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 2021)

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

KPMG Auditores, S.L.
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Plaça d'Europa, 41-43
08908 L'Hospitalet de Llobregat
Barcelona

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 2021, 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 2021, 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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Paseo de la Castellana, 259 C - 28046 Madrid

On the Spanish Official Register of Auditors ("ROAC") with No. S0702, and the Spanish Institute of Registered Auditors' list of companies with No. 10.
Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M -188.007, Inscrip. 9
N.I.F. B-78510153

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.
- Corroboration 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.

Other Information: Directors' Report

Other information solely comprises the 2021 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 2021 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.

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.

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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

27 April 2022

Avalis de Catalunya, Sociedad de Garantía Recíproca

Annual Accounts and Directors' Report for the year ended 31 December 2021, with Auditor's Report Thereon.

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

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AVALIS DE CATALUNYA, S.G.R.

BALANCE SHEETS AT 31 DECEMBER 2021 AND 2020

ASSETS	Euros		LIABILITIES	Euros	
	31/12/2021	31/12/2020 (*)		31/12/2021	31/12/2020 (*)
ASSETS			**LIABILITIES**	**65,071,409**	**60,876,843**
			Trade and other payables (note 12)	**808,795**	**773,943**
Cash (note 9)	**9,267,132**	**18,920,167**	Other payables	729,960	695,131
			Current tax liabilities (notes 12 and 15)	78,835	78,812
Trade and other receivables	**40,772,530**	**31,184,109**			
Non-performing receivables from members (note 8)	27,609,940	17,526,731	**Payables (note 13)**	**10,601,866**	**6,464,673**
Other receivables (note 7)	12,822,253	13,318,188	Guarantees and deposits received	10,004,789	5,988,577
Public entities, other (note 15)	299,317	298,171	Counter-guarantors	410,581	158,805
Rest of receivables (note 7)	41,020	41,020	Other debts	186,495	317,291
Investments (note 9)	**73,174,160**	**55,481,068**	**Liabilities associated with financial and technical guarantees (note 14)**	**15,912,866**	**14,467,830**
Equity instruments	329	329	Financial guarantees	15,508,793	14,136,006
Debt securities	70,173,831	48,480,739	Other guarantees	404,073	331,824
Term deposits in credit institutions	3,000,000	7,000,000			
			Provisions (note 8)	**8,789,797**	**11,455,794**
Non-current assets held for sale (note 11)	**1,192,677**	**1,617,781**	Provisions for financial and technical guarantees	8,789,797	11,455,794
			Other provisions	-	-
Property, plant and equipment (note 6)	**49,946**	**56,317**			
Technical installations and other items	49,946	56,317	**Technical provisions. Collective coverage of all transactions (note 10.c)**		
				10,071,886	**9,302,803**
Intangible assets (note 5)	**261,198**	**227,897**	**Other liabilities**	-	-
			Capital repayable on demand (note 4.l)	**18,886,200**	**18,411,800**
Other assets	**176,323**	**206,063**			
			EQUITY	**59,822,558**	**46,816,558**
			Own funds (note 10.a)	**18,509,342**	**18,509,342**
			Capital (note 4.l)	**19,000,000**	**19,000,000**
			Subscribed capital (note 10.a)	37,886,200	37,411,800
			Patron members	17,205,600	17,144,800
			Participating members	20,680,600	20,267,000
			Less - Uncalled capital	-	-
			Less - Capital repayable on demand	(18,886,200)	(18,411,800)
			Reserves (note 10.b)	**207,398**	**207,398**
			Prior years' profit or loss (note 3)	**(698,055)**	**(698,055)**
			Profit/(loss) for the year (note 3)	**-**	**-**
			Technical provisions. Third-party contributions (note 10.c)	**41,313,216**	**28,307,216**
TOTAL ASSETS	**124,893,967**	**107,693,401**			
			TOTAL LIABILITIES AND EQUITY	**124,893,967**	**107,693,401**
MEMORANDUM ITEM					
Outstanding exposure through financial and technical guarantees given (note 16)	**519,728,191**	**521,397,828**			
Financial guarantees	468,079,576	473,175,330			
Of which: non-performing	24,714,799	37,409,592			
Other guarantees	51,648,615	48,222,498			
Of which: non-performing	1,470,453	1,795,593			
Exposures and other assets counter-guaranteed	**344,929,458**	**329,484,084**			
Of which: non-performing financial and technical guarantees	15,443,298	23,444,570			
Of which: non-performing receivables from members	20,752,432	11,257,698			
Of which: foreclosed assets	669,130	824,654			

(*) 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 2021.

(Free 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 2021 AND 2020

	Euros	
	2021	2020 (*)
Revenues (note 18.a)	**7,106,647**	**6,596,791**
Revenues from financial and technical guarantees	7,102,954	6,596,791
Revenues from services rendered	3,693	-
Other operating income	**889**	**4,656**
Staff expenses (note 18.b)	**(2,060,743)**	**(1,975,811)**
Salaries, wages and similar	(1,558,951)	(1,513,407)
Employee benefits expense	(501,793)	(462,404)
Other operating expenses (note 18.c)	**(1,346,085)**	**(935,146)**
Fees and commissions paid	(340,925)	(28,678)
Rest of operating expenses	(1,005,160)	(906,468)
Provisions for financial and technical guarantees (net) (notes 8 and 18.d)	**2,249,028**	**(920,879)**
Credit loss allowances for non-performing receivables from members (net) (notes 8 and 18.d)	**(5,824,103)**	**(3,386,602)**
Appropriation to technical provisions. Collective coverage of all transactions (net) (note 18.d)	**(769,083)**	**(9,994)**
Technical provisions. Third-party contributions used (note 18.d)	**-**	**-**
Amortisation and depreciation (notes 5 and 6)	**(63,297)**	**(61,465)**
Impairment and gains/(losses) on disposal of fixed assets (note 6)	**-**	**-**
Impairment and gains/(losses) on non-current assets held for sale (net) (notes 11 and 18.d)	**(21,229)**	**15,743**
RESULTS FROM OPERATING ACTIVITIES	**(727,975)**	**(672,705)**
Finance income (notes 9 and 18.f))	**950,729**	**765,758**
Finance costs (notes 9 and 13)	**(222,754)**	**(93,053)**
NET FINANCE INCOME	**727,975**	**672,705**
PROFIT/(LOSS) BEFORE INCOME TAX	**-**	**-**
Income tax (note 15)	-	-
PROFIT/(LOSS) FOR THE YEAR	**-**	**-**

(*) 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 2021.

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

AVALIS DE CATALUNYA, S.G.R.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

	Euros	
	2021	2020 (*)
PROFIT/(LOSS) FOR THE YEAR	-	-
Income and expense recognised directly in equity	**13,006,000**	**12,012,000**
Valuation adjustments	-	-
Financial assets at fair value through equity	-	-
Other	-	-
Technical provisions. Third-party contributions (note 10.c)	13,006,000	12,012,000
Tax effect	-	-
Amounts transferred to the income statement	-	-
Valuation adjustments	-	-
Financial assets at fair value through equity	-	-
Other	-	-
Technical provisions. Third-party contributions	-	-
Tax effect	-	-
TOTAL RECOGNISED INCOME AND EXPENSE	**13,006,000**	**12,012,000**

(*) 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 2021.

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

AVALIS DE CATALUNYA S.G.R

STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020
(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 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**
Adjustments for changes in criteria	-	-	-	-	-	-	-	-
Corrections of errors	-	-	-	-	-	-	-	-
Adjusted opening balance for 2021	**37,411,800**	**-**	**207,398**	**(18,411,800)**	**(698,055)**	**-**	**28,307,216**	**46,816,559**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**13,006,000**	**13,006,000**
Transactions with members	**474,400**	-	**-**	-	**-**	**-**	**-**	**474,400**
Capital increases	3,090,600	-	**-**	-	**-**	**-**	-	3,090,600
(-) Capital reductions	(2,616,200)	-	**-**	-	**-**	**-**	-	(2,616,200)
Capital repayable on demand	**-**	**-**	**-**	**(474,400)**	**-**	**-**	**-**	**(474,400)**
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance for 2021	**37,886,200**	-	**207,398**	**(18,886,200)**	**(698,055)**	**-**	**41,313,216**	**59,822,559**

(*) 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 2021.

