC		Millennium Challenge Corporation
MFIs		Microfinance Institutions
MFK		Millennium Foundation Kosovo
MoF		Ministry of Finance
MSMEs		Micro, Small and Medium Enterprises
MTI		Ministry of Trade and Industry
NBFIs		Non-Bank Financial Institutions
NPLs		Non-Performing Loans
RFIs		Partner Financial Institutions
RMC		Risk Management Committee
Sida		Swedish International Development Cooperation Agency
MIS		Management Information System
USAID		America International Development Cooperation Agency

SUMMARY OF FINANCIAL INDICATORS

KEY FINANCIAL INDICATORS	DECEMBER 2020	DECEMBER 2021
CAPITAL	49,747,447	54,917,245
Guarantee Potential	182,897,947	214,178,534
Allocated Limit	83,350,000	172,750,000
Utilization Rate of Limits by Partner FIs	67.1%	72.2%
GUARANTEE BALANCE	55,997,787	126,092,114
No. of Active Guaranteed Loans	4,268	6,729
No. of Partner FIs	8	11
Average Guarantee	18,151	22,043
Average Maturity	36	37
NPLs (in %)	1.55%	1.25%
Coverage of NPLs with Provisions (in%)	166%	210.4%
INVESTED CAPITAL	23,778,921	51,646,646

Monetary values are in Euro



PART II





INSTITUTION PROFILE



ESTABLISHMENT OF KCGF AND ITS STATUS

The Kosovo Credit Guarantee Fund is an independent and sustainable institution that issues guarantees to financial institutions to cover the risk for MSME loans. KCGF was established in January 2016, based on Law No. 05/L-057 on Establishment of the Kosovo Credit Guarantee Fund (Law on KCGF). The Law establishing KCGF was sponsored by MTI, with the support of USAID, through its Empower Credit Support Program, and the German Development Bank (KfW). The Law on KCGF entered into force on January 23, 2016.

MISSION

Kosovo Credit Guarantee Fund is an independent, development oriented legal entity that provides credit guarantees for MSMEs by sharing the credit risk with financial institutions. By guaranteeing the credit portfolios of financial institutions we aim to enhance access to finance for MSMEs, sustain entrepreneurship development, support domestic production and services that create an added value, new jobs, and that prop up overall economic development.

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

INSTITUTIONAL VALUES

KCGF values that are institutionally embedded and serve to develop everyday business practices, provide guidance to ensure that our business activities are conducted pursuant to the highest level of accountability and are in line with the highest ethical and moral standards.

TRANSPARENCY

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

PARTNERSHIPS AND COOPERATION

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

OBJECTIVITY AND INDEPENDENCE IN DECISION-MAKING

KCGF maintains its objectivity and independence in decision-making based on principles of common sense, while promoting the further development of the financial sector.

COMMITMENT

Working with dedication and professionalism, KCGF employees strive to fulfill the institutional mission and objectives, believing in its role and the positive impact on sound economic development.

TEAMWORK AND PROFESSIONALISM AT WORK

KCGF has a team of experts who cooperate based on mutual respect. Teamwork, problem-solving, open communication, and sharing of professional experiences lay the foundation for its institutional 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.



GUARANTEE SCHEMES

AECM has 48 member organisations operating in 31 different European countries.

Since 2018 KCGF represents Kosovo within the AECM family. Members of AECM are illustrated in the map.



OUR 3 PARTNERS

REGAR
SME FINANCE FORUM
EMGN

OUR 48 MEMBERS



- | | | | |
|---|--|---|---|
| <p> AUSTRIA</p> <ul style="list-style-type: none"> • aws • NÖBEG | <p> ESTONIA</p> <ul style="list-style-type: none"> • KredEx | <p> KOSOVO</p> <ul style="list-style-type: none"> • Kosovo Credit Guarantee Fund | <p> RUSSIA</p> <ul style="list-style-type: none"> • FSECA |
| <p> AZERBAIJAN</p> <ul style="list-style-type: none"> • Azerbaijan Mortgage and Credit Guarantee Fund | <p> FINLAND</p> <ul style="list-style-type: none"> • Finnvera | <p> LATVIA</p> <ul style="list-style-type: none"> • ALTUM | <p> SERBIA</p> <ul style="list-style-type: none"> • Guarantee Fund of the Autonomous Province of Vojvodina |
| <p> BELGIUM</p> <ul style="list-style-type: none"> • Fonds Bruxellois de Garantie - Brussels Waarborgfonds • PMV/z Waarborgen • SOWALFIN | <p> FRANCE</p> <ul style="list-style-type: none"> • Bpifrance • Européenne de Cautionnement • SIAGI • SOCAMA | <p> LITHUANIA</p> <ul style="list-style-type: none"> • Garfondas • INVEGA | <p> SLOVENIA</p> <ul style="list-style-type: none"> • Slovene Enterprise Fund • Slovenian Regional Development Fund |
| <p> BOSNIA AND HERZEGOVINA</p> <ul style="list-style-type: none"> • Guarantee Fund of the Republic of Srpska | <p> GERMANY</p> <ul style="list-style-type: none"> • Verband Deutscher Bürgschaftsbanken | <p> LUXEMBOURG</p> <ul style="list-style-type: none"> • Mutualité de Cautionnement • Mutualité des p.m.e. | <p> SPAIN</p> <ul style="list-style-type: none"> • CESGAR |
| <p> BULGARIA</p> <ul style="list-style-type: none"> • Municipal Guarantee Fund for SMEs of Sofia • National Guarantee Fund | <p> GREECE</p> <ul style="list-style-type: none"> • HDB • TMEDE | <p> NETHERLANDS</p> <ul style="list-style-type: none"> • RVO | <p> SWITZERLAND</p> <ul style="list-style-type: none"> • Network of Swiss Guarantee Institutions |
| <p> CROATIA</p> <ul style="list-style-type: none"> • HAMAG-BICRO | <p> HUNGARY</p> <ul style="list-style-type: none"> • AVHGA • Garantiqa • MVA | <p> MALTA</p> <ul style="list-style-type: none"> • MDB | <p> TURKEY</p> <ul style="list-style-type: none"> • KGF • TESKOMB |
| <p> CZECHIA</p> <ul style="list-style-type: none"> • NRB | <p> IRELAND</p> <ul style="list-style-type: none"> • SBCI | <p> POLAND</p> <ul style="list-style-type: none"> • BGK | <p> UNITED KINGDOM</p> <ul style="list-style-type: none"> • British Business Bank |
| | <p> ITALY</p> <ul style="list-style-type: none"> • Assoconfici • ISMEA | <p> PORTUGAL</p> <ul style="list-style-type: none"> • BPF | |
| | | <p> ROMANIA</p> <ul style="list-style-type: none"> • FGCR • FNGCIMM • FRC | |

AECM was established in Brussels in 1992, with main goals as follows:

- 1.Representation in EU institutions, EIB Group, OECD etc.
- 2.Organise exchange of best practices within the member of AECM
- 3.Promotion of guarantee instrument

AECM members are either private sector guarantee schemes or public promotional institutions or banks. Their mission is to support MSMEs to facilitate access to finance, i.e. provide guarantees to MSMEs that have an economically sound project but do not have sufficient bank collateral. The so-called MSME funding gap filled by guaranteeing institutions is known as market failure. By providing guarantees for these enterprises, guarantee institutions help address this market failure and facilitate access to finance for MSMEs.

The wider social and economic impact of this activity includes:

- Creating new jobs and protecting them from guarantee schemes
- Innovation and competition: gathering new ideas that lead to creating healthy competitiveness for all market participants
- Structure and diversification in European economies
- Regional development through the support of numerous rural projects
- RoCounter-cyclical role during crises

Guarantee institutions operate with re-guarantees at the regional, national and European level.

By the end of 2021 AECM members reached the volume of the guarantee portfolio in: 312 billion Euro.



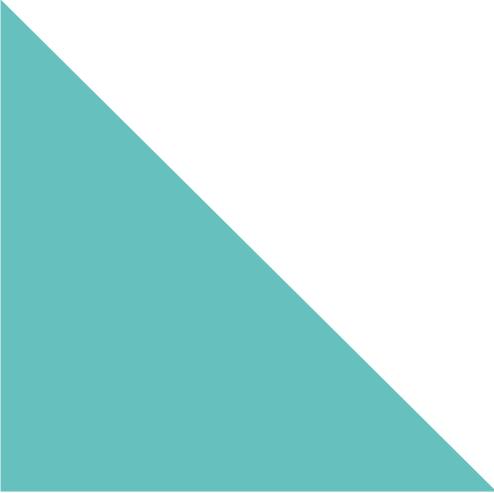


PART III





**CORPORATE
GOVERNANCE**



BOARD OF DIRECTORS AND PERSONNEL

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

- A. One (1) *ex officio* member, appointed by the Ministry of Trade and Industry of the Republic of Kosovo
- B. One (1) *ex officio* member, appointed by the Ministry of Finance of the Republic of Kosovo
- C. Four (4) independent members, appointed by donors and
- D. Managing Director of KCGF

KCGF BOARD OF DIRECTORS MEMBERS IN 2021:

KRESHNIK KURTISHI

Independent Board Member



RINOR GJONBALAJ

Chairman of the Board and Independent Board Member



MELIH CADIRCI

Independent Board Member



ARTA HOXHA

Independent Board Member



NOL BUZHALA

Member of the Board *ex officio*



BESNIK BERISHA

Managing Director of KCGF



SALVADOR ELMAZI

Member of the Board *ex officio*



KCGF STAFF MEMBERS

KCGF TEAM in 2021



From left to right:

BESNIK BERISHA
Managing Director

ALBAN KASTRATI
Senior Risk Manager

VJOSA BALAJ
Senior Finance and Administration Manager

BLERT GJINOLLI
Environmental and Social Expert

VILSON UKAJ
Senior Legal Officer and Secretary to the Board of Directors

JETON REXHEPI
Project Financing Credit Risk Expert

NORA ARIFI
Senior Guarantee Manager

VERË KADRIU
Administration and Language Assistant

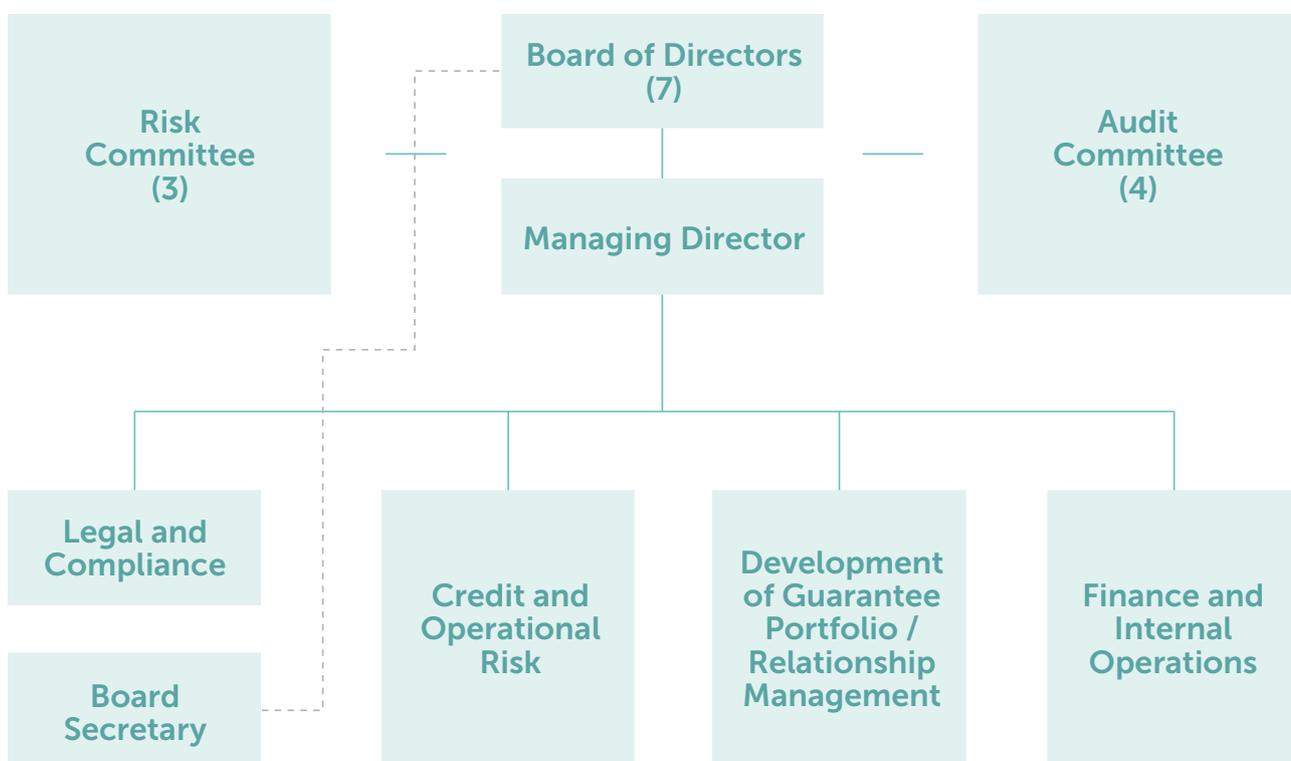
KASTRIOT KËPUSKA
Agro Expert

ANITA TOÇI¹
Public Relation and Marketing Specialist

BURBUQE GURI
Finance and Administration Assistant

¹ On the date 01.09.2021 Anita Toçi joined the KCGF team.

ORGANIZATIONAL CHART



The number of full-time staff at the KCGF is six, while five staff are engaged in the implementation of the donor projects as follows:

AGRO EXPERT – engaged in the development of Agro Window Project supported by KFW;

PROJECT FINANCING CREDIT RISK EXPERT – engaged in the development and implementation of the Energy Window Project supported by MCC/MFK;

FINANCE AND ADMINISTRATION ASSISTANT – engaged in the development and implementation of the Energy Window Project supported by MCC/MFK;

ENVIRONMENTAL AND SOCIAL EXPERT – responsible for the implementation of the ESMS, engaged under the FSSP with the WB;

PUBLIC RELATION AND MARKETING SPECIALIST – engaged under the FSSP with the WB;



COMMITTEES

RISK MANAGEMENT COMMITTEE

The Risk Management Committee was established under 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 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 under the Law on KCGF. The Audit Committee consists of four (4) members of the Board and meets on a quarterly basis.

This Committee is responsible for providing recommendations to the Board of Directors on issues related to risk management, internal control, financial statements, compliance requirements, internal and external audit, and other functions that are relevant to the governance of KCGF. In addition, 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, the 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, represented by the Swedish Embassy
- World Bank
- European Investment Fund
- Millennium Foundation Kosovo

PARTNER FINANCIAL INSTITUTIONS

- Banka Ekonomike
- Banka Kombëtare Tregtare
- Banka për Biznes
- NLB Banka
- ProCredit Bank
- Raiffeisen Bank
- TEB
- Raiffeisen Leasing Kosovë
- KEP
- FINCA
- KRK

MEETINGS OF THE BOARD OF DIRECTORS AND RELEVANT COMMITTEES

KCGF BOARD OF DIRECTORS MEETINGS

During 2021, the Board of Directors of KCGF held a total of four (4) regular meeting. At the these meetings, several important decisions were made on further development of KCGF and it's relations with third parties.

MEETINGS OF THE RISK MANAGEMENT COMMITTEE AND THE AUDIT COMMITTEE

During 2021, the Risk Management Committee (RMC) held four (4) regular meetings and the Audit Committee (AC) held four (4) regular meetings. At these meetings, the respective committees issued decisions and recommendations for review by the KCGF management and final approval by the Board of Directors.

