Auditor's Report on Avalis de Catalunya, Sociedad de Garantía Recíproca

(Together with the annual accounts and directors' report of Avalis de Catalunya, Sociedad de Garantía Recíproca for the year ended 31 December 2020)

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.A.
Centro Empresarial de Aragón
Avda. Gómez Laguna, 25
50009 Zaragoza

Independent Auditor's Report on the Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Members of Avalis de Catalunya, Sociedad de Garantía Recíproca.

Opinion

We have audited the annual accounts of Avalis de Catalunya, Sociedad de Garantía Recíproca (the "Company"), which comprise the balance sheet at 31 December 2020, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Most Relevant Aspects of the Audit

The most relevant aspects of the audit are those that, in our professional judgement, have been considered as the most significant risks of material misstatement in the audit of the annual accounts of the current period. These risks were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

Impairment of the portfolio of financial and technical guarantees and non-performing receivables from members due to credit risk (notes 2 (e), 4 (d), 3, 8 and 16)

Description

The process of estimating the impairment due to credit risk of outstanding exposure through financial and technical guarantees and non-performing receivables from members entails a significant and complex estimate, especially with regard to the identification and classification of exposures through loans, portfolio segmentation, and the use of significant assumptions such as the realisable value of the collateral associated with credit transactions or the portion of the credit risk that is counter-guaranteed.

As a result of the aforementioned judgement and complexity factors, we understand that the process of estimating impairment of the portfolio of financial and technical guarantees and non-performing receivables from members due to credit risk is a significant risk, and it has therefore been considered a relevant aspect of the audit.

Our response

Our audit procedures included gaining an understanding of the Company's control environment with regard to the process of monitoring outstanding exposure through financial and technical guarantees and non-performing receivables from members, with a focus on examining the Company's risk assessment and monitoring of alerts, as well as evaluating the borrower review process carried out to determine their classification and the impairment to be recognised.

We likewise performed the following substantive procedures, inter alia, in relation to the estimation of impairment:

– Inspection of a sample of borrowers to assess whether they had been appropriately classified.

– Recalculation of the provisions recognised by the Company.

– Validation of the correct functioning of the calculation engine, examining key factors for a sample therein (borrower risk segmentation, provisioning and counter-guarantee percentages, default dates and discounting of collateral and guarantees).

– We obtained confirmation from the counter-guarantors of the balances of counter-guaranteed non-performing receivables from members, counter-guaranteed performing and non-performing outstanding exposures, as well as the counter-guaranteed provisions associated with these balances.

We also assessed whether the disclosures on impairment due to credit risk of the portfolio of financial and technical guarantees and non-performing receivables from members in the annual accounts meet the requirements of the applicable financial reporting framework.

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Other Information: Directors' Report

Other information solely comprises the 2020 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility for the directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned annual accounts, and assessing and reporting on whether the content and presentation of the directors’ report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described in the preceding paragraph, the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2020 and the content and presentation of the report are in accordance with applicable legislation.

Directors' Responsibility for the Annual Accounts

The Company's Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Company's Directors are responsible for assessing the Company'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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts 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 prevailing legislation regulating the audit of accounts in Spain 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 annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the annual accounts, 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 entity's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Directors.

– Conclude on the appropriateness of the Directors' 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 Company'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 annual accounts 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 Company to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

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We communicate with the Directors of the entity 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.

From the significant risks communicated to the Directors of Avalis de Catalunya, Sociedad de Garantía Recíproca, we determine those that were of most significance in the audit of the annual accounts of the current period and which are therefore the most significant risks.

We describe these risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors ("ROAC") with No. S0702

(*Signed on original in Spanish*)

Fernando Renedo Avilés
On the Spanish Official Register of Auditors ("ROAC") with No. 22,478

22 April 2021

AVALIS DE CATALUNYA, S.G.R.

BALANCE SHEETS AT 31 DECEMBER 2020 AND 2019

ASSETS	Euros	
	31/12/2020	31/12/2019 (*)
ASSETS		
Cash (note 9)	**18,920,167**	**14,332,756**
Trade and other receivables	**31,184,109**	**29,329,103**
Non-performing receivables from members (note 8)	17,526,731	15,849,570
Other receivables (note 7)	13,318,188	13,150,915
Public entities, other (note 15)	298,171	287,598
Rest of receivables (note 7)	41,020	41,020
Investments (note 9)	**55,481,068**	**43,534,189**
Equity instruments	329	329
Debt securities	48,480,739	39,033,272
Term deposits in credit institutions	7,000,000	4,500,588
Non-current assets held for sale (note 11)	**1,617,781**	**1,863,591**
Property, plant and equipment (note 6)	**56,317**	**68,289**
Technical installations and other items	56,317	68,289
Intangible assets (note 5)	**227,897**	**200,035**
Other assets	**206,063**	**191,743**
TOTAL ASSETS	**107,693,401**	**89,519,706**
MEMORANDUM ITEM		
Outstanding exposure through financial and technical guarantees giv	**521,397,828**	**392,516,929**
Financial guarantees	473,175,330	341,603,783
Of which: non-performing	37,409,592	29,366,346
Other guarantees	48,222,498	50,913,146
Of which: non-performing	1,795,593	1,708,263
Risks and other counter-guaranteed assets	**329,484,084**	**211,373,735**
Of which: non-performing financial and technical guarantees	23,444,570	16,202,897
Of which: non-performing receivables from members	11,257,698	10,488,634
Of which: foreclosed assets	824,654	1,015,381

LIABILITIES	Euros	
	31/12/2020	31/12/2019 (*)
LIABILITIES	**60,876,843**	**54,715,147**
Trade and other payables (note 12)	**773,943**	**756,195**
Other payables	695,131	687,779
Current tax liabilities (notes 12 and 15)	78,812	68,416
Payables (note 13)	**6,464,673**	**3,788,746**
Guarantees and deposits received	5,988,577	3,148,342
Counter-guarantors	158,805	202,873
Other payables	317,291	437,531
Liabilities associated with financial and technical guarantees (	**14,467,830**	**13,328,722**
Financial guarantees	14,136,006	12,957,733
Other guarantees	331,824	370,989
Provisions (note 8)	**11,455,794**	**10,133,675**
Provisions for financial and technical guarantees	11,455,794	10,133,675
Other provisions	-	-
Technical provisions. Collective coverage of all transactions (note 10.c)	**9,302,803**	**9,292,809**
Other liabilities	-	-
Capital repayable on demand (note 4.l)	**18,411,800**	**17,415,000**
EQUITY	**46,816,558**	**34,804,559**
Own funds (note 10.a)	**18,509,342**	**18,509,343**
Capital (note 4.l)	**19,000,000**	**19,000,000**
Subscribed capital (note 10.a)	37,411,800	36,415,000
Patron members	17,144,800	17,193,200
Participating members	20,267,000	19,221,800
Less - Uncalled capital	-	-
Less - Capital repayable on demand	(18,411,800)	(17,415,000)
Reserves (note 10.b)	**207,398**	**207,398**
Prior years' profit or loss (note 3)	**(698,055)**	**(692,352)**
Profit/(loss) for the year (note 3)	**-**	**(5,703)**
Technical provisions. Third party contributions (note 10.c)	**28,307,216**	**16,295,216**
TOTAL LIABILITIES AND EQUITY	**107,693,401**	**89,519,706**

(*) Presented solely and exclusively for comparison purposes (see note 2 (h))

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

AVALIS DE CATALUNYA, S.G.R.

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

	Euros	
	Year 2020	Year 2019 (*)
Revenues (note 18.a)	**6,596,791**	**6,524,544**
Revenues from financial and technical guarantees	6,596,791	6,520,044
Services rendered	-	4,500
Other operating income	**4,656**	**10,821**
Staff expenses (note 18.b)	**(1,975,811)**	**(1,876,268)**
Salaries, wages and similar	(1,513,407)	(1,413,852)
Employee benefits expense	(462,404)	(462,416)
Other operating expenses (note 18.c)	**(935,146)**	**(1,090,832)**
Fees and commissions paid	(28,678)	(124,065)
Other operating expenses	(906,468)	(966,767)
Provisions for financial and technical guarantees (net) (notes 8 and 18.d)	**(920,879)**	**1,343,805**
Credit loss allowances for non-performing receivables from members (net) (notes 8 and 18.d)	**(3,386,602)**	**(5,110,510)**
Appropriation to technical provisions. Collective coverage of all transactions (net) (note 18.d)	**(9,994)**	**(498,409)**
Technical provisions. Third party contributions used (note 18.d)	**-**	**-**
Amortisation and depreciation (notes 5 and 6)	**(61,465)**	**(58,582)**
Impairment and gains/(losses) on disposal of fixed assets (note 6)	**-**	**(1,491)**
Impairment and gains/(losses) on non-current assets held for sale (net) (notes 11 and 18.d)	**15,743**	**(80,133)**
RESULTS FROM OPERATING ACTIVITIES	**(672,705)**	**(837,055)**
Finance income (notes 9 and 18.f))	**765,758**	**930,807**
Finance costs (notes 9 and 13)	**(93,053)**	**(93,752)**
NET FINANCE COST/INCOME	**672,705**	**837,055**
PROFIT/(LOSS) BEFORE INCOME TAX	**-**	**-**
Income tax (note 15)	-	(5,703)
PROFIT/(LOSS) FOR THE YEAR	**-**	**(5,703)**

(*) Presented solely and exclusively for comparison purposes (see note 2 (h))

The accompanying notes 1 to 19 form an integral part of the annual accounts for the year ended 31 December 2020.

AVALIS DE CATALUNYA, S.G.R.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

	Euros	
	Year 2020	Year 2019 (*)
PROFIT/(LOSS) FOR THE YEAR	**-**	**(5,703)**
Income and expense recognised directly in equity	**12,012,000**	**-**
Valuation adjustments	**-**	**-**
Available-for-sale financial assets	-	-
Other	-	-
Technical provisions. Third party contributions (note 10.c)	12,012,000	-
Tax effect	**-**	**-**
Amounts transferred to the income statement	**-**	**-**
Valuation adjustments	-	-
Available-for-sale financial assets	-	-
Other	-	-
Technical provisions. Third party contributions	-	-
Tax effect	**-**	**-**
TOTAL RECOGNISED INCOME AND EXPENSE	**12,012,000**	**(5,703)**

(*) Presented solely and exclusively for comparison purposes (see note 2 (h))

AVALIS DE CATALUNYA S.G.R

STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

(Euros)

	Subscribed capital	Uncalled	Reserves	Capital repayable on demand	Prior years' profit or loss	Profit/(loss) for the year	Technical provisions	Total
Closing balance for 2018 (*)	**36,467,800**	**-**	**207,398**	**(17,467,800)**	**(692,352)**	**-**	**16,295,216**	**34,810,262**
Adjustments for changes in criteria	-	-	-	-	-	-	-	-
Corrections of errors	-	-	-	-	-	-	-	-
Adjusted opening balance for 2019	**36,467,800**	**-**	**207,398**	**(17,467,800)**	**(692,352)**	**-**	**16,295,216**	**34,810,262**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**(5,703)**	**-**	**(5,703)**
Transactions with members	**(52,800)**	**-**	**-**	-	**-**	**-**	**-**	**(52,800)**
Capital increases	3,070,800	-	-	-	-	-	-	3,070,800
(-) Capital reductions	(3,123,600)	-	-	-	-	-	-	(3,123,600)
Capital repayable on demand	**-**	**-**	**-**	**52,800**	**-**	**-**	**-**	**52,800**
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance for 2019	**36,415,000**	**-**	**207,398**	**(17,415,000)**	**(692,352)**	**(5,703)**	**16,295,216**	**34,804,559**
Adjustments for changes in criteria	-	-	-	-	-	-	-	-
Corrections of errors	-	-	-	-	-	-	-	-
Adjusted opening balance for 2020	**36,415,000**	**-**	**207,398**	**(17,415,000)**	**(692,352)**	**(5,703)**	**16,295,216**	**34,804,559**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**12,012,000**	**12,012,000**
Transactions with members	**996,800**	-	**-**	-	**-**	**-**	**-**	**996,800**
Capital increases	3,569,800	-	-	-	-	-	-	3,569,800
(-) Capital reductions	(2,573,000)	-	-	-	-	-	-	(2,573,000)
Capital repayable on demand	**-**	**-**	**-**	**(996,800)**	**-**	**-**	**-**	**(996,800)**
Other changes in equity	**-**	**-**	**-**	**-**	**(5,703)**	**5,703**	**-**	**-**
Closing balance for 2020	**37,411,800**	-	**207,398**	**(18,411,800)**	**(698,055)**	**-**	**28,307,216**	**46,816,559**

(*) Presented solely and exclusively for comparison purposes (see note 2 (h))

Las notas 1 a 19 descritas en la memoria adjunta forman parte integrante de las cuentas anuales a 31 de diciembre de 2020

AVALIS DE CATALUNYA S.G.R

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

	Euros	
	Year 2020	Year 2019 (*)
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	**(11,240,228)**	**5,560,707**
Profit/(loss) for the year before tax	-	-
Adjustments to profit/(loss):	**(2,906,300)**	**(2,793,389)**
Changes in operating assets and liabilities	**(15,405,032)**	**355,805**
Trade and other receivables	(9,944,720)	(11,569,357)
Other assets	(7,451,680)	12,274,036
Trade and other payables	451,020	(294,703)
Other liabilities	1,540,347	(54,171)
Other cash flows from operating activities	**7,071,105**	**7,998,291**
Fees and commissions received	6,780,236	7,547,757
Interest received/(paid)	290,869	448,150
Income tax received (paid)	-	2,384
CASH FLOWS USED IN INVESTING ACTIVITIES	**(4,509,176)**	**(2,345,053)**
Payments for investments	**(13,588,157)**	**(19,175,053)**
Intangible assets (note 5)	(68,930)	(64,461)
Property, plant and equipment (note 6)	(8,424)	(32,322)
Investments	(13,509,520)	(18,986,192)
Non-current assets held for sale	(1,283)	(92,078)
Proceeds from sale of investments	**9,078,981**	**16,830,000**
Intangible assets	-	-
Property, plant and equipment	-	-
Investments	9,000,000	16,400,000
Non-current assets held for sale (note 11)	78,981	430,000
CASH FLOWS FROM FINANCING ACTIVITIES	**20,336,814**	**6,578,710**
Proceeds from and payments for equity instruments	**13,531,500**	**897,000**
Capital issue (note 10.a)	3,435,200	2,904,200
Capital redemption (note 10.a)	(1,915,700)	(2,007,200)
Technical provisions. Third party contributions (note 10.c)	12,012,000	-
Proceeds from and payments for financial liability instruments	**6,805,314**	**5,681,710**
Counter-guarantors	3,108,515	5,071,665
Guarantees and deposits received	3,845,596	744,391
Repayment of convertible debt	(148,797)	(134,346)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**4,587,410**	**9,794,364**
Cash and cash equivalents at beginning of year	14,332,756	4,538,392
Cash and cash equivalents at year end	18,920,166	14,332,756

(*) Presented solely and exclusively for comparison purposes (see note 2 (h))

1. Activity of the Company

Avalis de Catalunya, Sociedad de Garantía Recíproca (hereinafter, Avalis or "the Company") was incorporated under Spanish law on 23 May 2003 as a mutual guarantee society (SGR, as per the Spanish acronym), and registered with number 9847 in Banco de España's Special Registry on 28 July 2003. It is a trading company and classified as a financial institution.

