

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

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

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INDEPENDENT AUDITOR'S REPORT

To the Management of Albanian Development Guarantee Foundation

Opinion

We have audited the financial statements of Albanian Development Guarantee Foundation ("the Foundation"), which comprise the statement of financial position as at December 31, 2021, and the statement of income and retained funds, statement of changes in fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material aspects, the financial position of the Foundation as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Foundation in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") and with the ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the Other Information. Other Information comprises the information provided in the Performance Activity Report, prepared by the Management in accordance with Article 22 of the Law. No. 25/2018 date January 19, 2019 "On accounting and financial statements", amended, but does not include the financial statements and our auditors' report thereon. The Performance Activity Report is expected to be made available after the date of this auditors' report. Our opinion on the financial statements does not cover the other information and we do not convey any conclusion that provides assurance about this information.

In relation to the audit of the financial statements, statements we have the responsibility to read other information, identified as above when they are available to us and assess whether this information has material inaccuracy with financial statements or the acknowledgement we have received during audit or otherwise, if they appear to be material misstatement. After reading of the Performance Activity Report, if we conclude that there is material misstatement, we are required to communicate the issue with those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

We communicate with those charged with governance 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.

Deloitte Audit Albania Shpk.

Deloitte Audit Albania Shpk

Rruga e Kavajës, Ish parku i mallrave, Kompleksi Delijorgji, Godina L, Kati 1, 2 dhe 3
Tirana, Albania

Identification number (NUIS): L41709002H



Enida Cara
Statutory Auditor
Engagement Partner



May 24, 2022
Tirana, Albania

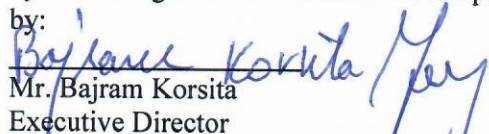
ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Statement of financial position as at December 31, 2021

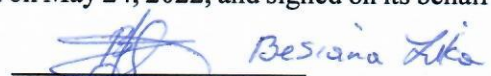
(Amounts in ALL)

	Note	As at December 31, 2021	As at December 31, 2020
ASSETS			
Non - current assets			
Property and equipment	7	2,667,866	2,287,620
Intangible assets	8	357,979	477,306
Right of Use Assets	9	18,380,625	15,097,459
Investments held to collect contractual cash flows	10	5,071,671,288	4,108,308,860
Term Deposit	11	-	61,529,031
Prepayments		-	432,950
Total non-current assets		5,093,077,759	4,188,133,226
Current assets			
Investments held to collect contractual cash flows	10	166,718,337	-
Accounts receivable	12	15,715,494	8,466,968
Term Deposits	11	124,386,985	61,852,954
Cash on hand and at banks	13	595,569,877	973,449,996
Total current assets		902,390,693	1,043,769,918
TOTAL ASSETS		5,995,468,452	5,231,903,144
LIABILITIES AND EQUITY			
EQUITY			
Fund balance		4,946,233,332	4,113,448,116
Retained funds		104,063,233	(33,074,160)
Net income of the year		73,649,562	137,137,393
Total equity		5,123,946,126	4,217,511,349
Non - current liabilities			
Deferred revenue	14	734,676,604	911,839,811
Lease liability	15	14,774,479	13,079,973
Total non-current liabilities		749,402,476	924,919,784
Current liabilities			
Deferred revenue	14	7,881,731	6,979,496
Lease liability	15	3,438,133	2,388,962
Provision fund for financial guarantees	22	108,992,462	79,018,551
Other liabilities	16	1,758,917	1,085,002
Total current liabilities		122,119,849	89,472,011
TOTAL LIABILITIES AND EQUITY		5,995,468,452	5,231,903,144

These financial statements of the Foundation as at and for the year ended December 31, 2021 were approved by the Management of Albanian Development Guarantee Foundation on May 24, 2022, and signed on its behalf by:


Mr. Bajram Korsita
Executive Director




Ms. Besiana Lika
Chief Financial Officer & Risk Manager

The statement of financial position has to be read in conjunction with the notes set out in pages 8 to 31, which are forming part of these financial statements.

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Statement of income and retained funds for the year ended December 31, 2021

(Amounts in ALL)

The statement of financial position has to be read in conjunction with the notes set out in pages 8 to 31, which are forming part of these financial statements.

	Note	For the year ended December 31, 2021	For the year ended December 31, 2020
Income from general activity	17	34,218,679	22,133,146
Income from donation	18	143,216	189,051
Other financial income	19	190,340,623	146,090,471
Total of operating income		224,702,518	168,412,668
Staff Costs	20	(15,326,356)	(13,605,456)
Depreciation and amortization	7, 8, 9	(4,446,238)	(3,150,950)
Other operating expenses	21	(23,215,729)	(14,248,223)
Impairment charge on financial guarantees	22	(29,973,911)	(20,197,597)
Impairment charge on financial instruments	10	(14,099,597)	(17,153,904)
Total expenses		(87,061,830)	(68,356,130)
Operating income / (loss)		137,640,687	100,056,538
Financial expense		(566,213)	(504,961)
Net (losses)/income from foreign exchange translations	23	(63,424,912)	37,585,816
Net financial (expense)/income		(63,991,125)	37,080,855
Net income		73,649,562	137,137,393
Other comprehensive income / (expense)		-	-
Total Comprehensive income for the year		73,649,562	137,137,393

The statement of income and retained funds has to be read in conjunction with the notes set out in pages 8 to 31, which are forming part of these financial statements.