The following table provides an outline of relevant Board of Directors and subsidiary committee meetings:

Schedule of Board Meetings	Participation of Board Members	No. of Topics Discussed	No. of Decisions Issued
19 March 2021	7/7	13	6
18 June 20210	7/7	13	6
17 September 2021	7/7	15	13
15 December 2021	7/7	18	8
Total:		59	33

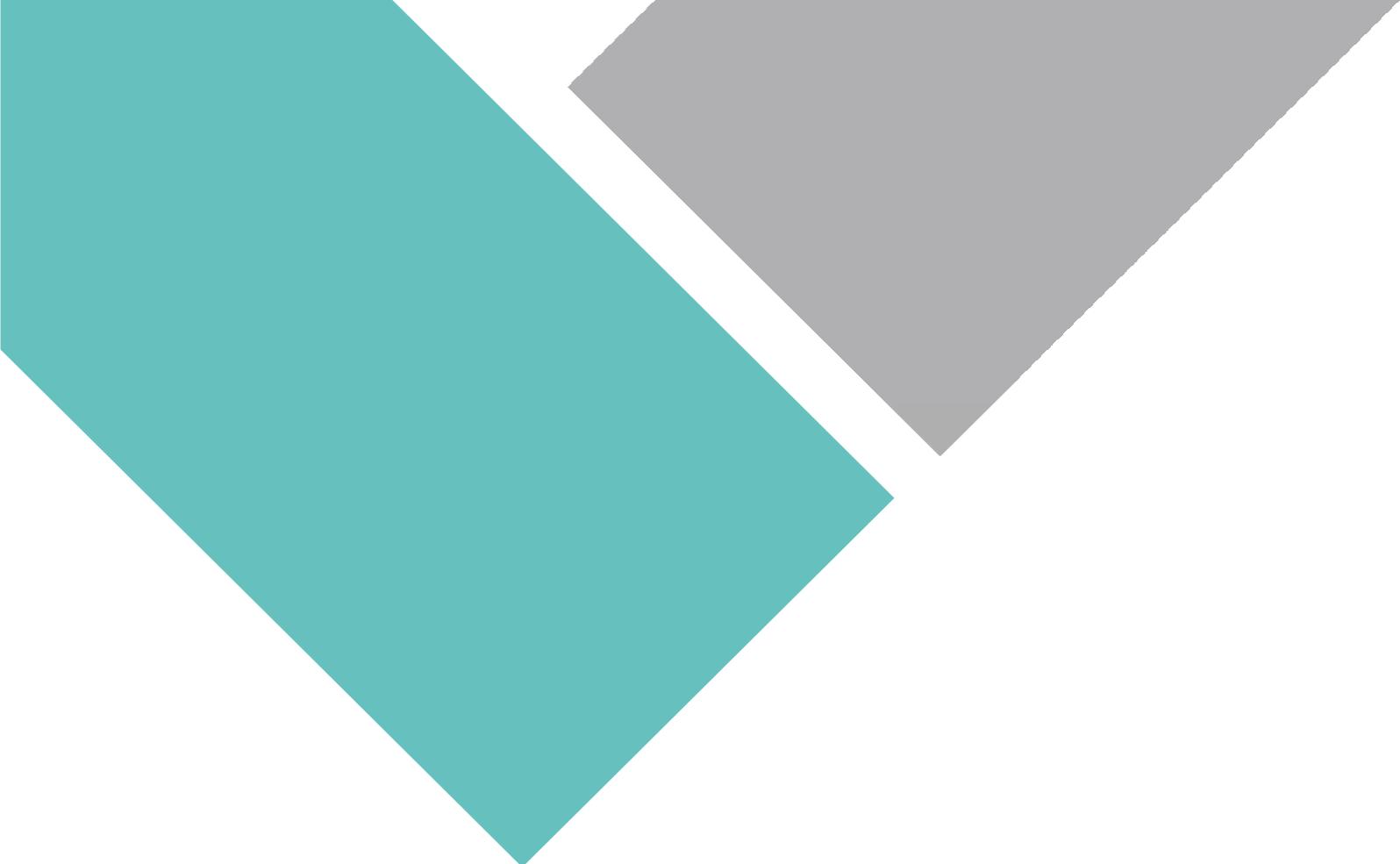
Schedule of RMC Meetings	Attendance by RMC Members	No. of Topics Discussed	No. of Decisions/ Recommendations Issued
03 March 2021	4/4	9	4
02 June 2021	4/4	8	3
09 September 2021	4/4	10	5
30 November 2021	4/4	8	6
Total:		35	18

Schedule of AC Meetings	Attendance by AC Members	No. of Topics Discussed	No. of Decisions/ Recommendations Issued
05 March 2021	4/4	6	0
09 June 2021	4/4	7	0
03 September 2021	4/4	7	1
08 December 2021	4/4	7	1
Total:		27	1

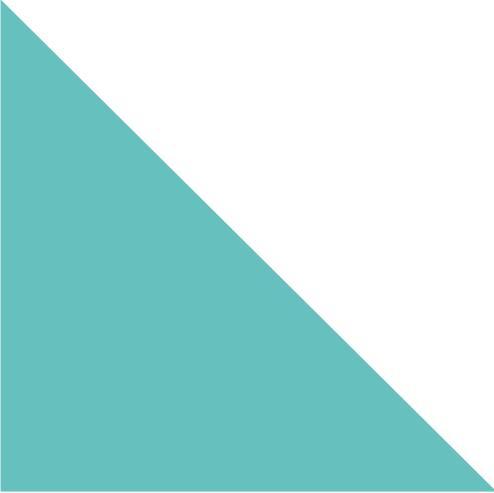


PART IV





KCGF PERFORMANCE



GUARANTEE PORTFOLIO DEVELOPMENT

KCGF CHALLENGES TOWARD GROWTH

2021 was both a challenging and successful year for KCGF, continuing to provide credit guarantees for MSMEs while sharing credit risk with financial institutions at an even higher level than in previous years. Throughout the pandemic period, KCGF continued to maintain its existing guarantee windows, despite the increasing perception of risk in the market and the unpredictable course of events worldwide KCGF designed new windows within the Economic Recovery Package (ERP) with favorable conditions as it is the guarantee coverage of loans from 50% to 80%. Opening of the Economic Recovery Windows was the main promoter of the development of new guarantees during 2021. Increase of the coverage of loan amount, subsidy of the guarantee fees by the Government of Kosovo, increased trust by our partner financial institutions, consequently, brought increased access in finance for MSMEs, through KCGF credit guarantee scheme.

During 2021, KCGF intermediation led to EUR 179.75 million lending in the sector for 3,961 loans distributed across 3,315 MSMEs (including 224 farmers with NIF number) supported by a guarantee amount of EUR 111.05 million. The cumulative amount of approved loans as of the end of the year reached the amount of EUR 408.73 million for 7,767 MSMEs, backed by a cumulative guarantee amount of EUR 221.83 million.

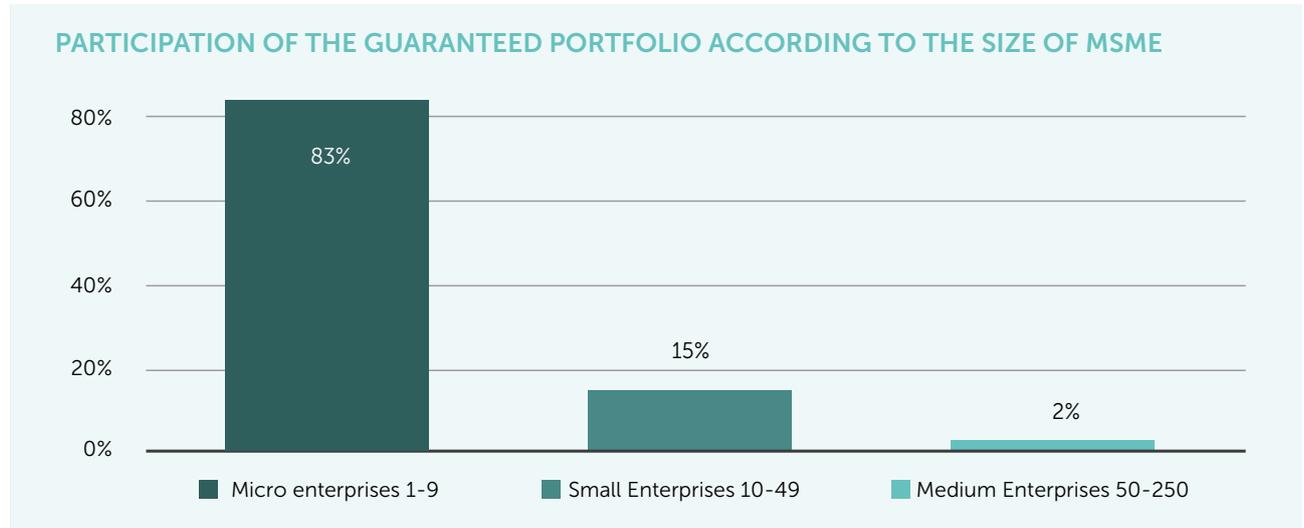


The total outstanding value of the loan portfolio at the end of 2021 was EUR 216.45 million, while the total outstanding value of the guaranteed portfolio was EUR 126 million, distributed in 6,670 active loans.



ABOUT 98% OF THE PORTFOLIO CONSISTS OF MICRO AND SMALL ENTERPRISES

Guaranteed portfolio, during 2021, continue to comprise the largest share in the guaranteed portfolio by micro enterprises. The greatest concentration of the guaranteed portfolio was in the segment of micro and small enterprises with up to 49 employees.

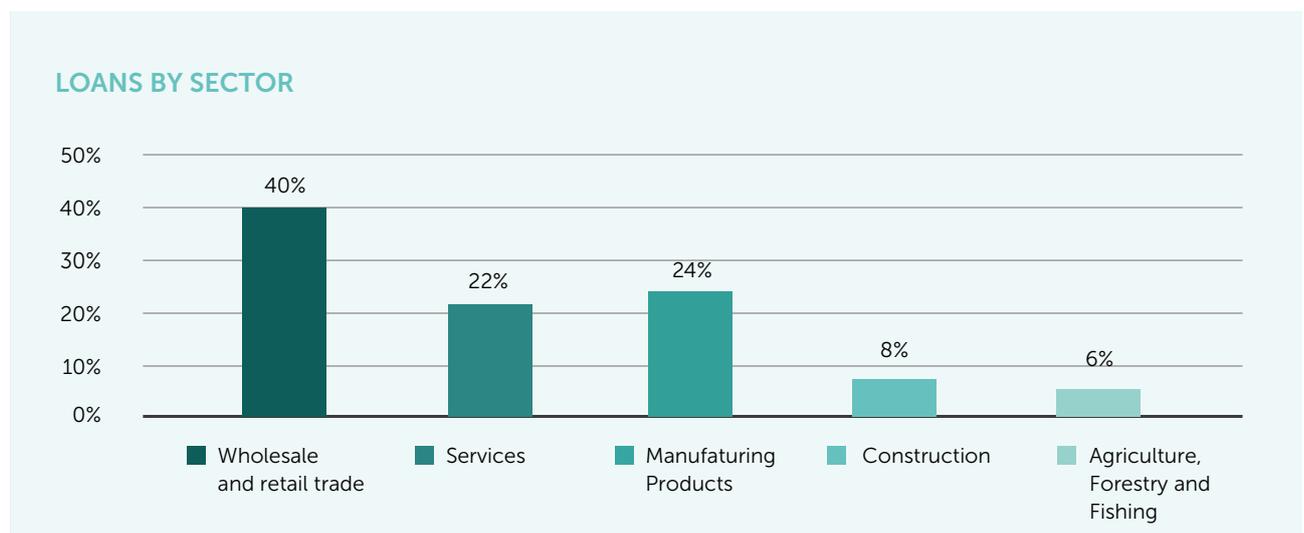


Such distribution of the guarantee portfolio reflects the private sector in our country, but also the orientation of our institution towards access to finance for this segment.

CREDIT GUARANTEES BY ECONOMIC SECTOR

Sector specific incentives that create added value for the economy and well diversification remain listed under KCGF's objectives. To this end, KCGF with the help of its donors and partners has consistently worked in developing products that will support the economic recovery, with a particular focus on strengthening strategic sectors.

This focus of the KCGF indicated that in 2021 we have an increase in trend of using the credit guarantee scheme, compare to previous years, evethough this trend is also representative of our country's economy.



The most dominant sector in the 2021 guaranteed loan portfolio was retail and wholesale trade with 40%, followed by services with 22%, manufacturing with 24%, construction with 8%, and agriculture with 6%. Compared to a year ago, we have moderate movement across sectors, noticing an uptick in the manufacturing by 30% (24% from 17% in previous year) and in service sector. Whereas, a downturn in the agriculture sector, construction and trade, which were affected by the lockdown in the investment season in these sectors, due to the situation caused by COVID-19.

While the agricultural sector continued to have a low share of around 2.5% of the total in the banking sector, it amounted to a total share of 9.7% in the KCGF active portfolio at the end of 2021.

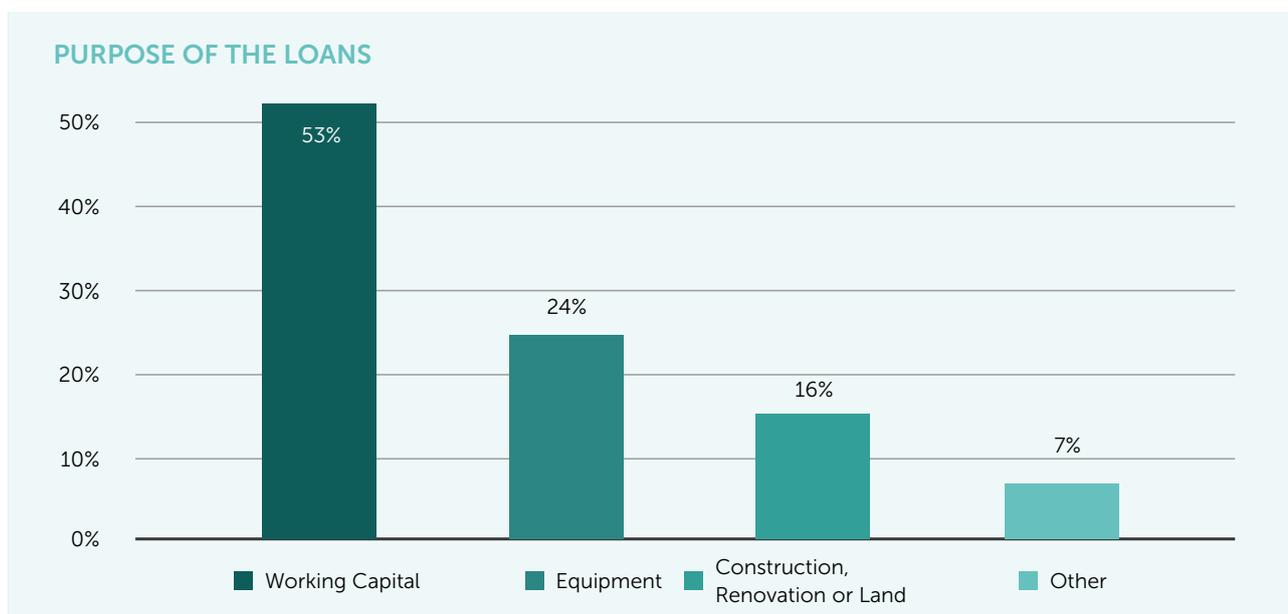
Providing incentives for sectors, such as agriculture, manufacturing, and services, that generate value-added for the economy is one of our objectives, therefore KCGF is working together with its partners towards strengthening those and other under-served sectors, considered to be the driving force of the economy and a contributing factor to greater employment opportunities and enhanced social wellbeing in general.

GREATER SHARE OF WORKING CAPITAL AND MIXED-PURPOSE INVESTMENTS²

KCGF guarantee windows are designed to support MSME to undertake long-term investments, therefore these guarantees are offered at maturity up to 10 years.

During 2021, long-term investments had a very representative share of 40%, although the share of short-term investments was more dominant, which is related to the demand for working capital loans (short-term loans, overdrafts and credit lines) and economic developments during the pandemic period., gave us indications of cash-flow pressure during 2021.

In 2021, 24% of approved loans were invested in equipment (manufacturing machinery, agriculture equipment, other equipment); 16% in land, construction, or renovation; 53% in working capital; and 7% in other purposes.

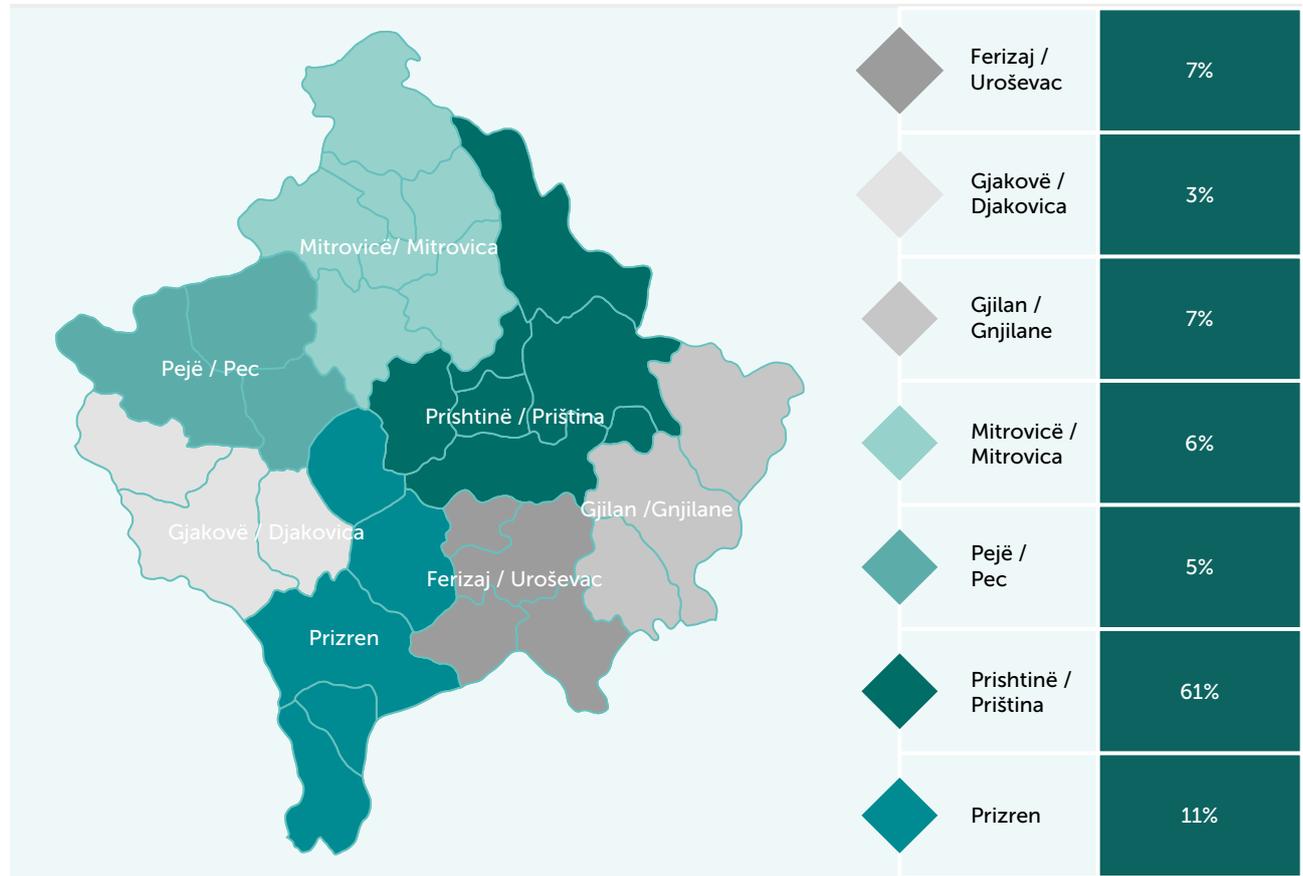


² Në praktikë nëse një kredidhënie ka për qëllim investime të bëra njëkohësisht; në kapital punues, asete fikse, renovim apo edhe ndërtim, atëherë kjo shënohet me destinacioni qëllime mikse.