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

AVALIS DE CATALUNYA S.G.R

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

	Euros	
	2021	2020 (*)
CASH FLOWS USED IN OPERATING ACTIVITIES	**(5,382,802)**	**(11,240,228)**
Profit/(loss) for the year before tax	-	-
Adjustments to profit/(loss)	**(3,087,655)**	**(2,906,300)**
Changes in operating assets and liabilities	**(10,373,984)**	**(15,405,032)**
Trade and other receivables	(21,879,058)	(9,944,720)
Other assets	10,134,066	(7,451,680)
Trade and other payables	386,682	451,020
Other liabilities	984,326	1,540,347
Other cash flows from operating activities	**8,078,836**	**7,071,105**
Fees and commissions received	7,851,003	6,780,236
Interest received/(paid)	225,373	290,869
Income tax received/(paid)	2,461	-
CASH FLOWS USED IN INVESTING ACTIVITIES	**(27,452,290)**	**(4,509,176)**
Payments for investments	**(33,748,240)**	**(13,588,157)**
Intangible assets (note 5)	(75,760)	(68,930)
Property, plant and equipment (note 6)	(14,469)	(8,424)
Investments	(33,622,658)	(13,509,520)
Non-current assets held for sale	(35,354)	(1,283)
Proceeds from sale of investments	**6,295,950**	**9,078,981**
Intangible assets	-	-
Property, plant and equipment	-	-
Investments	6,000,000	9,000,000
Non-current assets held for sale (note 11)	295,950	78,981
CASH FLOWS FROM FINANCING ACTIVITIES	**23,182,058**	**20,336,814**
Proceeds from and payments for equity instruments	**14,368,986**	**13,531,500**
Capital issue (note 10.a)	2,952,000	3,435,200
Capital redemption (note 10.a)	(1,589,014)	(1,915,700)
Technical provisions. Third-party contributions (note 10.c)	13,006,000	12,012,000
Proceeds from and payments for financial liability instruments	**8,813,072**	**6,805,314**
Counter-guarantors	5,543,217	3,108,515
Guarantees and deposits received	4,170,736	3,845,596
Repayment of convertible debt	(900,880)	(148,797)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(9,653,034)**	**4,587,410**
Cash and cash equivalents at beginning of year	18,920,166	14,332,756
Cash and cash equivalents at year end	9,267,132	18,920,166

(*) 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 2021.

Avalis de Catalunya, Sociedad de Garantía Recíproca

Notes to the Annual Accounts for the year ended
31 December 2021

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 ("Sociedad de Garantía Recíproca", hereinafter S.G.R.), 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.

2. Basis of Presentation 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 2021. 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 2020 were approved by the shareholders at the general meeting held on 31 May 2021.

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 2021 and 2020 comprise the following items:

	Euros	
	31/12/2021	31/12/2020
Subscribed capital	37,886,200	37,411,800
Uncalled capital	-	-
Reserves	207,398	207,398
Profit or loss	-	-
Prior years' losses	(698,055)	(698,055)
Technical provisions, net (note 10.c)	51,385,102	37,610,019
Intangible assets, net	(261,198)	(227,897)
Other reduced risks (*)	(1,362,108)	(1,654,383)
Eligible own funds	**87,157,338**	**72,648,881**
Own funds basis for calculating concentration limits on intangible assets, shares and equity holdings	**88,519,446**	**74,303,265**

(*) 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 2021, the Company's net eligible own funds exceed the minimum requirements by Euros 58,672,154 (Euros 44,275,594 in 2020). At 31 December 2021 and 2020, the Company's solvency ratio stands at 24.48% and 20.48%, 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 2021 and 2020, 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 2021 and 2020, 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 2021 and 2020, the Company fulfils this requirement (see note 9.b).

Lastly, Law 14/2016 of 27 September 2016, establishes that mutual guarantee societies must have minimum capital of Euros 10 million and eligible own funds of Euros 15 million. At 31 December 2021 and 2020, 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 9 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 2021 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 2021 compared to those applied in 2020.

h) Comparative information

The information for 2020 included in the annual accounts is presented solely for the purpose of comparison with the information for 2021.

Transition to the new accounting standards

The accounting principles and the main measurement standards used by the Company to prepare these annual accounts are the same as those applied in the previous year, except for the application of Royal Decree 1/2021 of 12 January 2021, amending the Spanish General Chart of Accounts approved under Royal Decree 1514/2007 of 16 November 2007, and the Spanish Accounting and Auditing Institute (ICAC) Resolution of 10 February 2021, 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, as well as the recognition of financial instruments.

The Company has not adjusted the carrying amount of financial assets and financial liabilities in reserves at 1 January 2021 following the application of the new accounting regulations.

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 with respect 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 statements for 2021 and 2020 presented results equal to zero. Consequently, no distribution of profit or application of loss was proposed for those years.

4. Significant Accounting Policies

The main accounting policies used by the Company to prepare the annual accounts for 2021 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

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or an equity instrument of another entity.

Financial instruments are only recognised on the balance sheet when the Company becomes a party to the contract in accordance with the specifications thereof. Accounts receivable or payable are recognised from the date on which the legal right to receive or the legal obligation to pay cash arises, and derivatives are recognised from the trade date. Additionally, transactions in currency markets are recognised at the settlement date, whilst equity instruments traded on Spanish secondary securities markets are recognised at the trade date, and debt securities are recognised at the settlement date.

1. Financial assets

Financial assets comprise cash, equity instruments of another company, instruments that entail a contractual right to receive cash or another financial asset, or any exchange of financial instruments under favourable terms. Financial assets include cash on hand, deposits at central banks, loans and advances to financial intermediaries, loans and advances to individuals, debt securities and equity instruments acquired.

Classification of financial assets

1.a) Financial assets at amortised cost

This category contains financial assets, including those admitted to trading on an organised market, where the investment is held to collect cash flows that are solely payments of principal and interest on the principal amount outstanding (even if the transaction was arranged at a zero or below-market rate of interest).

Assets are considered to meet this objective even when sales occur or are expected to occur in the future. For this purpose, the Company considers the frequency, value and timing of sales in prior periods, the reasons for those sales, as well as expectations as regards future sales.

Trade and non-trade receivables are generally included in this category.

These are initially measured at fair value, which, in the absence of evidence to the contrary, is the transaction price, i.e. the fair value of the consideration given plus directly attributable transaction costs.

Trade receivables and other items, such as advances, loans to employees or dividends receivable, which mature in less than one year and do not have a contractual rate of interest are measured at their nominal amount provided that the effect of not discounting the cash flows is immaterial, both at initial recognition and subsequent measurement, and there are no indications of impairment.

These assets are subsequently measured at amortised cost and interest accrued thereon is recognised in the income statement using the effective interest method.

Impairment is presumed to exist when there has been a reduction or delay in the estimated future cash flows, which may be due to debtor insolvency.

Impairment and any reversals thereof are recognised as an expense or income, respectively, in the income statement at the reporting date. The loss can only be reversed up to the limit of the amortised cost of the assets had the impairment loss not been recognised.

1.b) Financial assets at fair value through equity

This category includes financial assets whose contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, and which are not held for trading and cannot be classified under "Financial assets at amortised cost". This category also includes investments in equity instruments for which an irrevocable election was made at initial recognition to present subsequent changes directly in equity.

These are initially measured at fair value, which, in the absence of evidence to the contrary, is the transaction price, i.e. the fair value of the consideration given plus costs directly attributable to the transaction.

They are subsequently measured at fair value through equity and reclassified to the income statement when sold or impaired.

Impairment losses and exchange gains and losses on monetary financial assets in foreign currency are recognised in the income statement.

Interest, calculated using the effective interest method, and dividends accrued are recognised in the income statement.

Investments in equity instruments whose fair value cannot be reliably determined are measured at cost less cumulative impairment losses.

On allocating a value to these assets, as a result of derecognition or for any other reason, the weighted average cost is applied to homogeneous groups.

At least at each reporting date, impairment losses are recorded if there is objective evidence of impairment of a financial asset included within this category. Any such impairment is recognised in the income statement. Any reversals of impairment are credited to the income statement, except for reversals in the write-down of equity instruments, which are recognised directly in equity.

Equity instruments are tested individually for impairment whenever there is a prolonged (18 months) or significant (40%) decline in their market value with respect to their cost.

Determining fair value:

The fair value of financial assets is determined by using market prices provided that the quoted prices available for the instruments can be considered representative as they are periodically published in the usual information systems, provided by renowned financial intermediaries.

A fair value hierarchy is established based on the inputs used, classifying the estimates in three levels:

- Level 1: those based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

- Level 2: those based on quoted prices in active markets for similar instruments or other valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

- Level 3: those in which certain significant inputs are not based on observable market data.

When it is not possible to mark to market, measurement is based on internal models using publicly-available market data, where possible, that satisfactorily reflect the value of the instruments being measured. This valuation technique is based on the discounting of future cash flows of assets (determined or estimated) using the risk-free discounting curve. Based on the characteristics of the issue and the issuer, a specific credit risk is allocated which will differ for each of the flows to be received.

The fair value of investment fund units classified as assets at fair value through equity is equivalent to the net asset value of the fund at the measurement date.

1.c) Financial assets carried at cost

This category includes investments in Group companies, jointly controlled entities and associates.

These investments are initially recognised and measured at cost, which is equivalent to the fair value of the consideration given, plus any directly attributable transaction costs.

They are subsequently measured at cost less any accumulated impairment.

