

# **PayRay Bank, UAB**

## **CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2020

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

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## General information

UAB PayRay Bank  
Telephone: +370 611 64487  
Company code: 304862948  
Lvovo g. 25-702, Vilnius, Lithuania

Renato La Fianza (Director (CEO))

### Board members

Renato La Fianza  
Mindaugas Stasionis  
Paulius Jokšas  
Gianluca Balducci

### Registered Office

Lvovo g. 25-702  
Vilnius  
Lithuania

### Auditor

KPMG Baltics, UAB  
Lvovo str. 101, LT-08104 Vilnius, Lithuania

### Banks

Šiaulių bankas AB  
AB SEB Bankas  
Luminor Bank AS  
Bank of Lithuania



**KPMG Baltics, UAB**  
Lvovo St. 101  
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# Independent Auditor's Report

To the Shareholders of PayRay Bank UAB

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of PayRay Bank UAB and its subsidiary ("the Group"). The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated statement of cash flows for the year then ended, and
- notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a consolidated opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our report.

### **Impairment of loans granted and factoring receivables**

The gross amount of loans granted in the consolidated financial statements as at 31 December 2020: EUR 15 412 thousand; total allowances for impairment losses as at 31 December 2020: EUR 333 thousand; of which impairment losses on loans granted recognised in 2020: EUR 107 thousand; the gross amount of factoring receivables as at 31 December 2020: EUR 22 183 thousand; total allowances for impairment losses as at 31 December 2020: EUR 119 thousand; of which impairment losses on factoring receivable recognised in 2020: EUR 8 thousand.

Refer to page Note 4 (Accounting policies), Note 13 Loans granted and factoring receivables and Note 14 Factoring and other amounts receivable.

The key audit matter	How the matter was addressed in our audit
<p>Impairment allowances represent the Management Board’s best estimate of the expected credit losses (“ECLs”) within loans granted and factoring receivables (collectively, „loans”, “exposures”) at the reporting date. We focused on this area as the determination of impairment allowances requires complex and subjective judgment from the Management Board over the amount of any such impairment.</p> <p>Impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) (together “collective impairment allowance”) are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward- looking information and management judgment are incorporated into the model assumptions.</p> <p>For non-performing exposures (Stage 3), the impairment assessment is based on the Group’s knowledge and understanding of each individual borrower’s circumstances. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis.</p> <p>For the above reasons, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19 global pandemic on multiple sectors of the economy, impairment of loans was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> <li>– obtaining understanding of the Group’s ECL impairment methodology and assessing its compliance with the relevant requirements of IFRS 9 standard. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of IFRS 9 requirements. Additionally, we have challenged the Management Board on whether the level of the methodology’s sophistication is appropriately based on our assessment of the entity-level and portfolio-level factors;</li> <li>– obtaining an understanding of the Group’s retrospective review of its ECL estimates and its response to the results of the review, and performing our own independent back-test;</li> <li>– making inquiries of the Group’s risk management and information technology (IT) personnel in order to obtain understanding of the IT applications used in the loan impairment process, and also testing the IT control environment for data security and access, assisted by our own IT specialists;</li> <li>– testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including, but not limited to, those over loan risk monitoring, identification of loss events / default, appropriateness of classification into performing and non-performing exposures, calculation of days past due and validation of the overall ECL estimate;</li> </ul>

- assessing whether the definition of default and the staging criteria were applied consistently and in accordance with the relevant financial reporting standards;
- evaluating whether in its loan staging and ECL measurement the Group appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic;
- For collective impairment allowance:
  - obtaining the relevant forward looking information and macroeconomic forecasts used in the Group’s ECL assessment. Independently assessing the information by means of inspection of publicly available information and corroborating inquiries of the Management Board;
  - challenging the collective loss given default (LGD), exposure at default (EAD) and probability of default (PD) parameters used by the Group, by reference to historical defaults, industry practice and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances;
- For impairment allowances calculated individually, for a risk-based sample of loans:
  - critically assessing the existence of any triggers for classification to Stage 3 as at 31 December 2020, by reference to the underlying documentation (loan files) and through discussion with Management Board and taking into consideration business operations of the respective customers as well as market conditions and historical repayment pattern.
  - for the exposures with triggers for classification in Stage 3, challenging key assumptions applied in the Group’s estimates of future cash flows such as primarily collateral values (including related haircuts) and realization period by reference to our inspection of external valuation reports, the Group’s internal evidence and analyses and publicly available market transaction data.
- evaluating the accuracy and completeness of the loan impairment and credit risk-related disclosures in the financial statements by reference to the requirements of the applicable financial reporting framework.

## Other Information

The other information comprises the information included in the consolidated annual management report, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, our responsibility is to consider whether information included in the consolidated annual management report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements and whether consolidated annual management report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of the consolidated financial statements, in our opinion, in all material respects:

- The information given in the consolidated annual management report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- The Group's consolidated annual management report has been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania.

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

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.





## Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting we were appointed on 31 July 2020 for the first time to audit the Group's financial statements. Our appointment to audit the Group's financial statements is renewed every two years under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 1 year.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Group and its Audit Committee together with this independent auditor's report.

We confirm that in light of our knowledge and belief, services provided to the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, in addition to the audit of financial statements we have provided translation service.

On behalf of KPMG Baltics, UAB

Domantas Dabulis  
Partner pp  
Certified Auditor

Vilnius, the Republic of Lithuania  
29 April 2021

*The electronic auditor's signature applies only to the Independent Auditor's Report on pages 3 to 8 of this document.*

UAB PayRay Bank

Company code: 304862948, Lvovo g. 25-702, Vilnius, Lithuania

## Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December

	Explanatory notes	01/01/2020 – 31/12/2020	01/01/2019 – 31/12/2019
		EUR	EUR
Interest income calculated using effective interest rate method	6,13	2 220 581	1 723 794
Delinquency	6	35 453	59 895
Interest expenses	6	(259 168)	(166 944)
Net interest income		1 996 866	1 616 745
Other operating income	6	94 544	76 916
<b>Total income</b>		<b>2 091 410</b>	<b>1 693 661</b>
Impairment losses on receivables	22	(115 358)	(314 204)
Impairment losses on cash at bank	16	(71)	(2 069)
Personnel expenses	7	(1 680 364)	(1 311 820)
Administrative expenses	7	(1 111 918)	(680 264)
Finance costs	8	(7 096)	(6 249)
<b>Profit (loss) before tax</b>		<b>(823 397)</b>	<b>(620 946)</b>
Income tax expense	9	99 696	98 062
<b>Profit (loss) for the year</b>		<b>(723 701)</b>	<b>(522 884)</b>
<b>Other comprehensive income (OCI)</b>		-	-
<b>Total comprehensive income for the year, net of tax</b>		<b>(723 701)</b>	<b>(522 884)</b>

The accompanying explanatory notes are an integral part of these financial statements.

Director  
Renato La Fianza

(signature)

29 April 2021

(date)

Chief Financial Officer  
Albertas Gruodis

(signature)

29 April 2021

(date)

UAB PayRay Bank  
 Company code: 304862948, Lvovo g. 25-702, Vilnius, Lithuania  
**Consolidated statement of financial position**

31 December

	Explan- atory notes	2020 <u>EUR</u>	2019 <u>EUR</u>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	80 129	23 673
Intangible assets	11	526 280	204 454
Right-of-use assets	12	109 879	160 207
Non-current loans granted and non-current factoring receivables	13	13 813 151	90 826
Investments into subsidiaries		-	-
Other amounts receivable after one year		23 805	14 530
Deferred income tax asset	9	362 757	262 994
		<u>14 916 001</u>	<u>756 684</u>
<b>Current assets</b>			
Factoring and other amounts receivable	14	21 483 033	32 632 321
Loans granted	13	1 874 287	2 817 947
Other current assets	15	15 454	28 516
Cash and their equivalents	16	4 973 018	3 644 003
		<u>28 345 792</u>	<u>39 122 787</u>
<b>Total assets</b>		<u>43 261 793</u>	<u>39 879 471</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Authorised capital	17	36 424 791	20 000 000
Legal reserve	17	-	-
Retained earnings (losses)	9	(2 188 051)	(1 464 350)
<b>Total equity</b>		<u>34 236 740</u>	<u>18 535 650</u>
<b>Non-current liabilities</b>			
Financial liabilities measured at amortised cost	18	-	18 166 945
Non-current lease liabilities	12	36 435	97 421
		<u>36 435</u>	<u>18 264 366</u>
<b>Current liabilities</b>			
Current lease liabilities	12	96 351	65 520
Deposits	19	6 067 402	
Trade and other payables	19, 21	2 564 160	2 820 565
Employment related liabilities		210 984	76 647
Other current liabilities	20	49 721	116 723
		<u>8 988 618</u>	<u>3 079 455</u>
<b>Total equity and liabilities</b>		<u>43 261 793</u>	<u>39 879 471</u>

The accompanying explanatory notes are an integral part of these financial statements.

Director Renato La Fianza	_____ (signature)	29 April 2021 _____ (date)
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Chief Financial Officer Albertas Gruodis	_____ (signature)	29 April 2021 _____ (date)
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## Consolidated statement of changes in equity

for the year ended 31 December

	Authorised share capital	Retained earnings (loss)	Total equity
	EUR	EUR	EUR
<b>31 December 2018</b>	<b>20 000 000</b>	<b>(941 466)</b>	<b>19 058 534</b>
Net profit / (loss) for the year	-	(522 884)	(522 884)
Other comprehensive income	-	-	-
Total comprehensive income	-	(1 464 350)	(1 464 350)
Issue of share capital	-	-	-
<b>31 December 2019</b>	<b>20 000 000</b>	<b>(1 464 350)</b>	<b>18 535 650</b>
<b>1 January 2020</b>	<b>20 000 000</b>	<b>(1 464 350)</b>	<b>18 535 650</b>
Transfers	-	-	-
Net profit / (loss) for the year	-	(723 701)	(723 701)
Other comprehensive income	-	-	-
Total comprehensive income	-	(723 701)	(723 701)
Issue of share capital	16 424 791	-	16 424 791
Settlement of previous year losses	-	-	-
<b>31 December 2020</b>	<b>36 424 791</b>	<b>(2 188 051)</b>	<b>34 236 740</b>

The accompanying explanatory notes are an integral part of these financial statements.

Director	_____	29 April 2021
Renato La Fianza	(signature)	(date)
Chief Financial Officer	_____	29 April 2021
Albertas Gruodis	(signature)	(date)

## Consolidated cash flow statement

for the year ended 31 December

	Explanatory notes	01/01/2020 – 31/12/2020	01/01/2019 – 31/12/2019
		EUR	EUR
<b>Operating activities</b>			
Profit / (loss) for the year	9	(723 701)	(522 884)
Depreciation of property, plant and equipment	10,11	5 434	4 693
Depreciation of right-of-use assets	12	90 940	61 740
Net impairment loss on factoring receivables	13, 14	8 405	96 379
Net impairment loss on loans	13, 14	106 953	217 825
Net impairment loss on cash at bank	16	71	2 069
Net interest income	6, 8	(1 954 316)	(1 550 600)
		<u>(2 466 215)</u>	<u>(1 690 778)</u>
<b>Working capital adjustments</b>			
(Increase)/decrease in loan receivable after one year and factoring receivable	13	(13 832 320)	(302 016)
(Increase)/decrease in other amounts receivable after one year		(9 276)	-
(Increase)/decrease in deferred tax assets	9	(99 763)	(98 062)
(Increase)/decrease in factoring and other receivables	14	11 159 572	(23 388 889)
(Increase)/decrease in loans granted	13	946 847	(863 849)
(Increase)/decrease in other current assets	15	13 061	(13 967)
Increase /(decrease) in deposits	19	6 067 402	-
(Decrease)/increase in trade and other payables	19	(256 405)	1 394 263
(Decrease)/increase in employment related liabilities		134 337	56 169
(Decrease)/increase in other current liabilities	20	(67 003)	(41 106)
		<u>4 056 453</u>	<u>(23 257 456)</u>
Interest received	6,13	2 201 750	1 723 794
Interest paid		(259 168)	-
<b>Net cash flows from operating activities</b>		<u><b>3 532 819</b></u>	<u><b>(23 224 439)</b></u>
<b>Cash flows from investing activities</b>			
Investments into subsidiaries		-	-
Acquisition of property, plant and equipment	10	(58 982)	(947)
Acquisition of intangible assets	11	(324 735)	(204 454)
<b>Net cash flows from investing activities</b>		<u><b>(383 717)</b></u>	<u><b>(205 401)</b></u>
<b>Financing activities</b>			
Proceeds from issue of share capital	16	-	-
Loans and borrowings received	6, 17	(1 742 154)	18 000 000
Payment of lease liabilities	12	(77 862)	(65 255)
<b>Net cash flows from financing activities</b>		<u><b>(1 820 016)</b></u>	<u><b>17 934 745</b></u>
Net increase/(decrease) in cash and cash equivalents		1 329 086	(5 495 096)
Cash and cash equivalents at beginning of the year/period	16	3 646 072	9 141 168
<b>Cash and cash equivalents at 31 December</b>	<b>16</b>	<u><b>4 975 158</b></u>	<u><b>3 646 072</b></u>

The accompanying explanatory notes are an integral part of these financial statements.