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Statement of fund balance as at December 31, 2021

(Amounts in ALL)

	Fund balance	Retained fund / (losses)	Total
Balance at January 1, 2020	4,113,448,116	(33,074,159)	4,080,373,957
Contribution from founder	-	-	-
Net income for the year	-	137,137,393	137,137,393
Comprehensive income for the year	-	-	-
Total Comprehensive income for the year	-	137,137,393	137,137,393
Balance at December 31, 2020	4,113,448,116	104,063,233	4,217,511,349
Contribution from founder	832,785,216	-	832,785,216
Net income for the year	-	73,649,562	73,649,562
Comprehensive income for the year	-	-	-
Total Comprehensive income for the year	-	73,649,562	73,649,562
Balance at December 31, 2021	4,946,233,332	177,712,796	5,123,946,127

The statement of changes in fund balance has to be read in conjunction with the notes set out in pages 8 to 31, which are forming part of these financial statements.

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Statement of cash flow for the year ended December 31, 2021

(Amounts in ALL)

	Note	For the year ended December 31, 2021	For the year ended December 31, 2020
Cash flows from operating activities			
Net income for the year		73,649,562	137,137,393
<i>Adjustments for:</i>			
Depreciation and amortization	8,9	4,446,238	3,150,950
Provision expense	10,22	44,073,508	37,351,502
Exchange rate differences		3,247,235	(16,028)
Interest Expense		566,213	504,961
Interest income		(192,872,083)	(150,967,833)
Operating loss before changes in working capital		(66,889,327)	27,160,945
<i>Changes in working capital:</i>			
(Increase)/decrease in accounts receivable		(7,248,526)	(2,291,820)
Decrease in restricted cash to guarantees		-	-
Increase in deferred revenue		8,003,714	7,072,487
Decrease/(increase) in prepayments		432,950	86,465
Increase/(decrease) in other liabilities		673,916	(121,859)
Interest received from premium		7,211,016	(2,063,871)
Interest received		170,733,831	131,297,154
Net cash flows from operating activities		112,917,574	161,139,501
Cash flows from investing activities			
Purchase of fixed assets		(941,389)	(505,068)
Investment in treasury bills		-	-
Investment in treasury bonds		(1,326,970,000)	(1,061,000,000)
Investment in term deposit		(483,183,824)	(579,530,000)
Proceeds from maturity of term deposits		518,680,006	915,304,613
Proceeds from maturity of Treasury bills		200,000,000	227,000,000
Cash used in investing activities		(1,092,415,207)	(498,730,455)
Cash flow from financing activities			
Grants received		652,104,000	836,368,687
Repayment of lease		(4,871,471)	(2,545,883)
Contribution from founder		832,785,216	-
Grand Capitalization		(836,368,687)	-
Cash generated from financing activities		643,649,058	833,822,804
Net (decrease)/increase in cash and cash equivalents		(335,848,575)	496,231,850
Cash and cash equivalents at the beginning of the period		516,274,170	20,026,292
Exchange rate effect on cash and cash equivalent		(3,247,235)	16,028
Cash and cash equivalents at the end of the year	12.1	177,178,359	516,274,170

The statement of cash flows has to be read in conjunction with the notes set out in pages 8 to 31, which are forming part of these financial statements.

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

(Amounts in ALL, unless otherwise stated)

1. INTRODUCTION

Albanian Development Guarantee Foundation (the “Foundation” or “ADGF”), formerly known as Rural Credit Guarantee Foundation (“RCGF”), is a non-governmental non-profit organization, established by GFA Consulting Group GMBH, a German based Foundation, as the implementer of the grant fund. The Foundation was registered with the registration number L52004452B, at the Judicial District Court of Tirana on July 8, 2015 and the name change (from “RCGF” to “ADGF”) was approved by the court on 06 December 2021. The name change came in the context of expanding the scope of coverage for the guaranteed activities in order to be in line with the mission and vision of the foundation.

Albanian Development Guarantee Foundation was established pursuant to the provisions of Law No. 7850 dated June 29, 1994 “On the Civil Code of the Republic of Albania” and Law No. 8788 dated Jun 5, 2001 “On non-for-profit Organizations”.

The objective of the Foundation is to encourage banks and non-bank financial institutions to provide financial services to micro, small and medium enterprises (‘MSME’) in various sectors of economy on a sustained basis to enable them to grow and become more competitive and to create new jobs. The Foundation collaborates with banks and non-bank financial institutions (‘NBFIs’) to offer partial guarantees for loans extended to micro, small and medium businesses and to enhance their finance credit technology, developing special products and procedures.

The highest level of governance is the Board of Directors as follows:

John P. Khoury – Chairman

Bahrije Dibra – Member; and

Lauresha Grezda – Member.

The Authorized Representative of the Foundation is the Executive Director, Mr. Bajram Korsita.

On December 31, 2021, the Foundation had 5 full time employees (December 31, 2020: 4 full time employees and 1 part time employee).

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Basis of preparation

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) that were issued by the International Accounting Standards Board.

These financial statements are presented in Albanian ALL (“Lek”), which is the Foundation’s functional and presentation currency.

2.2 Comparative balances

Some comparative figures in the statement of financial position and other respective notes in the financial statements are reclassified or restated as a result of changes in classification or to present a better result.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Application of new and revised international financial reporting standards (IFRS)

(a) Standards and Interpretations effective in the current period

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

- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts” and IFRS 16 “Leases” - Interest Rate Benchmark Reform — Phase 2** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 16 “Leases” - Covid-19-Related Rent Concessions** (effective for annual periods beginning on or after 1 June 2020. Earlier application was permitted),
- **Amendments to IFRS 4 “Insurance Contracts” – Extension of the Temporary Exemption from Applying IFRS 9** (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023).
- **Impact of the initial application of COVID-19-Related Rent Concessions beyond 30 June 2021—Amendment to IFRS 16**

The adoption of these changes in existing standards has not led to any material change in the Foundation's financial statements.