Pursuant to its articles of association, the Company's statutory activity is the extension of personal guarantees, through financial and technical guarantees or any other legally recognised means other than surety insurance, to its participating members for transactions performed as part of the ordinary course of their business, and other activities permitted under prevailing legislation at any given time.

The Company's registered office is located at Gran Vía de les Corts Catalanes, 635, in Barcelona.

Current situation triggered by the Coronavirus pandemic

On 11 March 2020, the World Health Organization declared the public health emergency caused by COVID-19 to be a worldwide pandemic. The rapid pace at which events unfolded within the country and on an international scale, and the extraordinary surrounding circumstances, triggered a health crisis that is at once unprecedented and monumental. To address this situation, the Spanish government deemed it necessary to declare a state of emergency through the publication of Royal Decree 463/2020.

The economic impact of this declaration prompted the Spanish government and the European and international authorities to adopt financial stimulus measures aimed at mitigating the social and economic impacts of the crisis.

The Company has likewise taken the necessary measures to ensure the continuity of its operations and businesses. To this end, it has provided its employees with IT equipment and mobile phones to enable them to carry out their functions as normal from their homes, via a remote connection to the Company's systems. As regards people management, all in-person meetings have been replaced by video conference meetings, in a bid to ensure personnel safety and unity.

Although an effective vaccine against COVID-19 exists, which is now being made widely available, the emergence of new variants of the virus may well have an impact on the Spanish and international macroeconomic environment, directly and indirectly affecting the valuation of financial assets and, therefore, the value of the portfolios under management, issues which could have a bearing on revenues. At the date of authorising these annual accounts for issue, it is too early to assess the effect these circumstances may have on the business over the coming years, although the Company's directors consider this to be an exceptional situation that will not jeopardise the continuity of business, and the effect of which will be recognised prospectively. The directors of the Company are constantly monitoring the developments in this situation, with a view to reporting any change in this assessment where necessary.

2. Basis of Preparation of the Annual Accounts

a) Regulatory financial reporting framework applicable to the Company

These annual accounts have been prepared by the directors in accordance with the financial reporting framework applicable to the Company, which is that set forth in the following:

- Spanish Code of Commerce, the Spanish Companies Act and the Spanish General Chart of Accounts approved by Royal Decree 1514/2007, and other applicable legislation.

- Mandatory standards approved by the Spanish Accounting and Auditing Institute (ICAC) in drafting the Spanish General Chart of Accounts and its supplementary standards.

- Law 1/1994 of 11 March 1994 on the legal framework governing mutual guarantee societies.

- Royal Decree 2345/1996 of 8 November 1996 on administrative authorisation rules and solvency requirements for mutual guarantee societies.

- Law 26/1988 of 29 July 1988 on discipline and intervention in credit institutions by Banco de España.

- Ministry of Economy and Finance Order EHA/1327/2009 of 26 May 2009 on special rules for the preparation, documentation and presentation of the accounting information of mutual guarantee societies.

- Banco de España Circular 5/2008 of 31 October 2008 on minimum own fund requirements and other information subject to mandatory submission.

- Certain aspects of Circular 4/2017 and subsequent amendments, as well as other applicable circulars.

- Law 14/2016 of 27 September 2016 on supporting entrepreneurs and their internationalisation.

- Other applicable Spanish accounting legislation

b) True and fair view

The accompanying annual accounts have been obtained from the accounting records of the Company and prepared in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria set forth therein, to give a true and fair view of the equity and financial position of the Company, as well as the results of its operations and its cash flows for 2020. These annual accounts, which have been authorised for issue by the Company's directors, will be submitted for approval by the shareholders at their general meeting and are expected to be approved with no changes. The annual accounts for 2019 were approved by the shareholders at the general meeting held on 25 May 2020.

c) Non-obligatory accounting principles applied

Only obligatory accounting principles have been applied. Additionally, the directors have prepared these annual accounts taking into consideration all mandatory accounting standards and principles which have a significant effect thereon. All mandatory accounting principles were applied.

d) Own funds

In accordance with article 5 of Royal Decree 2345/1996, for the purposes of compliance with the minimum solvency requirements for mutual guarantee societies, the Company's eligible own funds at 31 December 2020 and 2019 comprise the following items:

	Euros	
	31/12/2020	31/12/2019
Subscribed capital	37,411,800	36,415,000
Uncalled capital	-	-
Reserves	207,398	207,398
Profit or loss	-	(5,703)
Prior years' losses	(698,055)	(692,352)
Technical provisions, net (note 10.c)	37,610,019	25,588,025
Intangible assets, net	(227,897)	(200,035)
Other reduced risks (*)	(1,654,383)	(1,496,286)
Eligible own funds	**72,648,881**	**59,816,047**
Own funds basis of the calculation of concentration limits on intangible assets, shares and equity holdings	**74,303,264**	**61,318,036**

(*) Capital used to reduce the provision for financial and technical guarantees (see note 4.e)

Banco de España Circular 5/2008 of 31 October 2008, implementing Royal Decree 2345/1996, stipulates that eligible own funds must at no time fall below the sum of:

- ✓ 8% of outstanding exposure on loan guarantees weighted by type of financial and technical guarantees and commitments benefitting from counter-guarantee agreements signed with counter-guarantors, insurers or public entities that reduce credit risk.
- ✓ For operational risk, 15% of transactions.
- ✓ The amount required to cover credit or operational risk derived from commitments made or investments undertaken other than in the normal course of business.

At 31 December 2020, the Company's net eligible own funds exceed the minimum requirements by Euros 44,275,594 (Euros 37,157,331 in 2019). At 31 December 2020 and 2019, the Company's solvency ratio stands at 20.48% and 21.12%, respectively.

In accordance with Rule three of the Circular, the value of all exposures taken on by mutual guarantee societies on behalf of a single individual or economic group shall not exceed 20% of their own funds. At 31 December 2020 and 2019, the Company fulfils this requirement.

Rule four establishes the limit on property, plant and equipment and equity investments, the sum of which shall not exceed 25% of eligible own funds. At 31 December 2020 and 2019, the Company fulfils this requirement.

Rule five establishes that a minimum of 75% of the Company's own funds shall be invested in public debt securities issued by the Spanish government or the governments of the autonomous regions, in fixed-income securities traded on organised secondary markets or in deposits in credit institutions. At 31 December 2020 and 2019, the Company fulfils this requirement (see note 9.b).

Lastly, Law 14/2013 of 27 September 2013, establishes that mutual guarantee societies must have minimum capital of Euros 10 million and eligible own funds of Euros 15 million. At 31 December 2020 and 2019, the Company fulfils both requirements.

e) Critical issues regarding the measurement and estimation of uncertainty

Estimates made by the Company's directors have been used in the preparation of these annual accounts to measure certain assets, liabilities, income, expenses and commitments recognised in the accounts. These estimates basically relate to the following:

- Evaluation of possible impairment losses on certain assets (see notes 5, 6, 9 and 11).
- The useful lives of property, plant and equipment and intangible assets (see notes 5 and 6).
- The recognition of financial guarantee contracts (see notes 7 and 14).
- Estimation of provisions for insolvency. Credit loss allowances for receivables involve a high level of judgement on the part of the board of directors and the review of individual balances based on members' credit ratings, current market trends and historical analysis of bad debts at an aggregated level. In this regard, the Company analyses the different receivables individually, and also considers Annex IX of Banco de España Circular 4/2017 when calculating impairment (see note 8).

Although estimates are calculated based on the best information available at the 2020 reporting date, future events may require these estimates to be increased or decreased in subsequent years. Any such changes would be recognised prospectively.

f) Aggregation of items

Certain items in the balance sheet, income statement, the statement of changes in equity and the statement of cash flows are grouped to facilitate comprehension, although these are disclosed separately in the notes to the annual accounts if they are significant.

g) Changes in accounting criteria

No significant changes were made to the accounting criteria in 2020 compared to those applied in the preceding year.

h) Comparative information

The information for 2019 included in the annual accounts is presented solely for the purpose of comparison with the information for 2020.

i) Environmental impact

Due to the nature of its activity, the Company does not have any environmental liabilities, expenses, assets, provisions or contingencies that are significant in comparison to its equity, financial position and profit or loss. Accordingly, no specific disclosures about environmental matters have been included in these notes to the annual accounts.

3. Distribution of Profit/Application of Loss

The income statement for 2020 presents results equal to zero. Consequently, no distribution of profit or application of loss is proposed for that year.

The income statement for 2019 showed a loss of Euros 5,703. The directors proposed to the shareholders at their general meeting held on 25 May 2020 that this loss be carried forward as prior years' losses.

4. Significant Accounting Policies

The main accounting policies used by the Company to prepare the annual accounts for 2020 are as follows:

a) *Intangible assets*

This caption includes the cost of acquisition, net of accumulated amortisation and impairment losses, if any, of computer systems and programs acquired from third parties, the useful lives of which foreseeably extend over several years. Computer software maintenance costs are expensed as incurred. Intangible assets are amortised on a straight-line basis over a maximum period of three years from the date on which they come into service.

	Annual rate	Amortisation method	Estimated years of useful life
Computer software	33%	Straight-line	3

Impairment of property, plant and equipment and intangible assets

At each year end (in the case of goodwill or assets with indefinite useful lives), or whenever there are indications of impairment, the Company tests assets for impairment that would reduce their recoverable amount to less than their carrying amount.

The recoverable amount is the higher of fair value less costs to sell and value in use.

Where an impairment loss is subsequently reversed, the carrying amount of the asset or the cash-generating unit is increased to the revised estimate of its recoverable amount. The increased carrying amount of an asset may not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment are recognised as income.

b) *Property, plant and equipment*

Property, plant and equipment used in operations are recognised at cost of acquisition, net of any accumulated depreciation and impairment losses, in accordance with the criterion mentioned in note 4.a.

Depreciation is provided on a straight-line basis over the estimated useful lives of the various asset components, as follows:

	Years
Other installations, equipment and furniture	3-10
Other property, plant and equipment	4-8

Depreciation of property, plant and equipment commences when the assets enter into service.

Repair and maintenance costs of property, plant and equipment are taken to the income statement when incurred. Conversely, amounts invested in improvements that increase the capacity or efficiency or extend the useful lives of assets are recognised as an increase in the cost of those assets.

c) *Non-current assets held for sale*

The Company recognises assets acquired in payment of debt under “Non-current assets held for sale” (see note 11). Assets acquired in payment of debt are assets that the Company receives from debtors in full or partial settlement of debt, irrespective of how ownership is acquired. The Company acquires all foreclosed assets with the intention to sell them in the shortest time possible, classifying these assets as “Non-current assets held for sale”, as permitted by Order EHA/1327/2009.

Property, plant and equipment acquired for continued use, either for own use or as investment property, are classified, recognised and measured in accordance with the criterion indicated in note 4.b.

In accordance with the amendment introduced by Circular 4/2017, foreclosed assets are generally recognised and measured at the lower of the carrying amount of the financial assets applied, i.e. at amortised cost, taking into account estimated impairment, and the market appraisal value of the assets received in their current state less estimated costs to sell (as provided in the aforementioned Circular). The net amount of these two items is the initial cost of the asset received. This item has not had a significant effect on the Company’s income statement following the entry into force of the new Circular (see note 2(b)).

Except in rare circumstances supported by clear evidence, assets received in payment of debt do not give rise to the recognition of gains or, where applicable, the release of provisions for the financial assets applied when these have previously been classified as non-performing assets.

All legal expenses are immediately recognised in the income statement for the period in which the asset is foreclosed. Registration fees and taxes paid could be added to the initial value of the asset, provided that the resulting amount does not exceed the appraisal value less estimated costs to sell. All costs incurred from the date of foreclosure to the date of sale to maintain and protect the asset, such as insurance, security services, etc., are expensed when incurred.

Foreclosed assets that remain in the balance sheet for a longer period than initially envisaged for their sale are tested on an individual basis and any impairment coming to light after acquisition is recognised. The impairment analysis takes into account not only reasonable offers received in the period compared with the asking price, but also difficulties in finding buyers and, in the case of property, plant and equipment, any physical impairment that may reduce their value.

At the reporting date, the Company assesses whether there is any internal or external indication that an asset may be impaired, such as significant falls in market value, evidence of obsolescence and rises in interest rates that may materially affect the recoverable amount of the asset. If any such indication exists, the Company estimates the recoverable amount of the asset.

In the event that the carrying amount of the assets exceeds fair value less cost to sell, the Company adjusts the carrying amount of the assets for the amount of this excess, with a balancing entry in “Impairment and gains/(losses) on non-current assets held for sale (net)” in the income statement. Where there are subsequent increases in the fair value of the assets, the Company reverses the previously recognised loss by increasing the carrying amount of the assets up to the amount recorded prior to impairment, with a balancing entry in “Impairment and gains/(losses) on non-current assets held for sale (net)” in the income statement.

Any foreclosed assets related to counter-guarantors are recognised as assets in accordance with the criteria set forth in the agreements entered into with these companies, and the amount payable to the counter-guarantor is recognised in “Counter-guarantors” under liabilities until the payment date.

d) *Financial instruments*

1. Financial assets

The Company's financial assets are classified as follows:

a) Loans and receivables: these balances comprise financial assets originating from the sale of goods or the rendering of services related to the Company's trading operations or those which, while non-commercial in origin, do not constitute equity instruments or derivatives, are receivable in a fixed or determinable amount and are not traded in an active market.

b) Held-to-maturity investments: debt securities with fixed maturity and determinable payments traded in an active market and that the Company has the positive intention and ability to hold to maturity.

Measurement at recognition

In general, financial assets are recognised initially at the fair value of the consideration paid plus any directly attributable transaction costs.

Subsequent measurement

Loans, receivables and held-to-maturity investments are measured at amortised cost using the effective interest method. Amortised cost is understood as the cost of acquisition of a financial asset or financial liability plus or minus, as appropriate, the principal repayments and the cumulative amortisation taken to the income statement of the difference between the initial cost and the maturity amount. The amortised cost of financial assets also includes any impairment losses.

The effective interest rate is the discount rate that exactly matches the initial value of a financial instrument to all its estimated cash flows for all items over its remaining life. For fixed rate financial instruments, the effective interest rate is the same as the contractual interest rate established on the acquisition date plus any fees that can be equated with a rate of interest, in light of their nature. In the case of floating rate financial instruments, the effective interest rate is the rate of return prevailing until the first date on which the benchmark interest rate will be revised. Nevertheless, financial assets which have no established interest rate, which mature or are expected to be received in the short term (less than one year), and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Company tests financial assets not carried at fair value for impairment at least at each year end. Objective evidence of impairment is considered to exist when the carrying amount of the financial asset exceeds the recoverable amount. Impairment losses are recognised in the income statement.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership have been transferred.

Interest and dividends

Interest is recognised using the effective interest method.