Director  
Renato La Fianza

\_\_\_\_\_  
(signature) 29 April 2021  
(date)

Chief Financial Officer  
Albertas Gruodis

\_\_\_\_\_  
(signature) 29 April 2021  
(date)

## UAB PayRay Bank

Company code: 304862948, Lvovo g. 25-702, Vilnius, Lithuania

[Notes to the consolidated financial statements](#)

for the year ended 31 December

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### 1. General information

PayRay Bank, UAB (hereinafter – 'the Bank'), code 304862948, is a private limited liability company registered in Lithuania. On 18 September 2019 Vilnius factoring company, UAB name was changed to PayRay, UAB. The Company was registered as Vilnius factoring company, UAB, on 25 June 2018. The registered office is located at Lvovo g. 25-702, Vilnius, Lithuania.

PayRay Bank, UAB is hereinafter referred to as the Bank and UAB PayRay Bank group, comprising the Bank and its subsidiaries is hereinafter referred to as the Group.

As at 31 December 2020, PayRay Bank, UAB owned a controlling share package (100%) of the subsidiary PayRay SIA.

PayRay SIA was registered with the Register of Legal Entities of the Republic of Latvia on 21 September 2020. The Company's registered address is Dunties street 3, Riga, LV-1013. The main activities of the company include other lending services: factoring, issuance of loans to small and medium enterprises.

On 3 December 2019 the European Central Bank together with the Bank of Lithuania granted to the Bank full banking license. The license secures a right to the Bank to collect deposits. The Company converted to a bank during Q3 2020. PayRay Bank, UAB converted to a bank on 15 October 2020.

The principal activity of the Group is provision of financial services. The Group provides SME (Small and Medium Enterprises) loans and purchases amounts receivable which are the subject of factoring arrangements. The following factoring types can be identified:

- recourse factoring, where the Group extends credit limit to its customer, and gets invoices issued by the customer to a third party (amounts receivable) as credit enhancement. In most cases such amounts receivable have 10-20% higher nominal value compared to credit exposure amount to the customer. The cash flow from amounts receivable is used to repay the credit. If cash flow from amounts receivable is not sufficient to cover the credit obligation of the customer, the Group applies recourse and directs the claim for the debt amount unpaid to the customer;

- non-recourse factoring, is a type of factoring where the Group is purchasing amounts receivable (invoices) issued by its customer to a third party and then collects payments according to the payment schedules of these invoices. In this case, the debtor of the Group is the party towards which the invoice is issued. Also, in non-recourse factoring the Group usually purchases amounts receivable paying to the seller 80-90% of their nominal value.

In 2019, the Bank started to grant business micro-loans with guarantee of the European Investment Fund. The maximum amount of such loan is EUR 25 000. Maximum term is 1 year. In 2020, the Bank entered into EaSI guarantee approval form with the European Investment Fund (EIF), which allowed increasing the maximum amount of loan to one customer from EUR 25 000 to EUR 50 000. In addition, having signed this form, during the COVID-19 pandemic period (until 30 June 2021), loan guarantee was increased from 80% to 90%.

□

In some cases trade insurance to insure the Group's customers or third parties towards whom the invoices are issued from the risk of bankruptcy can be applied. Recourse factoring arrangements, having such trade insurance are sometimes referred to as factoring with 'limited recourse'. In 2020 and 2019, the Group was only using insurance by globally known trade insurance companies such as Coface, Atradius, Euler Hermes, Nexus or guarantee by the European Investment Fund.

All the Group's short term financing and factoring transactions are with up to 12 months maturity, but majority of them are up to 3 months maturity.

Functioning of the Group is not limited in time.

As of 31 December 2020 and 2019 the shareholder of the Bank was 2404 S.A., Bank code B224715, registered at 76, Grand Rue, L-1660 Luxembourg, Luxembourg. The shareholder owns 100% of the Bank's shares.

In 2020, the Bank has shares of one class, which are owned by one shareholder 2404 S.A. Controlling ultimate persons are individuals holding 50% of shares each.

In 2020 PayRay Bank, UAB established a company PayRay SIA. The Bank became the parent company of PayRay SIA owning 100% of the share capital of PayRay SIA. PayRay SIA is the Bank's subsidiary. The accounting policies of the subsidiary are based on the same International Financial Reporting Standards (IFRS) as the Bank's. Financial data of PayRay SIA is included in the consolidated financial statements prepared by the Bank.

In 2020, the Bank has shares of one class, which are owned by one shareholder 2404 S.A. Controlling ultimate persons are individuals holding 50% of shares each.

As at 31 December 2020, the average number of the Group's employees was 27 (31 December 2019: 21).

for the year ended 31 December

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## 1. General information (cont'd)

These consolidated financial statements for the year ended 31 December 2020 are approved by the Board and shareholders. The shareholders of the Group have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

The financial reporting year of the Group coincides with the calendar year. The comparative figures of the previous year (2019) are those of the Bank, as the subsidiary was established in 2020.

### Basis of consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the investee. Subsidiaries are consolidated from the date on which the Group obtains control of these companies. They are deconsolidated from the date that control ceases.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners). The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

To determine whether the value of goodwill acquired on business combination has decreased, it has to be attributed to each cash-generating unit, which should obtain benefits from the synergy irrespective of whether the assets or liabilities of the acquiree are attributable to mentioned units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between the Group companies (including subsidiaries classified as held for sale) are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Bank.

for the year ended 31 December

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## 2. Basis of preparation

The financial statements have been prepared in accordance with the requirements of Lithuanian legal acts on accounting and financial reporting and with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements are presented in euros and all values are rounded to the nearest whole number, except where otherwise indicated.

## 3. Significant accounting judgements, estimates and assumptions

The financial statements have been prepared on an assumption that the Group will be able to continue its operations in the foreseeable future. There are no indications at the date of approval of the financial statements that the Group will not be able to continue its operations in the future, the Group's activities are not limited.

The preparation of the Group's financial statements in accordance with IFRS as adopted by the European Union requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in any future periods affected.

### Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following chapters of accounting policies:

- [Chapter 'Financial Assets'](#). Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- [Chapter 'Impairment of Financial Assets'](#). Assumptions establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

In March 2020, an extraordinary economic situation related to COVID-19 pandemic developed. On 7 November 2020 the Government of the Republic of Lithuania declared a second quarantine; the economic situation related to COVID-19 pandemic did not have material impact on the Group. The Group assessed the impact of financial state of loans and ability to repay credits. The Group assessed economic development trends, the impact of quarantine on business and state support programmes. The effect of COVID-19 on the Group's activities is presented in Note 26.

### Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 and 2019 is included in the following notes:

- [Chapter 'Impairment of Financial Assets'](#). Assumptions on the impairment of financial instruments determining inputs into the ECL measurement model, including incorporation of forward-looking information.

### Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details on taxes are disclosed in Note 9.

## 4. Accounting policies

In the process of handling its accounting records and financial reporting the Group follows general accounting principles:

*The group's concept.* In accordance with this principle, the Group shall be considered as a separate unit of accounting and the Group's financial statements shall reflect only its assets, equity and liabilities.

*Principle of going concern.* Financial statements shall be prepared based on the assumption that the Group will continue its operations indefinitely and is not going to be liquidated or its operations shall not be suspended.

*Principle of consistency.* In order to ensure that the data of the financial statements for one period can be compared with data from other periods, the accounting rules and methods should remain unchanged for a sufficiently long period. If certain accounting policies are changed during or after a reporting period, (i) comparative information about financial results that would have been achieved with previous accounting policies, and (ii) information on current financial results must be provided in the explanatory notes to the financial statements.



for the year ended 31 December

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#### 4. Accounting policies (cont'd)

*Principle of accrual.* Economic transactions and other events of the Group shall be recorded in accounting when they occur and shall be presented in financial statements of such periods, irrespective of the receipt or payment of cash. Financial statements drafted applying the accrual principle shall inform their users not only about the past events but also about obligations to pay or receive cash in the future.

*Principle of periodicity.* The accounting activities of the Group are divided into financial years or other reporting periods and the financial statements are prepared for that reporting period. Financial statements of the Group shall be prepared on the basis of data as of the last day of the reporting period.

*Principle of prudence.* A conservative approach to decisions or transactions should be adopted, which implies prudent assessment of the outcome of the decisions and transactions, and ensures that revenues or assets are not overestimated and costs or liabilities are not underestimated.

*Principle of comparability.* Revenue earned during the reporting period shall be related to the expenses incurred to earn such revenue. Costs incurred in respect of different periods shall be allocated to the periods during which the Group will earn the respective revenue. The accounting policies selected by the Group shall provide for the application of new methods of accounting without violating the principle of comparability of financial statements. All financial statements shall provide disclosures covering the current reporting year and at least one previous financial year (comparative disclosures).

*Principle of neutrality.* The accounting information of the Group shall be presented impartially. Presentation of accounting information should not affect the decisions taken by users of accounting information and should not result in predetermined outcome.

*Substance over form.* In registering economic transactions and other economic events of the Group the greatest attention shall be paid to their substance and economic nature, rather than just formal presentation requirements or their legal form.

The principal accounting policies applied in the preparation of the Group's financial statements for 2020 are set out below.

#### Financial assets

##### Recognition and initial measurement

The Group initially recognises factoring arrangements, loans and advances on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

##### Classification

On initial recognition, a financial asset is classified as measured at (i) amortised cost (ii) FVOCI (Fair Value through other Comprehensive Income) or (iii) through Profit or Loss.

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

- the asset is held within a business model whose objective is to hold assets 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 SPPI.

for the year ended 31 December

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#### 4. Accounting policies (cont'd)

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

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

All other financial assets are classified as measured at fair value through profit or loss.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

##### Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management.

The sole objective of the Group's business model is to hold assets to collect contractual cash flows. The Group's business model remained unchanged in 2020. Except for collection of deposits, which was set in the plans when converting to the Group.

The information considered for determining the objective of the business model includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, the Group's strategy focuses on earning contractual interest income;
- the portfolio is evaluated and reported to the Bank's management based mainly on credit portfolio volume and interest income earned;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed are typical for the activity of holding assets and collecting contractual cash flows.

##### Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs) as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms (if any);
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans).

##### Derecognition of financial assets

The Group derecognises the financial assets when the contractual rights to the cash flows from this asset expire or when the right to receive the agreed cash flows from this financial asset is transferred during the transaction, i.e. all risk and benefits from the ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

for the year ended 31 December

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#### 4. Accounting policies (cont'd)

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 derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

If the Group transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract.

If a transfer of a financial asset does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the Group shall recognise any income on the transferred asset and any expense incurred on the financial liability.

##### Impairment of financial assets

The Group recognises loss allowances for ECL (expected credit loss) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (incl. factoring arrangements);
- lease receivables;
- financial guarantee contracts issued;
- loan commitments issued.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date;
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (Stage 1).

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

##### Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive;
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

for the year ended 31 December

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#### 4. Accounting policies (cont'd)

##### Significant increase in credit risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

##### Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades A1 and A2 is smaller than the difference between credit risk grades C2 and C3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are:

- gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes;
- data from credit reference agencies, press articles, changes in external credit ratings;
- quoted bond and credit default swap (CDS) prices for the borrower where available;
- actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
- payment record – this includes overdue status as well as a range of variables about payment ratios;
- utilisation of the granted limit;
- requests for and granting of forbearance;
- existing and forecast changes in business, financial and economic conditions.

##### Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by characteristics and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

for the year ended 31 December

#### 4. Accounting policies (cont'd)

The Group uses own assumptions and expert judgements to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. The number, diversity and complexity of credit exposures is limited in 2020, therefore, the Group uses simple modelling of PD in a homogeneous portfolio.

##### Determining whether credit risk has increased significantly

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant differs for different types of lending. As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modelling:

Quantitative criteria for determination of SICR using credit risk grades

	Exposures in Stage 1
SICR automatic trigger for moving the financial instrument (credit exposure) across Stages	Any of the following: <ul style="list-style-type: none"> <li>- decrease of credit risk grade by more than 5 steps for exposures with credit risk grades A1-A3 at initial recognition; or</li> <li>- decrease of credit risk grade by more than 3 steps for exposures with credit risk grades B1-B3 at initial recognition; or</li> <li>- decrease of credit risk grade by more than 2 steps for exposures with credit risk grades C1-C3 at initial recognition; or</li> <li>- decrease of credit risk grade by more than 1 step for exposures with credit risk grades D1-D3 at initial recognition,</li> </ul> triggers automatic SICR and thus attribution of the exposure to Stage 2 from Stage 1.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

In factoring exposures with recourse, when credit exposure has to be covered by numerous different Buyers (within the same contract), and no recourse has been applied to the Seller so far, a materiality threshold of 2% to the whole exposure is applied towards overdue exposure of more than 30 days, but not exceeding 90 days.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms. Usually, probation period of 3 months or any longer period that Group's Credit Committee deems appropriate is used.

UAB PayRay Bank

Company code: 304862948, Lvovo g. 25-702, Vilnius, Lithuania

[Notes to the consolidated financial statements](#)

for the year ended 31 December

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#### 4. Accounting policies (cont'd)

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

##### Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group;
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

##### Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group has identified and documented key drivers of credit risk and credit losses for portfolio of financial instruments and, using an analysis of available data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Because of homogeneous nature of Group's lending portfolio, it is reasonable to assume that without undue cost and effort it is practicable to focus on a single selected forward-looking macroeconomic indicator when measuring the SICR on a portfolio level. Therefore, on a portfolio level, forecasted changes in Lithuania's GDP is a well-balanced indicator that can be used to signal increases in credit risk for all credit exposures in the portfolio.