1.d) Financial assets at fair value through profit or loss

A financial asset must be included in this category unless it should be classified in any of the other categories in accordance with sections 1.a), 1.b) and 1.c) above.

A financial asset is considered as held for trading when:

1. It is originated or acquired for the purpose of selling it in the near term (e.g. listed debt securities, irrespective of their maturity, or listed equity instruments that are acquired for the purpose of selling them in the short term).

2. On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

3. It is a derivative, except for a financial guarantee contract or a designated hedging instrument.

The financial assets included under this category are initially measured at fair value. In the absence of evidence to the contrary, this is the transaction price, which is equivalent to the fair value of the consideration received. Directly attributable transaction costs are recognised in profit and loss. Subsequent to initial recognition, the Company measures financial assets included in this category at fair value through profit or loss.

Interest and dividends from financial assets

Interest and dividends accrued on financial assets after their acquisition are recognised as income. The interest on financial assets carried at amortised cost is recognised using the effective interest method and dividends are recognised when the right to receive payment is established.

To this end, upon initial measurement of financial assets, the accrued explicit interest receivable at the measurement date is recognised separately, based on maturity, and dividends declared at the acquisition date are also accounted for separately.

Furthermore, when the dividends distributed are clearly derived from profits generated prior to the acquisition date because amounts have been distributed which are higher than the profits generated by the investee since acquisition, they are accounted for as a deduction in the carrying amount of the investment and not recognised as income.

Derecognition of financial assets

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

A gain or loss on derecognition of a financial asset is determined as the difference between the consideration received, net of the attributable transaction costs and the carrying amount of the financial asset, plus any accumulated amount recognised directly in equity and forms part of the profit or loss for the year.

2. Financial liabilities

Financial liabilities are instruments issued, incurred or assumed that give rise to a direct or indirect contractual obligation for the Company, based on their economic substance, to either deliver cash or another financial asset or to exchange financial assets or financial liabilities with a third party under unfavourable terms.

Classification of financial liabilities:

2.a) Financial liabilities at amortised cost

This category includes amounts payable to financial intermediaries, amounts payable to individuals and trade and non-trade payables.

Financial liabilities are initially recognised at fair value. Following initial recognition, the Company measures all financial liabilities at amortised cost. Interest is recognised in the income statement using the effective interest method.

Trade payables falling due within one year for which there is no contractual interest rate and called-up equity holdings expected to be settled in the short term are initially and subsequently measured at their nominal amount, provided that the effect of not discounting the cash flows is immaterial.

2.b) Financial liabilities at fair value through profit or loss

This category includes financial liabilities issued for the purpose of repurchasing them in the near term; those forming part of a portfolio of financial instruments for which there is evidence of a recent actual pattern of short-term profit-taking; and derivatives, except for financial guarantee contracts and designated hedging instruments.

This category also includes hybrid financial instruments for which the embedded derivative cannot be measured separately and its fair value cannot be determined reliably, either at the acquisition date or subsequently. For accounting purposes the hybrid financial instrument is recognised in its entirety as either a financial asset or a financial liability under financial assets (liabilities) at fair value through profit or loss in the income statement. This same criterion is applied upon initial recognition, at which time the Company measures the hybrid financial instrument at fair value.

Derecognition of financial liabilities

Financial liabilities are fully or partially derecognised when the inherent obligation is extinguished. Own financial liabilities acquired are also derecognised, even when the intention is to place them on the market again in the future.

If debt instruments with substantially different terms are exchanged, the original financial liability is derecognised and the new financial liability recognised.

The difference between the carrying amount of a financial liability, or part of that liability, that has been derecognised and the consideration paid, including attributable transaction costs and any asset transferred (other than cash) or liability assumed, is recognised in the income statement for the reporting period in which it arises.

Details of the Company's financial instruments, by category, at 31 December 2021 and 2020 are provided in the Appendix to these notes to the annual accounts.

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 2021 the Company has receivables totalling Euros 19,274. At 31 December 2020, it had balances receivable in respect of this item amounting to Euros 1,213,850 (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 2021 and 2020 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", "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) Income and expenses

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) Provisions and contingencies

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

- Provisions: liability balances that cover present obligations arising from past events, settlement of which is expected to result in an outflow of resources of uncertain timing or amount.

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

The annual accounts include all provisions for which the probability of the obligation requiring settlement is estimated to be more likely than not. 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 expenditure required 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 2021 and 2020 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. No termination benefits were accrued in 2021. However, termination benefits amounted to Euros 520 at 31 December 2020 and were recognised under "Staff expenses - Salaries, wages and similar" in the accompanying income statement. At the 2021 and 2020 reporting dates no provision has been made for termination benefits as no situations of this nature are foreseen.

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 2021 and 2020, there are no prepayments yet to be taken to the income statement.

At the 2021 and 2020 year ends, the Company has a lease on the Barcelona office. The related operating lease instalments recognised as expenses in 2021 and 2020 amount to Euros 267,374 and Euros 264,185, (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. On 27 January 2022 a new lease contract was signed for a 10-year period, becoming effective on 1 February 2022. Avalis may terminate the lease contract and any possible extensions thereto early by providing at least four months' written notice. Upon expiry of the lease, i.e. 1 February 2032, the contract will be automatically renewed for annual periods without requiring additional contractual modifications.

Other operating leases were held in 2021 and 2020, for amounts of Euros 22,542 and Euros 21,613, 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 2021 and 2020.

- 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 2021 the minimum requirement for eligible own funds amounts to Euros 28,485,184 (Euros 28,373,287 at 31 December 2020) 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 2021 and 2020 the Company chose the first of these options and recognised that amount as capital, with a credit of Euros 18,886,200 and Euros 18,411,800 to "Capital repayable on demand" in the balance sheet at 31 December 2021 and 2020, 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 2021 or 2020.

5. Intangible Assets

Movement in intangible assets during 2021 and 2020 is as follows (see note 4.a):

	Euros						
	Balance at 31/12/2019	Additions or charges	Disposals or reductions	Balance at 31/12/2020	Additions or charges	Disposals or reductions	Balance at 31/12/2021
Cost-							
Computer software	752,886	68,930	-	821,816	68,441	-	890,257
Other	39,743	-	-	39,743	7,320	-	47,063
Total cost	**792,628**	**68,930**	**-**	**861,559**	**75,761**	**-**	**937,319**
Accumulated amortisation							
Computer software	(561,077)	(33,251)	-	(594,328)	(36,985)	-	(631,313)
Other	(31,516)	(7,818)	-	(39,334)	(5,474)	-	(44,807)
Total accumulated amortisation	**(592,594)**	**(41,068)**	**-**	**(633,662)**	**(42,459)**	**-**	**(676,121)**
Total net intangible assets	**200,035**	**27,862**	**-**	**227,897**	**33,302**	**-**	**261,198**

Additions to intangible assets in 2021 and 2020 amount to Euros 75,761 and Euros 68,930, respectively, and mainly reflect improvements in the Company's applications.

No impairment was recognised in 2021 or 2020.

At 31 December 2021 and 2020, fully amortised intangible assets in use amount to Euros 545,506 and Euros 535,069, respectively.

6. Property, Plant and Equipment

Movement in property, plant and equipment in 2021 and 2020 is as follows (see note 4.b):

	Euros						
	Balance at 31/12/2019	Additions or charges	Disposals or reductions	Balance at 31/12/2020	Additions or charges	Disposals or reductions	Balance at 31/12/2021
Cost:							
Other installations, equipment and furniture	118,374	-	-	118,374	-	-	118,374
Other property, plant and equipment	139,607	8,424	-	148,031	14,469	-	162,500
Total cost	**257,981**	**8,424**	**-**	**266,405**	**14,469**	**-**	**280,874**
Accumulated depreciation:							
Other installations, equipment and furniture	(104,084)	(4,943)	-	(109,027)	(4,943)	-	(113,970)
Other property, plant and equipment	(85,607)	(15,454)	-	(101,061)	(15,896)	-	(116,957)
Total accumulated depreciation	**(189,691)**	**(20,397)**	**-**	**(210,088)**	**(20,839)**	**-**	**(230,927)**
Total net property, plant and equipment	**68,289**	**(11,973)**	**-**	**56,317**	**(6,370)**	**-**	**49,946**

No impairment was recognised in 2021 or 2020.

No items of property, plant and equipment were derecognised in 2021 and 2020.

At 31 December 2021 and 2020, 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 146,208 and Euros 146,214, respectively.

7. Trade and Other Receivables

Details at 31 December 2021 and 2020 are as follows:

	Euros	
	31/12/2021	31/12/2020
Non-performing receivables from members (note 8)	27,609,940	17,526,731
Other receivables	12,822,253	13,318,188
Fees and commissions receivable for guarantees (note 4.d) *(3.a) and b)*)	12,708,570	12,028,985
Sundry receivables	113,683	1,289,202
Public entities, other (note 15)	299,317	298,171
Rest of receivables	41,020	41,020
Total	**40,772,530**	**31,184,109**

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

At 31 December 2021 and 2020, "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 19,274 and Euros 1,213,849 at 31 December 2021 and 2020, respectively (see note 4.e).