UTILIZATION OF GUARANTEES IN DIFFERENT REGIONS

Utilization of guarantees in different regions in 2021 followed the trend of previous years. The Pristina Region had the major share in the guaranteed loan portfolio with 61%.

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.



AGRO WINDOW DEVELOPMENT / NOVELTIES

Agriculture Finance Guarantees through Agro Window

KCGF attributes great importance to financing and credit guarantee for the agriculture sector, perceiving it as a sector that plays a significant positive role in generating employment and reducing the high unemployment rate.

Activities in this sector are considered a good opportunity to generate revenue, both from large projects and investment projects that need smaller investments. The end result of such investments includes employment and resolution of social issues for many households, especially those in rural areas of the country.

Supporting the development of agricultural sector through guarantee of agro loans continues to be one of the most important objectives for KCGF, within the whole chain of adding value within the sector. KCGF continued to guarantee agricultural sector through guarantee for agro loans.

By the end of 2021 KCGF signed the agreement for agro loan with 7 banks and 3 microfinancing institutions, active in agro lending, and we are in process of registering the fourth microfinance institution.

A turning point for registering MFI into KCGF was a new opportunity given to financial institutions to guarantee loans issued to farmers with Farmer Certificate and Identification Number of the Farm (NIF), that wasn't given before.

This opportunity was able during 2021, in coherence with the time when Economic Recovery Package coming from Government of Kosovo, was active. The Economic Recovery Package, besides the guaranteeing of farmers with NIF, also, enabled financial partner institutions guarantee cover up to 80% of agro loan.

During 2021, were approved total 15,7 mil € new loans by Registered Financial Institutions in the sector of agriculture, whereas 8,7 mil€ were guaranteed by KCGF by Agro Window and 7 mil € within the ERP.

This presents an increase of 131% of volume of guaranteed loans, compare to previous year 2020 (or 65% growth compare with year 2019) as a direct impact of increase of issuing loans during the beginning and recovery by pandemic.

Also, number of guaranteed loans increased from 202 in year 2020 to 496 total number in 2021. In percentage means 132% increase compare to previous year (around 108% compare to 2019). Average amount of guarantee loans in Agro Window during 2021 was around 33.4K €, average maturity above 39 months (increase from 35.7 months, average in 2020)



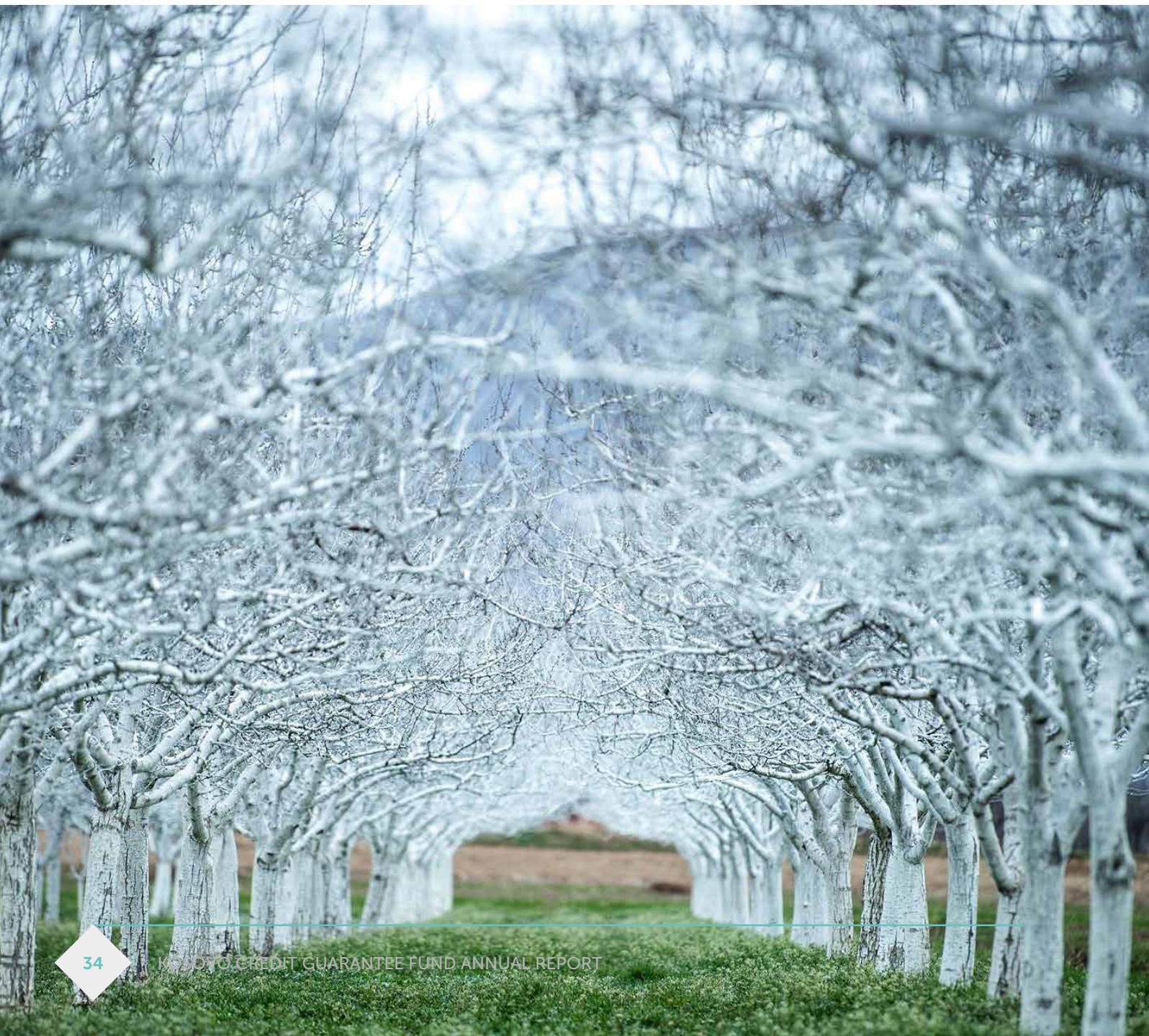


ADDITIONALITY

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 any extended guarantee – hence the addition of a new client thereby contributing to economic growth.

To observe this impact, the KCGF examined the indicators related to financial additionality by reflecting on the data provided by the Kosovo Credit Registry and the data provided by the internal KCGF Management Information System (MIS). In this context, the loans allowed in the sector during 2020 were analyzed and compared to the loans allowed in the sector but guaranteed by the KCGF.

The monitoring results on these indicators showed us how KCGF operations in general have led to improved access to finance and relaxed lending standards.



SHARE OF GUARANTEED LOANS IN THE BANKING SECTOR

KCGF effect the lending operations in banking sector, which for MSMEs means greater access in finance. Year 2021, resulted with an increase on issuibg credit guaranteed loans in banking sector. Share (in financial values) in the category of loans up to 100,000 Euro was 30%, whereas in the category 25,000 to 50,000 Euro was 37%.

This indicator marked an increase by 80% compared to 2020, when the share was 17%. This boost in increase was a result of KCGF activity during ERP and specific designed windows addressing the needs of the market. KCGF credit guarantee scheme further enhanced the positive impact on financial intermediation.

This can also be seen in the share of guaranteed loans in number where every fourth loan issued in the sector in the amount of up to 100,000 euros was a loan guaranteed by KCGF.

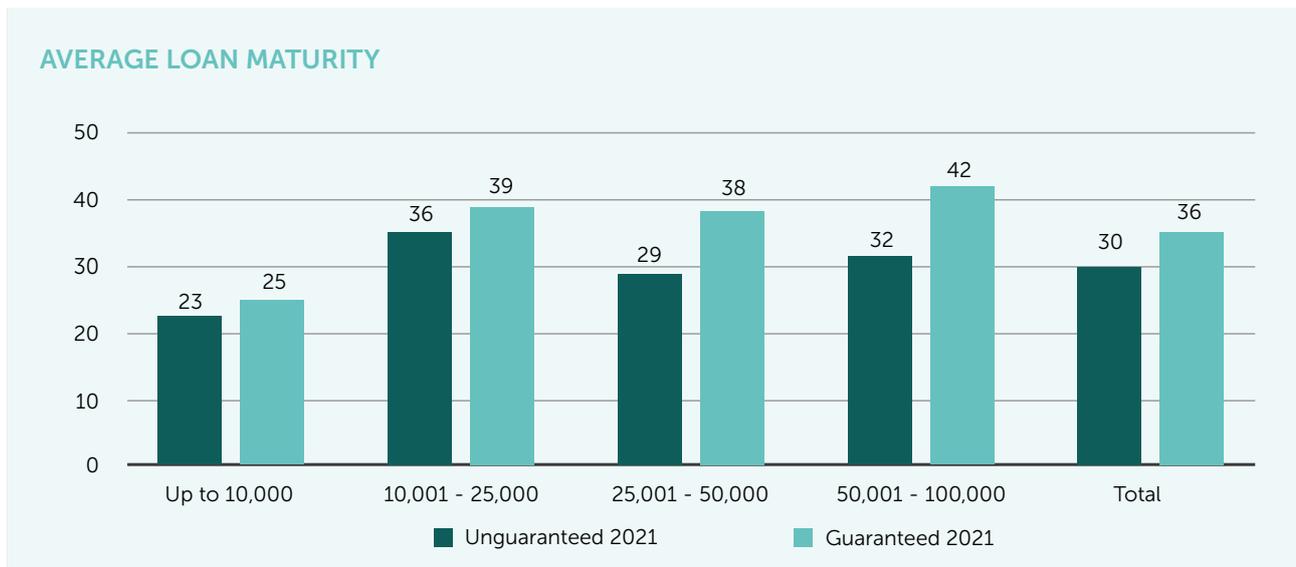
The higher the participation, which means the impact of KCGF on lending activity in the banking sector is higher and for MSMEs means greater access to finance. The reason for the reflection in the category up to 100,000 euros is because the profile of clients in the KCG portfolio belongs to this market segment .



AVERAGE LOAN MATURITY

The guaranteed portfolio in 2021 continued to consist of medium-term loans, with an average of 36 months. The average loan maturity as an indicator of financial additionality this year once again showed an increase in the maturity of guaranteed loans compared to unguaranteed loans. The longer the maturity, the better the financing conditions for borrowers, while the risk for lenders will be higher.

The average term of guaranteed loans up to EUR 100,000 was 36 months or by 20% longer than the average of unguaranteed loans. This indicator both during 2021 and 2020 resulted in more relaxed risk standards for RFIs, therefore better lending conditions for MSMEs, and namely 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 requirements first and foremost mean financial inclusion with better lending

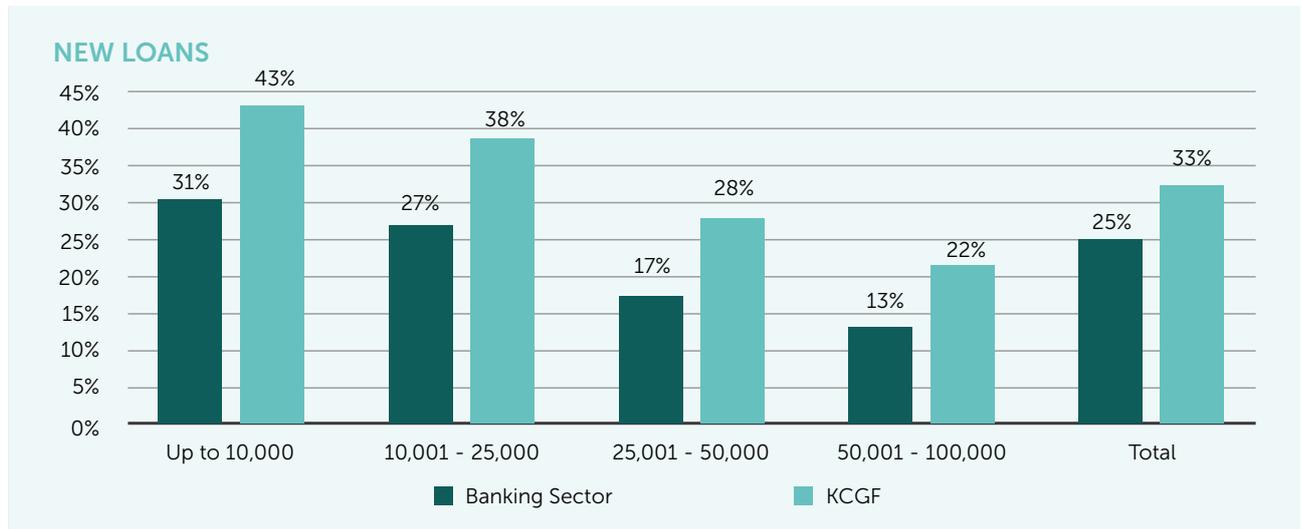
conditions for clients, shorter processing time for loan applications, and lower borrowing costs. In 2021, KCGF guarantee scheme generated a positive impact, reducing collateral requirements by 74%.



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, means lower perception of risk by banks in relation to newly established enterprises, i.e., higher level of financial inclusion for new businesses. The share of guaranteed loans to new businesses without previous borrowing

experience in 2021 in the category of loans up to EUR 100,000 was 33%, or 30% higher than the share of unguaranteed loans in the same segment. This ratio reflects the impact of KCGF on the financial inclusion of the private sector without previous borrowing experience, and therefore its overall positive financial and economic impact.



HIGHER AVERAGE AMOUNT OF GUARANTEED LOANS

At the end of 2021, KCGF portfolio was populated by small enterprises with an average loan amount of EUR 34K. This amount corresponds to the small category of enterprises lacking collateral, therefore in need of financial support, but also to the demand, which during this year was mostly for working capital. Additionally, this year resulted in an average amount of guaranteed loans that

was by 35% higher than unguaranteed loans in the category of loans up to EUR 100,000. The increase in the average loan amount for this category through KCGF intermediation reflects the impact of the guarantee scheme on better lending standards by banks in the loan approval process for MSMEs financed for the first time by the banking sector.



SHARE OF GUARANTEED BUSINESSES IN RELATION TO ALL ACTIVE BUSINESSES IN REAL ECONOMY

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

Based on information provided by the Tax Administration of Kosovo, in 2021 there were approximately 59,863 active businesses (taxpaying businesses), while the number of MSMEs that benefited from the KCGF credit guarantees until 2021 was 5,075, bringing the share of guaranteed MSMEs in the MSME sector at 8% as of the end of 2021. This share is growing year-over-year, thereby reflecting the importance of KCGF as an extended hand for the development of the MSME sector and the economy in general.

SHARE OF KCGF OUTSTANDING GUARANTEED LOAN VOLUME IN GDP

To understand the importance of the KCGF guarantee facility to the national economy, we have calculated the share of KCGF- outstanding guaranteed loan volume in the Gross Domestic Product (GDP) by the end of 2021. At the end of 2021, this share was 1,6%, 100% growth compare to 2020 (at the end of 2020 this ratio was 0.8%).

Such an increase in the share of the guaranteed loan volume both in the total sector loan volume (MSME loans) and in the GDP of Kosovo, is a positive sign towards narrowing the lending gap in relation to the GDP of our country.

LOANS FOR WOMEN IN BUSINESS

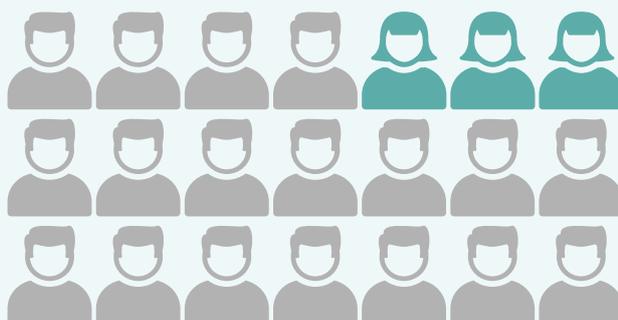
This indicator presents inclusion of MSMEs with women owners in the process of lending. Women participation in formal lending is lower compare to men, in percentage it reaches 12% in banking sector. One of the main barriers for women in business is the lack of sufficient collateral which makes access to finance even more difficult for this category. On the other hand, the COVID-19 pandemic has negatively affected MSMEs owned by women, precisely because of their limited capacity or sectors where they are concentrated, was more affected by the pandemic. This is why the KCGF has set in the institutional objectives, better opportunities for the sectors and for the less served economic and population categories, including women. Because of this, KCGF has introduced in its institutional objective the goal to provide better opportunities for under-served economic sectors and population categories, including women. During 2021, the share of guaranteed loans for women in business was 14%. This growing trend, compare to participation of women in business in overall lending in the banking sector is an message that the impact of KCGF credit guarantees, started to be noticed in this targeted segment.



DISTRIBUTION ACCORDING TO GENDER

86% MEN

14% WOMEN



CREDIT RISK MANAGEMENT

The KCGF operations entail taking risks in extending partial loan guarantees for MSMEs, which have been assessed by Registered Financial Institutions (RFIs). 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.