Many credit exposures in the Group's credit portfolio is shorter than 12 months. In majority of cases, credit facilities granted by the Group have 30-90 days revolving maturities after which credit is extended again. Each such time the Group retains the right to cancel the credit to the borrower (not to further extend) unilaterally without any penalties, thus all credit facilities are uncommitted. This implies short term nature of credit exposures of the Group.

Therefore, information based on quarterly changes of actual and forecasted GDP have been selected as a proxy for evaluating forward-looking macroeconomic impact on credit risk of the borrowers. Considering lagging nature of the indicator, combination of actual and forecasted data allows to smooth the fluctuations and avoid measurement biases.

However, the Group always applies borrower-specific credit analysis and constant monitoring of the exposure. Therefore, all borrower-specific signs of possible future increase in credit risk are incorporated into client's PD on a regular basis.

for the year ended 31 December

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#### 4. Accounting policies (cont'd)

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. Since as at 31 December 2020 the Group did not have sufficient historic data to reliably estimate individual LGD values, it has decided to use LGD of 45% for all corporate borrowers. The LGD of 45% is a widely accepted standard in financial industry used by many banks under ECB regulation (Standard Approach). Especially, when estimates based on historical record are not available.

The Group further modifies chosen LDG parameter based on the collateral and credit enhancements of the claim that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

For lending and factoring commitments (limits), the EAD is not calculated since all contractual terms of lending and factoring commitments are fully revocable. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take, and that serve to mitigate ECL. These include a reduction in limits or entire cancellation of the facility.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

#### Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

for the year ended 31 December

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#### 4. Accounting policies (cont'd)

##### Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of the Group's loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

##### Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- paskolų įsipareigojimai ir finansinių garantijų sutartys – paprastai kaip atidėjinys;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

##### Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.



for the year ended 31 December

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#### 4. Accounting policies (cont'd)

##### Financial liabilities

Financial liabilities are recorded when the Group assumes a legal obligation to pay cash or settle other financial assets under an existing contract. Financial liabilities according to their measurement are classified as: measured at amortised cost and measured at fair value through profit or loss (this category includes financial liabilities held for trading). The fair value of term deposits is measured by discounting expected cash flows using current market interest rates for similar financial instruments with similar terms.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if 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.

Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the income statement.

Financial liability is derecognised when it is covered, revoked or expired.

##### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

##### Equity instruments

An equity instrument is any contract that evidences remaining share in the Group's assets after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

##### Compound instruments

The component parts of convertible loan are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium or ordinary shares. Where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible loan notes using the effective interest method.

##### Amortised cost

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

for the year ended 31 December

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#### 4. Accounting policies (cont'd)

##### Fair Value Measurement Principles

'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 Company has access at that date. The fair value of a liability reflects the effect of its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise 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 Group 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 used only data from observable markets, 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 recognised 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.

The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

##### **Accounting of property, plant and equipment and intangible assets**

Property, plant and equipment, intangible asset shall be attributed to fixed when all the following conditions are or the designation is: the Group intends to use it for a period longer than one year, the Group reasonably expects a flow of economic benefits from such asset in future periods, the Group can reliably measure the acquisition costs of the asset, risk related to the asset has been transferred to the Group and the acquisition cost of the asset exceeds the minimum cost of property, plant and equipment set by the Bank - EUR 1 500.

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#### 4. Accounting policies (cont'd)

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Depreciation is charged on the assets on a straight line basis to allocate the cost to their residual values over useful lives.

Intangible assets are measured initially at acquisition cost, and thereafter at cost less any accumulated amortisation (except for goodwill) and any accumulated impairment losses.

*Depreciation and amortisation rates (in years) for fixed assets*

Group of non-current assets	Method	Rate (in years)
<b><u>PROPERTY, PLANT AND EQUIPMENT</u></b>		
Buildings	linear	15
Furniture	linear	6
Computers and communication equipment	linear	3
Passenger cars, not older than 5 years	linear	6
Assets other than listed above	linear	4
<b><u>Intangible assets</u></b>		
Software (computer)	linear	3
Core banking software	linear	5
Acquired rights	linear	3
Other intangible assets	linear	4

#### Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. An asset is impaired when its carrying amount exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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#### 4. Accounting policies (cont'd)

##### Leases

An agreement is a lease or contains a lease if it transfers the right to control the use of an identified asset for a given period in exchange for consideration. For such contracts, the application of IFRS 16 requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This results in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.□

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).

The lessee generally recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2020 of 3.52% (1 January 2019: 3.52%).

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for the year ended 31 December

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#### 4. Accounting policies (cont'd)

##### Income

The Group's income consists of income from interest, commissions, insurance fees, agreement fees and late payment interest arising from financing and factoring services under the contract with customers.

Interest income is recognised on an accrual basis, using the effective interest rate method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income items are generally recorded on an accrual basis when the service has been provided. Late payment interest income represents interest on delayed payment. Interest on late payment is recognised when it is highly probable to receive it.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instruments (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

##### Dividends

Dividends are recognised when the Group's right to receive payment is established. Penalty income and expense are recognized when received or incurred.

##### Costs

Costs are recognised based on the accrual and matching principles in the reporting period during which related income is earned, irrespective of the time the money was spent. Costs are divided into personnel expenses, impairment loss on receivables (related to operating activities of the Group and intended for earning income), administrative expenses and finance costs (interest on loan received from shareholders, deposit interest and lease liabilities). Costs that are not related to income earned during the reporting period, but expected to generate future economic benefits, are recorded in accounting and presented in financial statement as assets. The portion of assets which is intended for earning income in future periods shall be recognised as expenses when the associated income is earned.

##### Transactions in foreign currencies

Transactions in foreign currencies are converted into Euros at the Euro and foreign exchange rates announced by the European Central Bank and Lietuvos Bankas in accordance with the Law on Accounting at the date of the transaction. Resulting exchange differences are recognised in profit or loss for the year.

##### Employee benefits

Short-term employee benefits, such as salaries, paid absences, performance-based cash awards and social security costs are recognised over the period in which the employees are employed.

for the year ended 31 December

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#### 4. Accounting policies (cont'd)

##### Taxes

Income tax expense comprises current tax and deferred tax. Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of the previous year. It is measured using tax rate enacted or substantively enacted at the reporting date.

##### Corporate income tax in Lithuania

Corporate income tax is calculated in accordance with the requirements of the Law on Corporate Income Tax of the Republic of Lithuania. Tax losses can be carried forward for indefinite time. Such transfer of losses shall be terminated if the Group ceases to carry out the activities that caused such tax losses to emerge, unless the Group ceases its activities because of reasons beyond its control. Only up to 70% of current year's taxable profits can be offset against tax losses carried forward.

##### Corporate income tax in Latvia

Income tax expenses of the reporting period accounted for in the financial statements are determined based on calculations performed in accordance with tax legislation of the Republic of Latvia. Income tax is recognised on profit for distribution when shareholders make a decision on profit distribution. Income tax applicable to profit distributed in part is recognised in profit or loss in the year when calculated. In Latvia, income tax is applicable to net dividends instead of profit. Tax rate is 20% from taxable basis.

Deferred tax is recognised on temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

Deferred tax is calculated using rates that are expected to be applied on temporary differences when they are reversed, using tax rate currently enacted or substantively enacted at the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

##### Equity and Reserves

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

The net financial result (profit or loss) received during the financial year must be distributed not later than within 4 months after the end of the financial year, by the decision of the General Meeting of Shareholders approving the annual financial statements.

A legal reserve is a compulsory reserve under Lithuanian legislation. An annual transfer of 5% of net profit is compulsory until the total of the reserve reaches 10% of the share capital. The legal reserve cannot be paid as dividends. The reserve may be used only for covering the losses.

##### Off-balance sheet items and subsequent events

Depending on the importance of subsequent events, the financial statements should be adjusted or not. The financial statements should be adjusted, if subsequent events have a direct material impact on the unaudited financial statements as of the end of the reporting period.

If the non-disclosure of subsequent events may affect the adoption of incorrect decisions by users of the financial statements, information about them must be disclosed in the explanatory notes.

for the year ended 31 December

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## 5. New and amended standards and interpretations

Amendments to standards and interpretations which became effective in 2020

The effect of new and revised standards and their interpretations on the financial statements is described below. Those standards and interpretations that became effective on 1 January 2020 but which, on the Group's reasonable belief, will not have material impact on the Group's financial statements, are presented below.

- Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020)

On 29 March 2018, the IASB issued revised Conceptual Framework for Financial Reporting. The Conceptual Framework sets a comprehensive set of financial reporting and standard setting concepts, guidelines for preparation of consistent accounting policies and assistance to help understand and interpret the standards. In addition, the IASB issued a separate additional document – Amendments to References to Conceptual Framework in IFRS Standards, presenting amendments to standards in order to update references to the revised Conceptual Framework. The aim is to help entities to adopt the revised Conceptual Framework when accounting policies are prepared using Conceptual Framework and when certain transaction is not within the scope of any IFRS standard. The Group is currently assessing the impact of the amendments on its financial statements.

- IAS 1 Presentation of Financial Statements. Definition of materiality (effective for annual periods beginning on or after 1 January 2020, early application is permitted)

The amendments provide a new definition of materiality. Under the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that in the context of financial statements, the materiality of information depends on the nature and scope of information. Inaccurate presentation of information is material, if it reasonably influences the decisions of the users of financial statements. As to the Bank's assessment, these amendments have no effect on the Group's financial statements.

- Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2020)

Amendments to IFRS 3 Business Combinations clarify minimum requirements for business so that activities and assets that together significantly contribute to the ability to create outputs may be considered a business. The amendments also clarify that business can exist without all the processes that would be necessary for generating final outputs. These amendments had no effect on the Group's financial statements.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest rate benchmark reform (effective for annual periods beginning on or after 1 January 2020)

IFRS 9 and IAS 39 Financial Instruments: The amendments modify certain requirements for hedge accounting to provide an additional relief from IBOR reform uncertainty and its potential effect. In addition, the amendments require entities to provide additional information to investors on their hedging relationships directly affected by these uncertainties. These amendments have no effect on the Group's financial statements as the Group does not apply hedge accounting.

for the year ended 31 December

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## 5. New and amended standards and interpretations (cont'd)

### Standards and amendments to standards that are not yet effective

New standards and amendments to standards that are not expected to have a material effect on the Group's separate financial statements are presented below:

- IFRS 17 Insurance Contracts (effective as of 1 January 2023)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37);
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16);
- Reference to the Conceptual Framework (Amendments to IFRS 3);
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16);
  
- Amendments to IFRS 16 Leases COVID-19-Related Rent Concessions (Effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not authorised for issue at 28 May 2020).



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**6. Sales**

	<b>01/01/2020 – 31/12/2020</b>	<b>01/01/2019 – 31/12/2019</b>
	EUR	EUR
Interest income calculated using effective interest rate method	2 220 581	1 723 794
Delinquency	35 453	59 895
Total interest income	<u>2 256 034</u>	<u>1 783 689</u>
Interest expenses of non-current financial liabilities	<u>(259 168)</u>	<u>(166 944)</u>
<b>Net interest income</b>	<b><u>1 996 866</u></b>	<b><u>1 616 745</u></b>
Contract fee and commission income	86 344	61 045
Customer assessment services	8 200	11 615
Other operating income	-	4 256
Insurance expenses	-	-
<b>Total income</b>	<b><u>2 091 410</u></b>	<b><u>1 693 661</u></b>

**7. Personnel and administrative expenses**

	<b>01/01/2020 – 31/12/2020</b>	<b>01/01/2019 – 31/12/2019</b>
	EUR	EUR
<b>Personnel expenses</b>		
Wages and salaries	1 610 204	1 235 313
Social insurance costs	22 774	20 337
Vacation accruals	47 386	56 170
<b>Total personnel expenses</b>	<b><u>1 680 364</u></b>	<b><u>1 311 820</u></b>

	<b>01/01/2020 – 31/12/2020</b>	<b>01/01/2019 – 31/12/2019</b>
	EUR	EUR
<b>Administrative expenses</b>		
Legal services	124 450	113 004
Assets and equipment rental	204 046	103 517
Contract services	77 471	86 737
Depreciation of right-of-use assets	90 940	61 740
Insurance expenses	72 407	62 292
Accounting	81 439	28 112
Telecommunication expenses	8 562	21 759
Public relations	36 472	21 490
Utilities	19 809	19 689
Using of external data systems	35 379	19 075
Audit fee expenses	35 500	14 500
Vehicle maintenance and fuel costs	12 549	14 364
Internal governance procedures costs	13 865	11 372
Prevention of money laundering services	8 333	10 000
Membership fee for bank association	8 942	9 577
Business trip expenses	3 849	7 386
Office maintenance costs	7 037	7 074
Translation services	10 133	3 321
Equipment acquisition costs	3 518	1 456
Credit limit decision costs	9 245	-
Advertising	51 566	
Recruitment expenses	39 355	
Other	157 051	63 799
<b>Total administrative expenses</b>	<b><u>1 111 918</u></b>	<b><u>680 264</u></b>

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**8. Finance costs**

	<b>01/01/2020 – 31/12/2020</b>	<b>01/01/2019 – 31/12/2019</b>
	EUR	EUR
Interest expenses on lease liabilities	(7 096)	(6 249)
<b>Total finance costs</b>	<b>(7 096)</b>	<b>(6 249)</b>

As of 31 December interest expenses on lease liabilities consisted of the following:

	<b>01/01/2020 – 31/12/2020</b>	<b>01/01/2019 – 31/12/2019</b>
	EUR	EUR
Interest expense on lease of office premises	(4 964)	(3 699)
Interest expense on lease of vehicles	(2 132)	(2 550)
<b>Total interest expenses on lease liabilities</b>	<b>(7 096)</b>	<b>(6 249)</b>

**9. Taxes**

The Group had no current income tax charge for 2020 and 2019.