At 31 December 2021 and 2020, "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 2021 and 2020 are as follows (see note 4.e):

	Euros	
	31/12/2021	31/12/2020
Secured with collateral	2,442,957	2,000,508
With personal guarantee from the company	21,537,202	14,101,271
Other collateral	3,575,568	3,144,946
Unsecured	7,189,775	3,761,256
Total non-performing receivables from members in respect of guarantees	**34,745,501**	**23,007,981**
Other non-performing receivables from members (*)	533	9,130
Total non-performing receivables from members	**34,746,034**	**23,017,111**
Impairment due to insolvency on non-performing receivables from members (note 10.c)	**(9,635,101)**	**(8,406,358)**
Fees and commissions from portfolio of non-performing receivables from members	2,751,537	3,250,493
Provisions for fees and commissions from non-performing receivables from members	(252,529)	(334,516)
Net fees and commissions from portfolio of non-performing receivables from members	**2,499,008**	**2,915,977**
Total non-performing receivables from members	**27,609,940**	**17,526,731**

(*) 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 2021 and 2020 is as follows:

	Euros				
	Balance at 31/12/2020	Additions	Derecognitions	Transfers to total write-offs (note 4.e)	Balance at 31/12/2021
Non-performing receivables from members in respect of guarantees	23,017,111	24,249,580	(3,059,174)	(9,461,483)	34,746,034
Of which: amount counter-guaranteed	**11,257,698**				**20,752,432**

	Euros				
	Balance at 31/12/2019	Additions	Derecognitions	Transfers to total write-offs (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**

The balance at 31 December 2021 and 2020 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 31/12/2020	Additions	Recovery of write-offs	Total write-offs not subject to claim	Balance at 31/12/2021
Total write-off assets:					
Amounts received from counter-guarantors	18,418,943	5,578,487	(257,317)	0	23,740,112
Total write-offs, guarantees (notes 4.e) and 10.c))	19,125,176	9,461,483	(5,807,413)	(282,715)	22,496,530
	37,544,118	**15,039,971**	**(6,064,731)**	**(282,715)**	**46,236,642**
Technical provisions for write-off assets	**19,125,176**	**9,461,483**	**(5,807,413)**	**(282,715)**	**22,496,530**

	Euros				
	Balance at 31/12/2019	Additions	Recovery of write-offs	Total write-offs not subject to claim	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**

Technical provisions for write-off assets, including those for total write-off assets not subject to claim, amount to Euros 36,129,416 and Euros 31,397,218 in 2021 and 2020, respectively.

Impairment of trade receivables and the provision for financial and technical guarantees at 31 December 2021 and 2020 are as follows:

	Euros	
	31/12/2021	31/12/2020
Impairment of non-performing receivables from members	9,635,101	8,406,358
Impairment of other receivables	17,746	20,910
Provision for insolvency on fees and commissions for non-performing receivables from members	252,529	334,516
Total provision for non-performing receivables from members and other receivables	**9,905,375**	**8,761,783**
Provisions for financial and technical guarantees	**8,789,797**	**11,455,794**
Provisions for financial and technical guarantees (note 10.c)	6,290,789	8,539,817
Amount of fees and commissions for non-performing guarantees (note 4.d)	2,499,008	2,915,977

Movement in the impairment provision for insolvency, not including fees and commissions for non-performing financial and technical guarantees, in 2021 and 2020 is as follows:

	Euros		
	Impairment of non-performing receivables from members	Provision for non-performing guarantees	Total provisions
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**
Provisions for impairment of non-performing receivables from members (net) (note 18.d)	5,824,103	-	5,824,103
Charges to/recoveries of provisions for financial and technical guarantees (net) (notes 10.c and 18.d)	-	(2,249,029)	(2,249,029)
Net adjustment of total write-offs (note 10.c)	(4,680,511)	-	(4,680,511)
Balance at 31 December 2021	**9,905,375**	**6,290,789**	**16,196,162**

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 2021 are as follows:

For the period from 1 January to 30 September:

- 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 the purpose of the transaction for which the guarantee is required, ranging 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, may 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 extended guarantees or other guarantee instruments 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 FIVE HUNDRED THOUSAND EUROS (€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 25% 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.

A new agreement was signed with CERSA on 22 December 2021 for the period from 1 October 2021 to 31 December 2022. The main characteristics 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 the purpose of the transaction for which the guarantee is required, ranging 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.

- CERSA provides coverage for the eligible financial guarantees as defined in the agreement.

- CERSA provides coverage for transactions with eligible large companies not classified as an SME up to an established limit over the term of the agreement, and exclusively for financing transactions to invest in new assets and working capital financing.

- The amount counter-guaranteed, which reflects the exposure assumed by CERSA per transaction, is limited to Euros 1,100,000. Taking into account the aggregate amount arranged in a transaction and CERSA's previous exposure with this same guaranteed company or economic group, as the case may be, through guarantees arranged by the mutual guarantee society or by other guarantee societies, CERSA's outstanding exposure vis-à-vis a guaranteed party may not exceed Euros 1,350,000. For transactions that cannot be assigned to any of the counter-guarantee agreements with the European Investment Fund (EIF), the maximum counter-guarantee that can be extended by CERSA is Euros 750,000.

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

- The outstanding exposure, net of third-party coverage, through counter-guarantee transactions arranged by the Company may not exceed 25% of CERSA's total outstanding exposure, net of third-party coverage, 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. The cost of coverage amounts to Euros 300,063.31 in 2021. There was no cost of coverage in 2020.

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

CERSA	Euros	
	31/12/2021	31/12/2020
Counter-guaranteed outstanding exposure	323,507,896	317,401,732
of which: non-performing	*15,443,298*	*23,444,570*
Insolvency on counter-guarantee agreements for which no provision has been made	9,936,325	12,892,235
Counter-guaranteed non-performing receivables from members	20,752,432	11,257,698
Insolvency on counter-guarantee agreements for which no provision has been made	14,145,055	7,978,562
Counter-guaranteed foreclosed assets in payment of debt	669,130	824,654
Insolvency on counter-guarantee agreements for which no provision has been made	332,178	328,094
Amounts written off in CERSA, net	41,633,174	37,311,817
of which: for the year	*4,321,356*	*2,859,860*
Amounts collected by the Company over which CERSA has rights	75,761	52,854
of which: for the year	*75,761*	*52,854*
Receivable amounts declared to CERSA	19,274	1,213,850

Agreement with the "Departament de la Vicepresidència i d'Economia i Hisenda" of the Generalitat de Catalunya

On 6 November 2019 the Company signed a collaboration agreement with the "Departament de la Vicepresidència i d'Economia i Hisenda", a department of the Generalitat de Catalunya (hereinafter Catalan regional government), regulating the technical provision contribution scheme. This agreement replaces and nullifies the agreement signed between the Catalan regional government's "Departament d'Economia i Coneixement" and the Company on 19 October 2015 for the same purpose.

The agreement entered into force on the date of signing for a term of three years. The agreement could 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 any extension would be executed through the signing of an addendum to the agreement in force.

Pursuant to the agreement, the maximum amount to be contributed by the Catalan regional government's "Departament de la Vicepresidència i d'Economia i Hisenda" could not exceed Euros 2,000,000 in each budget year. Accordingly, the Catalan regional government has contributed amounts of Euros 1,549,487 and Euros 1,126,997 at the 2021 and 2020 year ends, respectively. At 31 December 2021, 67 transactions totalling Euros 12,825,558 were signed (16 transactions totalling Euros 4,670,940 at the 2020 year end). The amounts consumed and committed totalled Euros 156,514 and Euros 443,664, respectively, at the 2021 year end (Euros 41,458 and Euros 128,409, respectively, at the 2020 year end). The unused amount of the contributions received stands at Euros 947,259 at 31 December 2021 (Euros 957,130 at the 2020 year end).

On 16 December 2021 the Company signed a new collaboration agreement with the Catalan regional government's "Departament d'Economia i Hisenda", regulating the contribution scheme. This agreement renders null and void the agreement signed on 6 November 2019. It came into effect the day after its signing and expires on 31 December 2024.

The new 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 contributions from third parties + Technical provisions for collective coverage of all transactions) / Outstanding exposure through financial and technical guarantees (at 31 December of the prior year) is below 5%.

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 contributions to be made by the "Departament d'Economia i Hisenda", irrespective of their nature, may not exceed the annual limit of Euros 2,000,000.

At the 2021 year end no transactions had been signed under this agreement.

9. Cash and Investments

a) Cash

Details at 31 December 2021 and 2020 are as follows:

	Euros	
	31/12/2021	31/12/2020
Cash	32	437
Current demand deposits	9,267,100	18,919,730
	9,267,132	**18,920,167**

b) Investments

At 31 December 2021 and 2020, this item includes investments, which basically comprise fixed-term deposits and debt securities.