As KCGF does not participate in credit risk assessment, the processes are designed to ensure regular risk management through appropriate ex-ante and ex-post monitoring and control mechanisms. The risk management approach starts with identifying and analyzing risks for KCGF, onwards to establishing appropriate controls for risk management and mitigation and building an adequate monitoring system. Risk management and mitigation at KCGF is conducted by:

- Defining clear eligibility conditions and criteria for RFIs, MSMEs, as well as eligible loans
- Portfolio diversification, at the level of:
- Diversifikimit të Portfolios, në nivel të:
 - *RFIs, through allocation of guarantee limits*
 - *MSMEs, by determining maximum guarantee exposure*
 - *Diversification in the sector level*
- Counter-guaranteeing the portfolio through credible institution guarantee schemes, enabling risk-sharing for guaranteed loans
- Regular monitoring and control, at the level of:
 - *Financial Sector,*
 - *RFIs, and*
 - *Guaranteed Borrowers.*

RISK MANAGEMENT ACTIVITIES DURING 2021

In accordance with internal policies and processes, KCGF evaluated and registered three (3) microfinance institutions, conducted annual revaluation of all RFIs during 2021.

Reviewed and approved requests for revaluation of IRF limits during 2021. Reviewed and modified internal policies in accordance with the modifications made to respective windows, effectively managed the perceived risk of the global COVID-19 pandemic.

In addition, during 2021, KCGF continued the practice of regular monthly meetings, which analyze trends in the banking sector in general and in particular for each RFI, as well as analyze the development of the guaranteed portfolio.

Within the existing capacities KCGF continued to increase the guarantee limits to the IRF, increasing the guarantee limits by almost 89.4 million euros during 2021, raising the overall limits allocated to the RFI to 174.75 million euros.

Throughout 2021 KCGF used the entire limit allocated by the re-guarantee scheme COSME (EIF program) which offers the possibility of risk sharing through coverage with 50% of loans guaranteed by KCGF that qualify for the COSME Program. Reguaratee schemes by COSME and SIDA have enabled that KCGF partially share credit risk, increase guarantee capacity, reduce commission costs, but also reduce credit fees that are eligible for the COSME scheme.

RISK MANAGEMENT IN LIGHT OF COVID-19

The economic situation in 2021 continues to be aggravated as a result of the COVID-19 pandemic. Besides of effective managing of the risk due to created situation, KCGF was determined to stimulate and assist in the continuation and promotion of lending by RFIs, in order to mitigate or not worsen the effects of the crisis.

Following the approval of the Economic Recovery Law in January 2021, KCGF began implementing the measures set out in the Economic Recovery Package which provided an increase in guarantee coverage up to 80% for sectors affected by the pandemic and guarantee fees were subsidized by Government of Kosovo. After the allocation of additional capital, KCGF allocated additional limits to the Registered Financial Institutions, which enabled the guarantee of new loans in the amount of 105.5 million euros, the guaranteed part of which was worth 74.9 million euros, distributed in 2015 loans.

The measures taken by all actors affected the financial sector, promoted the lending growth as well as growth of economic activity, which, according to data by the Central Bank of the Republic of Kosovo was 10.5%. The financial sector in Kosovo during this period continues to remain liquid and sound, and with sufficient provision reserves.

In addition, KCGF continues to monitor clients in vulnerable sectors, as well as maintain additional provision reserves in order to ensure that there is sufficient coverage in the event of credit deterioration as a result of the pandemic impact.

PORTFOLIO QUALITY

Increased coverage rate and allocation of new limits through Economic Recovery Package, served as an accelerator for lending growth in banking sector. Thus, impacted economic activities.

As a result, KCGF guaranteed portfolio marked a record increase while all other indicators were in forecasted level. The guarantee balance according to the data as of December 31, 2021 was 126.09 million euros, whereas KCGF capital reached 55,2 million Euro marking an increase of 70 million euros or 125% from the previous year showing a Lev proportion to be 2.27 Euro on the 31 December 2021 (each 1 euro capital multiplied by 2.27 Euro credit guarantee), indicating that 11% of the overall portfolio is re-guaranteed.

Also, we must emphasise that 13.8 million Euro is re-guaranteed by Sida and Cosme (EIF). Re-guaranteed portfolio enabled we share risk but also used as a quasi form of capital, since enabled additional limit allocations to RFIs.

As presented in the following table, we can notice that the major part of guaranteed balance was built by the guarantees during 2021. Overall share during 2021 is 76% from overall guaranteed portfolio, whereas portfolio from previous years almost depreciated.

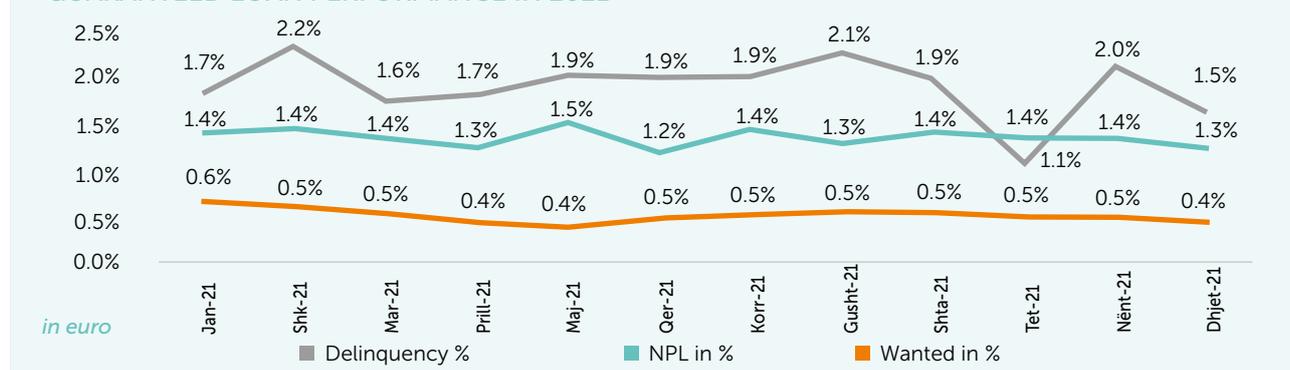
Portfolio quality measured by delinquent and non-performing loans decreased during 2021, which was mainly due to the growth of the guaranteed portfolio, which is almost dominated by guaranteed loans in 2021. According to year-end data, delinquency of Guaranteed loans was 1.55%, in amount 1.95 mil euro, while NPL was 1.25% and amounted 1.58 mil euro..

The year 2021 marks the continuation of the submission of requests for payment by RFIs. All applications submitted by the RFIs for eligible loans have been assessed in accordance with the KCGF guarantee agreement and internal policies. During 2021 KCGF continued to lag behind its obligations to pay the applications for guaranteed loans, paying total claims in the amount of 223.3K euros, while the total value of claims paid including previous years reached the value of 534.5K euros, which in ratio to the guaranteed balance is 0.42%.

Timely review of payment claims and their evaluation in accordance with the guarantee agreement represents the seriousness of the KCGF and increases the credibility toward its partners.



GUARANTEED LOAN PERFORMANCE IN 2021



IFRS 9 STANDARDS APPLICATION

Besides management of daily work and regular processes, during 2021 KCGF was dedicated in application of IFRS9 standards, which is based on the expected losses from guaranteed loans. Application of IFRS9 standards was a very challenging process, since it was needed to have skills to adopt KCGF operating model, according to IFRS9. As a result of IFRS 9 standard application, KCGF owns additional information on expected losses, data that will be used not only for distinguishing the provisioning

reserves but also for adjusting the guarantee fees with expected losses. As a result of IFRS 9 standard application, all reserves for expected losses for credit guarantees as well as assets reached 3.57 mil euro, whereas last year were 1.45 mil euro, showing 147% higher compare to previous year. Total provision reserves in 2021 are 2.8% in relation to the guaranteed balance sheet. Whereas the coverage of non-performing loans is 226% which is relatively higher than the financial sector in Kosovo.

Windows	Phases	Guarantee Balance	Provision reserves	Provision scale
Reg Window; PRE; Start-Up	Phase 1	116,170,371	1,711,516	(3,149.00)
	Phase 2	1,843,917	574,100	179,017.00 €
	Phase 3	1,455,714	906,793	320,012 €
	Total	119,491,315	3,192,408	484,334 €
Agro Window	Phase 1	6,366,641	64,887	1.02%
	Phase 2	109,832	27,569	25.10%
	Phase 3	124,326	39,352	31.65%
	Total	6,600,799	131,809	2.00%
Total Guarantee		126,092,114	3,324,217	2.64%
Other Assets	Phase 1	51,692,829	246,209	0.48%
	Total	51,692,829	246,209	0.48%
Total Provision			3,570,426	

CAPITAL STRUCTURE AND INVESTMENTS

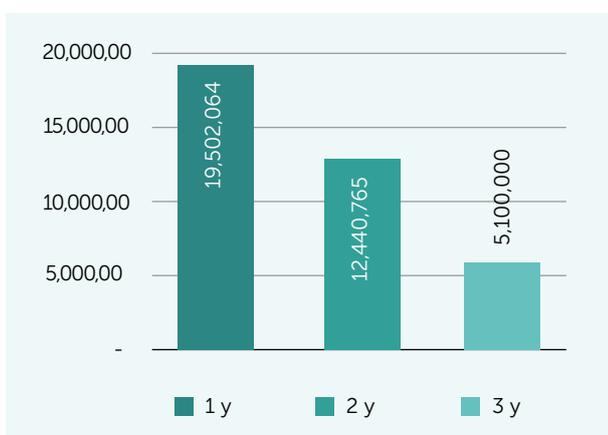
The KCGF capital consists of funds provided to KCGF by the Government of the Republic of Kosovo and international donors. In 2016, when KCGF was established, the amount of donated capital to KCGF was EUR 7,345,141 while in 2017 this amount doubled, closing 2017 with donated capital in the amount of EUR 15,790,921.

The doubling of the capital came as a result of contributions from the USAID, MTI, and KfW later in December 2017. During 2018 and 2019, KCGF did not receive any new capital. 2021 resulted in a significant increase in capital for KCGF. The Government of the Republic of Kosovo contributed to the capital increase in the amount of EUR 21,410,000 and KfW donated the amount of EUR 11,500,000. During 2021, KfW has donated an additional 5,600,000 euros.

	GoK	USAID	KFW	Retained Earnings	Total
Capital 2016	2,000,000 €	5,345,141 €	-	(3,149.00)	7,341,992 €
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 €
Capital 2020	21,410,000 €	-	11,500,000 €	66,312 €	32,976,312 €
Capital 2021	-	-	5,600,000 €	(430,202)	5,169,798 €
Total	24,410,000 €	5,790,921 €	24,100,000 €	616,324 €	54,917,245 €
%	44%	10%	44%	2%	100%

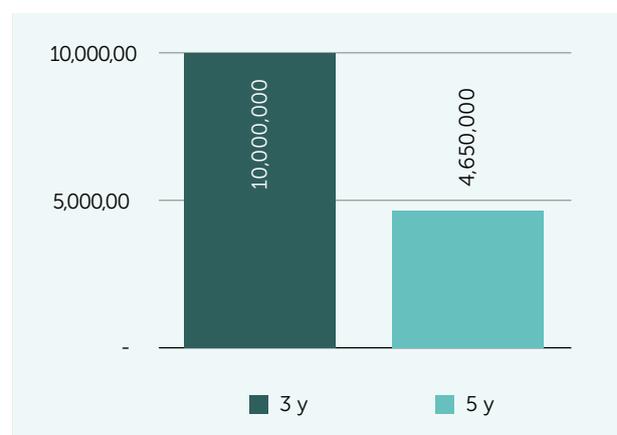
The capitalization of the institution is of particular importance to enable the increase of the KCGF guarantee capacity and at the same time channel security in the financial market. KCGF implements a capital leveraging policy that is determined according to market/sector risk indicators, making sure that KCGF has sufficient capital to carry out its operations and absorb potential losses.

Enhanced guarantee potential affects increased lending by financial institutions, providing them with the comfort to explore new sectors in the lending market and in particular to support the most disadvantaged sectors that are of great importance for the development of the private sector and the economy of Kosovo as a whole.



TERM DEPOSITS ACCORDING TO MATURITY

The KCGF invests portion of its capital in KCGF partner institutions, as specified in the law. KCGF delegates its trust to partner institutions, leaving it up to them to manage the invested funds. When planning for investments, KCGF takes care to provide liquidity in the financial market and consequently affects increased lending by financial institutions. KCGF also optimizes rates of return on investment, always taking care to maintain market stability, which has continued even during an unstable situation, such as that of 2020, followed in part and throughout 2021.



SECURITIES ACCORDING TO MATURITY

During 2021, KCGF invested EUR 37,042,829 in term deposits with its RFIs, with a maturity of one (1), two (2) and three (3) years, thus continuing the long-term cooperation in this direction. In 2021, KCGF has invested in Securities of the Government of Kosovo in the amount of 14,650,000 euros. Revenues from investments are consolidated in the statement of profit or loss and other comprehensive income (OCI) and the annual profit is reinvested or retained at KCGF, thereby increasing the capital, and is not distributed outside the KCGF in any form or manner, including dividends.

ENVIRONMENTAL AND SOCIAL MAMANEGEMNT SYSTEM

The year 2021 for the part of environmental and social management has been very fruitful, being an integral part of the policies and activities as well as the defined criteria related to the guaranteed loans that have to do with the very complex part of environmental management. Kosovo Credit Guarantee Fund (KCGF) has committed to fully take responsibility for the environment and society and as such, has considered avoidance and reduction of the negative impacts that investments might have enabled by the guarantee scheme. In order to responsibly contribute in economic development, KCGF has started the implementation of the Environmental and Social Management System (ESMS). The purpose of ESMS is to ensure that the financed projects (investment plans of the qualifying loans) identify and address measures to avoid and minimize environmental and social impacts according to relevant Kosovo legislation, World Bank and IFC requirements.

KCGF implements the following two standards:

Performance Standard 1: Assessment, management of environmental and social risks and impacts

Performance Standard 2: Labor and working conditions.

KCGF is committed in identifying and addressing all environmental and social risks related to its guarantee activities. Throughout the year, KCGF organized trainings for RFIs about ESMS, where bank staff were informed and trained on how the environmental and social risk from their financial activities should be assessed and managed. This process helped the RFIs to implement the environmental and social management system, which has raised RFIs awareness for their business financing processes, taking into account the preservation of the environment, which has influenced the MSMEs to be more aware and more careful during their activities. During the year 2021, the Kosovo Credit Guarantee Fund (KCGF) has

managed to train over 500 RFI officials related to ESMS. Parallel to training activities, they were also presented with the "Manual for environmental and social categorization" – through examples, different cases have been described that are directly related to environmental and social impact. Several visits were made to businesses that have guaranteed loans with high environmental risk, in which it has been assessed whether they apply certain measures in order to avoid impacts on the environment and society. During the year 2021, in the KCGF's portfolio, the sector with the largest share, categorized as high risk was manufacturing, with € 306,148.

CHALLENGES:

During the implementation of ESMS with RFIs, KCGF has faced various challenges and difficulties. These difficulties were presented mainly during the analysis of the cases of RFIs, where the investment plan was construction of the facility for business activity in a special protected area. Another challenge presented, were cases where it was requested to guarantee constructions loans in which the construction permit was not issued. Considering these cases, KCGF is committed not to contradict the environmental principles and policies so that such cases are not approved for credit guarantee. In 2021, KCGF continued with the implementation of the Environmental and Social Management Policy as per requirements by Donors based on IFC standards. The objective of ESMP is to fulfil the institutional mandate with full responsibility towards the environment and society and to ensure that RFIs have the appropriate support to reduce the negative environmental impact for their operations. In order to fully accomplish the ESMS, the environmental expert is engaged in updating the ESMP as well as building a monitoring and reporting process. KCGF will continue to support and monitor RFIs in the future, until we assess that RFIs are ready to continue independently these procedures and policies.



2021 MILESTONE

ECONOMIC RECOVERY PACKAGE

In our country, like in every other country in the world, the COVID-19 pandemic had a negative impact on the economy, leading to a decrease in the liquidity of Micro, Small and Medium Enterprises (MSMEs) in almost all economic sectors, without exception.

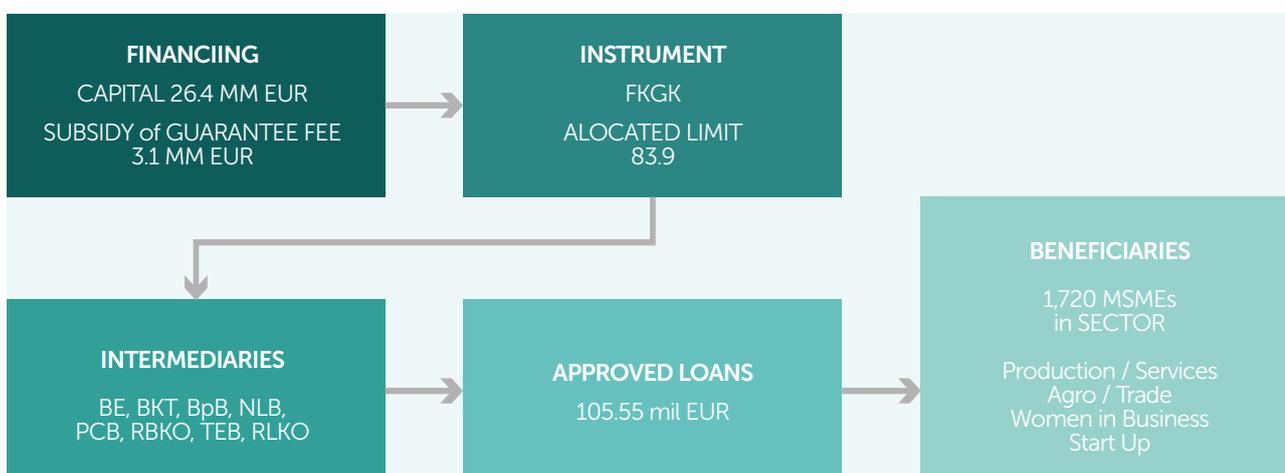
Of course, this first affected activities which due to the pandemic were forced to work at reduced capacity or shut down altogether. In response to the unusual pandemic situation created from COVID-19 and in order to face it, the Government of the Republic of Kosovo during 2020 undertook a series of coordinated actions, one of which was the design of the Economic Recovery Package.