Reconciliation between tax loss and financial loss for the year ended 31 December is, as follows:

Reconciliation of effective tax rate:

		<b>01/01/2020 – 31/12/2020</b>	<b>01/01/2019 – 31/12/2019</b>
		EUR	EUR
Profit/(loss) before tax		(823 397)	(620 946)
Income tax calculated using the statutory tax rate estimated by the Bank in Lithuania	15%	104 630	93 142
Income tax calculated using the statutory tax rate estimated by the parent company in Latvia		(67)	-
Tax effect of:			
<i>Non-deductible expenses</i>		(9 307)	(5 285)
<i>Non-taxable income</i>		5 318	8 984
<i>Tax incentives</i>		-	-
<i>Additionally deductible expenses (decreasing profit / increasing loss)</i>		-	1 715
Recognition of tax losses previously unrecognised		-	-
<b>Total current year income tax expense</b>		<b>100 574</b>	<b>98 556</b>
Adjustment to income tax of the previous year		(878)	( 494)
<b>Income tax expenses reported in the statement of profit or loss</b>		<b>99 696</b>	<b>98 062</b>

The balance comprises temporary differences attributable to:

	<b>2020</b>	<b>2019</b>
	EUR	EUR
Increase (decrease) in deferred tax assets from tax loss	362 433	211 864
Loss allowances for financial assets	-	50 930
Accrued expenses	324	200
<b>Total deferred tax asset</b>	<b>362 757</b>	<b>262 994</b>

Income tax is calculated based on the Lithuanian tax legislation. As of 31 December 2020 and 2019 the standard income tax rate in Lithuania was 15%. In Latvia, tax rate is 20% from taxable basis.

As at 31 December 2020, the Group recognised 100% deferred tax assets for tax losses and temporary difference related to provision. The recognition is based on the Management's assumption that according to a three-year plan, the entire amount of deferred tax will be utilised in the next year.

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**10. Property, plant and equipment**

	Furniture	Advance payments	Total
	EUR	EUR	EUR
<b>Cost, original:</b>			
Balance at 1 January 2019	26 019	1 400	27 419
Additions	947	-	947
Disposals	-	-	-
Sold assets	-	-	-
Reclassification	1 400	(1 400)	-
Balance at 31 December 2019	<u>28 366</u>	<u>-</u>	<u>28 366</u>
Additions	61 281	-	61 281
Disposals	-	-	-
Sold assets	-	-	-
Reclassification	-	-	-
Balance at 31 December 2020	<u>89 647</u>	<u>-</u>	<u>89 647</u>
<b>Accumulated depreciation:</b>			
Balance as at 1 January 2019	-	-	-
Depreciation for the year	(4 693)	-	(4 693)
Disposals	-	-	-
Sold assets	-	-	-
Balance at 31 December 2019	<u>(4 693)</u>	<u>-</u>	<u>(4 693)</u>
Depreciation for the year	(4 825)	-	(4 825)
Disposals	-	-	-
Sold assets	-	-	-
Balance at 31 December 2020	<u>(9 518)</u>	<u>-</u>	<u>(9 518)</u>
<b>Net book value as of 01 January 2019</b>	<u>26 019</u>	<u>1 400</u>	<u>27 419</u>
<b>Net book value as of 31 December 2019</b>	<u>23 673</u>	<u>-</u>	<u>23 673</u>
<b>Net book value as of 31 December 2020</b>	<u>80 129</u>	<u>-</u>	<u>80 129</u>

Depreciation for the year ending 31 December 2020 was calculated in the amount of EUR 4 825 and has been included under administrative expenses in the Group's Statement of profit or loss.

There was no impairment of property, plant and equipment as at 31 December 2020 and 2019.

There are no pledged property, plant and equipment as at 31 December 2020.

There are no fully depreciated property, plant and equipment, which are still in use, as at 31 December 2020.

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**11. Intangible assets**

	Software	Total
	EUR	EUR
<b>Cost, original:</b>		
Balance at 1 January 2019	204 454	204 454
Additions	-	-
Balance at 31 December 2019	204 454	204 454
Addition through purchase of software	322 436	322 436
Balance at 31 December 2020	526 890	526 890
<b>Accumulated amortisation:</b>		
Balance at 1 January 2019	-	-
Amortisation for the year	-	-
Impairment losses	-	-
Balance at 31 December 2019	-	-
Balance at 1 January 2020	-	-
Amortisation for the year	(610)	(610)
Impairment losses	-	-
Balance at 31 December 2020	(610)	(610)
<b>Net book value as of 1 January 2019</b>	204 454	204 454
<b>Net book value as of 31 December 2019</b>	204 454	204 454
<b>Net book value as of 31 December 2020</b>	526 280	526 280

**12. Right-of-use assets**

The Group has valid office premises, vehicles lease agreements.

Right-of-use assets

	Office premises	Vehicles	Total
	EUR	EUR	EUR
Balance at 1 January 2019	-	55 870	55 870
Additions	136 413	29 664	166 077
Depreciation for the year	(44 076)	(17 664)	(61 740)
<b>Balance at 31 December 2019</b>	<b>92 337</b>	<b>67 870</b>	<b>160 207</b>
Additions	40 611	-	40 611
Depreciation for the year	(72 773)	(18 167)	(90 940)
<b>Net book value as of 31 December 2020</b>	<b>60 175</b>	<b>49 703</b>	<b>109 879</b>

Lease liabilities

	Office premises	Vehicles	Total
	EUR	EUR	EUR
<b>1 January 2019</b>	-	55 870	55 870
Additions	136 413	29 664	166 077
Payments	(42 866)	(16 140)	(59 006)
<b>31 December 2019</b>	<b>93 547</b>	<b>69 394</b>	<b>162 941</b>
<b>1 January 2020</b>	<b>93 547</b>	<b>69 394</b>	<b>162 941</b>
Additions	40 611	-	40 611
Payments	(53 207)	(17 559)	(70 766)
<b>31 December 2020</b>	<b>80 951</b>	<b>51 835</b>	<b>132 786</b>

As of 31 December interest expenses on lease liabilities consisted of the following:

	01/01/2020 – 31/12/2020	01/01/2019 – 31/12/2019
	EUR	EUR
Interest expense on lease of office premises	(4 964)	(3 699)
Interest expense on lease of vehicles	(2 132)	(2 550)
<b>Total interest expenses on lease liabilities</b>	<b>(7 096)</b>	<b>(6 249)</b>

**for the year ended 31 December**

**12. Right-of-use assets continued**

Impact of lease liabilities on cash flows:

	<b>01/01/2020 – 31/12/2020</b>	<b>01/01/2019 – 31/12/2019</b>
	<b>EUR</b>	<b>EUR</b>
Lease of office premises	58 171	46 565
Lease of vehicles	19 681	18 690
<b>Total impact of lease liabilities on cash flows</b>	<b>77 852</b>	<b>65 255</b>

As at 31 December the future minimum lease payments under operating leases were payable as follows:

	<b>2020</b>	<b>2019</b>
	<b>EUR</b>	<b>EUR</b>
Within one year	96 351	65 520
After 1 year but not later than within 5 years	36 435	97 421
After five years	-	-
	<b>132 786</b>	<b>162 941</b>

**Maturity analysis. Contractual discounted cash flows**

	<b>2020</b>
	<b>EUR</b>
Up to one year	96 351
From 1 to 5 years	36 435
More than 5 years	-
<b>Total discounted lease liabilities at 31 December 2020</b>	<b>132 786</b>

As at 31 December 2020, the value of right-of-use assets calculated in accordance with IFRS 16 amounted to EUR 132 787 (part in 2019: EUR 162 941).

**13. Loans granted and factoring receivables**

As of 31 December non-current loans granted and factoring receivables consisted of the following:

	<b>2020</b>	<b>2019</b>
	<b>EUR</b>	<b>EUR</b>
Non-current amounts receivable under factoring arrangements	591 965	-
Impairment of non-current amounts receivable under factoring arrangements (-)	(133)	-
	<b>591 831</b>	<b>-</b>
Non-current loans receivable	13 542 371	302 016
Impairment of loans granted (-)	(321 052)	(211 190)
<b>Carrying amount of non-current loans receivable</b>	<b>13 813 151</b>	<b>90 826</b>

As of 31 December current loans granted consisted of the following:

Current loans receivable	1 869 924	2 833 408
Impairment of loans granted (-)	(12 419)	(15 461)
Accumulated interest income on loans calculated using effective interest rate method	16 782	146
<b>Carrying amount of current loans receivable</b>	<b>1 874 287</b>	<b>2 817 947</b>

In 2019 the Group registered receivable in amount of EUR 247 777 (part of non-current loans receivable EUR 281 111) and unpaid accrued interest in amount of EUR 20 905 as non-current loan receivable. In 2019, a Peace Agreement was signed with the customer and amount receivable of EUR 326 330 under factoring agreement was registered as loan with repayment schedule until 30 April 2021. However, the client failed to meet its liabilities resulting in the termination of the agreement in 2020 and initiation of debt recovery process. Loan balance as at 31 December 2020 amounted to EUR 269 210, accrued interest amounted to EUR 19 919. Land plots are pledged to secure the repayment of the loan. Based on the Group's assessment, debt recovery process will last at least until the end of 2021.

In 2019 the Group signed a cooperation agreement with the European Investment Fund (EIF) to issue microloans of up to EUR 25 000 with a guarantee from the EIF. In 2020, the Group entered into EaSI guarantee approval form with the European Investment Fund (EIF), which allowed increasing the maximum amount of loan to one customer from EUR 25 000 to EUR 50 000. As of 31 December 2019 the Group has outstanding balance of current issued loans in the total amount of EUR 2 833 408 (EUR 2 817 947 after recognition of impairment), including EIF loans in the amount of EUR 685 000; non-current loans - EUR 302 016 (EUR 90 826 after recognition of impairment). As of 31 December 2020 the Group has outstanding balance of current issued loans in the total amount of EUR 1 869 924 (EUR 1 857 505 after recognition of impairment), including EIF loans in the amount of EUR 827 044; non-current loans - EUR 13 542 371 (EUR 13 221 320 after recognition of impairment). Loan interest income is presented as interest income calculated using effective interest rate method in Statement of profit or loss. In 2020 the amount of interest income related to loans was EUR 629 658 (in 2019: EUR 188 912).

The amounts of loans granted also are the subject to the impairment requirements of IFRS 9, see Note 23.

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**14. Factoring and other amounts receivable**

The carrying amount of trade and other receivables comprises amounts receivable that are subject to various factoring arrangements and advances paid to suppliers. The Group has four types of factoring arrangements: recourse, limited recourse and reverse factoring. All these amounts receivable are also the subject to the impairment requirements of IFRS 9, see Note 23.

As of 31 December trade and other receivables consisted of the following:

	<u>2020</u>	<u>2019</u>
	EUR	EUR
Amounts receivable under factoring arrangements	21 590 972	32 739 056
Accrued interest income on factoring calculated using the effective interest rate method	2 066	18 688
Advance payments	9 210	4 076
	<u>21 602 249</u>	<u>32 761 820</u>
Impairment of trade and other receivables (-)	(119 216)	(110 811)
<b>Total trade and other receivables</b>	<u><b>21 483 033</b></u>	<u><b>32 651 009</b></u>

**15. Other current assets**

As of 31 December other current assets consisted of amounts receivable, deferred costs and accrued income set out below:

<b>Amounts receivable:</b>	<u>2020</u>	<u>2019</u>
	EUR	EUR
Receivable VAT	3 770	-
Receivable EU VAT	466	-
Receivables from accountable persons	681	-
<b>Total amounts receivable</b>	<u><b>4 917</b></u>	<u><b>-</b></u>
<b>Deferred costs:</b>	<u>2020</u>	<u>2019</u>
	EUR	EUR
Membership and subscription fees	287	4 286
Annual fee for using AML tool	-	3 333
Insurance	7 468	1 359
Other deferred costs	2 782	724
<b>Total deferred costs</b>	<u><b>10 537</b></u>	<u><b>9 702</b></u>
<b>Total other current assets</b>	<u><b>15 454</b></u>	<u><b>9 702</b></u>

**16. Cash and cash equivalents**

	<u>2020</u>	<u>2019</u>
	EUR	EUR
Cash at bank	4 975 158	3 646 072
Impairment of cash at bank (-)	(2 140)	(2 069)
<b>Total cash and cash equivalents</b>	<u><b>4 973 018</b></u>	<u><b>3 644 003</b></u>

The cash and cash equivalents of the Group are carried at amortised cost in the statement of financial position. The cash and cash equivalents of the Group are held with commercial banks that are rated at least Baa2 to Aaa, based on Moody's Credit ratings.

As of 31 December 2020 the Group has recognised impairment of cash at bank in the amount of EUR 2 140 (2019: EUR 2 069).

**17. Authorised share capital**

The Group's share capital as of 31 December 2019 consisted of 20,000,000 ordinary shares with the par value of EUR 1 each. On 24 September 2020, based on the decision of the sole shareholder, the share capital was increased by EUR 16 424 791 (converting the loan granted by the shareholder to share capital). The Group's share capital as of 31 December 2020 consisted of 36 424 791 ordinary shares with the par value of EUR 1 each. All shares are fully paid. A share shall not be divided into parts. All shares issued by the Group are uncertificated ordinary registered shares.