Dividends from investments in equity instruments are recognised when the Company is entitled to receive them. If the dividends are clearly derived from profits generated prior to the acquisition date because amounts higher than the profits generated by the investment since acquisition have been distributed, the carrying amount of the investment is reduced.

2. Financial liabilities

Financial liabilities comprise debts and payables deriving from the purchase of goods and services relating to the Company's commercial operations, or also those which, although non-commercial in origin, cannot be considered as derivative financial instruments.

Debts and payables are initially measured at the fair value of the consideration received, adjusted for any directly attributable transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, as described above.

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term (less than one year), and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Company derecognises financial liabilities when the obligations giving rise to them cease to exist.

3. Financial and other guarantees given

3.a) Financial guarantees

Financial guarantees are those requiring the Company to make specific payments to reimburse the holder for losses incurred when a particular debtor fails to meet a payment obligation under the original or amended conditions of a debt instrument such as a guarantee. This item includes guarantees used to secure, directly or indirectly, payables such as credit facilities, loans, finance leases and payment deferrals on all types of debt.

These contracts are initially recognised as liabilities under “Liabilities associated with financial and technical guarantees - Financial guarantees”. They are initially measured at fair value, which is equal to the fees and commissions or premium received plus the present value of any fees and commissions or premiums receivable as consideration for granting financial guarantees, discounted at the interest rate applicable to the guaranteed transaction when the guarantee is granted.

After initial recognition, the value of financial guarantee contracts not classified as non-performing is the amount initially recognised as a liability, less the portion recognised in the income statement as accrued income. This income is recognised under “Revenues from financial and technical guarantees” in the income statement over the estimated life of the guarantee (see note 14).

Fees and commissions and premiums receivable are recognised in “Trade and other receivables - Other receivables” and are measured at their present value, discounting future cash flows at the same interest rate as that used to calculate liabilities associated with financial and technical guarantees. Interest generated by these assets is calculated using the interest rate at which they are initially discounted and recognised as finance income in the income statement.

However, transactions maturing in less than one year, liabilities associated with financial and technical guarantees and fees and commissions receivable are measured at their nominal amount when the effect of not discounting cash flows is immaterial.

Fees and commissions received at the inception of transactions that offset transaction costs are recognised under “Revenues from financial and technical guarantees” in the income statement. Fees and commissions received that are earmarked for offsetting transaction costs do not exceed 0.4% of the guaranteed risk and are limited to Euros 400 per transaction.

In no case do the revenues recognised for offsetting transaction costs exceed the fees and commissions received at the inception of the transaction.

For fees and commissions received when guarantee facilities are granted, the amounts not used to offset transaction costs are not taken to income until a guarantee is granted.

3.b) Other guarantees

Other guarantee contracts that do not qualify as a financial guarantee receive the same treatment, for measurement and presentation purposes, as financial guarantees, and are recognised under “Liabilities associated with financial and technical guarantees - Other guarantees”.

The discount interest rate is the average interest rate at which the transactions secured by the Company are granted over a range of time that varies depending on interest rate fluctuations.

For transactions with no maturity date, the Company estimates it on the basis of historical experience with similar contracts.

3.c) Non-performing financial and technical guarantees

Financial guarantees and other guarantees, whatsoever the instrumentation, in which payment difficulties are expected and the Company considers their recovery to be doubtful, are classified as non-performing.

When a guarantee is classified as non-performing, the related fees and commissions receivable are reclassified to “Trade and other receivables - Non-performing receivables from members”, and the balance under “Liabilities associated with financial and technical guarantees” related to the non-performing transaction is reclassified to “Provisions for financial and technical guarantees”, and a credit loss allowance for the asset and the necessary provisions are recognised.

e) Non-performing receivables from members, provisions for insolvency and provisions for financial and technical guarantees

“Trade and other receivables - Non-performing receivables from members” in the accompanying balance sheet reflect amounts receivable from members for amounts paid by the Company to the beneficiaries of the guarantees when the corresponding guarantee is called, net of the corresponding provisions. This item also includes expenses related to any legal proceedings and other receivables such as fees and commissions receivable and revenues from services rendered. Any amounts recovered and adjustments for write-offs of non-performing receivables from members are deducted from this item.

As explained in note 4.d).3.c), non-performing financial and technical guarantees also include fees and commissions receivable on non-performing financial and technical guarantees (see note 8).Based on the insolvency risk attributable to the customer or the transaction, they are classified in one of the following categories:

- Performing exposures: transactions that do not meet the requirements for classification in other categories. Within performing exposures, the following distinction is made:

  - Performing exposures under special monitoring: transactions that, while not meeting the criteria for individual classification as non-performing or total write-off, present weaknesses that may lead to losses exceeding those on other similar transactions classified as performing exposures.

- Non-performing exposures:

    - Non-performing exposures as a result of arrears: These include the amount of debt instruments, whosoever the borrower and whatever the guarantee or collateral, any part of whose principal, interest or contractually agreed expenses is more than 90 days past due, unless such instruments should be classified as being written off. This category also includes guarantees given if the guaranteed party has fallen into arrears in the guaranteed transaction. This category includes the amounts of all a borrower's transactions if the transactions with amounts more than 90 days past-due exceed 20% of outstandings. For the sole purpose of determining the indicated percentage, the gross carrying amount of the transactions classified as non-performing due to arrears with past-due amounts shall form the numerator, and the gross carrying amount of all the debt instruments granted to the borrower shall form the denominator. If the percentage thus calculated exceeds 20%, both the debt instruments and the off-balance-sheet exposures entailing credit risk will be transferred to non-performing due to arrears.

    - For reasons other than arrears: This category includes debt instruments, whether past due or not, which are not classifiable as total write-off or non-performing exposures due to arrears, but for which there are reasonable doubts about their full repayment (principal and interest) by the borrower under the contractual terms. Also included are off-balance-sheet exposures not classified as non-performing due to arrears whose payment by the institution is likely but whose recovery is doubtful.

- Total write-off: Avalis derecognises transactions when individual analysis indicates that their recovery is very unlikely. This category includes exposures of customers subject to bankruptcy proceedings with an application for liquidation, and transactions classified as non-performing due to arrears that have been in this category for more than four years, except those with sufficient effective collateral. It also includes transactions that are not in either of the two preceding situations, but whose solvency has undergone a manifest and irreversible deterioration.

To make the provision for insolvency, Avalis takes into consideration Annex 9 of Banco de España Circular 4/2017:

✓ Individual analysis: individually significant assets are analysed to identify customers showing objective evidence of impairment, and the incurred loss is calculated based on the present value of the expected future cash flows (repayment of principal plus interest) for each customer transaction (discounted using the original effective interest rate). The present value is then compared with the carrying amount.

✓ Collective analysis: for exposures not considered significant that show objective evidence of impairment and for other exposures, a collective calculation is made in accordance with the alternative solution provided for by Circular 4/2017 to determine the provision for insolvency.

The balance of the provision for insolvency is increased by the net charges made to profit or loss for each year (see note 8) and reduced by cancellations of debts considered uncollectible and recoveries arising in respect of amounts for which provisions had previously been recognised.

When a write-off occurs, the Company recognises the amount to be recovered from write-off hedging contracts (see note 8) as a receivable under “Trade and other receivables - Rest of receivables” with a credit to “Trade and other receivables - Non-performing receivables from members” in the balance sheet. At 31 December 2020 the Company has receivables totalling Euros 1,213,850. At 31 December 2019, it had balances receivable in respect of this item amounting to Euros 1,482,399 (see notes 7 and 8).

Balances written off in respect of non-performing receivables from members, net of counter-guarantees, are adjusted with a charge to the provision for insolvency.

The Company has no country risk exposure at 31 December 2020 and 2019 and, accordingly, no provision has been made in this regard.

Refinancing and/or restructuring transactions

The Company has a policy for the refinancing, restructuring, renewal and renegotiation of transactions, which has been approved by the board of directors and included in the Policies and Procedures Manual. This policy details the requirements, conditions and situations in which the Company offers customers in financial difficulties a range of measures to assist them.

The risk and monitoring departments are responsible for carrying out an individual financial analysis of each transaction to ensure that the refinancing, restructuring or payment plan is adequate and feasible for the member and that it also guarantees the recovery of all the secured amounts, and failing that, any amounts that are deemed irrecoverable are recognised.

f) Technical provisions

In accordance with article 9 of Law 1/1994 of 11 March 1994, the Company must set up technical provisions in order to reinforce its solvency.

Technical provisions comprise:

- Charges made by the Company to the provision for insolvency in the income statement. There is no limit thereto. This is the amount that the Company charges to the income statement in accordance with article 9.a) of Law 1/1994 of 11 March 1994, on the legal framework governing mutual guarantee societies.

  Provisions made to cover specific credit risks are recognised under “Provisions” in the balance sheet while those used to cover financial assets or properties foreclosed in payment of debt are recognised as credit loss allowances, reducing the balance of “Non-performing receivables from members” and “Non-current assets held for sale”, respectively.

  Provisions made to cover the collective risk of all transactions are recognised in “Technical provisions. Collective coverage of all transactions” under liabilities with a charge to “Technical provisions. Collective coverage of all transactions (net)” in the income statement. This provision may be used to offset specific credit risk allowances and provisions as required for the assets, financial and technical guarantees or credit loss allowances for assets foreclosed in payment of debt. The amounts of this provision used to offset specific allowances and provisions recorded in the income statement are recognised as income in “Technical provisions. Collective coverage of all transactions (net)”.

- Contributions from third parties to technical provisions reflect amounts paid by third parties to the Company in respect of grants, donations and other non-repayable contributions, irrespective of their nature, in accordance with article 9.b) and c) of Law 1/1994 of 11 March 1994, on the legal framework governing mutual guarantee societies.

  These contributions are initially recognised in equity under “Technical provisions. Contributions from third parties”. If the Company has not recognised sufficient technical provisions during the year, without incurring losses, the amount contributed by third parties is recognised as income in “Technical provisions. Contributions from third parties used” in the income statement to offset:

  - The minimum provision for collective coverage of all transactions.

  - The specific risk provision required for assets, financial and technical guarantees.

  - The credit loss allowance for assets foreclosed in payment of debt.

- Technical provisions. Collective coverage of all transactions: this is the amount of technical provisions used to cover the risk on all transactions. It must be equivalent to at least 1% of the Company's total outstanding exposure on financial and technical guarantees given, debt securities and all other amounts receivable, except for:

  - The amount of exposures for which a specific provision has been made.

  - The amount of exposures derived from securities issued by public entities, including those arising on public debt reverse repurchase agreements, regional government bodies and other dependent public entities; the amount of exposures guaranteed by the aforementioned government bodies, directly or indirectly through bodies with unlimited guarantees; risk exposures subject to counter-guarantee or reinsurance from public bodies or companies of a European Union member state whose principal activity is the provision of reinsurance, or credit surety bonds, for the covered portion; risk exposures guaranteed by cash deposits; and fees and commissions receivable for guarantees.

  - A total of 50% of the amount of exposures which are sufficiently guaranteed through mortgages on completed housing, offices, multi-purpose premises and rural property.

  - Deposits in credit institutions

Technical provisions are reduced by the amount applied to cover specific credit risk related to non-performing transactions (insolvency, financial instruments whose recovery is unlikely, and assets acquired in payment of debt). Thus, net technical provisions are equal to the technical provisions not applied to cover specific credit risk of transactions (see note 10.c).

Charges, recoveries and applications of technical provisions are made with a credit or debit, as appropriate, to "Provisions for financial and technical guarantees (net)", "Credit loss allowances for non-performing receivables from members (net)", "Technical provisions. Collective coverage of all transactions. net", "Impairment and gains/(losses) on non-current assets held for sale (net)" and "Technical provisions. Contributions from third parties used" in the income statement (see note 10.c).

g) <u>Income and expenses</u>

Income and expenses are recognised on an accruals basis, considering the actual flow of the goods and services they represent, irrespective of collections and payments. Income is measured at the fair value of the consideration received, net of discounts and taxes.

Revenues from services rendered are recognised by reference to the stage of completion of the transaction at the balance sheet date, provided the outcome of the transaction can be estimated reliably.

The interest and fees and commissions accrued on non-performing receivables from members are recognised as revenues when collected. Similarly, deferred amounts receivable from sales of assets foreclosed in payment of debt are recognised as gains when collected, with a credit to "Impairment and gains/(losses) on non-current assets held for sale".

h) <u>Provisions and contingencies</u>

When preparing the annual accounts the Company's directors make a distinction between:

- Provisions: balances payable for present obligations arising from past events, settlement of which will probably require an outflow of resources of uncertain amount and/or timing.

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Company's control.

The annual accounts include all the provisions for amounts for which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the annual accounts, but rather are disclosed in the notes, unless the possibility of an outflow in settlement is considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount necessary to settle or transfer the obligation, taking into account available information on the event and its consequences, and any adjustments arising from the discounting of these provisions are recognised as a finance cost as and when accrued.

i) Outstanding exposure through financial and technical guarantees given

The memorandum item for outstanding exposure through financial and technical guarantees given includes the outstanding balance of loan or credit guarantees for which guarantees have been given at the reporting date, and other guarantees given and arranged by the Company for the maximum amount of liability vis-à-vis third parties, distinguishing between "Financial guarantees" and "Other guarantees", where no payment has been made to or claimed by the beneficiary of the guarantee.

In guarantees in which the risk increases as a result of interest accrual, the maximum guaranteed amount includes, in addition to the guaranteed principal, interest due and payable.

The amounts guaranteed by the Company may only be reduced or removed when there is duly documented evidence that the guaranteed exposures have decreased or ceased or when those amounts are paid to third parties.

Non-performing financial and technical guarantees payable to third parties are also recognised under "Outstanding exposure through financial and technical guarantees given, of which: non-performing".

Impairment of non-performing transactions is recognised in "Provisions for financial and technical guarantees" under liabilities.

In 2020 and 2019 counter-guaranteed risk includes the amount of exposures transferred to Compañía Española de Reafianzamiento, S.A. (CERSA) through counter-guarantee agreements (see note 8).

j) Termination and other benefits

In accordance with prevailing legislation, the Company is obliged to pay indemnities to employees whose contracts are terminated under certain conditions. In 2020 and 2019 termination benefits amounted to Euros 520 and Euros 40, respectively, and are recognised under "Staff expenses - Salaries, wages and similar" in the accompanying income statement. At the 2020 and 2019 reporting dates no provision has been made for termination benefits as no situations of this nature are foreseen.ç

k) Leases

Leases which transfer to third parties substantially all the risks and rewards incidental to ownership of the asset are classified as finance leases. All other leases are classified as operating leases.

Expenses deriving from operating lease agreements are taken to the income statement in the year in which they are accrued. Any payment or collection made in arranging an operating lease, where material, is treated as a prepayment or as revenues received in advance and taken to the income statement over the lease period, as the rewards of the leased asset are transferred or received. At 31 December 2020 and 2019, there are no prepayments yet to be taken to the income statement.

At the 2020 and 2019 year ends, the Company has a lease on the Barcelona office. The related operating lease instalments recognised as expenses in 2020 and 2019 amount to Euros 264,185 and Euros 261,247, (including VAT) respectively (see note 18.c and 18.g). The lease contract was signed in 2012 for a 10-year period, comprising a compulsory five-year period for both parties and five years that are discretionary for the lessee and compulsory for the lessor.