The Economic Recovery Package as a quick and appropriate response of the Government of the Republic of Kosovo through the Law on Economic Recovery - COVID 19, enable the adaptation of the KCGF guarantee scheme in order to facilitate access to finance for certain sectors of the economy, with particular emphasis on market segments that could be most affected by the pandemic crisis. The Economic Recovery Law enabled the KCGF to provide credit coverage to MSMEs with a guarantee of up to 80%, and allow credit guarantees for farmers, and to subsidize the guarantee fee. This adaptation was one of the most important measures of the Economic Recovery Package. In relation to this, KCGF in the beginning of 2021 implemented the guarantee windows under the Economic Recovery Package (PRE), that were expected to support access to finance for MSMEs related to:

- Production
- Agribusinesses
- Service
- Trade
- Women in business
- Start up

These windows would address the liquidity and investment needs of the strategic sectors and segments of our country. The implementation of this joint initiative was possible with the capital provided by the Government of the Republic of Kosovo through the World Bank Program for Strengthening the Financial Sector in amount 21.4 million euros, and by the German Government through the Development Bank - KfW in amount of 5 million euros. In addition to the capital contribution, the Government of the Republic of Kosovo through the Ministry of Finance (MoF) further expanded its contribution by signing a cooperation agreement with the KCGF to subsidize the guarantee fee. Through this agreement, the MoF pledged to cover the guarantee fee in the total amount of up to 5 million euros.

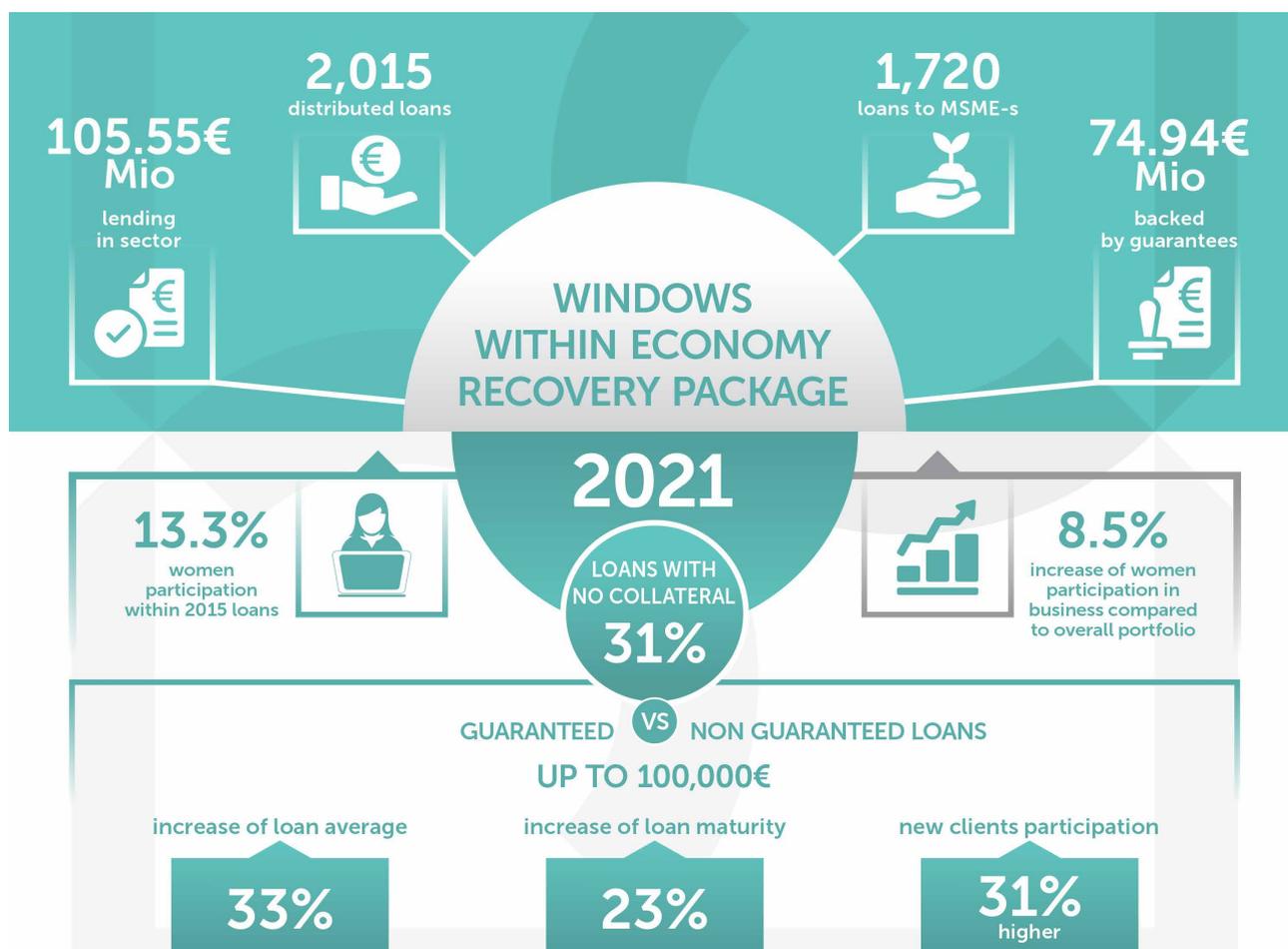
By the capitalization of the institution, KCGF allocated guarantee limits for eight Registered Financial Institutions, which enabled to issue loans in amount of 105.55 million euros, distributed in 2015 loans to 1720 MSMEs, engaged in sectors like: production, services, agriculture, trade and other segments as women in business and start up. Despite the increased perception of market risk and the unpredictability of the flow of events brought by the situation created by the pandemic.



Through the Economic Recovery Program (PRE Windows) in addition to reducing the negative impact of the pandemic crisis on the MSME sector, as well as increase access to finance for MSMEs during and after the pandemic crisis, it was also expected that access to finance be with more relaxed lending standards. Monitoring of these indicators showed that due to general activity of KCGF activity in general, access to finance has increased and lending standards have been relaxed, providing a financial additionality as in:

- Increase lending to final beneficiaries;
- Increase of credit average;
- Increase of credit maturity;
- Decrease the demand for collateral;

Better interest rates for guaranteed loans under PRE Windows compared to the same categories guaranteed on Regular Window and Agro Window.



The implementation of Windows within the PRE started at the beginning of 2021 and ended on 31 December 2021, as foreseen by the Law on Economic Recovery - COVID 19. Based on the positive effects of the amendments made to the Law on Economic Recovery - COVID 19, in order to support MSMEs and farmers registered by the Ministry responsible for agriculture in financing their projects, and to create a legal basis to meet the strategic objectives of the KCGF in supporting the development of businesses, agro sector and other

sectors of the economy of Kosovo and this in turn has an impact on increasing domestic production and value-added services, creation of new jobs and support of economic development in general, during 2021 KCGF submitted a writing request to the Government, with recommendations for amending and supplementing the Law on the Establishment of KCGF. In case of it's approval by the Government, than, it will be a subject for review and approval in the Assembly of the Republic of Kosovo.

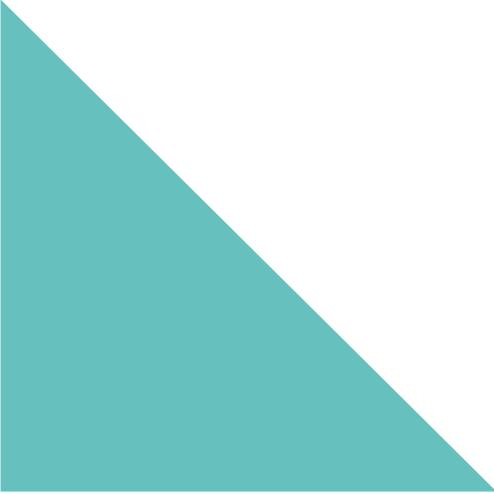


PART V





ACTIVITIES DURING 2021



JANUARY 2021

KCGF STARTED THE IMPLEMENTATION OF THE GUARANTEE WINDOWS WITHIN THE ECONOMIC RECOVERY PACKAGE

Kosovo Credit Guarantee Fund (KCGF) signed the guarantee agreements with its Partner Financial Institutions for the guarantee windows within Economic Recovery Package. With the signing of guarantee agreements with the partner financial institutions, the implementation of the guarantee windows within Economic Recovery Package begins. The guarantee windows within Economic Recovery Package (ERP) are new guarantee lines with the aim to support Micro, Small and Medium Enterprises (MSMEs) through the credit guarantees.



This Package increased the coverage with a credit guarantee of up to 80% of the loan value and will also offer the opportunity to include farmers with a Farmer Identification Number (FIN). Guarantee Windows within ERP will focus on lending support to the manufacturing, agribusiness, services, trade sectors, with a particular focus on women in business and start-ups. The guarantee windows within this Package are expected to support access to finance for MSMEs up to € 202 million over a one-year period. The Economic Recovery Package ended on December 31, 2021.

FEBRUARY 2021

KCGF OFFICIALS WELCOMED GOVERNOR MEHMETI AND REPRESENTATIVES OF CBK

The Chairman of the Board of Directors of KCGF Mr. Gjonbalaj and the Managing Director of KCGF Mr. Berisha welcomed in a visit to KCGF premises the Governor of CBK Mr. Mehmeti, deputy governor Mr. Havolli, as well as the Chief of Cabinet Mr. Miftari. During the meeting, representatives of both institutions discussed about developments in general as well as new opportunities related to facilitating access to finance for businesses in order to facilitate and more easily bear the financial burden during the process of their recovery and development.



MAY 2021

KCGF SIGNED AGREEMENT WITH TWO MICROFINANCIAL INSTITUTIONS

The Kosovar Credit Guarantee Fund signed loan guarantee agreement agricultural within the Agro Window with two Institutions Largest Micro Finance in terms of volume active loans - KEP Trust and FINCA Kosovo.

This event marks a key moment for FKGK and for the microfinance sector by providing loan guarantees agricultural for local farmers and agribusinesses.



JUNE 2021

THE EUROPEAN INVESTMENT BANK AND THE MINISTRY OF FINANCE SIGN THE FINANCIAL AGREEMENT FOR KOSOVO

The European Investment Bank (EIB) and the Ministry of Finance signed the Financial Agreement for Kosovo to support access to finance for MSMEs. Loan in the amount of 40 million euros secured from the EIB for Kosovo is dedicated to access to finance for SMEs affected by COVID-19. This project will be implemented by Kosovo Guarantee Fund Credit to address one of the main concerns of the private sector, which is the continuation of activities through investments in the recovery phase. KCGF enthusiastically welcomed this event by committing to provide and continue its efforts in highest professionalism, through its guarantee scheme fight the negative effects caused by the COVID-19 pandemic.



FEBRUARY 2021

KCGF ATTENDS THE VIRTUAL FORUM ORGANIZED AND HOSTED BY AMCHAM

Managing Director of the Kosovo Credit Guarantee Fund - Mr. Besnik Berisha participated in the virtual forum hosted by AmCham which was about opportunities for facilitation of access to finance in the recovery phase. In this panel Mr. Berisha informed the participants about the current activities of KCGF as well as for the measures being taken in cooperation with the Government of Kosovo and international donors, to support SMMEs by providing easier access to finance in the phase of recovery.



MARCH 2021

KCGF TAKES PART IN THE MEETING WITH REPRESENTATIVES OF BUSINESSES AND COMMERCIAL BANKS ORGANIZED BY CBK

The Central Bank of the Republic of Kosovo organized a meeting with representatives of businesses and commercial banks. In this meeting, the officials from KCGF informed the participants about the developments of the institution in general, the measures taken regarding the implementation of the Windows within the Recovery Package, as well as the plans for future developments related to the facilitation of access to finance for micro, small and medium enterprises in Kosovo, increasing employment and supporting the economic development of our country.



APRIL 2021

KCGF PART OF THE EVENT "EXPORT FINANCING MECHANISMS"

The Kosovo Credit Guarantee Fund was part of the event "Export Financing Mechanisms" organized by USAID Compete Activity project. Managing director at KCGF Mr. Besnik Berisha was part of the virtual panel "Export Financing Mechanisms", in which informed the participants about the achievements of KCGF through years of operation, the current activities as well as what it is the institution's strategy to address the issue on the topic that was discussed in this event. On this occasion, Mr. Berisha informed the participants that within the framework of the ERP, KCGF has designed a window that addresses the production sector, that potentially it is also the sector that helps to increase the export.



APRIL 2021

KCGF CELEBRATES ITS 5TH ANNIVERSARY

The Kosovo Credit Guarantee Fund marked its fifth anniversary of its establishment as an independent institution. During these 5 years, the Fund has been working continuously, being proactive to the needs of the sector, improving the processes and the qualifying criteria, by improving guarantee products and giving the its best, to be an exemplary institution and contributor to the country's economy. On the occasion of fifth anniversary of its establishment, KCGF has donated ten linden trees and planted in teh memorial complex - through the campaign of the Municipality of Pristina's "Be a friend of Pristina".



MAY 2021

KCGF ATTENDS THE MEETING WITH REPRESENTATIVES OF THE RETAILERS NETWORK

Representatives of the Kosovo Credit Guarantee Fund met with representatives of the Retailers Network, where they discussed the challenges of retailers and the credit guarantees of the KCGF as an opportunity for retailers in order to facilitate access in finance.



TRAININGS ON AWARENESS RAISING REGARDING THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

The Kosovo Credit Guarantee Fund through the Environmental and Social Management System (ESMS) tries to ensure that guaranteed loans have minimal impact in environment and society. To implement this objective as best as possible, in addition to the support given to the Registered Financial Institutions (RFIs) for the implementation of the ESMS, organised and held trainings for staff members of RFIs, about key elements of ESMS as well as the process of categorization, analysis and mitigation of environmental risk and social. The number of trained staff during month march to june has reached 436.



ORIENTATION SESSIONS ON KCGF GUARANTEE SCHEME

The Kosovo Credit Guarantee Fund held orientation sessions with FINCA Kosovo and KEP staff members. The role of KCGF and Agro Window in particular were the focus of the sessions, offering the possibility of a greater involvement and access in the financing for local farmers. Thus, KCGF offers inclusiveness of clients who are usually financed by these Microfinance Institutions. Among other issues, the staff was trained also for the Environmental and Social Management System.



KCGF PART OF THE PANEL IN THE WEBINAR “SUSTAINABLE FINANCE FOR FINANCIAL INSTITUTIONS”

The Kosovo Credit Guarantee Fund was part of the panel in the webinar “Sustainable Finance for Financial Institutions ” organized by International Finance Corporation (IFC) and Recura sh.a. in cooperation with the Secretariat Swiss Economic Affairs SECO. In this panel the Senior manager of Guarantees at the Kosovar Credit Guarantee Fund Mrs. Nora Arifi, informed the participants about the current activities of KCGF related to Environmental and Social Management System (ESMS), for the support given to implementation of SMMS also by the Financial Institutions Registered in KCGF, as well as for the measures being taken in order to ensure that the guaranteed loans have a positive climate impact subject to environmental control and due diligence in accordance with ESMS requirements.



KCGF STARTED THE FULL IMPLEMENTATION OF ENVIRONMENTAL AND SOCIAL MANAGEMENT

The Kosovo Credit Guarantee Fund has already started implementation of the Environmental and Social Management System. In accordance with our institutional efforts to contribute to economic development, and the responsibility for the environment and society, KCGF jointly with RFIs will use the highest standards on environmental and social impact, in order to mitigate negative impact on environment, by the projects financed by KCGF.

KORRIK 2021

THE FIRST KOSOVO SOLAR FORUM IS HELD

The Kosovo Credit Guarantee Fund attended the first Kosovo Solar Forum, organized by the Ministry of Economy and USAID. The purpose of this Forum was to promote and present for the market the self consumer solar projects in Kosovo. In this event, it was launched the website and the draft concept document that talks about the Law on Renewable Energy.

AUGUST 2021

KCGF LAUNCHES START-UP WINDOW AS PART OF ECONOMIC RECOVERY PACKAGE

The Start-up Window within the Economic Recovery Package (ERP) Windows is a new guarantee line that will operate within KCGF and aims to support new enterprises through loan guarantees. This window envisages increasing the coverage with credit guarantees up to 80% of the loan value, and at the same time will address the needs of this certain market segment. This window is expected to facilitate access to finance for new enterprises affected by the crisis. The Start-up window is expected to support access to finance for start-ups in the amount of up to € 2 MM for the period up to 31 December 2021.



This window, in this pandemic time, will have an added value for the end beneficiaries (Start-up Businesses) who will be able to access finance with better lending terms, as well as for Partner Financial Institutions (IPF) which will be able to share a large share of credit risk with KCGF. Such a window is highly valued by financial institutions that consider it necessary to support new businesses that have limited access to finance. This event marks another moment for the Kosovo Credit Guarantee Fund, in the way of achieving institutional objectives, first of all, facilitating access to finance for new enterprises.