(b) Standards and Interpretations in issue, not yet adopted

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

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

- **IFRS 17 Insurance Contracts** - Effective for annual reporting periods beginning on or after 1 January 2023
- **Amendments to IFRS 16 “Leases” - Covid-19-Related Rent Concessions beyond 30 June 2021** (effective for annual reporting periods beginning on or after 1 April 2021. Earlier application permitted, including in financial statements not yet authorised for issue at the date the amendment is issued.)
- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures-Effective date not been set yet**
- **Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current- Effective date is beginning on or after 1 January 2023**
- **Amendments to IFRS 3 Business Combinations—Reference to the Conceptual Framework-Effective beginning on or after 1 January 2022- with early application permitted**
- **Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use-Effective date is beginning on or after 1 January 2022, with early application permitted**
- **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets—Onerous Contracts—Cost of Fulfilling a Contract- Effective date is beginning on or after 1 January 2022, with early application permitted**

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)**2.3 Application of new and revised international financial reporting standards (IFRS) (continued)****(b) Standards and Interpretations in issue, not yet adopted (continued)**

- **Annual Improvements to IFRS Standards 2018-2020**—Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture- Effective date is beginning on or after 1 January 2022, with early application permitted
- **Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements**—Disclosure of Accounting Policies- The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively.
- **Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**—Definition of Accounting Estimates. The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted
- **Amendments to IAS 12 Income Taxes**—Deferred Tax related to Assets and Liabilities arising from a Single Transaction- effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted

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

3. USE OF ESTIMATES AND JUDGMENTS

The preparation of the financial statements in accordance with IFRS requires for the management body to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in Notes 6.

Sensitive analysis

Management has considered a standard scenario that include increase or decrease of 10% in the probability of default (PD) and expected credit loss (ECL). The sensitivity analyse of Foundation' possible losses as a result of increase or decrease of credit loss indicators is presented in the table below:

	PD and ECL	
	+10%	-10%
Impairment As at December 31, 2021 for financial assets	5,101,756	(5,101,756)
Impairment As at December 31, 2021 for financial liabilities	1,879,315	(8,659,559)
	PD and ECL	
	+10%	-10%
Impairment As at December 31, 2020 for financial assets	3,691,797	(3,691,797)
Impairment As at December 31, 2020 for financial liabilities	7,901,855	(7,901,855)

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

(Amounts in ALL, unless otherwise stated)

4. GOING CONCERN

Financial Statements of the Foundation have been prepared based on the going concern principle, which is the assumption that the Foundation will remain in business for the foreseeable future based on its objectives for issuance of financial guarantees.

On March 11, 2020, the World Health Organization announced a pandemic situation due to the global emergency caused by the outbreak of COVID 19. In response to the pandemic, the Albanian Government authorities implemented numerous measures to limit the spread and impact of COVID-19, such as the prohibition and restriction of travel, the quarantine of infected persons, as well as the imposition of restrictions on business activity, until their closure. The above measures were gradually eased during 2020 and 2021. These measures, among others, have limited economic activity in Albania and have negatively affected it. This impact may continue to have a negative impact on businesses, market participants, banks, both in Albania and globally for an unknown period of time. However, at the date of preparation of these financial statements, the Foundation based on the above and also in accordance with the approved financial plan in the coming years, expects to increase its operational activity and has projected to achieve a positive result in the next year and to continues in a going concern basis.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss. The exchange rates used for conversion of the statement of financial position items denominated in foreign currencies are as follows:

	December 31, 2021	December 31, 2020
EUR/ALL	120.76	123.70

5.2 Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in the income statement as incurred.

Depreciation commences when the assets are available for use. Depreciation is charged to the profit or loss on a reducing basis using the rates below:

Category of assets	2021	2020
Furniture office and Fittings	20%	20%
Computers equipment	25%	25%
Software	25%	25%

*(Amounts in ALL, unless otherwise stated)***5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****5.2 Intangible assets (continued)**

Intangible assets, which entirely consist of software, are stated at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is charged using the reducing balance method. The amortization rate used for the intangible assets is 25%. The estimated useful life and amortization method are reviewed at the end of each annual reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

5.3 IFRS 16 Leases

The Foundation assesses whether a contract is or contains a lease, at inception of the contract. The Foundation recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Foundation recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Foundation uses its incremental borrowing rate. Generally, the Foundation uses its incremental borrowing rate as the discount rate.

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the separate statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Foundation remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**5.3 IFRS 16 Leases (continued)**

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the separate statement of financial position.

The Foundation applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the “Property, Plant and Equipment” policy.

5.4 Financial assets and financial liabilities*(i) Recognition*

The Foundation initially recognizes financial receivables, deposits and investment accounts on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Foundation commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Foundation becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

See accounting policies 3.5; 3.6; 3.8 and 3.9.

(iii) Derecognition

The Foundation derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Foundation neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Foundation is recognized as a separate asset or liability in the statement of financial position.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Foundation may enter into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example repurchase transactions.

In transactions in which the Foundation neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Foundation continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Foundation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

*(Amounts in ALL, unless otherwise stated)***5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****5.4 Financial assets and financial liabilities (continued)***(iv) Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Foundation has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Foundation's trading activity.

(v) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Foundation has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Foundation measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Foundation uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

If the Foundation determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Foundation measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

(vii) Identification and measurement of impairment

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.5 Cash and cash equivalents

Cash and cash equivalents include cash in hand and balance with Foundations.

5.6 Investments held to collect contractual cash flows

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, adding incremental direct transaction costs. Foundation's financial assets are classified as held to collect because considering their business model they are held in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

5.7 Fund Balance

Fund Balance consists of the fair value of monetary considerations contributed by the founder.

5.8 Deferred revenues

Deferred revenues represent grants received from GFA, Ministry of Agriculture and KFW. They are initially recorded as deferred revenues.

The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

5.9 Accounts and other payables

Accounts and other payables are initially recognized at fair value and subsequently at their amortized cost, using the effective interest method.