Other operating leases were held in 2020 and 2019, for amounts of Euros 21,613 and Euros 26,710, respectively (see note 18.c).

l) Classification of capital as equity or non-current liabilities

In accordance with Order EHA/1327/2009 of 26 May 2009, member contributions to the capital of mutual guarantee societies are recognised as equity under "Capital" if the Company has a right to refuse to repay them due to prohibition by law or its articles of association. Under the aforementioned Order, the amount of capital is the greater of:

- the minimum capital stipulated in the articles of association, which stands at Euros 19,000,000 at 31 December 2020 and 2019.

- the minimum required amount of own funds not covered by other items eligible as own funds, calculated in accordance with the solvency regulations applicable to these companies.

At 31 December 2020 the minimum requirement for eligible own funds amounts to Euros 28,373,287 (Euros 22,658,716 at 31 December 2019) and is fully covered by other items eligible as own funds.

As the Company's minimum capital is Euros 19,000,000 pursuant to its articles of association, in 2020 and 2019 the Company chose the first of these options and recognised that amount as capital, with a credit of Euros 18,411,800 and Euros 17,415,000 to "Capital repayable on demand" in the balance sheet at 31 December 2020 and 2019, respectively.

Capital contributions that cannot be recorded as equity are recognised as "Capital repayable on demand" in the accompanying balance sheet.

m) Income tax

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

Current tax is the amount of taxes payable by the Company as a result of income tax settlements for a period. Deductions and other tax relief applicable to tax payable, excluding withholdings and payments on account, and tax loss carryforwards applied in the current reporting period are accounted for as a reduction in current tax.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences, which are defined as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, as well as unused tax loss carryforwards and available tax credits and deductions. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all temporary differences, unless the temporary difference arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

Deferred tax assets are recognised only to the extent that it is probable that the Company will obtain future taxable profit against which they can be utilised.

Deferred tax assets and liabilities arising from transactions debited or credited directly to equity are also recognised in equity.

Recognised deferred tax assets are reassessed at the end of each reporting period and adjusted if there are doubts as to their future recovery. Unrecognised deferred tax assets are also assessed at each reporting date, and are recognised when it is probable that they will be recoverable against future taxable profit (see note 15).

The standard rate of tax is 25%.

Under Law 1/1994, mutual guarantee societies benefit from the following tax advantages:

- Exemption from capital transfer tax and stamp duties on corporate operations for incorporations and capital increases and decreases, as well as those involving the extension of guarantees on behalf of its members.

- Exemption from corporate income tax on contributions to technical provisions made by public entities and on the interest earned thereon.

Furthermore, Income Tax Law 27/2014 of 27 November 2014 stipulates that technical provisions charged to profit or loss will be deductible from the income tax base until such technical provisions reach the mandatory minimum amount stipulated in Royal Decree 2345/1996 (see note 4(f)). As regards the provisions charged to profit or loss in excess of this minimum amount, 75% are deductible from the income tax base.

n) Statement of changes in equity

The statement of changes in equity presents all changes in equity arising from:

- Total recognised income and expense.

- Changes in equity arising from transactions with Company members or owners in their capacity as such.

- Other changes in equity.

- Adjustments to equity due to changes in accounting criteria and corrections of errors must also be presented.

This statement is prepared taking the following considerations into account:

- Profit or loss from one year is transferred to the following year in the column “Prior years’ profit or loss”.

- The profit or loss from the prior year distributed or applied in the current year is reflected under “Other changes in equity”.

o) Statement of cash flows

The statement of cash flows has been prepared using the indirect method and the following expressions and definitions:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are not subject to significant risk of changes in value.

- Operating activities: the usual activity of the Company and other activities that cannot be classified as investing or financing activities.

- Investing activities: the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and liabilities that are not operating activities.

p) Pension obligations

The Company has no commitments in respect of pension plans for personnel nor any other commitments involving a significant amount that may require future disbursements. Consequently, the accompanying balance sheets do not include any provisions for these items.

q) Environment

The Company's directors consider that the environmental risks deriving from the Company's activity are minimal and adequately covered and that no additional liabilities will arise therefrom. The Company did not incur any environmental expenses or receive any environment-related grants during 2020 or 2019.

5. Intangible Assets

Movement in intangible assets during 2020 and 2019 is as follows (see note 4.a):

	Euros						
	Balance at 31/12/2018	Additions or charges	Disposals or reductions	Balance at 31/12/2019	Additions or charges	Disposals or reductions	Balance at 31/12/2020
Cost-							
Computer software	688,669	64,461	(244)	752,886	68,930	-	821,816
Other	39,743	-	-	39,743	-	-	39,743
Total cost	**728,412**	**64,461**	**(244)**	**792,628**	**68,930**	**-**	**861,559**
Accumulated amortisation							
Computer software	(534,408)	(26,913)	244	(561,077)	(33,251)	-	(594,328)
Other	(22,183)	(9,333)	-	(31,516)	(7,818)	-	(39,334)
Total accumulated amortisation	**(556,591)**	**(36,246)**	**244**	**(592,594)**	**(41,069)**	**-**	**(633,663)**
Total net intangible assets	**171,821**	**28,215**	**-**	**200,035**	**27,861**	**-**	**227,896**

Additions to intangible assets in 2020 and 2019 amount to Euros 68,930 and Euros 64,461, respectively, and mainly reflect improvements in the Company's applications.

No impairment was recognised in 2020 or 2019.

At 31 December 2020 and 2019, fully amortised intangible assets in use amount to Euros 535,069 and Euros 505,455, respectively.

6. Property, Plant and Equipment

Movement in property, plant and equipment in 2020 and 2019 is as follows (see note 4.b):

	Euros						
	Balance at 31/12/2018	Additions or charges	Disposals or reductions	Balance at 31/12/2019	Additions or charges	Disposals or reductions	Balance at 31/12/2020
Cost:							
Other installations, equipment and furniture	119,845	2,283	(3,755)	118,374	-	-	118,374
Other property, plant and equipment	109,569	30,038	-	139,607	8,424	-	148,031
Total cost	**229,414**	**32,322**	**(3,755)**	**257,981**	**8,424**	**-**	**266,405**
Accumulated depreciation:							
Other installations, equipment and furniture	(101,392)	(4,956)	2,264	(104,084)	(4,943)	-	(109,027)
Other property, plant and equipment	(68,227)	(17,380)	-	(85,607)	(15,454)	-	(101,061)
Total accumulated depreciation	**(169,619)**	**(22,336)**	**2,264**	**(189,691)**	**(20,397)**	**-**	**(210,088)**
Total net property, plant and equipment	**59,795**	**9,986**	**(1,491)**	**68,289**	**(11,973)**	**-**	**56,316**

No impairment was recognised in 2020 or 2019.

In 2020 no items of property, plant and equipment were derecognised. During 2019 disposals of property, plant and equipment totalled Euros 3,755, giving rise to losses of Euros 1,491, recognised under "Impairment and gains/(losses) on disposals of fixed assets" in the accompanying income statement.

At 31 December 2020 and 2019, the carrying amount of property, plant and equipment is covered by insurance policies. At those dates, fully depreciated property, plant and equipment in use amount to Euros 146,214 and Euros 122,523, respectively.

7. Trade and Other Receivables

Details at 31 December 2020 and 2019 are as follows:

	Euros	
	31/12/2020	31/12/2019
Non-performing receivables from members (note 8)	17,526,731	15,849,570
Other receivables	13,318,188	13,150,915
Fees and commissions receivable for guarantees (note 4.d) *(3.a) and b)*)	12,028,985	10,651,529
Sundry receivables	1,289,202	2,499,386
Public entities, other (note 15)	298,171	287,598
Rest of receivables	41,020	41,020
Total	**31,184,109**	**29,329,103**

"Fees and commissions receivable for guarantees" mainly reflect the present value of fees and commissions receivable for risk coverage.

At 31 December 2020 and 2019, "Public entities, other" basically comprise the amounts withheld by financial institutions for the settlement of interest, tax credits for deductions and tax loss carryforwards, and temporary differences arising from income tax calculations (see note 15).

"Sundry receivables" include the amount receivable from CERSA for the counter-guarantee contract amounting to Euros 1,213,849 and Euros 1,482,399 at 31 December 2020 and 2019, respectively (see note 4.e). In 2019 this heading also includes the Euros 1,000,000 contribution receivable from the Catalan regional government pursuant to the agreement with the "Departament de la Vicepresidència i d'Economia i Hisenda de la Generalitat de Catalunya" (see note 13).

At 31 December 2020 and 2019, "Rest of receivables" basically include a long-term security deposit in respect of the rental of the Company's office in Barcelona.

8. Non-performing Receivables from Members and Provisions

Details of "Non-performing receivables from members" at 31 December 2020 and 2019 are as follows (see note 4.e):

	Euros	
	31/12/2020	31/12/2019
Secured with collateral	2,000,508	1,724,790
With personal guarantee from the company	14,101,271	12,129,948
Other collateral	3,144,946	2,614,439
Unsecured	3,761,256	3,748,032
Total non-performing receivables from members in respect of guarantees	**23,007,981**	**20,217,209**
Other non-performing receivables from members (*)	9,130	9,130
Total non-performing receivables from members	**23,017,111**	**20,226,339**
Impairment for insolvency on non-performing receivables from members (note 10.c)	**(8,406,358)**	**(6,891,506)**
Commissions from portfolio of non-performing receivables from members	3,250,493	2,753,249
Provisions for commissions from non-performing receivables from members	(334,516)	(238,511)
Net commissions from portfolio of non-performing receivables from members	**2,915,977**	**2,514,738**
Total non-performing receivables from members	**17,526,730**	**15,849,570**

(*) This item basically comprises expenses related to claims for financial and technical guarantees classified as non-performing.

Movement in non-performing receivables from members in respect of guarantees in 2020 and 2019 is as follows:

Additions Derecognitions Total write-off

	Euros				
	Balance at 31/12/2019	Additions	Derecognitions	Transfers to total write-off (note 4.e)	Balance at 31/12/2020
Non-performing receivables from members in respect of guarantees	20,226,339	9,611,502	(1,617,420)	(5,203,310)	23,017,111
Of which: amount counter-guaranteed	**10,488,634**				**11,257,698**

	Euros				
	Balance at 31/12/2018	Additions	Derecognitions	Transfers to total write-off (note 4.e)	Balance at 31/12/2019
Non-performing receivables from members in respect of guarantees	19,306,514	13,373,143	(3,202,439)	(9,250,880)	20,226,339
Of which: amount counter-guaranteed	**10,517,939**				**10,488,634**

The balance at 31 December 2020 and 2019 and movement during the years then ended in “Total write-off assets” and “Technical provisions for write-off assets” used for write-off assets, which the Company records internally as memorandum accounts, are as follows:

	Euros				
	Balance at 31/12/2019	Additions	Recovery of write-offs	Total write-offs not subject to	Balance at 31/12/2020
Total write-off assets:					
Amounts received from counter-guarantors	15,523,824	3,631,973	(622,304)	(114,549)	18,418,943
Total write-offs, guarantees (notes 4.e) and 10.c))	17,851,911	5,168,922	(3,772,761)	(122,895)	19,125,176
	33,375,735	**8,800,895**	**(4,395,065)**	**(237,444)**	**37,544,118**
Technical provisions for write-off assets	**17,851,911**	**5,168,922**	**(3,772,761)**	**(122,895)**	**19,125,176**

	Euros				
	Balance at 31/12/2018	Additions	Recovery of write-offs	Total write-offs not subject to	Balance at 31/12/2019
Total write-off assets:					
Amounts received from counter-guarantors	10,699,006	5,165,264	(156,598)	(183,849)	15,523,824
Total write-offs, guarantees (notes 4.e) and 10.c))	14,157,076	9,324,331	(5,279,156)	(350,341)	17,851,911
	24,856,083	**14,489,595**	**(5,435,754)**	**(534,190)**	**33,375,735**
Technical provisions for write-off assets	**14,157,076**	**9,324,331**	**(5,279,156)**	**(350,341)**	**17,851,911**

Technical provisions for write-off assets, including those for total write-off assets not subject to claim, amount to Euros 31,397,218 and Euros 29,566,593 in 2020 and 2019, respectively.

Impairment of trade receivables and the provision for financial and technical guarantees at 31 December 2020 and 2019 are as follows:

	Euros	
	31/12/2020	31/12/2019
Impairment of non-performing receivables from members	8,406,358	6,891,506
Impairment of other receivables	20,910	9,378
Provision for insolvency on commissions for non-performing receivables from members	334,516	238,510
Total provision for non-performing receivables from members and other receivables	**8,761,783**	**7,139,394**
Provisions for financial and technical guarantees	**11,455,794**	**10,133,675**
Provisions for financial and technical guarantees (note 10.c)	8,539,817	7,618,938
Amount of commissions for non-performing guarantees (note 4.d)	2,915,977	2,514,737

Movement in the impairment provision for insolvency, not including fees and commissions for non-performing financial and technical guarantees, in 2020 and 2019 is as follows:

	Euros		
	Impairment of non-performing receivables from members	Provision for non-performing guarantees	Total provisions
Balance at 31 December 2018	**6,141,827**	**8,962,742**	**15,104,569**
Provisions for impairment of non-performing receivables from members (net) (note 18.d)	5,110,510	-	5,110,510
Charges to/recoveries of provisions for financial and technical guarantees (net) (notes 10.c and 18.d)	-	(1,343,805)	(1,343,805)
Net adjustment of total write-offs (note 10.c)	(4,112,943)	-	(4,112,943)
Balance at 31 December 2019	**7,139,394**	**7,618,937**	**14,758,331**
Provisions for impairment of non-performing receivables from members (net) (note 18.d)	3,386,602	-	3,386,602
Charges to/recoveries of provisions for financial and technical guarantees (net) (notes 10.c and 18.d)	-	920,879	920,879
Net adjustment of total write-offs (note 10.c)	(1,764,213)	-	(1,764,213)
Balance at 31 December 2020	**8,761,783**	**8,539,817**	**17,301,599**

Compañía Española de Reafianzamiento, S.A.

The Company signs an annual counter-guarantee agreement with CERSA to partially cover both general and specific provisions and bad debts written off arising from risks assumed by the Company on behalf of its member SMEs. The main clauses set forth in the agreement signed in 2020 are as follows:

- CERSA provides coverage of the principal and current interest on medium- and long-term guarantees extended by the Company on behalf of SMEs to credit institutions, government and public entities, suppliers and customers, with the exception of those related to transactions expressly excluded in the agreement. The percentages covered are established according to the characteristics of the SME, the nature of the financed assets, the rating and purpose of the transaction for which the guarantee is required, and the achievement of the guarantee targets established for the mutual guarantee society by CERSA, which range from 40% to 80%.

- CERSA offers the possibility of covering certain transactions other than those described above, which are known as special transactions, the coverage of which is analysed individually.