SEPTEMBER 2021

KCGF SIGNS THE GUARANTEE AGREEMENT WITH KREDITIMIN RURAL TË KOSOVËS (KRK)

Kosovo Credit Guarantee Fund signs the Agreement with Kosovo Rural Lending. Today, in the premises of the Kosovo Credit Guarantee Fund (KCGF), was signed the Credit Guarantee Agreement with KRK – Kreditimi Rural i Kosovës, to guarantee agricultural loans within the KCGF Agro Window. This event marks the further expansion of the agreements that KCGF implemented during this year with Microfinance Institutions by offering agricultural loan guarantees to local farmers and Agro businesses.



Agro Window is a guarantee scheme within the KCGF in order to support farmers and Agro businesses by guaranteeing loans for this sector. So far, about EUR 27 Mio; agricultural loans have been guaranteed and there are around EUR 9 MIO active guarantees within this sector. The total capital of Agro Window reaches the value of EUR 11.5 MIO which is fully financed by the German Government, through the German Development Bank - KfW.

SEPTEMBER 2021

KCGF HELD VIRTUAL MEETINGS WITH WOMEN IN BUSINESS – ORGANIZED BY RIINVEST

KCGF held virtual meetings with women in business, where was presented KCGF and guarantee schemes.



SEPTEMBER 2021

ORIENTATION SESSIONS FOR START UP WINDOW

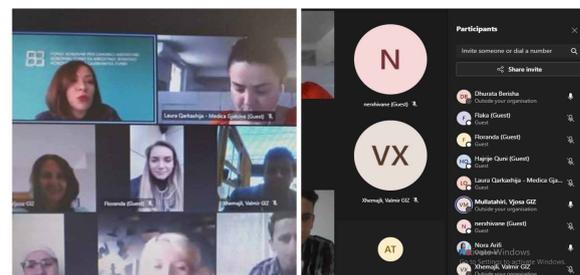
Kosovo Credit Guarantee Fund held orientation sessions for Start Up Window after signing the agreement with Registered Financial Institutions (RFI). There were organized five sessions, participated around 255 staff members from FRIs. During these sessions, it was discussed about the role of guarantee schemes in general, windows within the ERP emphasizing Start Up window which was launched on august this year.



OCTOBER 2021

KCGF ATTENDS VIRTUAL MEETING WITH START-UPS – IN COOPERATION WITH GIZ

Kosovo Credit Guarantee Fund held orientation session for StartUP Window. After signing teh agreement with RFIs. IN five sessions, attended by 255 participants from RFIs was talked about the role of guarantee scheme, ERP Windows emphasising the StartUP window which was launched in August 2021.



OCTOBER 2021

KCGF HELD TRAINING SESSION FOR KRK STAFF ON AGRO WINDOW – AGROSOFT USAGE

During October, Kosovo Credit Guarantee Fund held a training session on AgroSoft platform with staff members of KRK –Kreditimi Rural i Kosovës (KRK) as part of the regular training sessions package after signing the agreement with MFIs. Through this platform, KCGF helps a easier access to finance for farmers and local agrobusinesses. There were three groups trained , in total 61 staff members of KRK.



WORKSHOP WITH JOURNALISTS - ECONOMIC AND FINANCIAL JOURNALISM 2021 “LETS MAKE NEWS FROM THE NUMBERS”



Kosovo Credit Guarantee Fund and Kosovo Bank Association organized a two day workshop, topics were: *“Economic and Financial Journalism 2021– Lets make news from the numbers”*

In this workshop were present journalists from different audiovisual and online media were present. It was discussed about banking sector, the importance of guarantee schemes, as well as the general topics on economy. Representatives of Kosovo institutions CBK, TAK; Kosovo Treasury Office, donors - KfW as well as business representatives were part of the discussion panels, topics were:

- Effect of the Covid19 pandemic on the banking system and economic development in Kosovo;
- Inter-institutional cooperation with the financial system to maintain stability and promote economic development.
- Government measures for economic recovery. This workshop brought a very collaborative atmosphere and was considered an excellent opportunity for all participants to discuss about the banking sector & economy in general.



OCTOBER 2021

TRAININGS HELD ON ENVIRONMENTAL - ENVIRONMENTAL and SOCIAL MANAGEMENT POLICIES

During October, Kosovar Credit Guarantee Fund held training on application on SMMS for FRI. Training was optimized based on existing capacities of FRI. Three sessions were held with 20 participants each. Total number of trained staff is 61 staff members from KRK.



NOVEMBER 2021

KCGF STAFF MEMBERS PART OF DISCUSSION PANELS "GLOBAL ENTREPRENEURSHIP WEEK"

During the "Global Entrepreneurs Week" TEB bank organized a roundtable, topic " Access in finance for Women in Business". Representatives of Government, international and local institutions, jointly with TEB representatives discussed about financing of business activities for Women in Business, as part of Global Entrepreneurs Week.



NOVEMBER 2021

START UP-S AND ACCESS IN FINANCE

During " Global Entrepreneurs Week" – VentureUP organized a meeting with StartUps in order to discuss on: 1) challenges of enterpreneurs in Kosovo, and 2) opportunities for easier access in finance for StartUps in Kosovo. This meeting was organized jointly with Jakova Innovation Centre (JIC) and KCGF, EBRD and some commercial banks, to present their offers designed for StartUps

SIGNED THE AGREEMENT WITH KfW – GERMAN BANK FOR DEVELOPMENT

Was signed the agreement between the Kosovo Credit Guarantee Fund (KCGF) and KfW – German Development Bank. The agreement is signed by Dr. Klaus-Martin Müller, Director for Southeast Europe and Turkey from KfW Development Bank and Mr. Besnik Berisha – Managing Director of the Credit Guarantee Fund. Grant in amount Eur 6 million will be used to increase KCGF guarantee capital in response to the Covid-19 pandemic, to issue new guarantees to partner financial institutions for the benefit of micro, small and medium enterprises, in particular to support energy efficiency, resource efficiency and investments in renewable energy (“Green Window”).

At the signing ceremony were present Mr. Hekuran Murati – Minister of Finance in the Republic of Kosovo; Mr. Jörn Rohde – Ambassador of Germany to the Republic of Kosovo; Fehmi Mehmeti Governor of the Central Bank of Kosovo Dr. Klaus-Martin Müller, Director for Southeast Europe and Turkey from the German Development Bank – KfW. In a sign of gratitude for the continuous contribution and support made by KfW – German Development Bank, KCGF handed over a acknowledgement.



KCGF – PART OF DISCUSSION PANEL ORGANIZED BY USAID PROGRAM - KOSOVO COMPETE ACTIVITY

Kosovo Credit Guarantee was part of the panel at the event “Partnership Between Equipment Sellers with Leasing and Financial Institutions of Leasing in the Wood Processing Industry” organized by the USAID Program-Kosovo Compete Activity in cooperation with the Association of Wood Processors of Kosovo (SHPDK) and Raiffeisen Leasing Kosovo (RLKO). In this panel the Senior Guarantee Manager of KCGF Mrs. Nora Arifi, informed the participants that within the PRE, KCGF has designed windows that address the manufacturing sector, as well as the ongoing measures that has been taken in order to support this sector that helps economic development and export growth.



KCGF IN MEDIA

MARCH 2021

Interview with the Senior Risk Manager of FKGG, Mrs. Nora Arifi, in the morning program on KTV. It was discussed about guarantee schemes in general as well as the role of the Kosovo Credit Guarantee Fund.



SEPTEMBER 2021

Interview with Mr. Kastriot Këpuska, Agro Expert KCGF, in the show "7 days with Panxha" in Klan Kosova. The topic of discussion was "Guarantees and contract-based financing" as well as financing of the agricultural sector and the role that KCGF plays in financing the sectors of the economy with special emphasis during the pandemic from COVID 19.



SEPTEMBER 2021

Interview with the Senior Risk Manager of KCGF Mr. Alban Krasniqi, in the morning program on RTK - "Good morning Kosovo" - it was discussed about the role of KCGF within the ERP guarantee schemes as well as for the StartUp window.



SEPTEMBER 2021

Interview with the KCGF Senior Risk Manager Mrs. Nora Arifi in the morning program on ATV. It was discussed about KCGF guarantee schemes in general and was promoted Start-Up window, features, qualification criteria.



OCTOBER 2021

Interview of the Managing Director in EkonomiaOnline - KCGF with an additional €40 million, priority is given to businesses that do not bring harm environment. The Executive Director of KCGF Mr. Besnik Berisha, told to EkonomiaOnline that these amount will be allocated to businesses that will pass the assessment process by financial banks in Kosovo. "The part of the 40 million that is expected to be donated by the Government of Kosovo from the Loan from the European Investment Bank will be for the purpose of increasing the capital of KCGF, this capital will serve as support for operations of the Fund, and for issuing credit guarantees for partner banks in the financial sector of Kosovo".



NOVEMBER 2021

INTERVIEW IN THE MORNING PROGRAM "SOT" on Kohavision 40 million Euros support to SMMEs, says the Director of the KCGF - Mr. Besnik Berisha. Appearance on the news at 15:00 on RTK, where was talked about the approval of additional capital in the amount of 40 million Euros capital from EIB for KCGF.



SUCCESS STORIES

“THE WHITETREE - A Startup in pejton neighborhood

“The White Tree” – is a restaurant in Pristina, founded in 2020 by three former friends/colleagues. “Starting a new business is a challenge, considering the financial aspect, entering a new activity is easier when you do not enter alone but together with a partner. We started our business in 2020 right at the beginning of the pandemic. It was a joint initiative by all three partners to bring a new concept, a better quality service in the neighborhood where we operate”, emphasizes Mr. Patience Xhiha co-owner and business manager of “The White Tree”. “The White tree employs 19 workers, and currently is expanding with 6 additional workers. Women’s empowerment is one of the goals of the founders, so it is planned that the participation of women from 40% as it is now, to increase further and reach 60%.



“Investments in the business were mainly made from the capital of the co-founders, but still needed an additional injection to complete the investments in the restaurant inventory. We achieved this investment through the loan that was guaranteed by the Kosovo Credit Guarantee Fund”, emphasizes Mr. Xhiha. Through this investment, it was managed to make the space functional and ready to start the activity. The support of this investment is made through the loan guaranteed by the Kosovo Credit Guarantee Fund together with the COSME Program of the European Investment Fund which are supporting access to finance for MSMEs at different stages of their life cycles : creating, expanding or transferring business.

AGRIUM A SPECIAL SUCCESS STORY

On a beautiful September day, we went to visit the company AGRIUM FRUITS SHPK – located in the village of Lloshkobar near the city of Ferizaj, where we met a special entrepreneur, Mr. Avdullah Isufi. Hardworking, modest, hospitable man who from the first meeting amazed with his professionalism, knowledge and acquaintance related to agribusiness. Upon entering his courtyard, where he had both home and his business, we could notice a beautifully arranged flower garden. At first impression, you could notice the devotion to his work and business. He founded



this business in year 2000, and today, he has entrusted key tasks to his sons. Initially, started with primary production, continued with expanding activities related to the collection and canning of fresh and quality fruits and vegetables by farmers; as well as finding markets and providing various agricultural inputs. The years 2010 – 2011 were crucial years of growth and expansion of his business. In 2016 through loans, AGRIUM FRUITS LLC had managed to purchase refrigerators, and increase capacities for collection, selection, packaging, and export of goods in EU. Year 2016 and exactly the month of September, is related to the month when the Kosovo Credit Guarantee Fund (KCGF) was operationalized where among the first credit guarantees issued was the one for the company AGRIUM FRUITS SHPK. “Through continuous expansion, to support our activities, we needed investment in equipment. We achieved this investment with the loan that was guaranteed by the Kosovo Credit Guarantee Fund, in addition to which the demand for collateral was much lower”, emphasizes Mr. Isufi. Being a client with excellent credit history, he qualified and received another loan, again guaranteed by KCGF, to purchase additional equipment’s to improve yield selection (tapes and detectors that automatically make the selection). “Kosovo has large capacities to produce all kinds of agricultural crops to meet the needs of local market and the rest for export. We just need commitment, dedication and hard work” - are the words that this wise and hardworking man told us. Many businesses, through loans could grow and prosper just as I did. In a short site visit of his business, we saw only a part of the investments done. We returned at the office with best impressions of a business that has grown and prosper in Kosovo.

MOEA – FRUTOMANIA - A little bottle with big love

It is always a pleasure when we visit a local business, the one with all its capacities takes care to offer quality and completely natural products. The factory we visited was established in 2006. Since then, the main idea and the goal has been the cultivation, production and marketing of natural products of all types of trees that are cultivated in the land of Kosovo. The nature that surrounds the factory, the tools, the space, the working conditions, the overall organization, leaves the most beautiful impressions and a lesson on how should a business function and increase productivity. The village of Kravarica near Gjilan is exact location of the business we visited - MOEA - which grows apples, cherries, cranberries and other fruits at full capacity. It produces FRUTOMANIA jam and juices, which are 100% natural and varied. It is a brand that has a name for quality, offers healthy, original and 100% natural products. The smell of apples, the clean environment, the part where the fruits are selected, canned, squeezed and the whole chain of production of super-natural and local juices, are indicators that this business has grown and its main goal is the quality and delivery of healthy products. With over 400 hectares of land, over 30 regular workers throughout the year and other seasonal, depending on the volume of work, MOEA has managed with professionalism and dedication, in addition to the local market to penetrate the international market, because quality is the main criterion for this business. To date, it has managed to introduce and produce 16 different types of drinks, natural and high quality, jam and alcoholic beverages in many European countries such as Austria, Hungary, Finland, Italy, of course in Albania. MOEA is a business that has used the loan from the KCGF guarantee scheme, within the ECONOMIC RECOVERY PACKAGE. In fact, two loans, which are mainly used for the provision and supply of raw materials, raw materials and packaging. These loans are approved quickly and easily, without the need for collateral, as part of facilitating access to finance provided by the recovery package. The hospitality, the professional presentation of the business by the staff and the management that we met, left us with a good taste of a local business that continues to develop and increase its capacities.



NATYRA G - CHEESE HOUSE

From Prishtina, on the old road, not far from the entrance to Ferizaj, in the place called Prelez i Muhaxherëve, among many other businesses is the one we visited - the NATYRA-G cheese house. A smiling lady full of energy, Shemsija waited for us at the workplace, which she and her husband, Idrizi, started in 2011. The factory of natural dairy products, has a variety of other products such as: cheese, butter, various yogurt, as well as many types of products that stand out for originality and are completely natural. Factory with many new machines, where dairy products are processed, packaged and prepared for distribution "Everything here is BIO, because, this is business concept we designed since the beginning," says Ms. Shemsija, a great worker who started and set up her business. "I have always dreamed of growing my business, to have modern and sophisticated equipment that facilitates and enables the quality production of natural products. We have already managed to have the desired equipment, we bought it through the loan we used, which is guaranteed by the Kosovo Credit Guarantee Fund. "This loan was approved very quickly, without collateral and with shortened procedures. As clients who have regularly paid installments and loans, we had an advantage and qualified to invest further in our business," Shemsija told us. "We have already increased the capacities and we have over 20 regular employees. "Today we work with a processing capacity of 2500 liters of milk per day, although we have capacity to go up to 70,000 liters, which is our goal for the future", said Mr. Idrizi, a man who always stands by Shemsija, who is known for organizing and carrying out all the operational work required by this business. Natyra G, where the whole family is engaged, has built and set up the factory year after year by investing and increasing production capacity from all-natural milk products.





PART VI



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AUDITED FINANCIAL STATEMENTS

KOSOVO CREDIT GUARANTEE FUND

**Independent Auditor's Report and
Financial Statements for the year
ended December 31, 2021**

CONTENT

	Page
Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Comprehensive Income	4
Statement of Changes in Funds balance	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 35

Independent Auditor's Report

To the Board of Directors of
Kosovo Credit Guarantee Fund

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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 2021, 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 2021, 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

29 June 2022

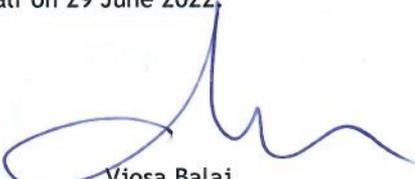
Kosovo Credit Guarantee Fund
Statement of Financial Position
As at December 31, 2021

	Notes	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
ASSETS			
Cash and cash equivalents	4	9,886,321	28,089,205
Trade and other receivables	5	225,708	231,824
Deposits	6	37,135,910	24,050,187
Investments in securities	7	14,586,422	-
Right of use asset	8	60,286	79,324
Property, plant, and equipment	9	23,884	24,604
Intangible assets	10	18,263	25,119
TOTAL ASSETS		61,936,794	52,500,263
EQUITY AND LIABILITIES			
Accrued expenses		13,096	29,275
Lease liability	8	63,661	81,302
Reserve for impairment losses on Guarantees	19	3,324,217	1,445,576
Deferred revenues	11	2,291,989	612,850
Accrual guarantee fees		1,326,586	583,813
Total liabilities		7,019,549	2,752,816
Equity			
Capital	13	54,300,921	48,700,921
Accumulated profit		616,324	1,046,526
Total equity		54,917,245	49,747,447
TOTAL EQUITY AND LIABILITIES		61,936,794	52,500,263

Authorized for issue by the management and signed on its behalf on 29 June 2022.