A legal reserve is a compulsory reserve under Lithuanian legislation. An annual transfer of 5% of net profit is compulsory until the total of the reserve reaches 10% of the share capital. As of 31 December 2020 the Group's loss was EUR 2 188 051 and the legal reserve was not formed.

At the date of signing the financial statements, draft of the profit (loss) appropriation project was not yet prepared.

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**18. Financial liabilities measured at amortised cost**

	<u>2020</u>	<u>2019</u>
	<u>EUR</u>	<u>EUR</u>
Non-current financial liabilities under loan agreement	-	18 166 945
<b>Total financial liabilities at amortised cost</b>	<b>-</b>	<b>18 166 945</b>

As of 31 December 2019 Group's non-current financial liabilities in the amount of EUR 18 000 000 principle and EUR 166 945 interest are represented by the convertible shareholder loan. The total credit limit under present agreement is EUR 20 000 000. This convertible loan with fixed interest rate matures on 21 March 2024, therefore it was classified as non-current. On 24 September 2020, the outstanding Group's loan amounted to EUR 16 000 000 plus interest payable of EUR 424 791. Loan amount with interest, EUR 16 424 791, based on the decision of the sole shareholder, was converted to share capital.

As of 31 December 2019, the Group has made estimation of this convertible loan as compound financial instrument. As a result of the calculation the difference between fair value of liability component and fair value whole compound financial instrument amounted to EUR 46 587. Calculated amount was considered to have immaterial impact on the financial statements. To follow the conclusion the convertible loan has not been split between the financial liability element and an equity component, representing the fair value of the embedded option to convert the financial liability into equity at fair value.

**19. Deposits, current trade and other payables**

As at 31 December, deposits, trade and other payables consisted of the following:

	<u>2020</u>	<u>2019</u>
	<u>EUR</u>	<u>EUR</u>
Deposits	6 067 402	-
Payables from factoring arrangements	1 743 593	2 251 832
Payables to related parties (see Note 21)	705 535	527 046
Other amounts payable	113 537	40 192
Advances received	1 495	1 495
	<b>8 631 562</b>	<b>2 820 565</b>

As of 31 December 2020, the Group's financial liabilities comprising deposits amount to EUR 6 067 402. Deposits from business customers amount to EUR 5 000 000. Deposits from private customers amount to EUR 1 000 000.

**20. Other current liabilities**

As of 31 December other current liabilities consisted of the following:

	<u>2020</u>	<u>2019</u>
	<u>EUR</u>	<u>EUR</u>
Deferred income (EIF loan interest)	-	56 686
Accrued expenses	47 753	36 534
VAT payable	-	21 258
Other amounts payable	1 717	2 245
	<b>49 470</b>	<b>116 723</b>

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**21. Transactions with related parties**

During the year ended 31 December the following transactions occurred with related parties:

*Entities of the same ultimate beneficial owners*

	<u>2020</u>	<u>2019</u>
	EUR	EUR
<b>Sales and purchases of goods and services</b>		
Purchase of goods/services	585 385	-
Purchases of non-current assets	120 150	-
Convertible loan agreement	-	18 166 945
<b>Total</b>	<u><u>705 535</u></u>	<u><u>18 166 945</u></u>

The following balances are outstanding at the end of the reporting period in relation to transactions with entities of the same ultimate beneficial owners:

	<u>2020</u>	<u>2019</u>
	EUR	EUR
<b>Current payables (purchases of goods and services)</b>		
Entities of the same ultimate beneficial owners	705 535	527 046
<b>Total</b>	<u><u>705 535</u></u>	<u><u>527 046</u></u>

	<u>2020</u>	<u>2019</u>
	EUR	EUR
<b>Non-current payables (non-current loan and interest)</b>		
Entities of the same ultimate beneficial owners	-	18 166 945
<b>Total</b>	<u><u>-</u></u>	<u><u>18 166 945</u></u>

*Key management personnel*

There were no issued loans to the key management personnel during the financial year.

Compensation of key management personnel of the Group:

	<u>2020</u>	<u>2019</u>
	EUR	EUR
Wages and salaries	313 121	216 689
	<u><u>313 121</u></u>	<u><u>216 689</u></u>

□ Remuneration to the Group's Board members amounted to EUR 10 422 in 2020.



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## 22. Risk management

The Group is exposed to the following risks:

- capital risk;
- credit risk;
- liquidity risk;
- operational risk.

### Risk management framework

The Group uses three lines of defence model for risk management. The Bank's management has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Group employs Chief Risk Officer, who is responsible for identification, monitoring of risks and implementing risk management policies and practices in the Group.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Internal Auditor oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank's Management.

### Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains healthy capital ratios in order to support their business and to maximise the shareholders' value. Capital is managed by complying with legislative requirements and following the activity plans set by the Bank's managing bodies. In addition, the level of assumed risks is assessed not only in current situation, but also considering future prospects and the effect of possible adverse factors.

During the reporting period, the Group complied with all prudential ratios. Ratios applicable to the Group:

- Capital adequacy - 8%,
- Liquidity ratio - 100%,
- Maximum loan - maximum loan amount based on capital is EUR 7.5 million.

### Interest rate risk

The key source of interest rate risk at the Group is interest rate risk and revaluation risk. The risk arises due to mismatch between the repurchase and revaluation terms of assets and liabilities resulting from the change in yield curve or resulting from interest rate options which may have an effect on future cash flows or due to differing reactions of yield curves to changes in interest rates. For the calculation of IRRBB, the Group uses net interest income sensitivity and sensitivity of owned property economic value. Based on regulatory guidelines and internal assessment of a situation, the Group sets interest rate floor for negative interest rates scenarios.

The Group's interest rate, considering its insignificance, the following controls are applied in 2020 (described in documents Enterprise Risk management policy or Procedure on Internal Capital and Liquidity Adequacy Assessment Process). Based on the decision of the Board of the Group, the IRRBB policies are not approved because the materiality of this risk and the need for additional policies will be reassessed in Q1 of 2022 or earlier, if EURIBOR becomes >0 and/or the periodic IRRBB control shows such a need.

### Credit risk

Credit risk is a risk that the Group will incur financial losses, if a debtor or other counterparty fails to fulfil its liabilities. Credit risk arises principally from the Group's loans, factoring arrangements and other advances to customers and banks. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk and sector risk.

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### 22. Risk management continued

#### Management of credit risk

The Group created the Credit Committee for the oversight of credit risk. Chief Risk Officer, reporting to the top Management of the Group and to the Credit Committee, is responsible for managing the Group's credit risk, including the following:

- *formulating credit policies*, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with any regulatory and statutory requirements;
- establishing the *authorisation structure* for the approval and renewal of credit facilities. All authorisation limits are allocated to the Credit Committee;
- *reviewing and assessing credit risk*: Chief Risk Officer assesses all credit exposures before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process;
- *limiting concentrations of exposure* to counterparties, geographies and industries (for loans, factoring arrangements, advances and similar exposures), and by issuer and credit rating band;
- *developing and maintaining the Group's risk gradings* to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 15 grades reflecting varying degrees of risk of default (see Table 'Credit risk grades and corresponding probabilities of default'). The responsibility for setting risk grades lies with the Chief Risk Officer. Risk grades are subject to regular reviews by Chief Risk Officer;
- *developing and maintaining the the Group's processes for measuring ECL*. This includes processes for:
  - initial approval, regular validation and back-testing of the models used;
  - determining and monitoring significant increase in credit risk; and
  - incorporation of forward-looking information.
- reviewing compliance of credit portfolio with agreed exposure limits, including those for selected industries and product types. Regular risk reports on the credit quality of Group's portfolios are provided to the Group's top Management and Credit Committee, which may require appropriate corrective actions to be taken. These include reports containing estimates of ECL allowances.
- *providing advice, guidance and specialist skills* to the Group's employees to promote best practice throughout the Bank in the management of credit risk.

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## 22. Risk management continued

Table. Credit risk grades and corresponding probabilities of default

	Risk grade	PD from	PD to
Low risk customers	A1	0.00%	0.16%
	A2	0.16%	0.24%
	A3	0.24%	0.37%
Medium risk customers	B1	0.37%	0.55%
	B2	0.55%	0.84%
	B3	0.84%	1.27%
Increased risk Customers	C1	1.27%	1.92%
	C2	1.92%	2.91%
	C3	2.91%	4.39%
High risk Customers	D1	4.39%	6.61%
	D2	6.61%	9.92%
	D3	9.92%	14.81%
Customers with default indication	E1	14.81%	21.97%
	E2	21.97%	32.26%
	E3	32.26%	100.00%

Regular audits of the Group's Credit Risk Management processes are undertaken by Internal Audit.

Diversification of credit portfolio as at 31 December 2020:

Industry sector	Outstanding Nominal, EUR	Outstanding Nominal, %
46. Wholesale trade, except of motor vehicles and motorcycles	13 519 656	35.96%
49. Land transport and transport via pipelines	7 004 980	18.63%
10. Manufacture of food products	3 909 191	10.40%
70. Activities of head offices; management consultancy activities	3 100 496	8.25%
95. Repair of computers and personal and household goods	2 138 439	5.69%
11. Production of beverages	1 387 682	3.69%
78. Recruitment	1 199 101	3.19%
52. Warehousing and support activities for transportation	1 146 084	3.05%
77. Rent and lease	1 019 323	2.71%
15. Manufacture of leather and leather products	292 120	0.78%
43. Specialised construction	287 914	0.77%
33. Repair and installation of machinery and equipment	251 010	0.67%
16. Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting	244 800	0.65%
45. Wholesale and retail trade and repair of motor vehicles and motorcycles	217 775	0.58%
22. Manufacture of rubber and plastic products	212 517	0.57%
25. Manufacture of fabricated metal products, except machinery and equipment	198 897	0.53%
35. Supply of electricity, gas, vapour and air conditioning	190 426	0.51%
30. Manufacture of other vehicles and equipment	182 532	0.49%
73. Advertising and market research	124 277	0.33%
47. Retail trade, except of motor vehicles and motorcycles	121 404	0.32%
41. Construction of buildings	83 292	0.22%
29. Manufacture of motor vehicles, trailers and semi-trailers	38 748	0.10%
62. Computer programming, consulting and related activities	35 269	0.09%
74. Other professional, scientific and technical activities	24 180	0.06%
42. Civil engineering construction	23 894	0.06%
18. Printing and reproduction of recorded media	20 961	0.06%
68. Real estate operations	15 043	0.04%
38. Waste collection, treatment and disposal activities; materials recovery	15 040	0.04%
2. Forestry and logging	15 038	0.04%
20. Manufacture of chemicals and chemical products	15 025	0.04%
13. Manufacture of textiles	10 040	0.03%
21. Manufacture of basic pharmaceutical products and pharmaceutical preparations	2 194	0.01%
31. Manufacture of furniture	390	0.00%
Other	547 491	1.46%
	<b>37 595 232</b>	<b>100.00%</b>

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**22. Risk management continued**

Diversification of credit portfolio as at 31 December 2019:

Industry sector	Outstanding Nominal, EUR	Outstanding Nominal, %
49. Land transport and transport via pipelines	7 899 984	22.02%
46. Wholesale trade, except of motor vehicles and motorcycles	7 337 083	20.45%
46.21 Wholesale trade, except of motor vehicles and motorcycles	6 270 168	17.48%
46. Wholesale trade, except of motor vehicles and motorcycles	5 728 558	15.97%
95. Repair of computers and personal and household goods	1 482 921	4.13%
78. Employment activities	1 209 874	3.37%
70. Activities of head offices; management consultancy activities	1 165 047	3.25%
46.69 Wholesale trade, except of motor vehicles and motorcycles	868 973	2.42%
43. Specialised construction	482 958	1.35%
46.76 Wholesale trade, except of motor vehicles and motorcycles	419 979	1.17%
47. Retail trade, except of motor vehicles and motorcycles	402 550	1.12%
25. Manufacture of fabricated metal products, except machinery and equipment	362 139	1.01%
52. Warehousing and support activities for transportation	222 207	0.62%
31. Manufacture of furniture	217 264	0.61%
46.73 Wholesale trade, except of motor vehicles and motorcycles	205 476	0.57%
Other	1 599 299	4.46%
	<b>35 874 482</b>	<b>100.00%</b>

Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- trade and other receivables, which are subject to the all types of factoring arrangements;
- loans granted;
- cash and cash equivalents.