- The amount counter-guaranteed by CERSA which reflects the portion of the risk assumed by CERSA with the same guaranteed SME or companies of the same economic group, will not, under any circumstances, exceed the limit of Euros 750,000, considering CERSA's aggregate outstanding exposure corresponding to the company and, where applicable, its economic group for guarantees arranged by the Company and by other guarantee companies that had guarantees or other guarantee instruments extended thereto. The limit is Euros 1,100,000 in the case of transactions in the CCS programme. For transactions that are not covered by the European Investment Fund (EIF), the maximum limit of the outstanding exposure assumed by CERSA with the same guaranteed SME or companies of the same economic group is EUROS FIVE HUNDRED THOUSAND (€500,000).

- The agreement specifically establishes certain limitations according to the product, sector, purpose and amount.

- The outstanding exposure on transactions counter-guaranteed by CERSA on behalf of the mutual guarantee society shall not exceed 22% of CERSA's total outstanding exposure vis-à-vis the guarantee system.

- CERSA is required to pay all or part of the percentage counter-guaranteed, on condition that the transaction is considered to be written off, in accordance with the definition thereof agreed by the parties.

- The risk coverage provided in this agreement is free, provided that the relevant quality ratio (calculated annually to determine the cost of the coverage) is not exceeded. There was no cost of coverage in 2020 (the cost of coverage in 2019 was Euros 85,325 recognised under "Fees and commissions paid" in the accompanying income statement).

- The agreement entered into force on 1 January 2020 and has been extended until 31 March 2021.

As a result of the serious situation triggered by the spread of the COVID-19 virus and its impact on the business activity of independent professionals and SMEs, CERSA created a special line of support to facilitate access to financing with more appropriate terms and conditions for the SMEs affected (the COVID-19 facility). The COVID-19 facility is channelled through mutual guarantee societies (SGR, as per the Spanish acronym) and the conditions and successive amendments signed over the year are set out in the agreement.

Accordingly, a new category of guarantee transaction, called COVID-19, has been established in addition to those set out in the framework agreement. This category includes all the financial guarantee transactions to finance working capital, as covered under the framework agreement, which are granted to SMEs whose activity has been affected by the situation triggered by the COVID-19 virus. Transactions that are merely the novation, refinancing or restructuring of a previous loan to offer a longer term or grace period for transactions arranged before the COVID-19 facility entered into force are excluded from this facility.

COVID-19 transactions are 80% covered if the requirements set out in the related addenda are met. Transactions under the COVID-19 facility that are not eligible for 80% coverage have a coverage of 75% if they are for a term of two years or more and 50% if the term is one to two years.

In COVID-19 transactions that are 80% covered, the maximum risk exposure counter-guaranteed, which reflects the portion of the risk assumed by CERSA for a single guaranteed SME or companies of the same economic group, has been raised from seven hundred and fifty thousand Euros (Euros 750,000) to one million three hundred and fifty thousand Euros (Euros 1,350,000). For transactions in the CCS programme it has been raised to one million five hundred thousand Euros (Euros 1,500,000).

On 23 December 2020, a new addendum to the agreement between CERSA and the Company was signed which is valid until 31 March 2021.

The new agreement for transactions entered into in 2021 is expected to be signed in the second quarter of 2021.

Information on counter-guarantees provided by CERSA is shown below:

CERSA	Euros	
	31/12/2020	31/12/2019
Counter-guaranteed outstanding exposure	317,401,732	199,869,720
of which: non-performing	*23,444,570*	*16,202,897*
Insolvency on counter-guarantee agreements for which no provision has been made	12,892,235	8,928,758
Counter-guaranteed non-performing receivables from members	11,257,698	10,488,634
Insolvency on counter-guarantee agreements for which no provision has been made	7,978,562	7,357,752
Counter-guaranteed foreclosed assets in payment of debt	824,654	1,015,381
Insolvency on counter-guarantee agreements for which no provision has been made	328,094	505,570
Amounts written off in CERSA, net	37,311,817	34,451,958
of which: for the year	*2,859,860*	*5,010,580*
Amounts collected by the Company over which CERSA has rights	52,854	11,598
of which: for the year	*52,854*	*11,598*
Receivable amounts declared to CERSA	1,213,850	1,482,399

Agreement with the “Departament de la Vicepresidència i d’Economia i Hisenda de la Generalitat de Catalunya”

On 5 November 2019 the Company signed a collaboration agreement with the “Departament de la Vicepresidència i d’Economia i Hisenda de la Generalitat de Catalunya” regulating the technical provision contribution scheme. This agreement replaces and nullifies the agreement signed between the “Departament d’Economia i Coneixement de la Generalitat de Catalunya” and the Company on 19 October 2015 for the same purpose.

The agreement entered into force on the date of signing and is valid for three years. The agreement can be extended up to the maximum period established in article 49 h) of Public Sector Law 40/2015 of 1 October 2015, by mutual agreement of the parties and depending on budget availability, and the extension shall be executed through the signing of an addendum to the current agreement.

The agreement specifies the following purposes for the contributions to be made:

a) Contributions to the Company’s technical provisions, for the purpose of boosting its solvency.

   To determine the need for this contribution, the Company shall request that the Catalan regional government make a contribution to technical provisions whenever the technical provisions ratio (Technical provisions through third-party contributions + Technical provisions for collective coverage of all transactions) / Outstanding exposure through financial and technical guarantees (at 31 December of the prior year)) meets the following two requirements:

   - It is below 5%.

   - It is below the Spanish mutual guarantee society sector average for the prior year.

b) Contributions to a Company fund to subsidise the cost of the guarantee, facilitating the access of SMEs to credits.

   For this purpose, the Catalan regional government makes a contribution to the Company of up to Euros 1,000,000 within the first quarter of each year. Additionally, should the Company not require that any contribution be made to bolster its solvency as regulated in the previous section, prior to 30 September each year it may request that the amount of the solvency contribution be used to facilitate SME access to financing.

The maximum amount to be contributed by the “Departament de la Vicepresidència i d’Economia i Hisenda de la Generalitat de Catalunya” shall not exceed Euros 2,000,000 in each budget year. On 3 December 2019, the Catalan regional government authorised the contribution of Euros 1,000,000 to facilitate SME access to financing. This contribution is recognised in the balance sheet at 31 December 2019 as an asset under “Other receivables” and its balancing entry as a liability under “Guarantees and deposits received” (see notes 7 and 13). The amount outstanding in this respect was received on 4 March 2020. At 31 December 2020, 16 transactions for an amount of Euros 4,670,940 have been signed. The amounts used and committed as a result of the transactions signed are Euros 41,458 and Euros 128,409, respectively. In 2020 the “Departament de la Vicepresidència i d’Economia i Hisenda de la Generalitat de Catalunya” made contributions to the provision totalling Euros 126,997 to restore the provision to the maximum amount stipulated (Euros 1,000,000). At 31 December 2019 no transactions had been arranged under this agreement.

9. Cash and Investments

a) Cash

Details at 31 December 2020 and 2019 are as follows:

	Euros	
	31/12/2020	31/12/2019
Cash	437	568
Current demand deposits	18,919,730	14,332,188
	18,920,167	**14,332,756**

b) Investments

At 31 December 2020 and 2019, this item includes investments, which basically comprise fixed-term deposits and debt securities.

Investments	Euros	
	31/12/2020	31/12/2019
Equity instruments	329	329
Term deposits in credit institutions	7,000,000	4,500,588
Current	7,000,000	4,500,588
Non-current	-	-
Debt securities	48,480,739	39,033,272
Current	16,705,536	9,198,343
Non-current	31,775,203	29,834,929
	55,481,068	**43,534,189**

At 31 December 2020 and 2019, "Investments - Debt securities" comprise bonds and promissory notes acquired from third parties and classified as held-to-maturity investments as follows:

Rating	Euros					
	2020			2019		
	Fixed income public debt	Fixed income private debt	Total	Fixed income public debt	Fixed income private debt	Total
A+	-	-	-	-	998,137	998,137
A	-	2,608,720	2,608,720	-	3,029,469	3,029,469
A-	1,004,579	3,529,114	4,533,693	1,510,925	2,533,303	4,044,229
BBB+	-	6,844,874	6,844,874	-	6,287,371	6,287,371
BBB	-	8,462,254	8,462,254	-	11,506,856	11,506,856
BBB-	503,546	9,848,262	10,351,808	-	3,164,168	3,164,168
BB+	-	-	-	-	2,538,502	2,538,502
BB	15,479,627	-	15,479,627	7,464,541	-	7,464,541
B+	-	199,763	199,763	-	-	-
B-	-	-	-	-	-	-
No rating	-	-	-	-	-	-
Total	**16,987,752**	**31,492,987**	**48,480,739**	**8,975,466**	**30,057,806**	**39,033,272**

At 31 December 2020, 43% of investments have a residual period of less than 12 months (31% in 2019); 48% between 12 and 36 months (47% in 2019) and the remainder between 36 and 60 months.

The interest earned on term deposits in in credit institutions amounted to Euros 1,317 and Euros 5,458 in 2020 and 2019, respectively, and is shown under “Finance income” in the income statement (see note 18.f). Similarly, the interest accrued on debt securities in 2020 and 2019 amounted to Euros 346,212 and Euros 381,755, respectively, and has been recognised under “Finance income” in the income statement (see note 18.f). In 2020 and 2019, expenses arising from investments amounted to Euros 89,072 and Euros 88,294, respectively, and are recognised under “Finance costs” in the income statement for the year.

In 2020 and 2019 the average yield on investments was as follows:

Investments	2020	2019
Term deposits in credit institutions	0.02%	0.07%
Debt securities	0.58%	0.74%

No impairment of debt securities has been recognised in 2020 or 2019.

10. Equity

a) Capital

The capital of mutual guarantee societies comprises subscribed capital, uncalled capital and capital repayable on demand.

The subscribed capital of the Company, made up of contributions from members, is variable between the minimum stipulated in the articles of association and three times that amount, and is divided into equity investments of equal par value. At 31 December 2020 and 2019, the minimum registered capital established in the articles of association is Euros 19,000,000 (see note 4.l). Within the limits established, the Company’s capital can be increased by the board of directors by creating new shares which must be fully subscribed and of which at least 25% must be paid on creation. Capital may be reduced through the redemption and cancellation of shares with the prior agreement of the board of directors. The board of directors may delegate these powers to the executive committee and the CEO.

In accordance with section 5 of Annex I of Ministerial Order EHA/1327/2009, at 31 December 2020 the Company has classified the excess above the minimum statutory capital under “Capital repayable on demand”. As a result, at 31 December 2020 the Company has recognised “Capital repayable on demand” amounting to Euros 18,411,800 (Euros 17,415,000 at 31 December 2019).

Under Law 1/1994, patron members, whose direct or indirect equity investments may not exceed 50% of the minimum established in the articles of association, may co-exist with participating members on whose behalf guarantees have been extended. Equity investments held by public entities, regional government bodies and other public entities, trading companies in which the former entities hold majority stakes, or entities that represent or associate economic interests of a general nature are not eligible when calculating this percentage.

At 31 December 2020 and 2019, subscribed capital comprises 187,059 and 182,075 shares, respectively, of Euros 200 par value each. Patron members hold 85,724 of these shares (85,966 shares at 31 December 2019). Under prevailing legislation, patron members may not receive guarantees from the Company.

In accordance with the Company's articles of association, the shares required to obtain a guarantee from the Company must be fully paid when the guarantee is granted.

Participating members may only withdraw their membership once all outstanding transactions have been settled and in no case may the amount of capital reimbursed exceed the actual value of the shares contributed, up to the limit of their par value. Should the Company's capital be insufficient to cover debts assumed prior to the reimbursement date, members will be liable in the amount of capital reimbursed for five years following reimbursement. Reimbursed capital at 31 December 2020 that is still subject to such liability stands at Euros 7,775,000 (Euros 7,989,000 at 31 December 2019). The breakdown by year of reimbursement is as follows (in Euros):

Year	31/12/2020	31/12/2019
2015	-	1,859,000
2016	1,656,000	1,656,000
2017	1,622,000	1,622,000
2018	1,424,800	1,424,800
2019	1,427,200	1,427,200
2020	1,645,000	-
	7,775,000	**7,989,000**

Movement in the Company's capital in 2020 and 2019 is as follows:

Subscribed capital	Euros
Balance at 31 December 2018	**36,467,800**
Plus- Member subscriptions	3,070,800
Acceptance of members	1,873,000
Member capital increases	1,197,800
Less- Capital reduction	(3,123,600)
Member departures	(1,344,800)
Member capital reductions	(1,778,800)
Balance at 31 December 2019	**36,415,000**
Plus- Member subscriptions	3,569,800
Acceptance of members	2,092,800
Member capital increases	1,477,000
Less- Capital reduction	(2,573,000)
Member departures	(1,064,800)
Member capital reductions	(1,508,200)
Balance at 31 December 2020	**37,411,800**

In 2020, the capital held by patron members decreased by Euros 48,400 (Euros 477,200 in 2019). In 2020 the capital held by participating members showed a net increase of Euros 1,045,200 (Euros 424,400 in 2019).

In addition, at 31 December 2020, the total capital reduction includes Euros 486,600 for capital applied for debt repayment in respect of non-performing receivables from members (Euros 645,600 at 31 December 2019).

At 31 December 2020 and 2019, the capital claimed by participating members and pending reimbursement amounts to Euros 171,610 and Euros 31,384, respectively.

At 31 December 2020 and 2019, share capital is held as follows:

Subscribed capital	Euros 31/12/2020	31/12/2019
Patron members	**17,144,800**	**17,193,200**
Participating members:	**20,267,000**	**19,221,800**
Guaranteed	17,122,800	16,568,400
Of which: non-performing	1,725,400	1,699,800
Without outstanding transactions	3,144,200	2,653,400
	37,411,800	**36,415,000**

At 31 December 2020 and 2019, the Company did not recognise any amount in respect of unpaid subscribed capital.

The complete list of patron members, together with the amount of capital subscribed and fully paid at 31 December 2020 and 2019 is as follows:

Holder	**Euros** **Subscribed capital at 31/12/2020**	**Percentage ownership (*)**
INSTITUT CATALÀ DE FINANCES	4,650,000	12.43%
GENERALITAT DE CATALUNYA	3,641,000	9.73%
CAIXABANK S.A.	1,993,000	5.33%
BANCO BILBAO VIZCAYA ARGENTARIA S.A.	1,278,200	3.42%
BANCO SANTANDER, S.A.	1,185,800	3.17%
BANKIA, S.A.	1,121,800	3.00%
BANCO DE SABADELL, S.A.	845,000	2.26%
INSTRUMENTS FINANCERS PER EMPRESES INNOVADORES, S.L.	629,400	1.68%
CONSORCI DE COMERÇ, ARTESANIA I MODA DE CATALUNYA	754,200	2.02%
INSTITUT CATALA DE LES EMPRESES CULTURALS	285,600	0.76%
CONSELL GENERAL DE CAMBRES DE CATALUNYA	204,600	0.55%
DEUTSCHE BANK, S.A.	120,000	0.32%
PRECI INVERSION,S.L	120,000	0.32%
CONFEDERACIO DE COOPERATIVES DE CATALUNYA	63,800	0.17%
FUNDACIO ESPECIAL PINNAE	24,000	0.06%
CAJA RURAL DE ARAGÓN, SOCIEDAD COOPERATIVA DE CRÉDITO	24,000	0.06%
CAIXA DE CRÉDIT DELS ENGINYERS, S.COOP. DE CRÉDIT	24,000	0.06%
CAJAMAR CAJA RURAL, SOCIEDAD COOPERATIVA DE CRÉDITO	24,000	0.06%
BANKINTER, S.A.	24,000	0.06%
ABANCA CORPORACION BANCARIA, S.A.	24,000	0.06%
ARQUIA BANK, S.A	24,000	0.06%
CAIXA GUISONNA	24,000	0.06%
COOP57, S.C.C.L	24,000	0.06%
PIMEC PETITA I MITJANA EMPRESA DE CATALUNYA	17,600	0.05%
FOMENT DEL TREBALL	9,000	0.02%
ASSOCIACIO CATALANA DE MUNICIPIS I COMARQUES	4,800	0.01%
FEDERACIO DE SOCIETATS LABORALS DE CATALUNYA	4,800	0.01%
CAMBRA DE COMERÇ DE TARREGA	200	0.00%
Patron members	**17,144,800**	**45.83%**

(*) Percentage ownership with respect to total share capital.