Beshik Berisha
Managing Director




Vjosa Balaj
Senior Finance Manager

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

Kosovo Credit Guarantee Fund
Statement of Comprehensive Income
For the year ended December 31, 2021

	Notes	Year ended 31 December, 2021 (EUR)	Year ended 31 December, 2020 (EUR)
Guarantee fees	14	1,620,638	1,061,886
Interest Income	15	508,464	282,648
Other income	16	217,816	66,913
Total income		2,346,918	1,411,447
Personnel expenses	17	(246,394)	(205,779)
Depreciation and amortization	8,9,10	(39,818)	(46,748)
Operating expenses	18	(142,754)	(106,436)
Net provision losses for guarantees	19	(2,101,945)	(986,172)
Impairment losses for financial assets	19	(246,209)	-
(Loss) / Profit for the year		(430,202)	66,312
Other comprehensive income		-	-
Total comprehensive income for the year		(430,202)	66,312

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

Kosovo Credit Guarantee Fund
Statement of Changes in Funds balance
For the year ended December 31, 2021

	Capital (EUR)	Accumulated profit (EUR)	Total (EUR)
As at January 1, 2020	15,790,921	980,214	16,771,135
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
As at January 1, 2021	48,700,921	1,046,526	49,747,447
Capital	5,600,000	-	5,600,000
(Loss) / Profit for the year	-	(430,202)	(430,202)
Other comprehensive income	-	-	-
As at December 31, 2021	54,300,921	616,324	54,917,245

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

Kosovo Credit Guarantee Fund
Statement of Cash Flows
For the year ended December 31, 2021

	Notes	Year ended 31 December, 2021 (EUR)	Year ended 31 December, 2020 (EUR)
Cash flow from operating activities:			
(Loss) / Profit of the year		(430,202)	66,312
Adjustments for:			
Depreciation and amortization	8,9,10	39,818	46,748
Increase in impairment losses on Guarantees	19	2,101,945	986,172
Increase in impairment losses on financial assets	19	246,209	-
Interest on deposits and investments		(508,464)	(282,648)
Interest expenses on the lease liabilities		(4,559)	(4,974)
		1,444,747	811,610
Movements in working capital:			
Increase in trade and other receivables		6,116	149,550
Increase in accrual guarantee fee		742,773	33,994
Paid claims		(223,304)	(228,895)
(Decrease)/Increase in deferred revenues from donated assets		1,679,139	580,740
Increase in accruals		16,180	20,070
Increase in the lease liability		22,828	4,441
Interest paid for lease liabilities		4,559	4,974
Net cash (used)/generated in operating activities		3,693,038	1,376,484
Cash flow from investing activities:			
Acquisition of fixed assets	9,10	(13,203)	(30,891)
Increase in investments in deposits		(13,262,155)	(7,158,876)
Increase in investments in securities		(14,656,199)	-
Received interest from investments		457,835	283,271
Net cash used in investing activities		(27,473,722)	(6,906,496)
Cash from financing activities			
Repayment of the lease liability		(22,200)	(26,350)
Increase in capital		5,600,000	32,910,000
Net cash generated in financing activities		5,577,800	32,883,650
Net (Decrease)/Increase in cash and cash equivalents during the year		(18,202,884)	27,353,638
Cash and cash equivalents at the beginning of the year		28,089,205	735,567
Cash and cash equivalents at the end of the year	4	9,886,321	28,089,205

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

1. GENERAL

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

KCGF was established, through a joint initiative between International Donors in Kosovo (mainly USAID and KfW) and the Government of Kosovo, in January 2016, based on the Law on Establishment of the Kosovo Credit Guarantee Fund.

Through “Law on Establishment of the Kosovo Credit Guarantee Fund” Law No. 05/L-057 *hereinafter (LKCGF) was established the KCGF as an independent, not-for-profit, public institution, autonomous, legal entity and determined its authority, structure, governance, operations, scope, policies, and procedures for the issuance of Credit Guarantees.

The founding law of the KCGF was initiated by MTI (Ministry of Trade and Industry), while USAID in Kosovo, through the EMPOWER Credit Support Program (ECS) supported the institution in becoming operational. The law entered into force on 23 January 2016. KCGF capital consists of funds donated by USAID, KfW, and the Government of Kosovo (GoK).

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

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

KCGF is governed by a Board of Directors composed of seven members: One ex-officio member appointed by the Ministry of Trade and Industry of the Republic of Kosovo; One ex-officio member appointed by the Ministry of Finance of the Republic of Kosovo; four independent members, appointed by donors, and the KCGF Managing Director, who collectively combine years of experience in financial management, risk management, commercial or financial law, and auditing. The Board provides leadership and oversight for all KCGF’s activities.

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

For its main function, KCGF is responsible for:

- a. Issuing Credit Guarantees by the LKCGF and internal policies approved by the Board of Directors.
- b. Setting the conditions for registering qualified Kosovo Financial Institutions in the KCGF, according to the Policy that regulate the Registration of Financial Institutions.
- c. Setting the conditions for issuing Credit Guarantees by the KCGF.
- d. Setting the Guarantee Fees of the KCGF.
- e. Depositing or investing directly or through delegation of authority the assets of KCGF within the limitations of the LKCGF.
- f. Paying Payable Amounts on Credit Guarantees to Registered Financial Institutions under the provisions of the LKCGF and the Guarantee Agreement, in provisions of the LKCGF and the Policy that regulates handling of the claims.

1. GENERAL (CONTINUED)

KCGF's minimum capital is 300,000.00 Euros as defined in Article 10 of the LKCGF (Law on Establishment of the Kosovo Credit Guarantee Fund). KCGF's governing bodies are the Board of Directors and the Managing Director. The Board of Directors shall be the highest governance body of KCGF.

The KCGF's fiscal identification number is 601642061.

KCGF operations and all administrative activities since June 10, 2017, are independent and under its own management.

On December 6, 2017, the Kosovo Credit Guarantee Fund (FKGK) signed the Guarantee Agreement with the Swedish International Development Cooperation Agency (SIDA), represented by the Embassy of Sweden in Pristina.

On May 14, 2019, the Kosovo Credit Guarantee Fund (KCGF) signed the Guarantee Agreement with the European Investor Fund under the COSME LGF (loan guarantee facility) program.

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 increasing access to finance for micro, small and medium-sized enterprises to promote economic growth and job creation for women, men, and youth of all ethnicities in Kosovo.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

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

- Covid-19-Related Rent Concessions beyond 30 June (Amendments to IFRS 16).
- Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16).

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)*

At the date of authorization of these financial statements the following standards, amendments to existing standards, and new interpretations 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 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).
- **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 costs.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Financial assets and financial liabilities (continued)

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

As of 31 December 2021, and 2020, financial assets and liabilities of the Fund are subsequently measured at amortized cost and include cash and cash equivalents, deposits, securities, trade, and other receivables and liabilities. Loss allowances for expected credit losses (ECL) are presented in the statement of financial position as a deduction from the gross carrying amount of the assets. The calculation of ECL for financial assets measured at amortized cost is disclosed in Note 2.13.

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

2.3 Cash and cash equivalents

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

2.4 Property, Plant, and Equipment

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

Initial recognition

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

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

Depreciation methods

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Intangible assets

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

2.6 Right of use asset

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier 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 Fund's estimate of the amount expected to be payable under a residual value guarantee, or if the Fund changes its assessment of whether it will exercise a purchase, extension or termination option.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Right of use asset (continued)

- 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, instead of performing an impairment review.
- Applying a recognition exemption for leases for which the lease term ends within 12 months of the date of initial application and leases of low-value assets. The 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 the 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 the 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 greater than the net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax-discount rate that reflects a current market assessment of the time value of money and the risks specific to the assets.

Impairment losses are recognized in the statement of comprehensive income.

2.8 Fund's balance

The Fund Balance is a grant provided by the Government of the Republic of Kosovo, USAID, and KfW. December 2021, to increase the capital of KCGF, a grant agreement in the amount of 5.6 million Euros was signed between the German Development Bank (KfW) and the Ministry of Finance.

2.9 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Revenue recognition

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

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

The Fund's revenues are:

- (i) Revenues from guarantee fees;
- (ii) Interest from investments.

Guarantee fees

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

Interest from investment

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

2.11 Expenses

KCGF's expenses are:

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

The fund registers the expenses under the accrual basis of accounting. The difference between revenues and expenses represents the net income/loss during the accounting period, which is transferred into the accumulated profit as part of the capital of the fund. KCGF pays only contributions to a publicly administered pension plan on a mandatory basis. The contributions are recognized as employee benefit expenses when they are due.

2.12 Donations

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment provisions

An impairment provisioning policy specifies the process of setting aside certain reserves for all credits that are placed under guarantees that are expected or have incurred credit loss. In the year 2021 KCGF has upgraded the model which calculates the historical data of the KCGF adapted from the macroeconomic model to derive the expected losses in the guaranteed portfolio, which is in line with the requirements of IFRS 9. The ECL calculations are based on the following input parameters:

-Probability of Default (PD): This expresses the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon, i.e. over 12-month for stage 1 exposures and over the entire lifetime for stage 2 and stage 3 exposures.

-Exposure at Default (EAD): This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after reporting date, including repayments of principal and interest and expected drawdowns on committed facilities. For Guarantees, EAD will be based on the outstanding guaranteed amount.

-Loss Given Default (LGD): This represents an estimate of the loss arising from a default event. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive.

The impairment of credit guarantees according to the model is done in three stages, based on changes in credit quality since initial recognition.

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

Under the general approach, there are two measurement bases:

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

Stage 1 - involves identifying financial instruments that have not deteriorated. For these instruments, 12-month expected credit losses would be recognized. That is, an estimate would be made of the probability of a default occurring in the 12 months following the reporting date. That probability would be multiplied by the shortfall in lifetime cash flows (that is, the present value of the difference of all principal and interest contractually due and the amount the entity expects to receive) In essence, the 12months expected credit losses represent a portion of the lifetime credit losses.

Stage 2 - involves identifying financial instruments that have deteriorated significantly in credit quality since they were first recognized, and do not exhibit objective evidence of a credit loss event. For these instruments, lifetime expected credit losses would be recognized; interest revenue would still be calculated on the gross carrying amount for these instruments. In contrast to 12-month expected credit losses, lifetime expected credit losses represent estimates based on the probability of a default event occurring at any time over the life of an instrument and are not only weighted by the likelihood of possible default events over the next 12 months.

Stage 3 - is for those financial instruments that do show objective evidence of impairment at the reporting date. For such instruments, lifetime expected credit losses are recognized, but unlike for financial assets in Stages 1 or 2, the interest revenue on these assets is calculated on the net carrying amount (i.e., the gross carrying amount less the loss allowance for expected credit losses).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment provisions (continued)

Starting from the year 2021, the probability of default has considered also the developments and macroeconomic perspective. Thus, ECL takes into account the expectations of future market conditions. In order to achieve those forward-looking estimates, econometric models describing dependencies between macroeconomic factors and historical default rates have been developed, and based on them the scaling factors to be incorporated into lifetime PD estimates will be derived. The macroeconomic factors included in the calculations are GDP, Unemployment rates, and Inflation Rates.

In addition, the ECL is calculated also for financial assets measured at amortized cost (Deposits and Securities). The ECL calculation for financial assets is based on external ratings where for each counterparty KCGF assigns a rating. As Kosovo does not have a rating, neither the deposit Financial Institutions are not rated, the Albanian most recent assessment is used.

2.14 Commitments and contingencies

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

3. FINANCIAL RISK MANAGEMENT

3.1 Introduction and overview

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

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

3.2 Risk Governance Structure

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

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

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

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

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

KCGF is not exposed to foreign exchange risk, since all assets, liabilities, and transactions are in EUR. KCGF is also not exposed to interest rate risk, since all assets and liabilities are 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 lie, correspondingly, with the banks. If nonperforming loans at a bank increase, putting their portfolio at risk, this will in turn increase KCGFs, in the sense that KCGFs may be called on the guarantees issued. This will have an impact on KCGF's capital position and expected fee incomes. Therefore, KCGF's counterparties' (Registered Financial Institutions "RFI") credit assessment and their policies will influence the quality of KCGF's guaranteed portfolio. For Registering Financial Institutions, KCGF has implemented a Registration Policy which is aimed at ensuring registration of only financial institutions that are responsive and transparent and provide evidence of their ability to comply with KCGF requirements.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Credit risk (continued)

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

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

For ensuring the guarantee commitments that KCGF is taking within its risk-bearing capacity and that its portfolio is well-diversified, KCGF has adopted a Credit Guarantee Risk Policy. This policy determines the risk appetite that KCGF is willing to take and sets the methodology for evaluating RFI exposure. The policy also sets 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 a guarantee, or safety and soundness issues in the overall condition of the bank.

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

For addressing the capital investment, KCGF has adopted an investment policy that ensures the safety of the invested capital and accordingly evaluates the counterparty risk, hence setting the limits in accordance with the risk involved for each counterparty. KCGF manages investment risk by determining the percentage distribution of the amount invested in Financial Institutions and the Government of Kosovo Securities as well as the breakdown by investment maturity, where currently the maximum maturity is 5 years. Investments in deposits and Securities of the Government of Kosovo are categorized in Stage 1 according to IFRS 9, and no deterioration is expected.

3.4 Liquidity risk

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

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Liquidity risk (continued)

	December 31, 2021			
	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	9,886,321	-	-	-
Trade and other receivables	225,708	-	-	-
Deposits	23,912,342	8,300,000	5,100,000	-
Securities	-	-	14,656,199	-
Total financial assets	34,024,371	8,300,000	19,756,199	-
Financial liabilities				
Payables and other liabilities	3,583,522	-	-	-
Total financial liabilities	3,583,522	-	-	-

	December 31, 2020			
	Up to 1 year (EUR)	Current 1 to 2 years (EUR)	2 to 5 years (EUR)	Over 5 years (EUR)
Financial assets				
Cash and cash equivalents	28,089,205	-	-	-
Trade and other receivables	231,824	-	-	-
Deposits	19,877,488	4,172,699	-	-
Total financial assets	48,198,517	4,172,699	-	-
Financial liabilities				
Payables and other liabilities	1,474,852	-	-	-
Total financial liabilities	1,474,852	-	-	-

3.5 Operational Risk

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, the operational risk may arise due to internal events, such as the potential for failure or discrepancy in any of the FKGK processes or systems, or any of the external service providers. Operational risk stemming from human resource management may mean a range of issues, such as poorly trained or poorly managed workers; the potential for negligence or deliberate misdemeanor;

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Operational Risk (continued)

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, competent and well-informed staff, and its adherence to established rules and procedures as well as security arrangements to protect the physical and ICT infrastructure of KCGF.

KCGF's Operational Risk Management Framework:

I) Clear strategies adopted by the Board of Directors and oversight exercised by Senior Management.

II) Strong internal operational risk culture (Internal operational risk culture is taken to mean the combined set of individual and corporate values, attitudes, competencies, and behavior that determine an institution's commitment to and style of operational risk management) and internal control culture, emphasizing on dual controls;

III) High standards of ethics and integrity, and

IV) Commitment to effective corporate governance, including, among others, segregation of duties, avoidance of conflicts of interest, and clear lines of management responsibility, accountability, and reporting, as reflected in the KCGF's governance documents. All levels of staff shall understand their responsibilities with respect to operational risk management.

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

3.6 Financial instruments presented at fair value

The financial assets measured according to the fair value in the statement of financial position in accordance with the hierarchy of the fair value are shown in the next table. This hierarchy groups the financial assets and liabilities into three levels that are based on the significance of the incoming data used during the measurement of the fair value of the financial assets. The 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 2021, and 2020, the Fund has no financial assets measured at fair value.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.7 Financial instruments that are not presented at fair value

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities that are not presented in the Statement of financial position at their fair value:

	Carrying value 2021 (EUR)	Fair value 2021 (EUR)
Financial assets - at amortized cost		
Cash and cash equivalents	9,886,321	9,886,321
Trade and other receivables	225,708	225,708
Deposits	37,312,342	37,312,342
Securities	14,656,199	14,656,199
Total financial assets	62,080,570	62,080,570
Financial liabilities - at amortized cost		
Payables and other liabilities	3,583,522	3,583,522
Total financial liabilities	3,583,522	3,583,522
	Carrying value 2020 (EUR)	Fair value 2020 (EUR)
Financial assets - at amortized cost		
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 - at amortized cost		
Payables and other liabilities	1,474,852	1,474,852
Total financial liabilities	1,474,852	1,474,852

3.8 Critical accounting estimates and judgments

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.8 Critical accounting estimates and judgments (continued)

Impairment of credit guarantees

The Fund reviews its credit guarantee contracts to assess whether an impairment loss should be recorded in profit or loss. Management's judgment is required in the estimation amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about several factors. Details are provided in Note 2.13.

The useful life of depreciable assets

Management reviewed the useful lives of depreciable assets on 31 December 2021. Management estimates the determined useful life of assets and represents the expected usefulness (utility) of assets. The carrying values of such assets are analyzed in Notes 9. However, the factual results may differ due to technological obsolescence.

4. CASH AND CASH EQUIVALENTS

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Cash at Central Bank of Kosovo	9,175,123	27,906,366
Current Accounts	711,080	182,354
Petty cash	118	485
Total cash and cash equivalents	9,886,321	28,089,205

5. TRADE AND OTHER RECEIVABLES

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Receivables from clients	217,637	223,834
Advances	8,071	7,990
Total receivables	225,708	231,824

Receivables from clients as of 31 December 2021 and 2020 are past due. Receivables from clients are paid in the following month as the Fund generates the fees invoices in the following month after the bank's status update of the outstanding guarantee.

6. DEPOSITS

The total deposits as of 31.12.2021 are in the amount of 37,042,829 EUR (2020: 23,778,921 EUR) with a minimum interest rate of 0.5% and maximum interest rate of 2% (2020: the minimum interest rate of 0.5% and maximum interest rate of 2.1%).

These investments, which should have a minimum maturity of 1 year and a maximum maturity of 5 years, are limited to banks that meet the criteria as approved by KCGF's Board of Directors.

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Deposits in banks in Kosovo	37,042,829	23,778,921
Accrued interest	269,513	271,266
Total deposits	37,312,342	24,050,187
Current maturity of long-term deposits	(23,912,342)	(19,877,488)
Non-current deposits	13,400,000	4,172,699
Impairment	(176,432)	-
Total	37,135,910	24,050,187

These investments are in compliance with article 22 - "Investment of KCGF Capital Fund" of the Law on the Establishment of the Kosovo Credit Guarantee Fund.