Investments	Euros	
	31/12/2021	31/12/2020
Equity instruments	329	329
Term deposits in credit institutions	3,000,000	7,000,000
Current	3,000,000	7,000,000
Non-current	-	-
Debt securities	70,173,832	48,480,739
Current	30,597,740	16,705,536
Non-current	39,576,091	31,775,203
	73,174,161	**55,481,068**

At 31 December 2021 and 2020, "Investments - Debt securities" comprise bonds and promissory notes acquired from third parties and classified as held-to-maturity investments as follows:

Rating	Euros					
	2021			2020		
	Fixed income public debt	Fixed income private debt	Total	Fixed income public debt	Fixed income private debt	Total
A+	-	-	-	-	-	-
A	-	200,000	200,000	-	2,608,720	2,608,720
A-	1,004,892	13,212,733	14,217,625	1,004,579	3,529,114	4,533,693
BBB+	-	4,064,810	4,064,810	-	6,844,874	6,844,874
BBB	-	9,472,766	9,472,766	-	8,462,254	8,462,254
BBB-	18,483,745	23,015,597	41,499,342	503,546	9,848,262	10,351,808
BB+	-	519,234	519,234	-	-	-
BB	-	-	-	15,479,627	-	15,479,627
B+	-	200,054	200,054	-	199,763	199,763
B-	-	-	-	-	-	-
No rating	-	-	-	-	-	-
Total	**19,488,637**	**50,685,194**	**70,173,831**	**16,987,752**	**31,492,987**	**48,480,739**

At 31 December 2021, 46% of investments have a residual period of less than 12 months (43% in 2020); 27% between 12 and 36 months (48% in 2020) and the remainder between 36 and 60 months.

The interest earned on term deposits in credit institutions amounted to Euros 670 and Euros 1,317 in 2021 and 2020, respectively, and is shown under "Finance income" in the income statement (see note 18.f). Similarly, the interest earned on debt securities in 2021 and 2020 amounted to Euros 538,400 and Euros 346,212, respectively, and has been recognised under "Finance income" in the income statement (see note 18.f). In 2021 and 2020, expenses arising from investments amounted to Euros 222,055 and Euros 89,072, respectively, and are recognised under "Finance costs" in the income statement for the year.

In 2021 and 2020 the average yield on investments was as follows:

Investments	2021	2020
Term deposits in credit institutions	0.02%	0.02%
Debt securities	0.45%	0.58%

No impairment of debt securities has been recognised in 2021 or 2020.

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 amount stipulated in the articles of association and three times that amount, and is divided into equity investments of equal par value. At 31 December 2021 and 2020, 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 2021 the Company has classified the excess above the minimum statutory capital under "Capital repayable on demand". As a result, at 31 December 2021 the Company has recognised "Capital repayable on demand" amounting to Euros 18,886,200 (Euros 18,411,800 at 31 December 2020).

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 2021 and 2020, subscribed capital comprises 189,431 and 187,059 shares, respectively, of Euros 200 par value each. Patron members hold 86,028 of these shares (85,724 shares at 31 December 2020). 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 2021 that is still subject to such liability stands at Euros 7,691,879 (Euros 7,775,000 at 31 December 2020). The breakdown by year of reimbursement is as follows (in Euros):

Year	31/12/2021	31/12/2020
2016	-	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	1,645,000
2021	1,572,879	-
	7,691,879	**7,775,000**

Movement in the Company's capital in 2021 and 2020 is as follows:

Subscribed capital	Euros
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**
Plus - Member subscriptions	3,090,600
Acceptance of members	1,645,200
Member capital increases	1,445,400
Less - Capital reduction	(2,616,200)
Member departures	(1,248,600)
Member capital reductions	(1,367,600)
Balance at 31 December 2021	**37,886,200**

In 2021, the capital held by patron members increased by Euros 60,800 (decrease of Euros 48,400 in 2020). In 2021 the capital held by participating members showed a net increase of Euros 413,600 (Euros 1,045,200 in 2020).

In addition, at 31 December 2021, the total capital reduction includes Euros 804,586 for capital applied for debt repayment in respect of non-performing receivables from members (Euros 486,600 at 31 December 2020).

At 31 December 2021 and 2020, the capital claimed by participating members and pending reimbursement amounts to Euros 150,967 and Euros 171,610, respectively.

At 31 December 2021 and 2020, share capital is held as follows:

Subscribed capital	Euros	
	31/12/2021	31/12/2020
Patron members	**17,205,600**	**17,144,800**
Participating members	**20,680,600**	**20,267,000**
Guaranteed	17,075,400	17,122,800
Of which: non-performing	1,350,400	1,725,400
No outstanding transactions	3,605,200	3,144,200
	37,886,200	**37,411,800**

At 31 December 2021 and 2020, 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 2021 and 2020 is as follows:

Holder	Euros Subscribed capital at 31/12/2021	Percentage ownership (*)
INSTITUT CATALÀ DE FINANCES	4,650,000	12.27%
GENERALITAT DE CATALUNYA	3,686,400	9.73%
CAIXABANK S.A.	3,114,800	8.22%
BANCO BILBAO VIZCAYA ARGENTARIA S.A.	1,278,200	3.37%
BANCO SANTANDER, S.A.	1,185,800	3.13%
CAJA LABORAL POPULAR COOP. DE CRÉDITO	24,000	0.06%
BANCO DE SABADELL, S.A.	845,000	2.23%
INSTRUMENTS FINANCERS PER EMPRESES INNOVADORES, S.L.	460,400	1.22%
CONSORCI DE COMERÇ, ARTESANIA I MODA DE CATALUNYA	749,600	1.98%
INSTITUT CATALA DE LES EMPRESES CULTURALS	450,600	1.19%
CONSELL GENERAL DE CAMBRES DE CATALUNYA	204,600	0.54%
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	**17,205,600**	**45.41%**

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

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.

b) Reserves and profit or loss

Movement in reserves during 2021 and 2020 is as follows:

Legal reserve	Euros	
	31/12/2021	31/12/2020
Opening balance	207,398	207,398
Profit/(loss) for the year	-	-
Closing balance	**207,398**	**207,398**

The legal framework governing mutual guarantee societies provides as follows:

- *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 shall appropriate at least 50% of post-tax profit each year to a legal reserve until such reserve reaches an amount equivalent to three times the 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 Catalan regional government's “Departament de la Vicepresidència i d’Economia i Hisenda” and Avalis de Catalunya, S.G.R., to regulate the contribution to the technical provisions of Avalis de Catalunya, S.G.R., 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 collaboration agreement specified that the contributions would 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 was established 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

In 2021 the “Departament de la Vicepresidència i d’Economia i Hisenda” requested that the contribution of Euros 20,000,000 for 2021 be divided into instalments in order to allocate the resources to other needs that had arisen as a result of the COVID-19 emergency situation.

Taking into consideration the forecast budget and solvency ratio for 2021, the board of directors of Avalis approved the division of the outstanding contribution of Euros 20,000,000 as follows: Euros 13,000,000 in 2021 and Euros 7,000,000 in 2022.

The contribution of Euros 13,000,000 was received on 30 April 2021. The collaboration agreement specifies that the adequacy of the contribution to the technical provisions shall 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 committed contribution, advantageous economic conditions could be applied for SMEs and independent professionals that had been affected by COVID-19.

The agreement will remain in force from the date signed and until the risks guaranteed by Avalis no longer persist, the maximum period being 10 years.

In 2021, 1,152 transactions totalling Euros 91,013,274 were signed under this agreement (1,100 transactions totalling Euros 197,939,226 under this agreement in 2020).

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 regulated 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 self-employed professionals that have been affected economically by the COVID-19 health crisis.

As a result of the committed contribution, advantageous economic conditions could be applied in the transactions signed by SMEs and independent professionals using this line of financing.

The agreement, which was due to expire on 31 December 2021, was extended until 31 March 2022.

In 2021, 600 transactions totalling Euros 7,425,000 were signed under this agreement (245 transactions totalling Euros 3,062,500 in 2020).