5.10 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the term of a debt instrument. Such financial guarantees are given to banks and NFBI's on behalf of micro, small and medium businesses.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- the amount of the loss allowance (calculated in accordance with IFRS 9 requirements on expected credit loss model); and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15

5.11 Provision for guarantees

The Foundation provides guarantees for customers through banking institutions on risk sharing basis and with maximum ceiling EUR 500,000 or equivalent in ALL 60,380,000 and guarantees the commercial borrowings of micro financing institutions from local banks under separate guarantees. A provision on financial guarantee contracts is recognized when a specified debtor fails to make payments when due, in accordance with the term of a debt instrument.

The Foundation assesses on a forward-looking basis the expected credit loss associated with the exposure arising from financial guarantee contracts. The Foundation recognizes a loss allowance for such losses at each reporting date.

*(Amounts in ALL, unless otherwise stated)***5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****5.12 Grants income**

A grant is recognized in the statement of financial position initially as deferred income when there is reasonable assurance that it will be received and that the Foundation will comply with the conditions attached to it. Grants that compensate the Foundation for expenses incurred are recognized as revenue in the profit and loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Foundation for the cost of an asset are recognized in the profit and loss as revenue on a systematic basis over the useful life of the asset.

Management estimates that grants received are related to operational cost of the Foundation and did not cover provision and foreign exchange effect.

5.13 Income from loan upfront fee

Upfront fee of loans is recognized as revenues on a time proportion basis over the commitment period. The exemption may be only in a case of a specific lending arrangement will be entered into.

5.14 Interest income from loan guarantees

The income from loan guarantees interest is recognized on time proportion basis that takes into account the effective interest rate method.

5.15 Operating expenses

Operating expenses are recognized in the profit or loss upon utilization of the service.

5.16 Employee Benefits

Obligations for contributions to defined contribution pension plans are recognized as an expense in the Statement of profit or loss and other comprehensive income when they are due. The Foundation makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

On January 12, 2018, the Foundation signed an agreement with Sigal Uniq Group Austria related with the membership in the voluntary pension fund, where the Foundation contributes together with its employees for voluntary social contributions. On November 1, 2019, the Foundation signed a contract with Sigal Uniq Group Austria for Private Health Insurance for the employees, where the Foundation pays an annual insurance premium. The Private Health Insurance policy reimburses the medical expenses under a special list of benefits and an annual maximum limit with the coverage zone: private hospitals in Albania and Europe.

5.17 Income tax expense

Albanian Development Guarantee Foundation was found as a non-profit organization and therefore, under the prevailing provisions of Albania on non-profit organization, it is exempt from tax on profit. The Foundation is also exempt from withholding tax on income and banks do not withhold this tax from the Foundation.

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT****6.1 Credit risk**

Credit risk is the risk of financial loss to the Foundation if a customer or counterparty to financial instruments fails to meet its contractual obligations, and arises principally from the Foundation's deposits with banks and cash and cash equivalents.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable Foundations.

The Foundation's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position, as stated in the following table (amounts in ALL):

<i>Classes of financial assets- carrying amounts:</i>	As at December 31, 2021	As at December 31, 2020
Cash on hand and at banks	177,178,359	516,274,170
Term deposits – BKT	358,391,518	457,175,826
Term deposits – OTP	35,000,000	-
Term deposit - Union Bank	124,386,985	123,381,985
Term deposit – Credins Bank	25,000,000	-
Investments held to collect contractual cash flows	5,238,389,626	4,108,308,860
Total	5,958,346,488	5,205,140,841

The table below presents credit risk exposure by counterparty (country) and related delinquency or impairment, if any:

Investment held to collect contractual cash flows	Government of Albania	Total
<i>As of December 31, 2021</i>		
Neither past due nor impaired	-	-
Not past due but impaired as per requirements of IFRS 9	5,284,468,292	5,284,468,292
Impairment	(46,078,667)	(46,078,667)
Total	5,238,389,626	5,238,389,626
<i>As of December 31, 2020</i>		
Neither past due nor impaired	-	-
Not past due but impaired as per requirements of IFRS 9	4,144,008,420	4,144,008,420
Impairment	(35,699,560)	(35,699,560)
Total	4,108,308,860	4,108,308,860
Cash and Cash equivalents	Second Tier Banks	Total
<i>As of December 31, 2021</i>		
Neither past due nor impaired	177,178,359	177,178,359
Not past due but impaired as per requirements of IFRS 9	422,216,889	422,216,889
Impairment	(3,825,371)	(3,825,371)
Total	595,569,877	595,569,877
<i>As of December 31, 2020</i>		
Neither past due nor impaired	516,274,170	516,274,170
Not past due but impaired as per requirements of IFRS 9	-	-
Total	516,274,170	516,274,170

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.1 Credit risk (continued)**

Term Deposits	Second Tier Banks	Total
<i>As of December 31, 2021</i>		
Neither past due nor impaired	-	-
Not past due but impaired as per requirements of IFRS 9	125,500,511	125,500,511
Impairment	(1,113,526)	(1,113,526)
Total	124,386,985	124,386,985

<i>As of December 31, 2020</i>		
Neither past due nor impaired	-	-
Not past due but impaired as per requirements of IFRS 9	581,776,218	581,776,218
Impairment	(1,218,407)	(1,218,407)
Total	580,557,811	580,557,811

The Foundation uses credit ratings published from international ratings agencies for assessment of probabilities of default of financial assets and liabilities as detailed below:

Rating according to Moody's for 2021	Institution	Probability of default
B+	Government of Albania	1.93%
B+	Bank of Albania	1.93%
No rating published	Credins Bank	-
No rating published	National Commercial Bank	-

Rating according to Moody's 2020	Institution	Probability of default
B+	Government of Albania	1.93%
B+	Bank of Albania	1.93%
No rating published	Credins Bank	-
No rating published	National Commercial Bank	-

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.2 Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and availability of funds necessary to meet the Foundation's obligations when they come due.

The following tables present the contractual cash flows of financial liabilities and financial assets of the Foundation based on the maturity as at December 31, 2021 and December 31, 2020.