7. INVESTMENTS IN SECURITIES

The total investments in securities as of 31.12.2021 are in the amount of 14,603,817 EUR (2020: n/a) with a minimum interest rate of 1.1% and maximum interest rate of 2.1% (2020: n/a), and minimum maturity of 3 years and maximum maturity of 5 years.

The investments are classified in amortized cost and all investments are invested in securities issued by the Government of Kosovo.

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Investment securities - at amortized cost		
Government bonds	14,603,817	-
Accrued interest	52,382	-
Total Investments in Securities	14,656,199	-
Impairment	(69,777)	-
Total	14,586,422	-

These investments are in compliance with article 22 - "Investment of KCGF Capital Fund" of the Law on the Establishment of the Kosovo Credit Guarantee Fund.

8. RIGHT-OF-USE ASSET AND LEASE LIABILITY

8.1 Right-of-use

Right of use assets comprises a building leased for the KCGF office.

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Carrying Amount at January 1	79,324	26,927
Additions	-	95,189
Disposal	-	(19,447)
Depreciation charge for the year	(19,038)	(23,345)
Carrying Amount at 31 December	60,286	79,324

8.2 Lease liability

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
As at January 1	81,302	27,468
Lease Liability for the new contract	-	95,189
Disposal of Right of use asset	-	(19,980)
Lease payment for the year	(22,200)	(26,350)
Interest expenses	4,559	4,975
Lease liability as at 31 December	63,661	81,302

The following table presents the maturity analysis of the lease liability:

	2021	2020
Less than one year	18,770	17,641
Two to five years	44,891	63,661
More than five years		
Total lease liabilities at 31 December	63,661	81,302

Kosovo Credit Guarantee Fund
Notes to the Financial Statements (continued)
For the year ended December 31, 2021

	9. PROPERTY, PLANT, AND EQUIPMENT					Total (EUR)
	Equipment (EUR)	IT Equipment (EUR)	Office furniture (EUR)	Leasehold improvements (EUR)		
Historical cost						
As at January 1, 2020	4,682	50,431	19,947	-	75,060	
Additions during the period	1,979	616	3,746	20,588	26,929	
As at December 31, 2020	6,661	51,047	23,693	20,588	101,989	
Write off	(1,972)	(50,431)	(19,947)	-	(72,350)	
Additions during the period	-	6,150	-	531	6,681	
As at December 31, 2021	4,689	6,766	3,746	21,119	36,320	
Accumulated depreciation						
As at January 1, 2020	2,650	50,431	19,947	-	73,028	
Depreciation for the period	1,275	32	574	2,475	4,356	
As at December 31, 2020	3,925	50,463	20,521	2,475	77,384	
Write off	(1,972)	(50,431)	(19,947)	-	(72,350)	
Depreciation for the period	1,553	245	1,248	4,356	7,402	
As at December 31, 2021	3,506	277	1,822	6,831	12,436	
NET VALUE						
As at December 31, 2021	1,183	6,489	1,924	14,288	23,884	
As at December 31, 2020	2,736	584	3,171	18,113	24,604	

As at 31 December 2021 and 2020, KCGF uses all property and equipment for its activities and there are no encumbrances over KCGF assets.

10. INTANGIBLE ASSETS

	Software (EUR)	Total (EUR)
Historical cost		
As at January 1, 2020	92,592	92,592
Additions during the period	3,962	3,962
As at December 31, 2020	96,554	96,554
Additions during the period	6,522	6,522
As at December 31, 2021	103,076	103,076
Accumulated amortization		
As at January 1, 2020	52,389	52,389
Amortization for the period	19,046	19,046
As at December 31, 2020	71,435	71,435
Amortization of the year	13,378	13,378
As at December 31, 2021	84,813	84,813
NET VALUE		
As at December 31, 2021	18,263	18,263
As at December 31, 2020	25,119	25,119

As of 31 December 2021, and 2020, there are no encumbrances over KCGF intangible assets.

Management Information System is the Fund's software which was originally donated by USAID. This system was acquired and activated in July 2016 and its initial value was 66,825 euros. KCGF in 2017 and 2018 upgraded the system with its own funds in the amount of 11,844 euros. With a donation from KfW, the Fund upgraded the system again in 2019 and 2020 in the amount of 17,885 euros. In 2021, with the technical assistance from the project FSSP, the Fund upgraded the system in the amount of 5,386 euros, and with its own funds in the amount of 1,136 euros. The Fund has recognized the system as an asset in the financial statements and has accounted for deferred income in relation to the amount of the donation.

11. DEFERRED REVENUES

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

11. DEFERRED REVENUES (CONTINUED)

11.1 Deferred revenue from donated assets

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
IT Equipment (FSSP TA - Note 11.3)	6,111	-
Leasehold improvements (FSSP TA - Note 11.3)	524	-
Software (FSSP TA - Note 11.3)	4,677	-
Software (USAID TA)	-	6,682
Software (KfW TA)	9,135	12,712
Total in-kind contributions	20,447	19,394

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
At the beginning	19,394	32,110
Additions during the year (Note 11.3)	12,067	3,962
- <i>IT Equipment (FSSP TA)</i>	6,150	-
- <i>Leasehold improvements (FSSP TA)</i>	531	-
- <i>Software (FSSP TA)</i>	5,386	-
- <i>Software (KfW TA)</i>	-	3,962
- Depreciation and amortization (USAID TA)	(6,682)	(13,365)
- Depreciation and amortization (KfW TA)	(3,577)	(3,313)
- Depreciation and amortization (FSSP TA)	(755)	-
Depreciation and amortization (Note 16)	(11,014)	(16,678)
At the end of the year	20,447	19,394

11.2 Deferred revenue from guarantee fee subsidy

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Fee subsidy	2,260,814	500,000
Total deferred revenues from subsidy fee	2,260,814	500,000

11. DEFERRED REVENUES (CONTINUED)

11.2 Deferred revenue from guarantee fee subsidy (continued)

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
At the beginning	500,000	-
Additions during the period	4,500,000	500,000
Utilized (Note 12, Note 14)	(1,124,235)	-
Returned	(1,614,951)	-
At the end of the year	2,260,814	500,000

KCGF in the framework of the contract signed between KCGF and the Ministry of Finance of Kosovo on December 31, 2020, received as an advance the subsidy of the guarantee fee, in the amount according to the contract, distributed over a period of time. KCGF recorded the amount as deferred income and only after the realization of the guarantee, records it as income in the statement of comprehensive income. The contract was terminated on December 31, 2021.

In the framework of the Agreement between the Kosovo Credit Guarantee Fund and the Ministry of Finance, for the Subsidy of Guarantee Fees dated 31.12.2020, the Kosovo Credit Guarantee Fund has received the amount of 5 million euros (received in two parts, dated 18 February 2021 in the amount of EUR 1.5 million and on 17 August in the amount of EUR 3.5 million) for subsidizing tariffs for cases guaranteed under the Economic Recovery Package (PRE) in accordance with Law no. 07 / L -016 for Economic Recovery - COVID. Since the duration of the Law no. 07 / L-016 on Economic Recovery was until December 31, 2021, and as a result, the validity of the guarantee windows as a special measure within the PRE has been up to this date, including the use of a dedicated budget of 5.0 million euros to subsidize guarantee fees. In agreement with the Ministry of Finance, Labor and Transfers, it was decided that the unused funds from the amount of subsidy of guarantee fees in the amount of 1,614,951 euros, were returned to the Government of the Republic of Kosovo.

The initial maturity of the loan or lease was used as the basis for the calculation, assuming that each loan guaranteed under this window will be amortized according to the initial payment plan and eventual prepayments and restructurings that may occur during the maturity of the exposures are not taken into account. In addition to all revolving products (Overdrafts and Credit Lines), it is calculated that they will be re-extended for five cycles (years), as allowed in the Guarantee Agreement with partner banks. For Loans and Leases marked with irregular payment plans, the calculation is performed by taking into account the payment plans which are requested by the Banks.

11.3 Deferred revenue from technical assistance

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
FSSP technical assistance	10,728	93,456
Total deferred revenues from technical assistance	10,728	93,456

11. DEFERRED REVENUES (CONTINUED)

11.3 Deferred revenue from technical assistance (continued)

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
At the beginning	93,456	-
Additions during the period	-	100,000
Utilized FSSP TA (Note 11.1)	(12,067)	-
Utilized FSSP TA (Note 16)	(70,661)	(6,544)
At the end of the year	10,728	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 the Ministry of Finance and the implementation of the Financial Sector Strengthening Project, receives 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, records it as income in the comprehensive income statement. These funds cover the expenses of the staff engaged in the project in the amount of 33,284 euros, assets in the amount of 12,067 euros and other consulting and administrative expenses in the amount of 37,377 euros. This value is recorded as other income in the amount of 70,661 euro and is reflected in disclosure 15, also the value of assets is recorded as income in the relevant period and is reflected in disclosures 9 and 10.

12. ACCRUALS

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
- Accrual Guarantee Fee	407,184	344,848
- Accrual Guarantee Fee (covered by Ministry of Finance) (Note 11.2)	666,345	-
- Accrual Annual Fee	253,057	238,965
Total accrual fees	1,326,586	583,813

13. CAPITAL

As at 31 December 2021 and 2020, capital consists of funds provided to the KCGF as grants as follows:

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Funds received from USAID	5,790,921	5,790,921
Funds received from KfW	24,100,000	18,500,000
Funds received from GoK	24,410,000	24,410,000
	54,300,921	48,700,921

In December 2021, KfW donated an additional capital of EUR 5,600,000 to support the green recovery sector through KCGF. 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. In 2020, the implementation of the World Bank project for the Financial Sector Strengthening Project began, where the Government of Kosovo donated to the KCGF 21,410,000 EUR capital. From this capital, through FSSP, to address the request for financial support of MSMEs affected by the crisis caused by COVID-19, KCGF designed and implemented six windows in different sectors and generated revenues which are disclosed in Note 14. The windows within the Recovery Package have enabled the guarantee of loans up to 80%.

14. GUARANTEE FEES

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Guarantee fees	1,162,748	1,061,886
Release of deferred revenue for Guarantee fees covered by the Ministry of Finance (Note 11.2)	457,890	-
Total guarantee fees	1,620,638	1,061,886

Once the loan is accepted and put under guarantee, the guarantee fee is also calculated. The guarantee fee is calculated based on the actual guarantee fee percentage specified for a Guarantee Agreement, multiplied by the Approved Amount of the guarantee. The income from the guarantee fee is recognized on an accrual basis for a period of 12 months.

The guarantee fees are recognized as revenues in the statement of comprehensive income at the end of each month by debiting Accrual Guarantee Fee and credit Guarantees Fees Income. The total fee income as of 31.12.2021 is in the amount of 1,620,638 EUR (2020: 1,061,886 EUR) with a minimum fee of 0.5% and a maximum fee of 2% (2020: a minimum fee of 0.5% and a maximum fee of 2%).

15. INTEREST INCOME

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Interest income from deposits	349,757	282,648
Interest income from Government bonds	158,707	-
Total interest income	508,464	282,648

16. OTHER INCOME

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Funds for operating expenses	57,029	43,691
Release of deferred revenue for FSSP TA (Note 11.3)	70,661	6,544
Recovery	79,112	-
Release of deferred revenue for in-kind fixed asset donation (Note 11.1)	11,014	16,678
Total other income	217,816	66,913

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

17. PERSONNEL EXPENSES

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Salaries	203,106	170,005
Pension contribution	23,466	19,407
Tax salaries	19,822	16,367
Total personnel expenses	246,394	205,779

18. OPERATING EXPENSES

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Re-guarantee expenses	11,734	28,209
Office rent & utilities	2,196	4,585
Maintenance & Repair Exp.	19,576	16,667
Translator and other Professional services	66,834	25,171
Expenses for Membership & Subscription	5,501	5,701
Interest expenses on the lease liabilities	4,559	4,975
Publications, Branding, and Marketing	9,554	4,619
Phone and internet expenses	4,201	3,914
Training, Conferences, and Seminars	724	609
Bank fees	1,516	1,709
Other expenses	16,359	10,277
Total operating expenses	142,754	106,436

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 reinsurance 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.

19. IMPAIRMENT PROVISION LOSSES

19.1 Impairment provision for guarantees

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Additional provision	5,342,113	2,779,511
Release of provision	(3,240,168)	(1,793,339)
Total net provision expenses	2,101,945	986,172

A provisioning policy specifies the process of setting aside certain reserves for all credits that are placed under guarantees that are expected or have incurred credit loss.

The movement of the reserve for losses on guarantees for 2021 and 2020 is as follows:

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
As at 1 January	1,445,576	688,299
Additional provision	5,342,113	2,779,511
Release of provision	(3,240,168)	(1,793,339)
Claims paid	(223,304)	(228,895)
As at 31 December	3,324,217	1,445,576

The paid claims refer to 20 claims requested by 5 banks (2020: 16 claims, requested by 6 banks).

19. IMPAIRMENT PROVISION (CONTINUED)

19.1 Impairment Provision losses for guarantees (continued)

	As at December 31, 2021 (EUR)	As at December 31, 2020 (EUR)
Stage 1	1,776,402	697,610
Stage 2	601,669	216,435
Stage 3	946,146	531,531
As at 31 December	3,324,217	1,445,576

Changes in the corresponding gross carrying amount and ECLs are as follow:

	Stage 1	Stage 2	Stage 3	Total
Gross outstanding amount as of 1 January	53,815,012	1,257,775	875,235	55,948,022
New guarantees originated	109,590,315	1,319,676	445,998	111,355,989
Modification of contractual cash flows	-	-	-	-
Derecognitions	(40,071,154)	(755,189)	(162,250)	(40,988,593)
Claims	-	-	(223,304)	(223,304)
Changes in interest accrual	-	-	-	-
Changes in the principal and disbursement fee amount	-	-	-	-
Transfers to Stage 1	(1,110,331)	543,685	566,646	-
Transfers to Stage 2	169,142	(456,214)	287,072	-
Transfers to Stage 3	144,027	65,330	(209,357)	-
Foreign exchange and other movements	-	-	-	-
As at 31.12.2021	122,537,011	1,975,063	1,580,040	126,092,114

	Stage 1	Stage 2	Stage 3	Total
As of 1 January	697,610	216,435	531,025	1,445,070
New guarantees originated	1,397,079	400,465	214,474	2,012,018
Modification of contractual cash flows	-	-	-	-
Derecognitions	155,018	(8,830)	(55,755)	90,433
Claims	-	-	(223,304)	(223,304)
Changes in interest accrual	-	-	-	-
Changes in the principal and disbursement fee amount	-	-	-	-
Transfers to Stage 1	(477,950)	150,442	327,507	-
Transfers to Stage 2	2,470	(178,450)	175,980	-
Transfers to Stage 3	2,175	21,607	(23,781)	-
Foreign exchange and other movements	-	-	-	-
As at 31.12.2021	1,776,402	601,669	946,146	3,324,217

19. IMPAIRMENT PROVISION (CONTINUED)

19.2 Impairment Provision losses for financial assets

	Year ended December 31, 2021 (EUR)	Year ended December 31, 2020 (EUR)
Deposits	37,312,342	24,050,187
Investment securities measured at amortized cost	14,656,199	-
Allowances for impairment	(246,209)	-
Total investments	51,722,332	24,050,187

Changes in the corresponding gross carrying amount and ECLs are as follow:

	Stage 1	Stage 2	Stage 3	Total
Investments as of 1 January	24,050,187			24,050,187
New assets originated or purchased	41,645,510			41,645,510
Assets derecognized or matured	(13,727,156)			(13,727,156)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange and other movements	-	-	-	-
As at 31.12.2021	51,968,541	-	-	51,968,541

	Stage 1	Stage 2	Stage 3	Total
As of 1 January	114,549	-	-	114,549
New assets originated or purchased	198,354	-	-	198,354
Assets derecognized or matured	(66,694)	-	-	(66,694)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange and other movements	-	-	-	-
As at 31.12.2021	246,209	-	-	246,209

20. CONTINGENCIES AND COMMITMENTS

	As at December 31, 2021 (EUR)	
	Number of Guarantees	Outstanding Guaranteed Amount
Total	<u>6,729</u>	<u>126,092,114</u>
	As at December 31, 2020 (EUR)	
	Number of Guarantees	Outstanding Guaranteed Amount
Total	<u>4,268</u>	<u>55,997,787</u>

Litigation and claims

As of 31 December 2021, there are no litigations or claims against FKGK (2020: no litigations or claims against FKGK).

21. RELATED PARTY TRANSACTIONS

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

	Receivables (EUR)	Liabilities (EUR)	Revenues (EUR)	Expenses (EUR)
As at December 31, 2021				
Board Members	-	-	-	16,800
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,800</u>
As at December 31, 2020				
Board Members	-	-	-	20,375
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,375</u>

22. EVENTS AFTER THE REPORTING DATE

After 31 December 2021 - 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.

Impact of Ukraine conflict

The current conflict between Ukraine and Russia presents a challenge to financial institutions around the world that operates globally and especially to those exposed to customers and suppliers who are or will become, subject to sanctions. The conflict is having an impact on energy prices such as oil and natural gas, as well as food and commodity prices which seem to further push up the level of inflation, which is expected to last for a longer period.

The fund is not exposed to international transactions, or transactions related to companies subject to sanctions and therefore we do not forecast any negative impact. Moreover, there is still too early to predict any possible negative impact of the conflict on our country's economy, and we do not anticipate having any significant negative impact.

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Kosovo Credit Guarantee Fund