Holder	Euros Subscribed capital at 31/12/2019	Percentage ownership (*)
INSTITUT CATALÀ DE FINANCES	4,650,000	12.77%
GENERALITAT DE CATALUNYA	3,563,000	9.78%
CAIXABANK S.A.	1,993,000	5.47%
BANCO BILBAO VIZCAYA ARGENTARIA S.A.	1,278,200	3.51%
BANCO SANTANDER, S.A.	1,185,800	3.26%
BANKIA, S.A.	1,121,800	3.08%
BANCO DE SABADELL, S.A.	845,000	2.32%
INSTRUMENTS FINANCERS PER EMPRESES INNOVADORES, S.L.	802,400	2.20%
CONSORCI DE COMERÇ, ARTESANIA I MODA DE CATALUNYA	755,600	2.07%
INSTITUT CATALA DE LES EMPRESES CULTURALS	285,600	0.78%
CONSELL GENERAL DE CAMBRES DE CATALUNYA	204,600	0.56%
PRECI INVERSION,S.L	120,000	0.33%
DEUTSCHE BANK, S.A.	120,000	0.33%
CONFEDERACIO DE COOPERATIVES DE CATALUNYA	63,800	0.18%
CAJA RURAL DE ARAGÓN, SOCIEDAD COOPERATIVA DE CRÉDITO	24,000	0.07%
CAIXA DE CRÉDIT DELS ENGINYERS, S.COOP. DE CRÉDIT	24,000	0.07%
CAJAMAR CAJA RURAL, SOCIEDAD COOPERATIVA DE CRÉDITO	24,000	0.07%
BANKINTER, S.A.	24,000	0.07%
FUNDACIO ESPECIAL PINNAE	24,000	0.07%
ABANCA CORPORACION BANCARIA, S.A.	24,000	0.07%
ARQUIA BANK, S.A	24,000	0.07%
PIMEC PETITA I MITJANA EMPRESA DE CATALUNYA	17,600	0.05%
FOMENT DEL TREBALL	9,000	0.02%
ASSOCIACIO CATALANA DE MUNICIPIS I COMARQUES	4,800	0.01%
FEDERACIO DE SOCIETATS LABORALS DE CATALUNYA	4,800	0.01%
CAMBRA DE COMERÇ DE TARREGA	200	0.00%
Patron members	**17,193,200**	**47.21%**

(*) Percentage ownership with respect to total share capital.

b) Reserves and profit or loss

Movement in reserves during 2020 and 2019 is as follows:

Legal reserve	Euros 31/12/2020	31/12/2019
Opening balance	207,398	207,398
Profit/(loss) for the year	-	-
Closing balance	**207,398**	**207,398**

The legal framework governing mutual guarantee societies makes the following provisions:

- *Limits on distribution of profit*

  Only profits actually earned or specific freely distributable cash reserves may be distributed to members, provided that the actual value of assets net of callable liabilities is not less than capital.

  The distribution of profit, if any, must be carried out within the limits stipulated in Law 1/1994 of 11 March 1994, specifically the minimum solvency requirements established therein (article 32 of the Company's articles of association).

- *Legal reserve*

  The Company will appropriate at least 50% of post-tax profit each year to a legal reserve until it reaches the equivalent of three times its minimum capital. This reserve may only be used to offset losses in the income statement and it must be replenished whenever it drops below the level indicated (article 33 of the Company's articles of association).

- *Distribution of profit*

  Once the appropriation mentioned in the previous paragraph has been made, profits may be distributed among the members in proportion to their paid-in capital.

  To the extent permitted by existing surpluses and freely distributable reserves, profits equivalent to, at most, the legal interest rate plus two percentage points may be distributed among the members. However, in order to strengthen the Company's solvency, profits may not be distributed among the members until the sum of the legal reserve and freely distributable reserves is equal to twice the minimum capital.

  Surplus profits from previous transactions must be appropriated to freely distributable reserves (article 34 of the Company's articles of association).

c) Technical provisions, net

On 8 April 2020 a collaboration agreement was signed between the “Departament de la Vicepresidència i d’Economia i Hisenda” of the Catalan regional government and Avalis de Catalunya, SGR, to regulate the contribution to the technical provisions of Avalis de Catalunya, SGR, within the financing framework resulting from the COVID-19 emergency situation. This agreement has made it possible to offer facilities earmarked for SMEs and independent professionals that have been affected by the emergency situation triggered by COVID-19, for a total amount of Euros 300,000,000. The contributions will be made according to a multi-year schedule for a total amount of Euros 30,000,000. The yearly distribution of this contribution to the technical provisions is as follows: Euros 10,000,000 in 2020 and Euros 20,000,000 in 2021. The contribution for 2020 was received on 31 May 2020.

The adequacy of the contribution to the technical provisions will be assessed annually, taking into account the actual loss of Avalis, and the “Departament de la Vicepresidència i d’Economia i Hisenda” undertakes to redress the equity balance and, therefore, Avalis’s solvency as soon as possible. As a result of the contribution committed, advantageous economic conditions can be applied for SMEs and independent professionals that have been affected by COVID-19. Accordingly, the conditions applied to the guarantee from Avalis are as follows:

- Guarantee risk and administration fee: 0.65% of the guaranteed risk, except for the restaurants and commerce sub-line, for which the fee is 0.95%.

- No arrangement fee.

- Mutual society: the beneficiary of the guarantee must become a member as stipulated in prevailing legislation. For these facilities, the beneficiary must subscribe shares totalling 1% of the guaranteed risk.

The agreement will remain in force from the date signed and until the risks guaranteed by Avalis end, the maximum period being 10 years.

In 2020, 1,100 transactions totalling Euros 197,939,226 were signed under this agreement. In addition, on 2 October 2020, the collaboration agreement between Barcelona city council, the “Institut Català de Finances” and Avalis de Catalunya, S.G.R., was signed, which regulates the contribution to the technical provisions of Avalis through an extraordinary municipal grant to set up a line of financing for the small economy of Barcelona as a result of the emergency situation caused by COVID-19, for a total amount of Euros 12,000,000.

In 2020 Barcelona city council made a contribution of Euros 2,000,000 to the technical provisions of Avalis for the start-up of this facility.

The beneficiaries of this facility are micro-enterprises and independent professionals that have been affected economically by the COVID-19 health crisis.

As a result of the committed contribution, advantageous economic conditions can be applied in the transactions signed by SMEs and independent professionals using this line of financing. Accordingly, the conditions applied to the guarantee from Avalis are as follows:

- Guarantee risk and administration fee: 0.95% of the guaranteed risk.

- No arrangement fee.

- Mutual society: the beneficiary of the guarantee must become a member as stipulated in prevailing legislation. For these facilities, the beneficiary must subscribe shares totalling 1% of the guaranteed risk, with a minimum of one share.

These conditions are valid until 31 December 2020, whereupon they will be reviewed. In January 2021 the conditions were extended until 31 March 2021.

In 2020, 245 transactions totalling Euros 3,062,500 were signed under this agreement.

In 2020 and 2019, movement in this balance sheet item is as follows (in Euros) (see note 4.f):

	Technical provisions				
	Collective coverage of all transactions		Third party contributions		Net
	Standard	Applied	Standard	Applied	
Balance at 31 December 2018	**13,981,327**	**(5,186,926)**	**26,620,078**	**(10,324,862)**	**25,089,617**
Contributions from third parties (note 8)	-	-	-	-	-
Provisions charged to profit and loss (note 18.d)	4,345,246	-	-	-	4,345,246
Transfers to bad debts written off (notes 8 and 11)	(4,236,366)	4,236,366	-	-	-
Use of technical provisions (note 18.d)	-	(6,226,871)	-	-	(6,226,871)
Impairment of doubtful receivables from members (note 8)	-	(5,337,907)	-	-	(5,337,907)
Provision for doubtful guarantees (note 8)	-	(807,041)	-	-	(807,041)
Provision for impairment of foreclosed assets (note 11)	-	(81,923)	-	-	(81,923)
Recovery of technical provisions	-	2,380,033	-	-	2,380,033
Impairment of doubtful receivables from members (note 8)	-	227,397	-	-	227,397
Provision for doubtful guarantees (note 8)	-	2,150,846	-	-	2,150,846
Provision for impairment of foreclosed assets (note 11)	-	1,790	-	-	1,790
Balance at 31 December 2019	**14,090,208**	**(4,797,398)**	**26,620,078**	**(10,324,862)**	**25,588,025**
Contributions from third parties (note 8)	-	-	12,012,000	-	12,012,000
Provisions charged to profit and loss (note 18.d)	4,301,731	-	-	-	4,301,731
Transfers to bad debts written off (notes B48 and 11)	(1,830,624)	1,830,624	-	-	-
Use of technical provisions (note 18.d)	-	(5,978,420)	-	-	(5,978,420)
Impairment of doubtful receivables from members (note 8)	-	(3,773,003)	-	-	(3,773,003)
Provision for doubtful guarantees (note 8)	-	(2,190,416)	-	-	(2,190,416)
Provision for impairment of foreclosed assets (note 11)	-	(15,001)	-	-	(15,001)
Recovery of technical provisions	-	1,686,683	-	-	1,686,684
Impairment of doubtful receivables from members (note 8)	-	386,402	-	-	386,402
Provision for doubtful guarantees (note 8)	-	1,269,537	-	-	1,269,537
Provision for impairment of foreclosed assets (note 11)	-	30,745	-	-	30,745
Balance at 31 December 2020	**16,561,314**	**(7,258,511)**	**38,632,078**	**(10,324,862)**	**37,610,019**
		9,302,803		**28,307,216**	**37,610,019**

Technical provisions applied have been allocated to the following provisions for balance sheet items at 31 December 2020 and 2019:

	Euros	
	31/12/2020	31/12/2019
Assets acquired in payment of debt (note 11)	308,959	391,114
Impairment of non-performing receivables from members (note 8)	8,713,687	7,102,831
Impairment of other receivables (note 8)	20,910	9,378
Provisions for non-performing financial and technical guarantees (note 8)	8,539,817	7,618,937
Total	**17,583,373**	**15,122,260**

The breakdown of net technical provisions at 31 December 2020 and 2019 is as follows:

	Euros	
	31/12/2020	31/12/2019
Technical provisions for collective coverage of all transactions	9,302,803	9,292,810
Technical provisions. Third party contributions	28,307,216	16,295,216
Total	**37,610,019**	**25,588,026**

At 31 December 2020 and 2019, the minimum level of technical provisions required for collective coverage of credit risk of all transactions amounts to Euros 2,130,364 and Euros 2,012,507, respectively (see note 4(f)).

d) Information on the nature and level of risk of financial instruments

The main financial risks affecting the Company are as follows:

a) Credit risk:

The Company is not significantly exposed to credit risk.

The Company has established risk acceptance procedures based on a detailed analysis of each transaction. Transactions are approved by each authorised body/committee, based on the characteristics of the transactions.

The Company has established limits for risks arising from third parties.

Furthermore, the Company has a monitoring committee which is responsible for oversight and control of the activities carried out by the monitoring and recovery departments.

In general the Company holds its cash and cash equivalents in accordance with the cash management procedures manual approved by the board of directors.

b) Liquidity risk:

To ensure liquidity and meet all the payment commitments arising from its activity, the Company has the cash reflected in its balance sheet, as well as the investments described in note 9.

The Company applies a prudent policy to cover its liquidity risks based on having sufficient cash. Of its investments, 50% have a residual maturity of up to 12 months.

c) Market risk:

Both the cash balances and the financial debt of the Company are exposed to interest rate risk, which could have an adverse impact on its financial results and cash flows. Consequently, it is Company policy to invest primarily in short-term fixed income investments, deposits and commercial paper.

11. Non-current Assets Held for Sale

At 31 December 2020 and 2019, this item comprises property, plant and equipment acquired in payment of debt. The Company has the positive intention to sell all the assets recognised in this line item.

Movement during 2020 and 2019 in this account is as follows:

	Euros								
	Balance at 31/12/2018	Additions or charges	Releases	Sales and transfers to total write-offs	Balance at 31/12/2019	Additions or charges	Releases	Sales and transfers to total write-offs	Balance at 31/12/2020
<u>Cost:</u>									
Foreclosed assets	**2,151,903**	**734,713**	**-**	**(687,741)**	**2,198,875**	**1,283**	**-**	**(329,248)**	**1,870,911**
Properties acquired in payment of debt	2,151,903	734,713	-	(687,741)	2,198,875	1,283	-	(329,248)	1,870,911
Other assets acquired in payment of debt	-	-	-	-	-	-	-	-	-
Other	**55,829**	**-**	**-**	**-**	**55,829**		**-**	**-**	**55,829**
	2,207,732	**734,713**	**-**	**(687,741)**	**2,254,704**	**1,283**	**-**	**(329,248)**	**1,926,740**
<u>Provision:</u>									
Assets acquired in payment of debt (notes 8 and 10.c)	**(434,405)**	**(81,923)**	**1,790**	**123,424**	**(391,113)**	**(4,400)**	**1,264**	**85,290**	**(308,959)**
Properties acquired in payment of debt	(434,405)	(81,923)	1,790	123,424	(391,113)	(4,400)	1,264	85,290	(308,959)
Other assets acquired in payment of debt	-	-	-	-	-	-	-	-	-
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	(434,405)	**(81,923)**	**1,790**	**123,424**	**(391,113)**	**(4,400)**	**1,264**	**85,290**	**(308,959)**
Total	**1,773,327**	**652,791**	**1,790**	**(564,317)**	**1,863,591**	**(3,117)**	**1,264**	**(243,957)**	**1,617,781**

In 2020 properties acquired in payment of debt, which had been recognised at a cost of Euros 329,248 (Euros 687,741 in 2019), were sold. The related provisions totalled Euros 261,407 (Euros 286,532 in 2019), of which Euros 85,290 had been made by the Company and Euros 183,855 by CERSA (Euros 123,424 and Euros 163,108, respectively in 2019). The total selling price of these assets was Euros 84,067 (Euros 430,000 in 2019). In 2020 and 2019, the sale of foreclosed assets did not give rise to any profit or loss.