December 31, 2021	Carrying Amounts	Up to 3 months	3-12 months	1-10 years
Financial assets				
Cash and cash equivalents	595,569,877	595,569,877	-	-
Deposits	124,386,985	124,386,985	-	-
Accounts receivable	15,715,494	15,715,494	-	-
Investments held to collect contractual cash flows	5,238,389,626	59,839,731	106,878,606	5,071,671,288
	5,974,061,981	795,512,087	106,878,606	5,071,671,288
Financial liabilities				
Other liabilities	1,758,917	1,758,917		
Lease Liability	18,212,613	-	3,438,133	14,774,479
Contingent liabilities	2,791,932,142		2,791,932,142	
	2,811,903,671	1,758,917	2,795,370,275	14,774,479
Liquidity gap	3,162,158,310	793,753,170	(2,688,491,669)	5,056,896,809
Liquidity requirements to support calls under financial guarantees are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Foundation does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to utilize financial guarantees as included in the above maturity table from 3 to 12 months does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.				
December 31, 2020	Carrying Amounts	Up to 3 months	3-12 months	1-10 years
Financial assets				
Cash and cash equivalents	516,274,170	516,274,170	-	-
Short Term Deposit	457,175,826	457,175,826	-	-
Accounts receivable	8,466,967	8,466,968		
Investments held to collect contractual cash flows	4,108,308,860	-	200,712,165	3,907,596,695
	5,090,225,823	981,916,963	200,712,165	3,907,596,695
Financial liabilities				
Other liabilities	1,085,001	1,085,001		
Lease Liability	15,468,935	-	2,394,756	13,074,179
Contingent liabilities	1,896,022,643		1,896,022,643	
	1,912,576,579	1,085,001	1,898,417,399	13,074,179
Liquidity gap	3,177,649,244	980,831,962	(1,697,705,234)	3,894,522,516

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***7. PROPERTY AND EQUIPMENT**

Property and equipment as at December 31, 2021 and December 31, 2020 is composed as follows:

	Furniture office and Fittings	Computers equipment	Leasehold improvements	Total
<i>Cost</i>				
As at December 31, 2019	1,247,033	1,405,438	706,911	3,359,382
Additions	110,568	394,500	-	505,068
As at December 31, 2020	1,357,601	1,799,938	706,911	3,864,450
Additions	35,000	126,000	780,389	941,389
As at December 31, 2021	1,392,601	1,925,938	1,487,300	4,805,839
<i>Accumulated Depreciation</i>				
As at December 31, 2019	(448,757)	(504,870)	-	(953,627)
Depreciation for the year	(179,867)	(295,738)	(147,597)	(623,202)
As at December 31, 2020	(628,624)	(800,608)	(147,597)	(1,576,829)
Charge of the year	(147,060)	(249,918)	(164,164)	(561,142)
As at December 31, 2021	(775,684)	(1,050,526)	(311,761)	(2,137,971)
<i>Net book value</i>				
As at December 31, 2020	728,977	999,330	559,314	2,287,621
As at December 31, 2021	616,917	875,412	1,175,539	2,667,868

No property, plant or equipment is pledged as collateral to third party financing as at December 31, 2021 and 2020.

8. INTANGIBLE ASSETS

Intangible assets as at December 31, 2021 and December 31, 2020 is composed as follows:

	Software	Total
<i>Cost</i>		
As at December 31, 2019	1,616,200	1,616,200
Additions	-	-
As at December 31, 2020	1,616,200	1,616,200
Additions	-	-
As at December 31, 2021	1,616,200	1,616,200
<i>Accumulated Depreciation</i>		
As at December 31, 2019	(979,792)	(979,792)
Charge of the year	(159,102)	(159,102)
As at December 31, 2020	(1,138,894)	(1,138,894)
Charge of the year	(119,327)	(119,327)
As at December 31, 2021	(1,258,221)	(1,258,221)
<i>Net book value</i>		
As at December 31, 2020	477,306	477,306
As at December 31, 2021	357,979	357,979

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***9. RIGHT OF USE ASSETS**

The Right of Use Assets as at December 31, 2021 and December 31, 2020 is composed as follows:

	Right of Use	Total
<i>Cost</i>		
As at January 1, 2020	19,081,510	19,081,510
Additions	-	-
As at December 31, 2020	19,081,510	19,081,510
Additions	7,048,935	7,048,935
As at December 31, 2021	26,130,446	26,130,446
<i>Accumulated Depreciation</i>		
As at January 1, 2020	(1,467,809)	(1,467,809)
Charge of the year	(2,516,243)	(2,516,243)
As at December 31, 2020	(3,984,052)	(3,984,052)
Charge of the year	(3,765,769)	(3,765,769)
As at December 31, 2021	(7,749,820)	(7,749,820)
<i>Net book value</i>		
As at December 31, 2020	15,097,459	15,097,459
As at December 31, 2021	18,380,625	18,380,625

10. INVESTMENTS HELD TO COLLECT CONTRACTUAL CASH FLOWS**Treasury Bonds**

Investments on treasury bonds as at December 31, 2021 and December 31, 2020 are comprised as follows:

	As at December 31, 2021	As at December 31, 2020
Treasury Bonds	2,252,700,000	1,548,500,000
Treasury Bonds – Eurobonds	2,958,620,000	2,535,850,000
Discount – Bonds	(5,706,476)	(6,911,978)
Premium – Bonds	1,922,109	2,206,537
Discount Eurobonds	(3,005,369)	-
Premium – Eurobonds	9,219,124	11,771,244
Accrued interest – Bonds	41,931,704	24,907,540
Accrued interest – Eurobonds	28,787,200	27,685,077
Total	5,284,468,292	4,144,008,420
Allowance for impairment	(46,078,667)	(35,699,560)
Total carrying amount	5,238,389,626	4,108,308,860

During 2021 the Foundation purchased new investments in T-Bonds in Lek and Euro. The new Treasury Bonds have fix-rated coupon 5.38% and 5% to be matured in 10 years; fix-rated coupon 4.25% to be matured in 7 years, fix-rated coupon 2.8% to be matured in 3 years and fix-rated coupon 2.65% to be matured in 2 years. Two other new Bond investments are made in EUR (Eurobond), with nominal value of EUR 3,000,000, and EUR 1,000,000, both with fix-rated coupon 3.5% to be matured in 10 years.