Portfolio based on the type of financial assets as at 31 December:

	Outstanding Nominal 2020, EUR	Protected with insurance**, 2020	Outstanding Nominal 2019, EUR	Protected with insurance*, 2019
Factoring				
<i>recourse</i>	11 347 281	3 288 919	11 242 281	3 608 733
<i>non-recourse</i>	4 495 218	1 021 371	7 369 782	1 007 865
<i>limited recourse</i>	6 340 438	6 340 438	6 789 910	6 128 515
<i>reverse</i>	-	-	7 337 083	-
<b>Total factoring</b>	<b>22 182 937</b>	<b>10 650 728</b>	<b>32 739 056</b>	<b>10 745 113</b>
Loans and borrowings	15 412 295	10 155 916	3 135 424	685 000
<b>Total</b>	<b>37 595 232</b>	<b>20 806 644</b>	<b>35 874 480</b>	<b>11 430 113</b>

\*Trade credit insurance by Atradius, Euler Hermes or Coface

\*\*Trade credit insurance by Invega guarantee, Atradius, Euler Hermes, Coface, Nexus or guarantee by European Investment Fund

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**22. Risk management continued**

The loss allowance as at 31 December was determined as follows for amounts receivables and loans granted:

	<u>2020</u>	<u>2019</u>
	EUR	EUR
Gross carrying amount – factoring receivables	22 182 937	32 739 056
Gross carrying amount – loans	15 412 295	3 135 424
<b>Gross outstanding debt nominal</b>	<b>37 595 232</b>	<b>35 874 480</b>
Loss allowance - factoring receivables	(119 349)	(110 811)
Loss allowance - loans granted	(333 471)	(226 651)
<b>Total loss allowance</b>	<b>(452 820)</b>	<b>(337 462)</b>
<b>Total outstanding debt nominal</b>	<b>37 142 412</b>	<b>35 537 018</b>

The loss allowance as at 31 December 2020 for trade and other receivables and loans granted set by customers risk level:

	Risk grade	Outstanding Nominal, EUR	ECL, EUR	Outstanding Balance, EUR
Low risk customers	A1	-	-	-
	A2	-	-	-
	A3	1 575 047	(1 718)	1 573 329
	<b>Total</b>	<b>1 575 047</b>	<b>(1 718)</b>	<b>1 573 329</b>
Medium risk customers	B1	2 228 917	(4 387)	2 224 530
	B2	5 015 049	(17 963)	4 997 086
	B3	12 761 118	(91 890)	12 669 228
	<b>Total</b>	<b>20 005 084</b>	<b>(114 240)</b>	<b>19 890 844</b>
Increased risk customers	C1	14 896 669	(84 751)	14 811 918
	C2	663 642	(4 111)	659 531
	C3	95 594	(461)	95 133
	<b>Total</b>	<b>15 655 905</b>	<b>(89 323)</b>	<b>15 566 582</b>
High risk customers	D1	-	-	-
	D2	-	-	-
	D3	-	-	-
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>
Customers with default indication	E1	-	-	-
	E2	-	-	-
	E3	359 196	(247 539)	111 657
	<b>Total</b>	<b>359 196</b>	<b>(247 539)</b>	<b>111 657</b>
<b>Total</b>		<b>37 595 232</b>	<b>(452 820)</b>	<b>37 142 412</b>

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## 22. Risk management continued

The loss allowance as at 31 December 2019 for trade and other receivables and loans granted set by customers risk level:

	Risk grade	Outstanding Nominal, EUR	ECL, EUR	Outstanding Balance, EUR
Low risk customers	A1	51 914	(7)	51 907
	A2	58 199	(4)	58 195
	A3	29 514	-	29 514
	<b>Total</b>	<b>139 627</b>	<b>(11)</b>	<b>139 616</b>
Medium risk customers	B1	608 279	(549)	607 730
	B2	2 481 744	(3 082)	2 478 662
	B3	11 003 603	(15 286)	10 988 317
	<b>Total</b>	<b>14 093 626</b>	<b>(18 917)</b>	<b>14 074 709</b>
Increased risk customers	C1	18 787 729	(94 285)	18 693 444
	C2	2 056 626	(4 173)	2 052 453
	C3	339 963	(1 767)	338 196
	<b>Total</b>	<b>21 184 318</b>	<b>(100 225)</b>	<b>21 084 093</b>
High risk customers	D1	65 678	(506)	65 172
	D2	-	-	-
	D3	-	-	-
	<b>Total</b>	<b>65 678</b>	<b>(506)</b>	<b>65 172</b>
Customers with default indication	E1	-	-	-
	E2	-	-	-
	E3	391 231	(217 803)	173 428
	<b>Total</b>	<b>391 231</b>	<b>(217 803)</b>	<b>173 428</b>
<b>Total</b>		<b>35 874 480</b>	<b>(337 462)</b>	<b>35 537 018</b>

### Off-balance sheet liabilities

As at 31 December 2020, the Group has EUR 4 655 of unused limits.

The Group's standard factoring and loan agreements may be at any time and without prior notice unconditionally terminated. Accordingly, expected credit losses are not calculated on unused limit.

### Expected credit loss

The Group's probability of default includes forward looking approach. When calculating expected credit losses, the clients' PDs are adjusted based on the GDP forecasts presented by the Ministry of Finance of the Republic of Lithuania and of the Bank of Lithuania.

As at 31 December 2020, having included the effect of economic variables (GDP) into the calculations of probabilities of default, the expected credit losses are 16% higher compared to the amount of expected credit loss which would have been had forward looking approach not been applied.

### Liquidity risk

'Liquidity risk' is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Group's operations and investments.

### Management of liquidity risk

The Group sets the strategy for managing liquidity risk. The top Management approves the Group's liquidity policies and procedures. Chief Financial Officer manages the Group's liquidity position on a day-to-day basis.

The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The key elements of the Group's liquidity strategy are as follows:

- maintaining a diversified funding base and maintaining contingency facilities;
- carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- monitoring maturity mismatches, behavioural characteristics of the Group's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding;
- stress testing of the Group's liquidity position against various exposures and specific events.

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**22. Risk management continued**

The following table sets out the remaining contractual maturities of the Bank's financial liabilities and financial assets:

31 December 2020 EUR	Note	Carrying amount	Gross nominal inflow /(outflow)	0-3 months	3-6 months	6-12 months	More than 1 year
<i>Financial liability by type</i>							
<u>Non-derivative financial liabilities</u>							
Financial liabilities at amortised cost		6 067 402	-	-	-	(5 933 873)	(133 529)
Trade and other payables		2 564 160	(2 564 160)	(2 564 160)	-	-	-
Lease liabilities		132 785	(132 785)	(25 498)	(25 706)	(45 147)	(36 435)
Other current liabilities		49 721	(49 721)	(49 721)	-	-	-
		<b>8 814 068</b>	<b>(2 746 666)</b>	<b>(2 639 379)</b>	<b>(25 706)</b>	<b>(5 979 020)</b>	<b>(169 964)</b>
<i>Financial asset by type</i>							
<u>Non-derivative financial assets</u>							
Factoring and other amounts receivable		21 483 033	(22 136 605)	(7 464 170)	(5 796 440)	(8 118 468)	(757 527)
Non-current loans granted		13 813 151	(13 316 237)	-	-	-	(13 316 237)
Current loans granted		1 874 287	(2 122 332)	(385 436)	(378 826)	(1 358 070)	-
Other current assets		15 454	(15 454)	(15 454)	-	-	-
		<b>37 185 925</b>	<b>(37 590 627)</b>	<b>(7 865 060)</b>	<b>(6 175 265)</b>	<b>(9 476 538)</b>	<b>(14 073 764)</b>
<i>31 December 2019</i>							
EUR	Note	Carrying amount	Gross nominal inflow /(outflow)	0-3 months	3-6 months	6-12 months	More than 1 year
<i>Financial liability by type</i>							
<u>Non-derivative financial liabilities</u>							
Non-current financial liabilities at amortised cost		18 166 945	(19 257 222)	(8 000 000)	-	-	(11 257 222)
Trade and other payables		2 820 565	(2 847 703)	(1 972 703)	(105 000)	(770 000)	-
Lease liabilities		162 941	(162 941)	(16 174)	(16 315)	(33 031)	(97 421)
Other current liabilities		116 723	(116 723)	(80 978)	(19 121)	(16 624)	-
		<b>21 267 174</b>	<b>(22 384 589)</b>	<b>(10 069 855)</b>	<b>(140 436)</b>	<b>(819 655)</b>	<b>(11 354 643)</b>
<i>Financial asset by type</i>							
<u>Non-derivative financial assets</u>							
Trade and other amounts receivable		32 632 321	32 743 132	32 700 260	42 872	-	-
Non-current loans granted		90 826	380 493	-	-	-	380 493
Current loans granted		2 817 947	2 874 644	1 936 675	160 730	777 239	-
Other current assets		28 516	28 516	23 040	2 461	2 837	178
		<b>35 569 610</b>	<b>36 026 785</b>	<b>34 659 975</b>	<b>206 063</b>	<b>780 076</b>	<b>380 671</b>

for the year ended 31 December

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## 22. Risk management continued

### Operational risk

Operational risk is defined as the risk that could potentially cause losses due to human errors, inadequate or faulty internal processes, system failures or external events. This definition includes legal risk, reputational risks, but excludes strategic, business risks. The Group divides operational risk and its management into the following areas: personnel risk (including management risk), process risk (including model risk), information risk, compliance risk (including anti-money laundering risk) and external risk (including outsourcing risk). External fraud is potentially the biggest operational threat for the Group. There may be some fraud risks involved and some clients may try to exercise fraudulent activity against the Bank.

<b>Risks (not audited)</b>	<b>Material/Not Material (not audited)</b>
Operational risk	Material
Anti-money laundering (AML) risk	Material

### Operational and AML risk management

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank's policy requires compliance with all applicable legal and regulatory requirements.

Chief Risk Officer is responsible for operational risk management. Chief Risk Officer is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- training and professional development;
- ethical and business standards;
- information technology and cyber risks;
- risk mitigation, including insurance where this is cost-effective.

Compliance with the Group's standards is supported by a programme of periodic reviews by Internal Audit. The results of Internal Audit reviews are discussed with the Management of the Group.

The Group has processes in place to mitigate the risks described above by: assessing the documents presented before financing, having verifications with the Buyer regarding authenticity of the invoices, monitoring the level of credit notes raised or direct Seller payments for the invoices, paying diligent approach to the contact information of the Buyer, using Know Your Customer (KYC) procedures, etc.

Managing the Group's risks relating to money laundering and terrorist financing is an integral part of its overall risk management system. The process leader is Money Laundering Officer. He is responsible for the day to day implementation of the Group's anti-money laundering and counter-terrorist financing policies as well as systems and controls which support and facilitate them. Considering the scope and nature of its business, the Group implements money laundering and terrorist financing risk identification, assessment, and management procedures, as well as effective tools to mitigate such risks.



UAB PayRay Bank  
Company code: 304862948, Lvovo g. 25-702, Vilnius, Lithuania  
**Notes to the consolidated financial statements**

for the year ended 31 December

**23. Fair value**

The carrying values of the Group's principal financial instruments, trade and other payables, long-term and short-term borrowings, approximates their fair values. The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The carrying of financial liabilities not measured at fair value approximates their fair value.

	Carrying amount	Fair value	Carrying amount	Fair value
	31 December 2020	31 December 2020	31 December 2019	31 December 2019
	EUR	EUR	EUR	EUR
<b>Financial assets</b>				
Other amounts receivable after one year	23 805	23 805	14 530	14 530
Factoring and other amounts receivable	21 483 033	21 483 033	32 632 321	32 632 321
Loans granted	15 687 438	15 687 438	2 817 947	2 817 947
Other current assets	15 454	15 454	28 516	28 516
Cash and their equivalents	4 973 018	4 973 018	3 644 003	3 644 003
<b>Financial liabilities</b>				
Financial liabilities measured at amortised cost	6 067 402	6 067 402	18 166 945	18 166 945
Trade and other payables	2 564 160	2 564 160	2 820 565	2 820 565
Other current liabilities	49 721	49 721	116 723	116 723

Quantitative disclosures of the Group's financial assets and liabilities in the fair value measurement hierarchy as at 31 December 2020:

	Level 1	level 2	level 3	Total
	EUR	EUR	EUR	EUR
<b>Financial assets</b>				
Other amounts receivable after one year	-	23 805	-	23 805
Factoring and other amounts receivable	-	21 483 033	-	21 483 033
Loans granted	-	15 687 438	-	15 687 438
Other current assets	-	15 454	-	15 454
Cash and their equivalents	-	4 973 018	-	4 973 018
<b>Financial liabilities</b>				
Financial liabilities measured at amortised cost	-	6 067 402	-	6 067 402
Trade and other payables	-	2 564 160	-	2 564 160
Other current liabilities	-	49 721	-	49 721

Quantitative disclosures of the Group's financial assets and liabilities in the fair value measurement hierarchy as at 31 December 2019:

	Level 1	level 2	level 3	Total
	EUR	EUR	EUR	EUR
<b>Financial assets</b>				
Other amounts receivable after one year	-	14 530	-	14 530
Trade and other amounts receivable	-	32 632 321	-	32 632 321
Loans granted	-	2 817 947	-	2 817 947
Other current assets	-	28 516	-	28 516
Cash and their equivalents	-	3 644 003	-	3 644 003
<b>Financial liabilities</b>				
Financial liabilities measured at amortised cost	-	18 166 945	-	18 166 945
Trade and other payables	-	2 820 565	-	2 820 565
Other current liabilities	-	116 723	-	116 723

for the year ended 31 December

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#### 24. Contingent liabilities

In 2020, the Group has a law case where it is a defendant (the case was started in 2019). Plaintiff is accusing the Bank of unfair competition. The amount of lawsuit is EUR 208 000. The Management expects that the outcome of the case will not result in material liabilities and therefore no provision was recognized in the financial statements.

#### 25. Effect of COVID-19 on the Group's operations

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. In the context of COVID-19 pandemic, in 2020 the Group entered into EaSI guarantee approval form with the European Investment Fund (EIF), which allowed increasing the maximum amount of loan to one customer from EUR 25 000 to EUR 50 000. In addition, having signed this form, during the COVID-19 pandemic period (until 30 June 2021), loan guarantee was increased from 80% to 90%.