In 2021 and 2020, movement in this balance sheet item is as follows (see note 4.f):

	Euros				
	Collective coverage of all transactions		Third-party contributions		Net
	Performing	Applied	Performing	Applied	
Balance at 31 December 2019	**14,090,208**	**(4,797,398)**	**26,620,078**	**(10,324,862)**	**25,588,025**
Third-party contributions (note 8)	-	-	12,012,000	-	12,012,000
Provision charged to the income statement (note 18.d)	4,301,731	-	-	-	4,301,731
Transfers to total write-offs (notes 8 and 11)	(1,830,624)	1,830,624	-	-	-
Technical provisions applied (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 non-performing 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	-	-	1,686,683
Impairment of doubtful receivables from members (note 8)	-	386,402	-	-	386,402
Provision for non-performing 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**
Third-party contributions (note 8)	-	-	13,006,000	-	13,006,000
Provision charged to the income statement (note 18.d)	4,391,872	-	-	-	4,391,872
Transfers to total write-offs (notes 8 and 11)	(4,732,198)	4,732,198	-	-	-
Technical provisions applied (note 18.d)	-	(6,643,370)	-	-	(6,643,370)
Impairment of doubtful receivables from members (note 8)	-	(6,215,263)	-	-	(6,215,263)
Provision for non-performing guarantees (note 8)	-	(378,570)	-	-	(378,570)
Provision for impairment of foreclosed assets (note 11)	-	(49,537)	-	-	(49,537)
Recovery of technical provisions	-	3,020,581	-	-	3,020,581
Impairment of doubtful receivables from members (note 8)	-	391,160	-	-	391,160
Provision for non-performing guarantees (note 8)	-	2,627,598	-	-	2,627,598
Provision for impairment of foreclosed assets (note 11)	-	1,823	-	-	1,823
Balance at 31 December 2021	**16,220,988**	**(6,149,102)**	**51,638,078**	**(10,324,862)**	**51,385,102**

Technical provisions applied have been allocated to the following provisions for balance sheet items at 31 December 2021 and 2020:

	Euros	
	31/12/2021	31/12/2020
Assets acquired in payment of debt (note 11)	304,986	308,959
Impairment of non-performing receivables from members (note 8)	9,860,443	8,713,687
Impairment of other receivables (note 8)	17,746	20,910
Provisions for non-performing financial and technical guarantees (note 8)	6,290,789	8,539,817
Total	**16,473,964**	**17,583,373**

The breakdown of net technical provisions at 31 December 2021 and 2020 is as follows:

	Euros	
	31/12/2021	31/12/2020
Technical provisions for collective coverage of all transactions	10,071,886	9,302,803
Technical provisions. Third-party contributions	41,313,216	28,307,216
Total	**51,385,102**	**37,610,019**

At 31 December 2021 and 2020, the minimum level of technical provisions required for collective coverage of credit risk of all transactions amounts to Euros 2,272,144 and Euros 2,130,364, 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. Less than 50% of its investments have a residual maturity of over 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. To this end, in its cash manual the Company has set a limit of 50% of investments with a maturity in excess of 12 months.

11. Non-current Assets Held for Sale

At 31 December 2021 and 2020, 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 in this account in 2021 and 2020 is as follows:

	Euros								
	Balance at 31/12/2019	Additions or charges	Releases	Sales and transfers to total write-offs	Balance at 31/12/2020	Additions or charges	Releases	Sales and transfers to total write-offs	Balance at 31/12/2021
Cost:									
Foreclosed assets	**2,198,875**	**1,283**	**-**	**(329,248)**	**1,870,911**	**35,355**	**-**	**(408,603)**	**1,497,663**
Properties acquired in payment of debt	2,198,875	1,283	-	(329,248)	1,870,911	35,355	-	(408,603)	1,497,663
Other assets acquired in payment of debt	-	-	-	-	-	-	-	-	-
Other	**55,829**	**-**	**-**	**-**	**55,829**	**-**	**-**	**(55,829)**	**0**
	2,254,704	**1,283**	**-**	**(329,248)**	**1,926,740**	**35,355**	**-**	**(464,432)**	**1,497,663**
Provision:									
Assets acquired in payment of debt (notes 8 and 10.c)	**(391,113)**	**(4,400)**	**1,264**	**85,290**	**(308,959)**	**(49,537)**	1,823	**51,687**	**(304,985)**
Properties acquired in payment of debt	(391,113)	(4,400)	1,264	85,290	(308,959)	(49,537)	1,823	51,687	(304,985)
Other assets acquired in payment of debt	-	-	-	-	-	-	-	-	-
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	(391,113)	**(4,400)**	**1,264**	**85,290**	**(308,959)**	**(49,537)**	**1,823**	**51,687**	**(304,985)**
Total	**1,863,591**	**(3,117)**	**1,264**	**(243,957)**	**1,617,781**	**(14,182)**	**1,823**	**(412,744)**	**1,192,677**

In 2021 properties acquired in payment of debt, which had been recognised at a cost of Euros 464,432 (Euros 329,248 in 2020), were sold. The related provisions totalled Euros 173,530 (Euros 261,407 in 2020), of which Euros 53,510 had been made by the Company and Euros 120,021 by CERSA (Euros 85,290 and Euros 183,855, respectively in 2020). The total selling price of these assets was Euros 295,950 (Euros 84,067 in 2020). In 2021 the sale of foreclosed assets gave rise to a gain of Euros 26,484 (in 2020 the sale of foreclosed assets did not give rise to any gain 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 2021 and 2020 are as follows:

	Euros	
	31/12/2021	31/12/2020
Invoices pending receipt	225,796	179,707
Payables for services rendered	59,768	50,713
Salaries payable	205,732	197,155
Other payables to members	227,087	239,976
Other	11,576	27,579
Public entities (note 15)	78,835	78,812
Total	**808,795**	**773,943**

13. Payables

Details at 31 December 2021 and 2020 are as follows:

	Euros	
	31/12/2021	31/12/2020
Guarantees and deposits received	10,004,789	5,988,577
Counter-guarantors	410,581	158,805
Other debts	186,495	317,291
Total	**10,601,866**	**6,464,673**

At 31 December 2020 and 2019, "Guarantees and deposits received" essentially reflect the amounts of Euros 6,927,483 and Euros 3,660,088, respectively, deposited at the Company by beneficiary members to guarantee their transactions. This item also includes the balances available through the agreements signed with the Catalan regional government to cover part of the mutual nature of certain transactions that fall within the remit of said agreements. In addition, since 2019 it has also included the amount to be applied and that committed by 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 2021 amounted to Euros 947,258 and Euros 443,664 (Euros 957,129 and Euros 128,408 at the 2020 year end).

In 2021 and 2020, "Counter-guarantors" include amounts payable to CERSA due to its participation in the recovery of bad debts written off. In 2021 it includes the counter-guarantee coverage cost which amounts to Euros 300,063.

"Other debts" 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 2021 amounts to Euros 97,356 (Euros 214,092 in 2020).

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 micro-enterprises 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 2021 is Euros 460,400 (Euros 629,400 in 2020).

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 2021 and 2020 amount to Euros 698 and Euros 3,982, 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 2021 and 2020 is as follows:

	Euros
Balance at 31 December 2020	**14,467,830**
Plus - Additions for the year	8,093,912
Less -	
Charges for the year	(6,547,505)
Transfers to provision for financial and technical guarantees	(101,370)
Balance at 31 December 2021	**15,912,866**

	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**

15. Taxation

Details of "Public entities" in the accompanying balance sheet at 31 December 2021 and 2020 are as follows:

2021	Euros	
	Assets	Liabilities
Taxation authorities, withholdings receivable	133	-
Taxation authorities, income tax receivable	97	-
Tax credits	285,071	-
Taxation authorities, other receivables	14,015	-
Social Security	-	40,089
Taxation authorities, withholdings and payments on account	-	38,745
Taxation authorities, other payables	-	-
Balance at 31 December 2021	**299,317**	**78,835**

2020	Euros	
	Assets	Liabilities
Taxation authorities, withholdings receivable	361	-
Taxation authorities, income tax receivable	2,100	-
Tax credits	285,071	-
Social Security receivables	1,578	-
Taxation authorities, other receivables	9,061	
Social Security	-	40,109
Taxation authorities, withholdings and payments on account	-	38,703
Balance at 31 December 2020	**298,171**	**78,812**

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 purposes in 2021 and 2020 is as follows:

	Euros
	2021
- Profit/(loss) for the year before tax	**-**
- Permanent differences	**162,477**
Non-deductible expenses	218
Provision for exposures under special monitoring	44,463
Surplus appropriation to technical provisions	117,796
- Temporary differences	149,529
Gross tax base	**312,006**

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

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.