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

(Amounts in ALL, unless otherwise stated)

10. INVESTMENTS HELD TO COLLECT CONTRACTUAL CASH FLOWS (CONTINUED)
Treasury Bonds (continued)

	Treasury Bonds	Treasury Bonds (Eurobonds)
Opening balance January 1	1,548,500,000	2,535,850,000
Matured during the period	(200,000,000)	-
Investments during the period	904,200,000	483,840,000
Changes in value due to ER	-	(61,070,000)
Closing balance December 31	2,252,700,000	2,958,620,000

The new purchased Treasury Bonds to be matured in 3 years are purchased at a discount related to the yield 2.95%, which is higher than the coupon rate 2.8% and the Eurobonds to be matured in 10 years are purchased at a discount related to the yield respectively 3.59% for nominal value of EUR 3,000,000, and yield 3.53% for the nominal value of EUR 1,000,000, for which the fix-rated coupon is 3.5%.

	December 31, 2021	December 31, 2020
Treasury Securities in ALL	2,290,847,337	1,568,702,099
Treasury Securities in EUR	2,993,620,955	2,575,306,320
Allowance for impairment	(46,078,667)	(35,699,560)
Total	5,238,389,626	4,108,308,859

2021				
Stages according to Expected Loss on Financial Assets				
	Stage 1	Stage 2	Stage 3	Total
Investments	5,284,468,292	-	-	5,284,468,292
Gross amount	5,284,468,292	-	-	5,284,468,292
Impairment	(46,078,667)	-	-	(46,078,667)
Net amount	5,238,389,626	-	-	5,238,389,626
2020				
Stages according to Expected Loss on Financial Assets				
	Stage 1	Stage 2	Stage 3	Total
Investments	4,144,008,419	-	-	4,144,008,419
Gross amount	4,144,008,419	-	-	4,144,008,419
Impairment	(35,699,560)	-	-	(35,699,560)
Net amount	4,108,308,859	-	-	4,108,308,859

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***11. TERM DEPOSITS**

Term deposits as at December 31, 2021 and December 31, 2020 are comprised as follows:

	As at December 30, 2021	As at December 31, 2020
Term deposit	121,840,000	60,990,000
Accrued Interest-deposit	3,660,511	1,003,578
Impairment of deposits	(1,113,526)	(140,624)
Total current	124,386,985	61,852,954
Term deposit	-	60,850,000
Accrued Interest-deposit	-	1,241,590
Impairment of deposits	-	(562,559)
Total non-current	-	61,529,031
Total	124,386,985	123,381,985

As at December 31, 2021, the Foundation has two deposits at Union Bank: one 12 months term deposit for the amount of Lek 60,990,000, 2.22% interest rate, maturity date as at March 23, 2022 and one 25 months term deposit for the amount of Lek 60,850,000, 2.25% interest rate and maturity date as at March 4, 2022.

12. ACCOUNTS RECEIVABLE

Account receivable as at December 31, 2021 and December 31, 2020 is comprised as follows:

	As at December 31, 2020	As at December 31, 2020
Current		
Receivable from MFIs	3,643,257	2,197,297
Receivable from Banks	11,610,970	5,869,631
Prepayments	461,267	400,040
Subtotal	15,715,494	8,466,968
Non-current		
Prepayments	-	432,950
Subtotal	-	432,950
Total	15,715,494	8,889,918

Accounts receivable as of December 31, 2021 represent the amounts not paid by Banks and MFIs related to interest and upfront fee for the fourth quarter.

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***13. CASH AND CASH EQUIVALENT****13.1 Cash on hand and at banks**

Cash on hand and at banks as at December 31, 2021 and December 31, 2020 is comprised as follows:

	As at December 31, 2021	As at December 31, 2020
Cash at bank in ALL	43,798,584	71,963,929
Cash at bank in EUR	133,379,611	444,302,861
Cash on hand	165	7,380
Total Cash on Hand and at Banks	177,178,359	516,274,170

As at December 31, 2021 cash at bank includes current accounts held at BKT, Credins Bank, Union Bank, Fibank, OTP Bank and Raiffeisen Bank.

13.2 Short term deposits

Short term deposits as at December 31, 2021 and December 31, 2020 are comprised as follows:

	As at December 31, 2021	As at December 31, 2020
Short-term deposit	422,193,818	457,690,000
Accrued Interest	23,071	1,050
Total	422,216,889	457,691,050
Impairment	(3,825,371)	(515,224)
Total carrying amount	418,391,518	457,175,826

The Foundation entered into short-term deposit agreements with BKT with the following details:

- ALL 50,000,000, 1 month deposit with interest rate 0.3% and maturity date as at January 24, 2022;
- EUR 2,000,000, 1 month deposit with interest rate 0.05% and maturity date as at January 10, 2022;
- EUR 582,242, 1 month deposit with interest rate 0.05% and maturity date as at January 14, 2021.

The Foundation also entered into short-term deposit agreements with Credins Bank for 1 month deposit with value ALL 25,000,000, with interest rate 0.3% and maturity date as at January 10, 2022 and with OTP Bank for 1 month deposit with value ALL 35,000,000, with interest rate 0.35% and maturity date as at January 10, 2022.

14. DEFERRED REVENUE

Deferred revenue includes two streams as follows:

From grants - A grant is recognized in the statement of financial position initially as deferred income when there is reasonable assurance that it will be received and that the Foundation will comply with the conditions attached to it. As at December 9, 2021, the Foundation received a grant from KfW for an amount equivalent to ALL 653,724,000.