Movements in the provision for assets acquired in payment of debt and the gains and losses on the disposal thereof are recognised under “Impairment and gains/(losses) on non-current assets held for sale (net)” in the income statement.

12. Trade and Other Payables

Details of this item at 31 December 2020 and 2019 are as follows:

	Euros	
	31/12/2020	31/12/2019
Invoices pending receipt	179,707	179,407
Payables for services rendered	50,713	38,782
Salaries payable	197,155	217,744
Other payables to members	239,976	83,541
Other	27,579	168,305
Public entities (note 15)	78,812	68,416
Total	**773,943**	**756,195**

13. Payables

Details at 31 December 2020 and 2019 are as follows:

	Euros	
	31/12/2020	31/12/2019
Guarantees and deposits received	5,988,577	3,148,342
Counter-guarantors	158,805	202,873
Other payables	317,291	437,531
Total	**6,464,673**	**3,788,746**

At 31 December 2020 and 2019, “Guarantees and deposits received” essentially reflect the balance of Euros 19,400 (Euros 151,200 in 2019) available on the Euros 500,000 contribution received from the Catalan regional government in 2014 to finance projects of small and medium-sized enterprises through the SMEs and independent professionals facility in the agricultural, livestock, fishing, forestry and agri-food sector. This item also includes the balance of Euros 1,168,200 (Euros 1,127,000 in 2019) available on the Euros 1,200,000 contribution received from the “Servei Públic d’Ocupació de Catalunya” (Catalan employment service) in 2016, to set up a loan facility for active employment policies, and the balance deposited by the participating members to guarantee transactions, of Euros 3,660,088 (Euros 814,492 in 2019). In addition, since 2019 it has also included the contribution from the Catalan regional government pursuant to the agreement with the “Departament de la Vicepresidència i d’Economia i Hisenda” (see note 8), which at 31 December 2020 amounted to Euros 1,085,539 and at 31 December 2019 was Euros 1,000,000.

In 2020 and 2019, “Counter-guarantors” include amounts payable to CERSA due to its participation in the recovery of bad debts written off.

"Other payables" reflect the amount of convertible debt issued by the Company and entirely subscribed by Instruments Financers per a Empreses Innovadores, S.L. through an agreement signed by the parties on 27 December 2010. In 2015, the Company stepped out of this agreement and began making the pertinent reimbursements in the amount of converted debt not assigned to transactions. Total convertible debt reimbursed in 2020 amounts to Euros 214,092 (Euros 669,395 in 2019).

The purpose of the agreement was to promote Avalis' granting of guarantees to facilitate the financing of production assets (and any other assets envisaged) of small and medium-sized enterprises, including microenterprises and self-employed professionals.

For each guarantee arranged through this facility, 2.5% of the amount of the guaranteed risk was converted into capital.

The cumulative amount of debt converted into capital through these transactions in 2020 is Euros 629,400 (Euros 737,200 in 2019).

Convertible debt accrues a variable rate of interest indexed to 1-year Euribor plus a spread of 1%.

Interest settlements are per calendar year in arrears, on 31 December each year. Settlements for 2020 and 2019 amount to Euros 3,982 and Euros 5,458, respectively, and have been recognised under "Finance costs" in the accompanying income statement.

14. Liabilities Associated with Financial and Technical Guarantees

This item reflects the fees and commissions received plus the present value of any fees and commissions receivable as consideration for granting financial guarantees, less the portion taken to the income statement.

Movement in 2020 and 2019 is as follows:

	Euros
Balance at 31 December 2019	**13,328,722**
Plus- Additions for the year	8,058,846
Less-	
Charges for the year	(6,093,190)
Transfers to provision for financial and technical guarantees	(826,549)
Balance at 31 December 2020	**14,467,830**

	Euros
Balance at 31 December 2018	**13,387,689**
Plus- Additions for the year	6,280,434
Less-	
Charges for the year	(5,927,355)
Transfers to provision for financial and technical guarantees	(412,046)
Balance at 31 December 2019	**13,328,722**

15. Taxation

Details of "Public entities" in the accompanying balance sheet at 31 December 2020 and 2019 are as follows:

	Euros	
2020	Assets	Liabilities
Taxation authorities, withholdings receivable	361	-
Taxation authorities, income tax receivable	2,100	-
Tax credits	285,071	-
Taxation authorities, rent withholdings receivable	-	-
Social Security receivable	1,578	-
Taxation authorities, income tax payable	1,213,850	-
Taxation authorities, other receivables	-	40,109
Withholdings and payments on account	9,061	38,703
Taxation authorities, other taxes payable	-	-
Balance at 31 December 2020	**1,512,020**	**78,812**

	Euros	
2019	Assets	Liabilities
Taxation authorities, withholdings receivable	-	-
Taxation authorities, income tax receivable	2,100	-
Tax credits	285,071	-
Taxation authorities, rent withholdings receivable	-	-
Social Security receivable	427	-
Taxation authorities, income tax payable	-	-
Value added tax	-	-
Social Security	-	35,298
Withholdings and payments on account	-	33,118
Taxation authorities, other taxes payable	-	-
Balance at 31 December 2019	**287,598**	**68,416**

Due to the treatment permitted by fiscal legislation of certain transactions, accounting profit/loss may differ from the taxable income/tax loss. A reconciliation of the accounting profit/loss for the period and the taxable income/tax loss for corporate income tax in 2020 and 2019 is as follows:

	Euros
	2020
- Profit/(loss) for the year before tax	**-**
- Permanent differences	**(26,043)**
Non-deductible expenses	-
Provision for exposures under special monitoring	53,927
Surplus appropriation to technical provisions	-
Adjustments due to difference on first-time application	(79,970)
Other adjustments	-
Gross taxable income/(tax loss)	**(26,043)**

	Euros
	2019
- Profit/(loss) for the year before tax	**-**
- Permanent differences	**2,095**
Non-deductible expenses	1,238
Provision for exposures under special monitoring	(22,812)
Surplus appropriation to technical provisions	103,640
Adjustments due to difference in first-time application	(79,970)
Other adjustments	-
Gross taxable income/(tax loss)	**2,095**

Permanent differences arise from the following:

- Non-deductible expenses, essentially fines and penalties.
- Provisioning expense during the year in respect of exposures under special monitoring.
- Appropriations to the technical provision made by the Company during the year.
- Adjustments for the impact of first-time application of Banco de España Circular 4/2017 of 27 November 2017.

- A reconciliation of profit/loss before tax with the income tax expense for 2020 and 2019 is as follows:

	Euros 2020
- Profit/(loss) for the year before tax	**-**
- Permanent differences	**(26,043)**
Non-deductible expenses	**-**
Provision for exposures under special monitoring	53,927
Surplus appropriation to technical provisions	**-**
Adjustments due to difference on first-time application	(79,970)
Other adjustments	-
Gross taxable income/(tax loss)	**(26,043)**
Tax loss	-
Taxable income	(26,043)
Gross income tax expense	**-**
Unused tax loss carryforwards	**-**
Prior years' income tax expense	-
Income tax expense for the year	-

	Euros 2019
- Profit/(loss) for the year before tax	**-**
- Permanent differences	**2,095**
Non-deductible expenses	1,238
Provision for exposures under special monitoring	(22,812)
Surplus appropriation to technical provisions	103,640
Adjustments due to difference in first-time application	(79,970)
Other adjustments	-
Gross taxable income/(tax loss)	**2,095**
Tax loss	(2,095)
Taxable income	**-**
Gross income tax expense	**-**
Unused tax loss carryforwards	-
Prior years' income tax expense	-
Income tax expense for the year	**-**

In accordance with Spanish tax legislation, losses declared may be carried forward to be offset against profits of subsequent accounting periods, the amount being distributed as considered appropriate. Losses are offset when the tax returns are filed, without prejudice to the taxation authorities' power of inspection.

In 2013, income tax for 2009, 2010 and 2011 was rectified and income tax recognised in 2012 was modified, resulting in a reduction in the income tax expense of Euros 617,434 and a tax credit of Euros 88,520, due to the capitalisation of tax loss carryforwards and unused deductions. In 2014, a request was filed with the taxation authorities to rectify income tax for 2009, 2010, 2011, 2012 and 2013, which at the end of 2014 issued a favourable ruling on income tax for 2009. This ruling entailed recognising tax loss carryforwards of Euros 2,167,874, which the Company has not capitalised as it believes the requisites for doing so are not met. In 2016, a favourable ruling was handed down by the taxation authorities for 2010, 2011, 2012 and 2013. This ruling entailed recognising tax loss carryforwards of Euros 5,507,702, which the Company has not capitalised as it believes the requisites for doing so are not met.

Details of tax loss carryforwards available for offset at 31 December 2020, in Euros, are as follows:

Origin	Tax losses generated	Offset in prior years	Offset during the year	Unused
2009	(2,167,874)	1,686,081	-	(481,793)
2010	(2,704,306)	-	-	(2,704,306)
2011	(187,219)	-	-	(187,219)
2012	(469,175)	-	-	(469,175)
2013	(2,147,001)	-	-	(2,147,001)

Details of available deductions at 31 December 2020 are as follows:

Item	Year	Amount
Tax incentives for certain activities (chapter IV, title VI of Law 43/95 and CIT Law)	2005	210
	2006	1,241
	2007	4,931
	2008	2,793
	2009	745
	2010	720
Total deductions		10,641

Deductions generated up to 2009 have been capitalised in the balance sheet at the 2020 and 2019 reporting dates.

In accordance with prevailing legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed.

At 31 December 2020, the Company has open to inspection income tax for 2016 and subsequent years and for all other taxes 2017 and subsequent years.

16. Outstanding Exposure through Financial and Technical Guarantees Given

Details of financial and technical guarantees given by the Company and in force at 31 December 2020 and 2019, and movement therein, are as follows:

	Euros						
	Balance at 31/12/2018	Arrangements	Cancellations and repayments	Balance at 31/12/2019	Arrangements	Cancellations and repayments	Balance at 31/12/2020
Financial guarantees	343,888,292	128,200,857	(130,114,627)	341,974,522	257,188,586	(124,435,351)	474,727,757
Other guarantees	50,019,970	19,005,772	(18,483,335)	50,542,407	11,198,747	(15,071,084)	46,670,071
	393,908,262	**147,206,629**	**(148,597,962)**	**392,516,929**	**268,387,334**	**(139,506,435)**	**521,397,828**

Details of financial and technical guarantees given by the Company classified by beneficiary, and movement therein in 2020 and 2019 are as follows:

	Euros						
	Balance at 31/12/2018	Arrangements	Cancellations and repayments	Balance at 31/12/2019	Arrangements	Cancellations and repayments	Balance at 31/12/2020
Credit institutions	293,598,133	122,670,835	(121,323,296)	294,945,672	159,157,097	(115,375,644)	338,727,126
Public entities	86,155,058	19,950,655	(19,502,698)	86,603,015	104,937,924	(19,568,570)	171,972,368
Other beneficiaries	14,155,071	4,585,139	(7,771,968)	10,968,242	4,292,313	(4,562,221)	10,698,334
	393,908,262	**147,206,629**	**(148,597,962)**	**392,516,929**	**268,387,334**	**(139,506,435)**	**521,397,828**

The portion of financial and technical guarantees in force at 31 December 2020 and 2019 considered as non-performing is Euros 39,205,185 and Euros 31,074,610, respectively, of which Euros 37,409,592 (Euros 29,366,346 in 2019) are financial guarantees and the remainder are of a technical or economic nature. Of these amounts, under the agreements currently in place (see note 8), an amount of Euros 23,444,570 (Euros 16,202,897 in 2019) has been counter-guaranteed, of which Euros 23,333,156 (Euros 15,922,537 in 2019) are financial guarantees and Euros 111,414 (Euros 280,359 in 2019) are technical or economic guarantees. The provision recognised in respect of the financial and technical guarantees in force amounts to Euros 8,539,817 (Euros 7,618,938 in 2019) (see notes 4.e and 8).

Outstanding exposures are reflected in the balance of outstanding exposure at 31 December 2020 and 2019, after deducting maturities already serviced by the borrowers or, where applicable, by the Company as guarantor. From the date the Company commenced its activity until 31 December 2020, there have been net write-offs totalling Euros 31,397,218 (Euros 65,849,175, not considering effective cover provided by CERSA). At 31 December 2019, net write-offs amounted to Euros 29,566,593 (Euros 63,487,846, not considering effective cover provided by CERSA). The total amount of financial and technical guarantees arranged since the Company's incorporation, whether expired or in force, at 31 December 2020 is Euros 1,962,019,025 (Euros 1,693,631,690 in 2019).

The Company's board of directors has stipulated a ceiling for outstanding exposure vis-à-vis a single member at any given date. At 31 December 2020 and 2019 no member exceeded the specified maximum amount.

The Company has counter-guaranteed a total of Euros 317,401,732 of outstanding exposure at 31 December 2020 (Euros 199,869,720 in 2019). Of this amount, Euros 287,782,790 (Euros 179,662,156 in 2019) reflect financial and technical guarantees classed as performing, Euros 23,444,570 (Euros 16,202,897 in 2019) are non-performing financial and technical guarantees and Euros 6,174,372 (Euros 4,004,667 in 2019) are performing exposures under special monitoring, pursuant to the agreement entered into with CERSA (see note 8).

17. Information on the Board of Directors

a) Remuneration and other payments to board of directors

In 2020 and 2019, no amounts were accrued in respect of allowances for attendance at meetings of the executive committee or the board of directors. At 31 December 2020 and 2019 the Company has not extended any advances or loans to current or former members of the board of directors. At 31 December 2020 and 2019, guarantees totalling Euros 1,000,000 have been given under market conditions to a related company of an ex-director of the Company. Salaries, wages and variable remuneration paid to the directors of the Company discharging executive duties and to the management team amount to Euros 343,675 and Euros 331,757 in 2020 and 2019, respectively, and have been recognised under “Staff expenses – Salaries, wages and similar” in the income statement for the year.

The Company has taken out public liability insurance for its directors and management. The premium for 2020 is Euros 6,630 (Euros 6,248 in 2019) and has been recognised under “Other operating expenses” in the accompanying income statement.

At 31 December 2020 and 2019, the Company's board of directors comprises 11 members, nine of whom are men and two are women.

b) Details of conflicts of interest affecting the directors, pursuant to article 229 of Royal Legislative Decree 1/2010 of 2 July 2010, which approves the Revised Spanish Companies Act

At the 2020 reporting date, neither the members of the board of directors of Avalis de Catalunya S.G.R. nor their related parties, as defined by the Spanish Companies Act, have reported to the other members of the board any conflicts of interest, direct or otherwise, with the Company.