A reconciliation of profit/loss before tax with the income tax expense for 2021 and 2020 is as follows:

	Euros
	2021
- Profit/(loss) for the year before tax	**-**
- Permanent differences	**162,477**
Non-deductible expenses	218
Provision for exposures under special monitoring	44,463
Surplus appropriation to technical provisions	117,796
- Temporary differences	149,529
Gross tax base	**312,006**
Tax loss	**-**
Taxable income/(tax loss)	312,006
Gross income tax expense	**-**
Unrecognised tax loss carryforwards	**(312,006)**
Prior years' income tax expense	-
Income tax expense for the year	-

	Euros
	2020
- Profit/(loss) for the year before tax	**-**
- Permanent differences	**(26,043)**
Non-deductible expenses	**-**
Provision for exposures under special monitoring	53,927
Adjustments due to difference on first-time application	(79,970)
Gross tax base	**(26,043)**
Tax loss	26,043
Taxable income/(tax loss)	-
Gross income tax expense	**-**
Unrecognised 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, a favourable ruling on income tax for 2009 being issued at the end of 2014. 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 2021, in Euros, are as follows:

Origin	Tax losses generated	Offset in prior years	Offset during the year	Unused
2009	(2,167,874)	1,686,082	312,006	(169,786)
2010	(2,704,306)	-	-	(2,704,306)
2011	(187,219)	-	-	(187,219)
2012	(469,175)	-	-	(469,175)
2013	(2,147,001)	-	-	(2,147,001)
2020	(26,042)	-	-	(26,042)

Details of available deductions at 31 December 2021 are as follows:

Item	Year	Amount
Tax incentives for certain activities (chapter IV, title VI of Law 43/95 and CIT Law)	2006	1,241
	2007	4,931
	2008	2,793
	2009	745
	2010	720
Total deductions		10,430

Deductions generated up to 2009 have been capitalised in the balance sheet at the 2021 and 2020 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 2021, the Company has open to inspection income tax for 2017 and subsequent years and for all other taxes 2018 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 2021 and 2020, and movement therein, are as follows:

	Euros						
	Balance at 31/12/2019	Arrangements	Cancellations and repayments	Balance at 31/12/2020	Arrangements	Cancellations and repayments	Balance at 31/12/2021
Financial guarantees	341,974,522	257,188,586	(124,435,351)	474,727,757	131,536,906	(135,983,113)	470,281,550
Other guarantees	50,542,407	11,198,747	(15,071,084)	46,670,071	21,456,300	(18,679,729)	49,446,641
	392,516,929	**268,387,334**	**(139,506,435)**	**521,397,827**	**152,993,206**	**(154,662,842)**	**519,728,191**

Details of financial and technical guarantees given by the Company classified by beneficiary, and movement therein in 2021 and 2020 are as follows:

	Euros						
	Balance at 31/12/2019	Arrangements	Cancellations and repayments	Balance at 31/12/2020	Arrangements	Cancellations and repayments	Balance at 31/12/2021
Credit institutions	294,945,672	159,157,097	(115,375,644)	338,727,126	120,105,202	(113,994,987)	344,837,341
Public entities	86,603,015	104,937,924	(19,568,570)	171,972,368	27,089,244	(34,923,199)	164,138,413
Other beneficiaries	10,968,242	4,292,313	(4,562,221)	10,698,334	5,798,760	(5,744,657)	10,752,436
	392,516,929	**268,387,335**	**(139,506,435)**	**521,397,827**	**152,993,206**	**(154,662,843)**	**519,728,191**

The portion of financial and technical guarantees in force at 31 December 2021 and 2020 considered as non-performing is Euros 26,185,253 and Euros 39,205,185, respectively, of which Euros 24,714,799 (Euros 37,409,592 in 2020) 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 15,443,298 (Euros 23,444,570 in 2020) has been counter-guaranteed, of which Euros 15,381,077 (Euros 23,333,156 in 2020) are financial guarantees and Euros 62,220 (Euros 111,414 in 2020) are technical or economic guarantees. The provision recognised in respect of the financial and technical guarantees in force amounts to Euros 6,290,789 (Euros 8,539,817 in 2020) (see notes 4.e and 8).

Outstanding exposures are reflected in the balance of outstanding exposure at 31 December 2021 and 2020, 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 2021, there have been net write-offs totalling Euros 34,768,572 (Euros 74,541,699, not considering effective cover provided by CERSA). At 31 December 2020, net write-offs amounted to Euros 31,397,218 (Euros 65,849,175, 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 2021 is Euros 2,115,012,231 (Euros 1,962,019,025 in 2020).

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 2021 and 2020 no member exceeded the specified maximum amount.

The Company has counter-guaranteed a total of Euros 323,507,896 of outstanding exposure at 31 December 2021 (Euros 317,401,732 in 2020). Of this amount, Euros 297,558,063 (Euros 287,782,790 in 2020) reflect financial and technical guarantees classed as performing, Euros 15,443,298 (Euros 23,444,570 in 2020) are non-performing financial and technical guarantees and Euros 10,506,536 (Euros 6,174,372 in 2020) 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 2021 and 2020, no amounts were accrued in respect of allowances for attendance at meetings of the executive committee or the board of directors. At 31 December 2021 and 2020 the Company has not extended any advances or loans to current or former members of the board of directors. At 31 December 2021 and 2020, guarantees totalling Euros 600,000 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 347,748 and Euros 343,675 in 2021 and 2020, 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 2021 is Euros 7,883 (Euros 7,037 in 2020) and has been recognised under “Other operating expenses” in the accompanying income statement.

At 31 December 2021 and 2020, the Company's board of directors comprises 10 members, seven of whom are men and three 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 2021 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 2021 and 2020 is as follows:

Geographical market	Euros	
	31/12/2021	31/12/2020
Barcelona	5,671,640	5,256,932
Tarragona	373,305	385,390
Girona	358,561	323,062
Lleida	531,644	494,732
Other	167,804	136,675
	7,102,954	**6,596,791**

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

Type of transaction	Percentage	
	31/12/2021	31/12/2020
Financial guarantees	91%	89%
Other guarantees	9%	11%
	100%	**100%**

b) Staff expenses

Details of this item in 2021 and 2020 are as follows:

	Euros	
	31/12/2021	31/12/2020
Salaries, wages and similar	1,558,951	1,513,407
Salaries and wages	1,347,591	1,307,526
Termination benefits	-	520
Other staff expenses	211,360	205,361
Employee benefits	501,793	462,404
Social Security payable	435,251	420,506
Other employee benefits	66,541	41,897
	2,060,743	**1,975,811**

The distribution, by category, of the average employee headcount in 2021 and 2020 is as follows:

	No. of employees		Gender			
			Male		Female	
	2021	2020	2021	2020	2021	2020
Directors	1	1	1	1	-	-
Management	5	5	3	3	2	2
Graduates	23	23	12	12	11	11
Administrative staff	10	9	3	3	7	6
	39	**38**	**19**	**19**	**20**	**19**

The distribution of serving employees by category at the 2021 and 2020 reporting dates is as follows:

	No. of employees		Gender			
			Male		Female	
	2021	2020	2021	2020	2021	2020
Directors	1	1	1	1	-	-
Management	5	5	3	3	2	2
Graduates	24	23	13	12	11	11
Administrative staff	10	9	3	3	7	6
	40	**38**	**20**	**19**	**20**	**19**

The Company had no employees with any disability at 31 December 2021 and 2020.

c) Other operating expenses

Details of this item in 2021 and 2020 are as follows:

	Euros	
	31/12/2021	31/12/2020
Leases (note 4.k)	289,916	285,798
External advisors	393,546	341,582
Repairs and maintenance	46,354	46,245
Advertising	135,343	87,156
Utilities	7,549	11,652
Insurance	31,025	27,713
Other services	85,727	75,673
Taxes	15,700	30,650
Fees and commissions	340,925	28,678
Total	**1,346,085**	**935,146**

In 2021 and 2020, 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:

2021

Euros	Services rendered by the auditor and related companies
Audit services	32,657
Total audit and related services	**32,657**
Tax advisory services	-
Total tax services	-
Other services	**9,100**
Total professional services	**41,757**

2020

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

The amounts detailed in the above tables include the total fees for 2021 and 2020, irrespective of the date of invoice.

d) Change in trade provisions and change in technical provisions

	Euros	
	31/12/2021	31/12/2020
Provision for financial and technical guarantees (net) (note 8)	2,249,029	(920,879)
Credit loss allowances for non-performing receivables from members (note 8)	(5,824,103)	(3,386,602)
Impairment and gains/(losses) on non-current assets held for sale (note 11)	(47,715)	15,743
Appropriation to technical provisions. Collective coverage of all transactions	(769,083)	(9,994)
Appropriation to technical provisions (note 10.c)	*(4,391,872)*	*(4,301,731)*
Recoveries of technical provisions (note 10.c)	*(3,020,581)*	*(1,686,683)*
Technical provisions applied (note 10.c)	*6,643,370*	*5,978,420*
Appropriation to technical provisions. Collective allowance or provision	-	-
Surplus collective allowance or provision	-	-
Technical provisions. Third-party contributions applied	-	-
Technical provisions applied (note 10.c)	-	-
Surplus collective technical provisions applied	-	-
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:

	2021	**2020**
	Days	**Days**
Average supplier payment period	30.37	56.34
Transactions paid ratio	7.72	10.75
Transactions payable ratio	**998.14**	**960.02**
	Amount	**Amount**
Total payments made	3,323,668	1,399,816
Total payments outstanding	77,792	70,615

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:

	31/12/2021	31/12/2020
Income from fee and commission adjustment	327,842	380,360
Income from cash and investments (note 9)	315,425	253,085
Income from late payments and recoveries	84,709	39,261
Total finance income	**727,975**	**672,705**

g) Related party balances and transactions

Details of balances vis-à-vis related parties at 31 December 2021 and 2020 and of transactions conducted therewith in the years then ended, in Euros, are as follows:

2021

	Asset balances	Liability balances	Expenses	Income
Debt securities (Institut Català de Finances)	17,852,287	-	-	29,886
Convertible debt (Instruments Financers per a Empreses Innovadores)	-	186,495	(698)	-
Office rental (Institut Català de Finances)	-	-	(267,374)	-
Deposits received (Generalitat de Catalunya)	-	2,821,723	-	-
Revenue from services rendered (Institut Català de Finances)	-	-	-	-
Total	**17,852,287**	**3,008,218**	**(268,072)**	**29,886**

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 rental (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**

19. Events after the Reporting Period

Banco de España has published Circular 6/2021 of 22 December 2021, which amends Circular 4/2017 of 27 November 2017 to credit institutions on public and confidential financial reporting rules and financial statement templates, and Circular 4/2019 of 26 November 2019 to credit institutions on public and confidential financial reporting rules and financial statement templates. The amendments that the Circular introduces to Circular 4/2017 of 27 November 2017 include the following:

- The EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06) with the objective, among others, of improving practices, processes and procedures in relation to credit granting.