From upfront fees – Upfront fee is a one-time fee calculated on the guaranteed loan amount and is received when loan is disbursed.

(Amounts in ALL, unless otherwise stated)

14. DEFERRED REVENUE (CONTINUED)

As at December 31, 2021 and December 31, 2020 deferred revenues are detailed as follows:

	As at December 31, 2021	As at December 31, 2020
Current portion		
Upfront fee	7,738,515	6,790,445
Grants from GFA	139,245	183,756
Grants from GFA Albania Branch	3,971	5,295
	<u>7,881,731</u>	<u>6,979,496</u>
Non-current portion		
Upfront fee	19,450,485	12,300,231
Grants from GFA	299,696	394,430
Grants from GFA Albania Branch	8,538	11,185
Long term grants from Ministry of Agriculture	62,765,278	62,765,278
Grants from KfW	652,104,000	836,368,687
	<u>734,627,997</u>	<u>911,839,811</u>
Total	<u>742,558,334</u>	<u>918,819,307</u>

15. LEASE LIABILITY

The terms and conditions of outstanding lease liabilities as of December 31, 2021 are as follows:

	Currency	Incremental borrowing rate	Year of maturity	Minimum monthly lease payments	
				In OCY	In LCY ('000)
Lease liabilities	EUR	3.00%	2019-2026	2,700	326,052

Lease liabilities	December 31, 2021	December 31, 2020
Analyzed as:		
Current	3,438,133	2,388,962
Non-current	14,774,479	13,079,973
	<u>18,212,613</u>	<u>15,468,935</u>

Below are presented undiscounted cash outflows for the repayments of lease liabilities as per year of maturity:

Maturity analysis	31 December 2021	31 December 2020
- Less than one year	3,438,133	2,388,962
- Between one and two years	3,537,400	2,461,625
- Between two and three years	3,639,553	2,536,498
- Between three and four years	3,744,674	2,613,648
- More than four years	3,852,852	5,468,203
Finance lease liability	<u>18,212,613</u>	<u>15,468,935</u>

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***16. OTHER LIABILITIES**

Other liabilities as at December 31, 2021 and December 31, 2020 are comprised as follows:

	As at December 31, 2021	As at December 31, 2020
Personal income tax	169,286	134,277
Social and health insurance	159,884	95,379
Local creditors / suppliers	-	(1,497)
Withholding tax	14,372	707
Accrued expense	1,415,375	856,136
Total	<u>1,758,917</u>	<u>1,085,002</u>

17. INCOME FROM GENERAL ACTIVITY

Income from general activity represent income from upfront fees and interest, which are earned by the main activity of the Foundation – offering guarantees to Partner Financial Institutions. The balance is composed of:

	For the period ended December 31, 2021	For the period ended December 31, 2020
Interest income from Banks	17,250,138	7,180,556
Interest income from MFIs	7,207,063	8,555,295
Income from upfront fee – MFIs	4,092,080	3,451,988
Income from upfront fee – Banks	5,669,398	2,945,307
Total	<u>34,218,679</u>	<u>22,133,146</u>

The Foundation earns 0.75% yearly interest from Micro Financing Institutions on the average daily outstanding balance. Interest income from Banks is calculated as a percentage (specified in the contract) on the average quarterly outstanding balance.

Upfront fee is a one-time fee calculated on the guaranteed loan amount and is received when loan is disbursed. Upfront fees are at first registered as deferred revenue and then recognized in income or expenditure over the maturity of loan guaranteed.

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***18. INCOME FROM DONATION**

Income from donations is composed as follows:

	For the period ended December 31, 2021	For the period ended December 31, 2020
Income from donations - Depreciation of assets granted from GFA	143,216	189,051
Total	143,216	189,051

19. OTHER FINANCIAL INCOME

Other financial income is composed as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Interest income from treasury bonds	184,883,470	143,652,807
Interest income from deposits	2,839,411	2,437,664
Other income from withholding	2,617,742	-
Total	190,340,623	146,090,471

Other financial income is composed by interest income from investment in treasury bonds, bank deposits and other income from withholding. Other income from withholding for the year ended December 31, 2021 represent the reimbursement of the withholding amount held in the past by OTP Bank, Credins Bank and Union Bank for the income generated from investments in securities and deposits. The reimbursement was made in June and December 2021. Based on the final decision issued on 25.05.2021 by the Tax Appeal Directorate, the Foundation is exempt from withholding tax and banks should not withheld this tax from the foundation.

20. STAFF COSTS

Staff costs is composed as follows:

	For the period ended December 31, 2021	For the period ended December 31, 2020
Gross Salaries	13,615,179	12,232,562
Social and health insurance	1,043,585	792,284
Pension fund contributions	667,592	580,610
Total	15,326,356	13,605,456

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***21. OTHER OPERATING EXPENSES**

Other operating expenses is composed as follows:

	For the period ended December 31, 2021	For the period ended December 31, 2020
Claim pay-out	8,988,681	349,842
Bank charges for investments custody	5,298,700	339,160
Withholding tax	5,037,814	9,441,380
Audit	1,370,882	1,401,942
Office maintenance and supplies	1,038,591	929,245
Health insurance	438,856	371,039
Insurance expense	295,511	308,400
Other expense	167,791	83,785
Bank charges	165,688	67,865
Post and communication	150,063	160,201
Utilities	100,773	60,877
Tax consultancy	73,938	434,351
Training for staff	73,440	165,854
Local Taxes	15,000	15,000
Legal consultancy	-	119,282
Total	23,215,729	14,248,223

As at December 31, 2021, the Claim represent the Foundation payments for 11 defaulted clients of BKT and 2 defaulted clients of Credins Bank with more than 180 days past due, covering 50% of the outstanding exposure as per contractual agreement with the banks, in the amount of 8,988,681 ALL (2020: 349,842 ALL).