In 2020, the Group signed four (4) agreements with UAB Investicijų ir Verslo Garantijos (INVEGA): Agreement on Individual Guarantees for loans to SMEs, Agreement of promotional financial instrument Portfolio Guarantees for Loans 2 (PGL2), Agreement of financial engineering vehicle Portfolio Guarantees for Factoring Arrangements 2 (PGF2) and Agreement of grant vehicle Partial Compensation of Interest (PCI).

- INVEGA individual guarantee: guarantee level may be up to 80%, maximum guarantee duration 10 years, maximum guarantee level per client is EUR 1 500 000.
- INVEGA PGL2 vehicle: individually each transaction is guaranteed 80%, but the amount of all payments may not exceed 20% of the upper limit of portfolio, maximum loan duration 6 years, maximum loan level per client is EUR 5 000 000.
- INVEGA PGF2 vehicle: individually each transaction is guaranteed 80%, but the amount of all payments may not exceed 20% of the upper limit of portfolio, maximum duration of factoring arrangement is 12 months, maximum amount of one factoring arrangement limit is EUR 1 875 000.
- INVEGA PCI vehicle: clients that have been granted an investment loan or a loan with INVEGA guarantee may apply to INVEGA for compensation of interest. Up to 95% of interest can be compensated, the annual interest is limited to 7%, maximum compensation amount per client is EUR 200 000, maximum period for which interest compensation is provided is 36 months.

In 2020, the Group signed one (1) agreement with Rural Credit Guarantee Fund (Guarantee Fund) - Agreement on Individual Loan Guarantees. The individual guarantee granted by the Guarantee Fund may be up to 80%, maximum level of guaranteed loan is EUR 1 160 000.

Management considered the following operating risks that may adversely affect the Group and immediately took the needed actions:

- Unavailability of staff for extended period of time. To address this risk the Group has implemented technological solutions and acquired additional devices, allowing every employee to work entirely remotely, without affecting business continuity.
- Recession in the region that would significantly reduce the purchasing power of end consumers and businesses. To address this risk the Group reviewed the factoring portfolio by restricting financing to non-essential goods retail and transportation as well as construction sectors. The Group provides no financing to end consumers.
- An adverse effect on the assets value due to deteriorating economic environment. The Group's Management finds this risk as not material. Non-current assets as collaterals are not taken. The Group's factoring portfolio is mainly insured by trade credit insurance Euler Hermes. The Group reviewed the non-insured part of portfolio by improving financing conditions or closing the limits. When calculating expected credit losses, the Management also assessed the impact of COVID-19. The Group continues monitoring the carrying out of clients' liabilities, if necessary, it will further adjust its credit risk management based on internal portfolio trends and overall market situation developments.

#### 26. Significant events after the end of the reporting period

In 2021, PayRay Bank, UAB established a new company PayRay Estonia OU. The Bank owns 100% of the share capital of PayRay Estonia OU.

After the end of the financial year, the Bank increased the share capital of PayRay SIA by EUR 750 thousand. In addition, this subsidiary was granted a credit line of EUR 4 million, out of which EUR 2 million was already used as at the date of issuing these financial statements. The credit line matures in 2023.

After the end of the financial year until the approval of these financial statements there were no other subsequent events that would have an effect on the consolidated financial statements as at 31 December 2020.

Director  
Renato La Fianza

\_\_\_\_\_  
(signature) 29 April 2021  
(date)

Chief Financial Officer  
Albertas Gruodis

\_\_\_\_\_  
(signature) 29 April 2021  
(date)

# PAYRAY BANK, UAB

*Consolidated annual management report for the year ended 31 December 2020*

## **1. Annual management report of the reporting period**

This annual management report has been prepared for 2020. Annual management report presents the information of PayRay Bank, UAB (“the Bank”) and its subsidiary (“the Group”).

## **2. State of the Bank and overview of activities**

In 2019, the Bank received a permit from the Bank of Lithuania to convert from limited liability company providing business financing to business clients to a bank and on 15 October 2020 it successfully became a bank; 100% of its share capital and voting rights belong to 2404 S.A. PayRay Bank, UAB is a company holding a bank’s licence, supervised and regulated by the Bank of Lithuania and European Central Bank. The headquarters of the Bank are located in Vilnius, Lithuania.

As of 2019, the Bank of Lithuania has granted a licence to accept deposits (acceptance of deposits and other repayable funds from non-professional market participants). The Bank also issues loans to legal entities.

The Bank has investments in subsidiaries: in September 2020, a subsidiary was established in Latvia – PayRay SIA, owns 100% of shares, and in 2021 a subsidiary was established in Estonia – PayRay Estonia OU, owns 100% of shares. As PayRay SIA was established at the end of the financial year, the company carried out no activities in 2020.

During the reporting period, the Bank had now new branches or representative offices.

The bank has neither acquired not disposed own shares. Also, in 2020 the Bank did not conclude any transactions including own shares.

The Bank started its activities in 2020 and provides the following licenced services:

- **Deposits.** Acceptance of deposits or other funds to be repaid from non-professional market participants, in Euro, in Germany and Lithuania.

The Bank has no physical service locations, except for the central headquarters in Vilnius; it does not carry out operations in cash, all client services are provided via Raisin platform, website or direct meeting.

As at 31 December 2020, the Bank’s equity amounted to EUR 34 362 666 (Group’s EUR 34 236 740).

As at 31 December 2020, the Bank’s assets amounted to EUR 43 368 186 (Group’s EUR 43 261 793).

In 2020, the Group incurred a loss of EUR 723 701 EUR, the Bank’s and the Group’s loss amounted to EUR 597 775. In 2019, the Bank incurred a loss of EUR 522 884.

# PAYRAY BANK, UAB

*Consolidated annual management report for the year ended 31 December 2020*

Net interest income of the Group and the Bank increased by 23%, income from other activities increased by 22% if compared to the previous financial year.

The Group's operating expenses increased by 25%, the Bank's operating expenses increased by 20%. Interest expenses on deposits amounted to EUR 1 322.

The portfolio of loans granted by the Group and factoring receivables (nominal values) based on the type of financial assets as at the last day of financial year:

Factoring EUR 22 182 937

Loans EUR 15 412 295

The Bank's compliance with prudence ratios as at 31 December 2020 (%) is presented in the table below::

Name	Bank	Group
Capital adequacy	81.08	76.33
Coverage by liquid assets ratio	1 566.29	1 566.29

# PAYRAY BANK, UAB

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## **3. Strategy and plans**

The Bank successfully started providing services in Germany and Lithuania. Raisin platform provides the clients with the opportunity to choose bank deposit offer with favourable Bank's interest.

In QIV of 2021 the Bank plans to start providing leasing services to business customers.

In Q1 of 2021 the Bank signed an agreement with Rural Credit Guarantee Fund on loans with preferential interest rates regarding the financing of farmers affected by COVID-19.

In 2020, the Bank entered into EaSI guarantee approval form with the European Investment Fund (EIF), which allowed increasing the maximum amount of loan to one customer from EUR 25 000 to EUR 50 000. In addition, having signed this form, during the COVID-19 pandemic period (until 30 June 2021), loan guarantee was increased from 80% to 90%.

On 30 March 2021, the Bank and the European Investment Fund (EIF) signed two guarantee agreements to finance difficulties facing small and medium sized enterprises from the European Guarantee Fund (EGF). EGF guarantee may be applied to a wide package of financial products: Investment and working capital loans, leasing. As a result, companies will be able to achieve a support that meets their need best and that will generate most benefit in a flexible manner. This measure is subject to less sector restrictions, and the guarantee is subject to lower pledge requirements. Maximum amount of the loan with the EGF guarantee is EUR 6 million. The guarantee is issued for the period from 3 months to 10 years. Lithuanian companies that employ up to 499 employees will have the possibility to use portfolio EGF guarantees.

In 2021, the Group plans to further develop its activities in Latvia and Estonia providing factoring and loan services.

## **4. Organizational structure**

The Bank's organizational structure meets the specifics of the business model based on which provision of banking services is based on the use of IT technologies and implementation of advanced international business practice.

The Supervisory Council consists of four independent members who are not related to the Bank in terms of employment relations.

The Supervisory Council appoints the Bank's Board which currently consists of: Head of Administration, Deputy Head of Administration, Head in Lithuania, Head of Technologies.

The Supervisory Council delegates certain functions to the Bank's Audit Committee, the members of which are the same as those of the Supervisory Council.

# PAYRAY BANK, UAB

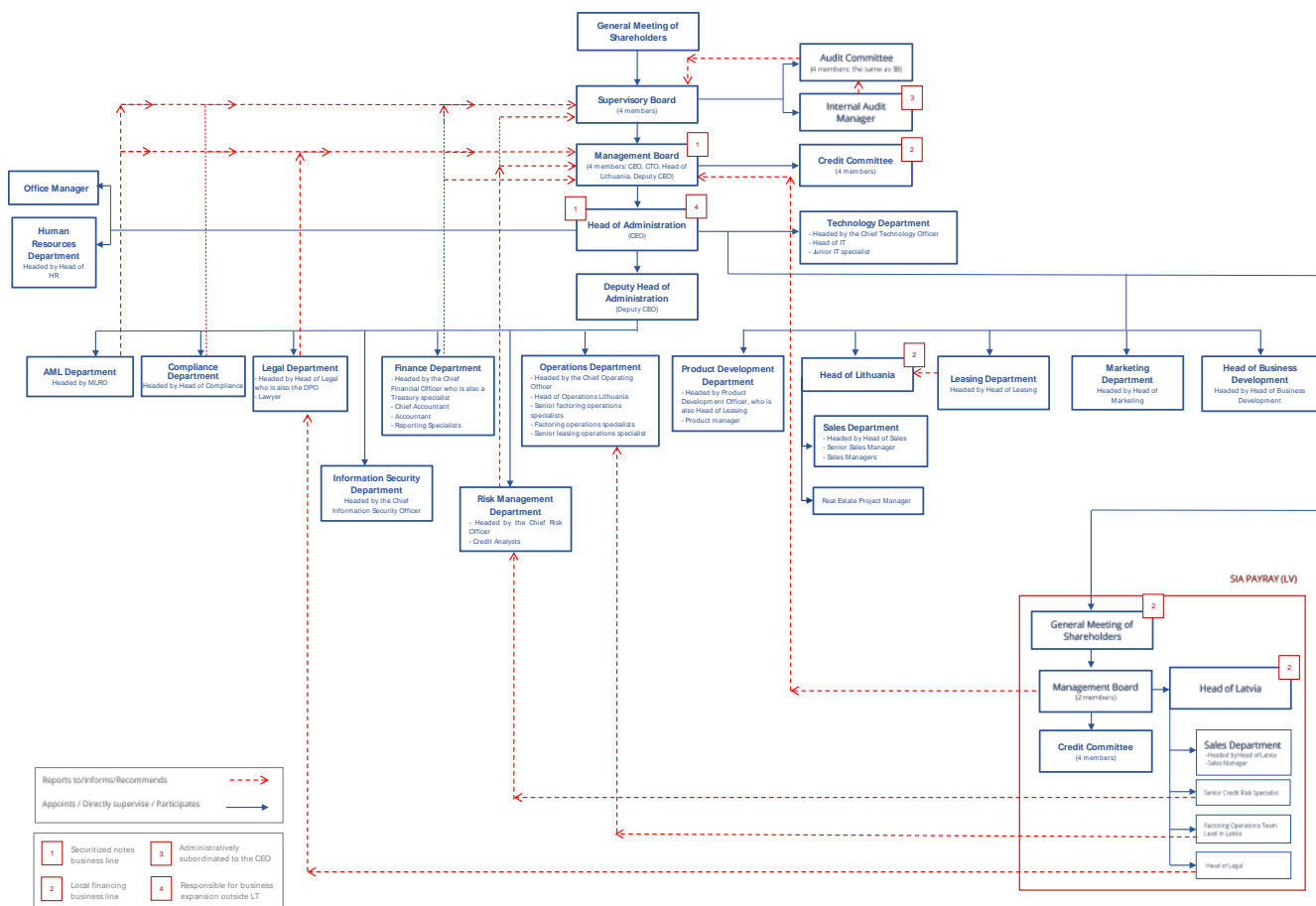
Consolidated annual management report for the year ended 31 December 2020

Seeking to ensure continuing operations of the Bank, the Bank's Board is responsible for the Bank's risk profile control and monitoring. The Board is regularly informed on the Bank's compliance with prudence ratios. Also, the Bank's Board appoints Credit Committee which is responsible for the control and monitoring of crediting and treasury operations.

In addition to other duties related to chairing the Board and managing the Bank's Business Maintenance and Development Departments, is also responsible for daily business operations which include the following:

- Administration of office and its infrastructure;
- Staff Supervision;
- Supervision of operations of the Technologies Department.

Cooperation with the authorities supervising the Bank's activities and responsibilities of the Deputy Head of Administration.



# PAYRAY BANK, UAB

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## **5. Strategy implementation**

The implementation of the Bank's strategy is based on the supply of services tailored to small and medium sized enterprises, the needs of which are not satisfied by traditional commercial banks. The Bank's competitive advantage is based on the following key client-focused principles:

- Flexible business financing solutions;
- Rapid and smooth processes from decision-making to client financing;
- Expert approach in the segment of small and medium sized businesses.