18. Other Information

a) Revenues

The distribution of revenues from financial and technical guarantees, by geographical market, in respect of the Company's ordinary activity in 2020 and 2019 is as follows:

Geographical market	Euros	
	31/12/2020	31/12/2019
Barcelona	5,256,932	5,287,189
Tarragona	385,390	366,520
Girona	323,062	315,557
Lleida	494,732	431,726
Other	136,675	123,552
	6,596,791	**6,524,544**

The distribution of these revenues by type of transaction is as follows:

Type of transaction	Percentage	
	31/12/2020	31/12/2019
Financial guarantees	89%	89%
Other guarantees	11%	11%
	100%	**100%**

b) Staff expenses

Details of this item in 2020 and 2019 are as follows:

	Euros	
	31/12/2020	31/12/2019
Salaries, wages and similar	1,513,407	1,413,852
Salaries and wages	1,307,526	1,215,128
Termination benefits	520	40
Other staff expenses	205,361	198,684
Employee benefits expense:	462,404	462,417
Social Security payable by the Company	420,506	382,843
Other employee benefits expenses	41,897	79,574
	1,975,811	**1,876,268**

The distribution, by category, of the average employee headcount in 2020 and 2019 is as follows:

	No. of employees		Gender			
			Male		Female	
	2020	2019	2020	2019	2020	2019
Board members	1	1	1	1	-	-
Management	5	5	3	3	2	2
Graduates	23	20	12	11	11	9
Administrative staff	9	10	3	4	6	6
	38	**36**	**19**	**19**	**19**	**17**

The distribution of serving employees by category at the 2020 and 2019 reporting dates is as follows:

	No. of employees		Gender			
			Male		Female	
	2020	2019	2020	2019	2020	2019
Board members	1	1	1	1	-	-
Management	5	5	3	3	2	2
Graduates	23	17	12	9	11	8
Administrative staff	9	11	3	4	6	7
	38	**34**	**19**	**17**	**19**	**17**

The Company had no employees with any disability at 31 December 2020 and 2019.

c) *Other operating expenses*

Details of other operating expenses for 2020 and 2019 are as follows:

	Euros	
	31/12/2020	31/12/2019
Leases (note 4.k)	285,798	287,957
External advisors	341,582	334,733
Repairs and maintenance	46,245	41,021
Advertising	87,156	117,026
Utilities	11,652	13,024
Insurance	27,713	28,606
Other services	75,673	126,849
Taxes	30,650	17,552
Fees and commissions paid	28,678	124,065
Total	**935,146**	**1,090,832**

In 2020 and 2019, the fees, excluding VAT, for audit and other services rendered either by the auditor (KPMG Auditores, S.L.), by a company in the same group or by a related company of the auditor are as follows:

2020

Euros	Services rendered by the auditor and related companies
Audit services	31,251
Other assurance services	-
Total audit and related services	**31,251**
Tax advisory services	-
Total tax services	-
Other services	**5,600**
Total professional services	**36,851**

2019

Euros	Services rendered by the auditor and related companies
Audit services	30,489
Other assurance services	-
Total audit and related services	**30,489**
Tax advisory services	-
Total tax services	-
Other services	**7,100**
Total professional services	**37,589**

The amounts detailed in the above tables include the total fees for 2020 and 2019, irrespective of the date of invoice.

d) Change in trade provisions and change in technical provisions

	Euros	
	31/12/2020	31/12/2019
Provision for financial and technical guarantees (net) (note 8)	(920,879)	1,343,805
Credit loss allowances for non-performing receivables from members (note 8)	(3,386,602)	(5,110,510)
Impairment and gains/(losses) on non-current assets held for sale (note 11)	15,743	(80,133)
Appropriation to technical provisions. Collective coverage of all transactions	(9,994)	(498,409)
Appropriation to technical provisions (note 10.c)	*(4,301,731)*	*(4,345,246)*
Recoveries of technical provisions (note 10.c)	*(1,686,683)*	*(2,380,033)*
Use of technical provisions (note 10.c)	*5,978,420*	*6,226,871*
Appropriation to technical provisions. General provision	-	-
Surplus general provision	-	-
Technical provisions. Third party contributions used	-	-
Use of technical provisions (note 10.c)	-	-
Use of general technical provision	-	-
Recoveries of technical provisions (note 10.c)	-	-

e) *Late payments to suppliers*

Disclosures required by additional provision three of Law 15/2010 of 5 July 2010 are as follows:

	2020	**2019**
	Days	**Days**
Average supplier payment period	56.34	11.59
Transactions paid ratio	10.75	11.29
Transactions payable ratio	**960.02**	**24.37**
	Amount	**Amount**
Total payments made	1,399,816	1,486,352
Total payments outstanding	70,615	34,339

The payments to suppliers reflected in the above table are trade payables as they relate to goods and services, and therefore include the various items recognised in “Trade and other payables” on the balance sheet.

f) *Breakdown of finance income:*

Details of finance income, in Euros, are as follows:

Euros		
	31/12/2020	31/12/2019
Income from commission adjustment	380,360	348,498
Income from cash and investments (note 9)	346,138	387,866
Income from late payments and recoveries	39,261	194,443
Total finance income	**765,758**	**930,807**

g) *Related party balances and transactions:*

Details of balances vis-à-vis related parties at 31 December 2020 and 2019 and of transactions conducted therewith in the years then ended, in Euros, are as follows:

2020

	Asset balances	Liability balances	Expenses	Income
Debt securities (Institut Català de Finances)	15,479,627	-	-	33,665
Convertible debt (Instruments Financers per a Empreses Innovadores)	-	317,291	(3,982)	-
Office rent (Institut Català de Finances)	-	-	(264,185)	-
Deposits received (Generalitat de Catalunya)	-	2,328,339	-	-
Revenue from services rendered (Institut Català de Finances)	-	-	-	-
Total	**15,479,627**	**2,645,630**	**(268,167)**	**33,665**

2019

	Asset balances	Liability balances	Expenses	Income
Debt securities (Institut Català de Finances)	7,466,841	-	-	58,354
Convertible debt (Instruments Financers per a Empreses Innovadores)	-	437,531	(5,458)	-
Office rent (Institut Català de Finances)	-	-	(261,247)	-
Deposits received (Generalitat de Catalunya)	-	2,333,400	-	-
Revenue from services rendered (Institut Català de Finances)	-	-	-	4,500
Total	**7,466,841**	**2,770,931**	**(266,704)**	**62,854**

19. Events after the Reporting Period

On 30 January 2021, Royal Decree 1/2021 of 12 January 2021 was published, amending the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 of 16 November 2007. Furthermore, on 13 February 2021 the Spanish Accounting and Auditing Institute's Resolution of 10 February 2021 was published, setting out the standards with regard to recognition, measurement and the preparation of annual accounts for the purpose of recognising revenue from the delivery of goods and rendering of services.

The changes to the standards are applicable to accounting periods beginning on or after 1 January 2021 and focus on the criteria for recognition, measurement and disclosure of revenue from the delivery of goods and services, measurement of inventories of listed commodities traded by brokers, and the definition of fair value.

Accordingly, the individual annual accounts for the first accounting period commencing after 1 January 2021 are to be presented including comparative information although there is no obligation to restate the information from the prior accounting period. The comparative information shall be restated only where all the criteria approved by the Royal Decree can be applied without incurring a retrospective bias, and without prejudice to the exceptions established in the transitional provisions.

The standards are generally applied retrospectively, albeit with alternative practical expedients. However, the criteria for classifying financial instruments can be applied prospectively and the criteria for revenue from sales and services rendered can be applied prospectively to contracts executed on or after 1 January 2021.

The directors of the Company are in the process of assessing the applicable transition options and the accounting impacts of these changes, although at the date of authorising these individual annual accounts for issue they do not yet have sufficient information to conclude on the results of this analysis.

AVALIS DE CATALUNYA,
SOCIEDAD DE GARANTÍA RECÍPROCA

Directors' Report for the year ended 31 December 2020

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Activity

In 2020, the Company arranged 2,655 financial and technical guarantees for an amount of Euros 282,874,875 during the course of its activity, denoting a rise of 53% in the number of financial and technical guarantees and 87% in the volume of transactions arranged compared to 2019.

Outstanding exposure at 31 December 2020 is Euros 521,397,828, which is 33% higher than the previous year, due to the greater activity as a result of the COVID-19 facilities. These facilities have arisen during the year in response to the financing requirements of SMEs and independent professionals due to the economic crisis triggered by the COVID-19 health emergency. The average amount of financial guarantees arranged with financial institutions in 2020 was Euros 111,329, while that of other guarantees was Euros 31,425. In 2020, 229 newly-incorporated companies received guarantees, compared with 194 in the prior year. Guarantees given in 2020 contributed to preserving, or creating, 37,680 jobs, compared with 26,994 jobs in the previous year.

The year 2020 has been marked by the financing needs derived from the COVID-19 health crisis. From 11 March 2020, the date on which the World Health Organization declared the outbreak of Coronavirus (COVID-19) to be a pandemic due to its rapid spread, the governments of all countries started to take measures to control the escalation and also address the economic and social impact. Against this backdrop, in 2020 the Company signed collaboration agreements with the "Departament de la Vicepresidència i d'Economia i Hisenda" of the Catalan regional government and with Barcelona city council for a total amount of Euros 300,000,000 and Euros 12,000,000, respectively, that enabled it to set up facilities earmarked for SMEs and independent professionals that were being affected by the emergency situation triggered by COVID-19. These facilities offer advantageous conditions to clients, thanks to the contributions of Euros 30,000,000 and Euros 2,000,000, respectively, to the Company's technical provisions. Furthermore, the signing of agreements with financial institutions has been ongoing as well as the management of agreements with associations, departments of the Catalan regional government, etc.

Composition and nature of risk

Various classifications of outstanding exposures at 31 December 2020, in Euros, are provided below.

By guaranteed sector

	Number	Amount	%
Primary sector	198	17,029,619	3%
Industrial sector	1,491	114,675,257	22%
Construction sector	532	32,471,090	6%
Tertiary sector	5,439	357,221,862	69%
Total	**7,660**	**521,397,828**	**100%**

By person or entity vis-à-vis which the guarantee was sought

	Number	Amount	%
Banks	3,866	328,357,247	63%
Other financial institutions	115	8,869,814	2%
Suppliers	104	8,796,641	2%
Public entities	3,522	172,990,061	33%
Other	53	2,384,065	0%
Total	**7,660**	**521,397,828**	**100%**

By type of guarantees received

	Number	Amount	%
Collateral	999	82,823,818	16%
Mortgage	176	16,061,616	3%
Other collateral	823	66,762,202	13%
Personal	3,663	257,734,795	49%
Unsecured	2,998	180,839,214	35%
Total	**7,660**	**521,397,828**	**100%**

Default rates

	Total	Net of counter-guaranteed amounts
Outstanding exposure	521,397,828	203,996,096
Secured members in arrears (SAM)	23,017,111	11,759,413
Non-performing exposures	39,205,185	15,760,615
Member bad debts written off	37,544,118	19,125,176
Ratio: SAM/ Outstanding exposure + SAM	4.23%	5.45%
Ratio: Non-performing exposure/ Outstanding exposure	7.52%	7.73%
Ratio: Total write-off/ Outstanding exposure	7.20%	9.38%

Working capital

Patron members' capital has varied in 2020, due mainly to the reimbursement of capital to Instruments Financers per Empreses Innovadores, S.L (IFEM), as a result of the termination of the convertible debt facility contract signed with IFEM in 2010, and the reimbursement of the portion of capital assigned to matured transactions of the capital facility signed with Instruments Financers per Empreses Innovadores (IFEM). In addition, Caixa Guissonna and COOP57, S.C.C.L. have entered the Company's capital in 2020. The net reduction amounted to Euros 48,400, bringing patron members' capital to Euros 17,144,800, comprised of 85,724 shares of Euros 200 par value each. The number of patron members is 28. At 31 December 2020 patron members held 45.83% of the total share capital, compared to 47.21% at 31 December 2019. Capital of participating members has varied as follows:

	Equity investments	Capital
31 December 2019	**96,109**	**19,221,800**
Acceptance of members	10,224	2,044,800
Member capital increases	6,712	1,342,400
Member departures	(5,324)	(1,064,800)
Member capital reductions	(6,386)	(1,277,200)
31 December 2020	**101,335**	**20,267,000**

Compliance with ratios

At 31 December 2020, the Company complied with all of the minimum ratios stipulated in the legislation in force regarding own funds, obligatory investment thereof, the solvency ratio and the amount to be covered by the technical provision. Thus, at 31 December 2020:

- The surplus technical provision amounted to Euros 35,479,655.
- Surplus own funds totalled Euros 44,275,594.
- No exposure vis-à-vis any economic group exceeded 20% of eligible own funds.
- Investments in property, plant and equipment, shares and equity holdings represent 0.34% of eligible own funds; these investments are limited to 25% of eligible own funds.
- With regard to the obligation to invest in certain assets (75% minimum investment), such investments held by the Company at 31 December 2020 exceed the statutory 75%.

Corporate governance

Through its Joint Audit and Control Committee (hereinafter, JA&CC), Avalis supervises the effectiveness of the Company's internal control, internal audit and risk control. In addition to the above, it supervises the preparation of regulated financial information, and guarantees the suitability of the members of the board of directors, senior management and similar positions, and of people who hold key positions for carrying out its daily activity, during the process of selection and continuous assessment. With regard to changes in the board of directors, with effect from 30 March 2020 Mr Pau Bestit Eickermann replaced Mr Javier Pérez Farguell as the new representative of the director CONSELL GENERAL DE CAMBRES DE CATALUNYA. Subsequently, on 25 May 2020, the director CAIXABANK, S.A. was replaced by ESTUGEST, S.A. (100% CAIXABANK), although the representative continued to be Ms Patricia Trillo Fox. Lastly, on 2 November 2020, the director BANCO DE SABADELL, S.A. appointed Mr José Luis Sánchez Rius as the new natural person acting as its representative, replacing Mr Rafael José Garcia Nauffal.

Corporate social responsibility

Avalis conducts its activity and renders its services, at all times, on the basis of its corporate values, namely quality, transparency and commitment to society, in both its internal professional relationships and its external relationships with customers and other stakeholders, following sustainable development objectives. As such, Avalis voluntarily applies criteria to reduce the environmental, social and good governance impact of the processes that form its activity, thus demonstrating its commitment to an efficient and responsible conduct model.

Other information

The Company has no research and development projects underway, nor did it incur any expenses in this area during 2020.

The Company did not acquire any own shares in 2020, nor does it hold any such investments.

At the date of this directors' report, no events of an economic or financial nature have occurred subsequent to the reporting date that affect the financial statements presented or the Company's position.

Outlook for 2021

In 2021 new signings are expected to be close to the figure for 2019, although it will depend on how the pandemic unfolds, as well as when economic recovery starts and how quickly it progresses. The Company expects to see growth in investment transactions, which were halted in 2020, a year marked above all by liquidity injections. A significant rise in the novation of transactions is also forecast, mainly those signed under the COVID-19 facilities. Outstanding exposure is not expected to change.

In 2021 the yearly contribution from the Catalan regional government is expected to be received.

The Company maintains its cost control policy and forecasts a significant climb in the provision to cover non-performing exposures, mainly because of the unexpected length of the pandemic that has resulted in a severe impact on certain activity sectors. The impact will also depend on the ability of SMEs and independent professionals to renew their transactions when there is no longer a lack of transactions.

During 2021 the Company will continue to assess the impact of the consequences of the pandemic on its equity and financial position at 31 December 2021 and on the results of operations and cash flows for the year then ending.