- The amendment of Annex 9 of Circular 4/2017 of 27 November 2017 to update the alternative solutions for collective estimates of allowances and provisions for credit risk loss and the discounts on the benchmark value of assets foreclosed or received in payment of debt.

The aforementioned amendments maintain the convergence of Spanish accounting standards for financial institutions with the IFRS-EU framework, while subject to the provisions of the Code of Commerce, and at the same time maintains the alignment and avoids overlaps with the aforementioned European standards and guidelines. This regulation will be applicable from June 2022 onwards and no significant impacts are expected in this respect.

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

Appendix: Financial instruments

a) Financial assets:

Classification	Equity instruments		Debt securities		Term deposits in credit institutions		Cash		Trade and other receivables		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Financial assets at amortised cost	-	-	70,173,831	48,480,739	3,000,000	7,000,000	9,267,132	18,920,167	40,772,530	31,184,109	**123,213,493**	**105,585,015**
Financial assets carried at cost	329	329	-	-	-	-	-	-	-	-	**329**	**329**

b) Financial liabilities:

Classification	Trade and other payables		Payables		Liabilities associated with financial and technical guarantees		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Financial liabilities at amortised cost	808,795	773,943	10,601,866	6,464,673	15,912,866	14,467,830	**27,323,527**	**21,706,446**

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

Directors' Report for the year ended 31 December 2021

Activity

In 2021, the Company arranged 2,444 financial and technical guarantees for an amount of Euros 176,991,971 during the course of its activity (including transaction novations), thus enabling 1,538 SMEs and self-employed professionals to access financing.

Outstanding exposure at 31 December 2021 is Euros 519,728,191, which is in line with the figure for the previous year, a 12-month period that saw greater activity as a result of the COVID-19 facilities. Those facilities emerged during the year in response to the financing requirements of SMEs and self-employed professionals due to the economic crisis triggered by the COVID-19 health emergency, which persisted during the first half of 2021. Exposure has increased by 33% with respect to 2019, the year before the widespread outbreak of the pandemic. The average amount of the financial and technical guarantees arranged in 2021 is Euros 72,419. In 2021, 247 newly-incorporated companies received guarantees, compared with 229 in the prior year. Guarantees granted in 2021 contributed to preserving, or created, 25,344 jobs, compared with 37,680 in the previous year.

The COVID-19 facilities that were launched in 2020 remained in place in 2021. Moreover, transactions arranged under the “Liquiditat COVID” facility with a value in the region of Euros 205 million saw their terms and interest-free periods amended in 2021. These amendments have provided SMEs and self-employed professionals with an additional interest-free period of up to 12 months and a 60-month extension to their financing terms with respect to the initially agreed periods.

Furthermore, the signing of agreements with financial institutions has been ongoing, as has 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 2021, in Euros, are provided below.

By guaranteed sector:

	Number	Amount	%
Primary sector	216	16,463,976	3%
Industrial sector	1,481	110,294,282	21%
Construction sector	604	41,617,271	8%
Tertiary sector	6,158	351,352,661	68%
Total	**8,459**	**519,728,191**	**100%**

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

	Number	Amount	%
Banks	3,951	334,682,742	64%
Other financial institutions	114	8,654,534	2%
Suppliers	99	8,862,709	2%
Public entities	4,236	165,156,106	32%
Other	59	2,372,101	0%
Total	**8,459**	**519,728,191**	**100%**

By type of guarantees received:

	Number	Amount	%
Collateral	955	77,971,603	15%
Mortgage	144	14,736,643	3%
Other collateral	811	63,234,960	12%
Personal	3,762	255,491,190	49%
Unsecured	3,742	186,265,399	36%
Total	**8,459**	**519,728,191**	**100%**

Default rates:

	Total	Net of counter-guaranteed amounts
Outstanding exposure	519,728,191	196,220,295
Secured members in arrears (SMA)	34,746,034	13,993,601
Non-performing exposures	26,185,253	10,741,955
Member bad debts written off	46,236,642	22,496,530
Ratio: SMA / Outstanding exposure + SMA	6.27%	6.66%
Ratio: Non-performing exposure / Outstanding exposure	5.04%	5.47%

Capital

Patron members' capital, which corresponds to public sector capital, has varied in 2021, 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, which was offset by the capital increase provided by Institut Català de les Empreses Culturals in an amount of Euros 165,000. In addition, Caja Laboral Popular, Coop. de crédito has entered the Company's capital in 2021. The net increase in patron members' capital amounted to Euros 60,800, bringing total patron members' capital in 2021 to Euros 17,205,600, comprised of 86,028 shares of Euros 200 par value each. The number of patron members is 28. Capital corresponding to patron members at 31 December 2021 represents 45.41% of total capital, compared to 45.86% at 31 December 2020. Capital of participating members has varied as follows:

	Equity investments	Capital
31 December 2020	**101,335**	**20,267,000**
Acceptance of members	8,106	1,621,200
Member capital increases	5,708	1,141,600
Member departures	(6,243)	(1,248,600)
Member capital reductions	(5,503)	(1,100,600)
31 December 2021	**103,403**	**20,680,600**

Compliance with ratios

At 31 December 2021, 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 2021:

- The surplus technical provision amounted to Euros 51,385,102.
- Surplus own funds totalled Euros 58,672,154.
- 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 2021 exceed the statutory 75%.

Corporate governance

Through its Joint Audit and Control Committee (hereinafter, CMAiC), Avalis supervises the effectiveness of the Company's internal control, internal audit and risk control. In addition, it supervises the preparation of the regulated financial information and ensures the suitability and continuous assessment of the appointed board members and directors, and executives with similar functions, as well as other persons holding key positions in the Company's day-to-day activity. With respect to changes in the board of directors, with effect from 8 February 2021, Mr. Josep Ramon Sanromá Celma stepped down as board members of the INSTITUT CATALÁ DE FINANCES and is replaced by Mr. Victor Guardiola Flores. With effect from 31 May 2021 Mr. Xavier Cañadó Fernández and GESTIÓN Y REPRESENTACIÓN GLOBAL, S.L. (100% owned by BANKIA), represented by Mr Miguel Capdevila Mulet, stepped down as board members. On that same date Ms. Elisenda García Riera was appointed as a board member of Avalis. Lastly, on 3 November 2021, the board member INSTITUT CATALÀ DE FINANCES appointed Mr. Jordi Òliva Ritort as its new representative to replace Mr. Víctor Guardiola Flores.

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 2021.

The Company did not acquire any own shares in 2021, nor does it hold any such investments.

Note 18.e) to the annual accounts provides information on the average supplier payment period.

Note 19 to the annual accounts provides information on events after the reporting period.

Outlook for 2022

With the completion of the 2019-2021 strategic plan and after assessing fulfilment of the associated goals, the board of directors proceeded to approve the new strategic plan for the 2022-2024 period. This strategic plan is built on four key priorities:

- ✓ Growth of the business through expansion of outstanding exposure
- ✓ Process improvements to attain a similar level of efficiency
- ✓ Focus on risk and recovery monitoring
- ✓ Ensuring an adequate level of regulatory control and compliance mechanisms at any given time

The 2022-2024 strategic plan envisages an increase in activity of 18% in 2022 with respect to 2021. The Company plans to grow its investment activity thanks to the collaboration agreements entered into with the Catalan regional government's "Departament d'Economia i Hisenda" and the agreement with CERSA to execute the programme to support industrial entrepreneurship that forms part of the Recovery and Resilience Plan. Both agreements represent a significant reduction in financing costs, which in the case of the CERSA agreement can be subsidised by up to 100%. Outstanding exposure is expected to rise slightly.

In 2022 the yearly contribution from the Catalan regional government is expected to be received in an amount of Euros 7,000,000.

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 duration of the pandemic and the severe knock-on impact on certain activity sectors, as well as the end of the interest-free periods tied to the COVID financing facilities.