22. PROVISION FUND FOR FINANCIAL GUARANTEES AND INVESTMENTS

The movement in the provision liability for guarantees to banks and micro-financing institutions is as follows:

	2021	2020
As at January 1	79,018,551	58,820,953
Default financial guarantees	(5,942,745)	(27,361)
Reverse provision of the year	(11,018,816)	(17,479,729)
Provision expense of the year	46,935,472	37,704,687
Provision expense of the year, net	29,973,911	20,197,597
As at December 31	108,992,462	79,018,550

For the year ended December 31, 2021, there is an increase in provision expense for financial guarantees, which is directly related to the impairment amount calculated by the partner banks and the percentage of non-performing loans during the last three years from MFIs.

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***22. PROVISION FUND FOR FINANCIAL GUARANTEES AND INVESTMENTS (CONTINUED)**

	2021	2020
Provision for investments		
As at January 1	35,699,560	15,414,973
Reverse provision for investments	-	(55,231)
Provision expense for investments	10,379,107	20,339,818
Provision expense of the year, net	10,379,107	20,284,587
As at December 31	46,078,667	35,699,560
Provision for term deposits		
As at January 1	1,218,407	4,349,090
Reverse provision for term deposits	-	(4,349,090)
Provision expense for term deposits	3,720,491	1,218,407
Provision expense of the year, net	3,720,491	(3,130,683)
As at December 31	4,938,898	1,218,407
Total Provision expense of the period, net	14,099,597	17,153,904
Total in the end of the period, net	51,017,564	36,917,967

For the year ended December 31, 2021, there is an increase in provision expense for investments, which is directly related to the impairment amount calculated for the investment of the funds in treasury bonds and deposits.

23. GAIN/(LOSSES) FROM FOREIGN EXCHANGE TRANSLATIONS, NET

The balance is composed as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Gain from foreign exchange rate	5,726,993	56,273,215
Loss from foreign exchange rate	(69,151,905)	(18,687,399)
(Losses)/Gain from foreign exchange translations, net	(63,424,912)	37,585,816

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***24. CONTINGENCIES AND COMITMENTS**

As at December 31, 2021 and December 31, 2020, the Foundation had no other legal claims against it that were not both minor and in the ordinary course of business.

Contingencies as at December 31, 2021 include the following:

	As at December 31, 2021		As at December 31, 2020	
	Outstanding Balance guaranteed	Disbursed amount guaranteed	Outstanding Balance guaranteed	Disbursed amount guaranteed
Contingent liabilities				
Guarantees to NOA	538,123,413	916,300,000	461,448,810	552,700,000
Guarantees to FedInvest	181,505,000	375,800,000	256,665,000	375,800,000
Guarantees to Unifin	-	-	-	-
Guarantees to Fondi Besa	473,730,400	832,625,800	417,939,000	582,625,800
Guarantees to Crimson Finance Fund Albania	23,527,449	24,152,000	-	-
Guarantees to Agro & Social Fund	-	-	-	-
Guarantees to Credins Bank's customers	191,413,818	398,116,210	153,424,488	308,348,407
Guarantees to BKT's customers	39,989,798	188,940,240	67,471,149	175,614,849
Guarantees to Union Bank's customers	430,782,078	551,613,180	144,526,207	185,811,860
Guarantees to Fibank's customers	65,594,708	78,249,700	24,376,086	26,461,950
Guarantees to OTP Bank's customers	836,730,709	1,036,641,306	370,171,903	421,755,370
Total	2,781,397,372	4,402,438,436	1,896,022,643	2,629,118,236

The Foundation provides guarantees for customers through banking institutions on a risk sharing basis and with maximum ceiling of Eur 500,000 and guarantees the commercial borrowings of micro financing institutions from local banks under separate guarantees.

Outstanding balance guaranteed is related with the outstanding balance of the guarantees provided by the Foundation. Disbursed amount guaranteed is related with the guaranteed amount of the disbursed loans, which is from 50% to 70% of the total amount disbursed for banking institutions, based on the conditions provided in the Partnership Agreements, and from 70% to 100% of the amounts disbursed for micro financing institutions based on the conditions provided in the Memorandum of Understandings.

ALBANIAN DEVELOPMENT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2021

*(Amounts in ALL, unless otherwise stated)***25. RELATED PARTY TRANSACTIONS**

A party is related to an entity if, directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with the entity, the party has an interest in the entity that gives it significant influence over the entity, the party has joint control over the entity, the party is an associate or the party is a member of the key management personnel of the entity or its parent.

Transactions with related parties constitute:

	As at December 31, 2021	As at December 31, 2020
Long term grants from KFW	652,104,000	836,368,687
Long term grants from GFA	299,696	394,430
Long term grants from GFA Albania Branch	8,538	11,185
Total	652,412,234	836,774,302
	For the period ended December 31, 2021	For the period ended December 31, 2020
<i>Income</i>		
Incomes from donations - Depreciation of assets	143,216	189,051
Total	143,216	189,051
Key management compensation		
	For the period ended December 31, 2021	For the period ended December 31, 2020
<i>Income</i>		
Key management compensation	5,509,188	5,297,292
Total	5,509,188	5,297,292

26. EVENTS AFTER THE REPORTING PERIOD

The ongoing military conflict in Ukraine and the related sanctions targeted against the Russian Federation may have an impact on the European and global economy. The entity does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require revisions of certain assumptions and estimates. This may lead to material adjustments to the carrying value of certain assets and liabilities within the next financial year. At this stage, management is not able to reliably estimate the impact as events are unfolding day by day. The long-term impact may also affect trading volumes, cash flows, and profitability. Nevertheless, at the date of these financial statements, the Company continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

The management of the Company is not aware of any other events after the reporting date that would require either adjustments or additional disclosures in the financial statements.