## **6. Governance structure**

The Bank's management bodies are the Bank's General Meeting of Shareholders, the Bank's Supervisory Council, the Bank's Board and the Bank's Head of Administration. The Bank's management bodies are the Bank's Board and the Bank's Head of Administration.

**The General Meeting of Shareholders** is convened annually, no later than within 3 months after the end of the financial year. Extraordinary general meetings of shareholders may also be convened. The General Meeting of Shareholders has an exclusive right to:

- Amend the Articles of Association of the Bank, except for the exceptions set by laws;
- Elect and revoke the members of the Bank's Supervisory Council;
- Elect and revoke an audit company to perform the audit of the annual financial statements; set the conditions for payment for audit services;
- Approve the set of the Bank's annual financial statements, distribution of profit (loss), formation, use, reduction and annulment of reserves;
- Increase and reduce authorised capital except for the exceptions set by legislation;

The General Meeting of Shareholders may also decide on other issues if, following the legislation and the Bank's Articles of Association, it is not assigned to other Bank's bodies and if these are not the functions of the Bank's managing bodies.

**The Bank's Supervisory Council** is a collegial supervisory body supervising the Bank's activities. The Supervisory Council is headed by its Chairman. The Bank's Supervisory Council, consisting of 4 (four) members is elected by the General Meeting of Shareholders for a period of four years. Four independent members have been elected to the current Supervisory Council. The functions of the Supervisory Council:

- Elects the Bank's Board members and removes them from office. If the activities of the Bank are loss-making, the Supervisory Council must consider whether the Board members are fit for the position;
- Supervises the activities of the Board and of the Head of Administration;
- Adopts the working regulation of the Bank's Supervisory Council;
- Approves the Bank's activity plans;

# PAYRAY BANK, UAB

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- Ensures that effective internal controls and internal audit systems are in place;
- Forms the Audit Committee and approves its regulations;
- Submits suggestions and feedback to the General Meeting of Shareholders on the Bank's activity strategy, the set of the Bank's annual financial statements, draft appropriation of profit (losses) and the Bank's annual management report as well as on the activity of the Head of Administration;
- Sets the procedure of lending which is only possible with the consent of the Supervisory Council;
- Submits suggestions to the Board and Head of the Bank to revoke their decisions if they are in conflict with laws and other legal acts, the Bank's Articles of Association or decisions of the General Meeting of Shareholders;
- Considers and makes decisions on other matters which, based on the legislation, the Bank's Articles of Association and the decisions of the General Meeting of Shareholders must be considered or decided on by the Supervisory Council.

**The Bank's Board** is a collegial management body of the Bank consisting of 4 (four) members. It manages the Bank, handles its matters and is liable for the Bank's financial services. The working procedure of the Board is set by the Board's working regulation. The Board members are elected, removed from the office and supervised by the Bank's Supervisory Council. The Bank's Board considers and approves:

- The Bank's annual management report;
- The Bank's governance structure and employees' positions as well as positions to which employees are recruited with the approval of the Board or by the procedure of competition;
- Regulations of the Bank's divisions;
- Regulations of the Bank's Credit Committee;
- Determines the information which is considered the Bank's commercial secret and confidential information.

In addition, the Board elects (appoints) and removes from office the Bank's Head of Administrations and Deputies.

The Board makes the following decisions:

- Decisions on the Bank's becoming the founder or participant of other legal entities;
- Decisions on the establishment of the Bank's branches, representative offices and other distinct Bank's branches or on terminating their activities;
- Decisions on the investment, disposal or lease of non-current assets the carrying amount of which exceeds 1/20 of the Bank's authorised capital (calculated separately for each type of transaction);
- Decisions on the pledge and mortgage of non-current assets the carrying amount of which exceeds 1/20 of the Bank's authorised capital (total amount of transactions);
- Decisions on sureties or guarantees for obligations of other persons the amount of which exceeds 1/20 of the Bank's authorised capital;



# PAYRAY BANK, UAB

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- Decisions on the acquisition of non-current assets for the price exceeding 1/20 of the Bank's authorised capital;
- Decisions on issuance of non-convertible bonds;
- Approves the Board's working regulation;
- Decisions on other matter which, under legislation and under the Bank's Articles of Association, must be considered and decided by the Board.

The Board implements the decisions taken by the General Meeting of Shareholders and by the Supervisory Council. The Board analyses and assesses the information submitted by the Head of the Bank on:

- Implementation of the Bank's activity plans;
- Organization of the Bank's activities;
- Financial position of the Bank;
- Results of economic activities, income and expenses, accounting date of stock-taking and other changes in assets.

In addition, the Board analyses, assesses the Bank's and the Group's set of annual financial statements and draft appropriation of profit (loss) and submits them to the Supervisory Council and to the General Meeting of Shareholders. Also, the Board decides on other matters if, based on the legislation or the Bank's Articles of Association, they are not assigned to other Bank's bodies. The Board is responsible for the timely convening and organising of the general meetings of shareholders.

**Credit Committee** is a Committee established by the Board which is responsible for the supervision of the Bank's credit risks. The main responsibilities of the Credit Committee:

- Examine client credit requests;
- Decide on financing and approve client's PD;
- Set financing conditions;

The Credit Committee is chaired by the Chief Risk Officer.

**Head of Administration** is a sole management body of the Bank organizing the Bank's activities and performing actions necessary to perform the Bank's functions, to implement the decisions of the Bank's bodies and to ensure the Bank's activities. The functions of the Head of Administration:

- To organize daily activities of the Bank;
- To employ and terminate the employment of the Bank's employees, to conclude and terminate employment agreements, to encourage them and impose penalties. The Head of the Bank is entitled to authorise another Bank's employee to perform the following actions:
  - Without a separate authorisation, to represent the Bank in its relations with other parties, in court and arbitration;
- To issue and revoke authorisations to represent the Bank;

# PAYRAY BANK, UAB

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- To issue orders;
- To perform other actions necessary to perform its duties, to implements the decisions of the Bank's bodies and to ensure the Bank's activities.

The Head of Administration is responsible for:

- Organization of the Bank's activities and achievement of its goals;
- Preparation of the set of annual financial statements and of the Bank's annual management report;
- Conclusion of an agreement with the audit company;
- Submission of information and documents to the General Meeting of Shareholders, Supervisory Council and the Board as set by legislation or on request;
- Submission of the Bank's documents and data to the Registrar of the Register of Legal Entities;
- Submission of documents to the Registrar of the Register of Legal Entities;
- Public announcement by the information as set by laws and other legislation with the sources indicated in the Bank's Articles of Association;
- Submission of information to shareholders;
- Preparation of the Bank's list of shareholders and submission to the Register of Legal Entities;
- Performance of other duties set out in legislation, the Bank's Articles of Association and staff regulations of the Head of the Bank.

The Head of the bank acts on behalf of the Bank and is entitled to unilaterally conclude transactions except for the exceptions set by laws, the Bank's Articles of Association or the decisions of the Bank's organs.

# PAYRAY BANK, UAB

*Consolidated annual management report for the year ended 31 December 2020*

## 7. Risk management and internal control

PayRay Bank, UAB acknowledged that every employee of the organization is responsible for the effectiveness of risk management and internal control framework.

To manage risks, PayRay Bank, UAB uses a three lines of defence model. The three lines of defence model contributes to a better understanding of risk management and control by clarifying different roles and duties expected from each employee.

The three lines of defence model distinguishes three groups (or lines) participating in effective risk management:

- Functions assuming and managing risks;
- Functions responsible for risk control;
- Functions responsible for the independent assessment of the efficiency of risk management processes and internal control framework.

**First line of defence** comprises all risk assuming functions at PayRay Bank, UAB. The first line of defence include functions such as Products and services (including Credit), Treasury, Finance, Law and Technologies, are considered risk owners.

**The second line of defence** comprises PayRay Bank, UAB risk monitoring and supervision functions. It comprises Risk control function, Compliance function and Money laundering, terrorist financing and prevention of financial crimes function.

The risk control function, steered by the Chief Risk Officer, is responsible for:

- Implementation and maintenance of risk management framework including all its components:
  - Implementation and supervision of the three lines of defence model;
  - Implementation, continuous improvement and maintenance following the best bank practices of risk policy and risk taxonomy, including risk measurement and assessment measures, models and methodologies for all significant risks and stress testing;
  - Implementation and maintenance of the framework defining the Bank's risk appetite level, including processes and methodologies used for determining the risk appetite and allocation between divisions;
  - Risk reporting, including internal reports to the Supervisory Council, the Board and other risk reports;
  - Contribution to the development and improvement of PayRay Bank, UAB governance structure, focusing on the processes of risk reporting, risk monitoring and risk limits, elimination of risk incidents and other shortcomings of risk management;
  - Development, improvement and supervision of risk management IT solutions that ensure automation of various risk management framework elements;
- Risk supervision and control of the first line of defence by implementing continuous quality ensuring and review of risk policy control measures which the first line of defence must comply with;
- Submission of risks insights based on stress testing.

Chief Risk Officer is accountable to the Supervisory Council and by administrative procedure to the Deputy of Chief Executive Officer.

# PAYRAY BANK, UAB

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Compliance function is responsible for behavioural and compliance risk, except for fraud-related risk, money-laundering prevention, fight against terrorist financing and sanctions control (but including risks of modern slavery, fight against bribery and corruption). It is responsible for the detection, assessment and monitoring of PayRay Bank, UAB behavioural and compliance risks and implementation of control framework, as well as for the submission of reports on the Bank's compliance with the effective laws and other regulations to the Bank's management bodies. This includes: i) assistance to the first line of defence in identifying existent and potential behavioural and compliance risks and implementation of control measures to mitigate these risks; and ii) monitoring and testing of the efficiency of control measures in order to prevent behavioural and compliance risks from occurring or mitigating them.

Head of Compliance is accountable to the Supervisory Council and by administrative procedure to the Deputy of Chief Executive Officer.

The function of prevention of money laundering, terrorist financing and financial crimes bears the same responsibilities as the compliance function, but is responsible for the control and prevention of financial crimes and fraud-related risks as well as for the prevention of money-laundering and terrorist financing and for sanctions control.

The Head of the Bank's Money Laundering Prevention is accountable to the Supervisory Council and by administrative procedure to the Deputy of Chief Executive Officer.

**The third line of defence** is related to Internal Audit function. The function is independent of the first and second lines of defence, and its responsibility includes:

- Issuance of independent opinion to the Audit Committee on whether the main risks have been properly identified and whether the control measures in place are adequate and effective;
- Cooperation with the top managers and heads of different functional areas of PayRay Bank, UAB, by providing conclusions on the detected shortcomings, insights and recommendations seeking to improve the internal control and risk management framework of PayRay Bank, UAB;
- Submission of independent assessment to supervisory authorities on specific risks and control measures.

The Head of Internal Audit is accountable to the Supervisory Council (through the Audit Committee) and by administrative procedure to the Chief Executive Officer.

External auditor expresses an opinion of the effectiveness of internal control of PayRay Bank, UAB in the context of financial statements.

## **8. Employees**

In 2020, the average number of employees was 27 (2019: 21). In line with the growth of the scope of the Bank's services, the number of employees is being increased.

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The table below includes the information of the actual number of the Bank's employees and average monthly remuneration (gross).

	Number of employees		Average monthly remuneration (EUR)	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Managers	19	10	4 281.50	7 476.37
Specialists	35	13	1 265.94	2 131.97
Total	54	23	2 326.97	4 455.62

## 9. Remuneration Policy

The information below has been prepared in accordance with Item 14 of Resolution No 03-82 "Regarding Approval of Description of the Minimum Remuneration Policy Requirements for Employees of Credit Institutions and Financial Brokerage Firms" of 8 May 2015 of the Board of the Bank of Lithuania redirecting to Article 450 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms and Amending Regulation (EU) No 648/2012.

### *Information related to the decision-making process, applied in establishment of the Remuneration Policy*

The Remuneration Policy of PayRay Bank, UAB was approved by the Supervisory Council on 11 October 2020. The Remuneration Committee has not been formed, the Supervisory Council establishes and monitors the remuneration of management, also remuneration of senior officers, performing independent control functions, including those of internal audit, risk management and compliance.

The Remuneration Policy has been updated in accordance with relevant resolutions of the Bank of Lithuania, applicable national requirements and those of the European Union.

### *Information on the link between remuneration and performance results*

The Remuneration Policy applied by PayRay Bank, UAB was designed to attract, maintain and motivate the Bank's employees possessing necessary skills and competences, encourage reliable performance, trustworthy conduct and effective risk management. The remuneration system has been designed to encourage employees to consistently follow the principles of ethics and values of PayRay Bank, UAB in their work, and act taking into consideration the Business and Risk Management Strategy of PayRay Bank, UAB.

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The purpose of the Remuneration System applied by PayRay Bank, UAB is to:

- Ensure that employees receive competitive Remuneration;
- Ensure that cases where a decision is made to pay the Variable Remuneration and the principles of payment thereof were in compliance with long-term interests related to guaranteeing the continuous operation of the Bank, business strategy, goals and values, fostered reliable and effective risk management, allowed avoiding conflicts of interests and ensured that the Remuneration paid would not stimulate employees to assume excessive risk;
- Correlate an employee's remuneration with an individual assessment of each employee's performance.

In accordance with the review process, described in the Remuneration Policy, PayRay Bank, UAB continuously monitors and ensures that the aforementioned goals were properly implemented, and no conflicts of interest resulted from them (with customers of PayRay Bank, UAB or any other). At least once a year the internal auditor will carry out an independent internal inspection of the Remuneration Policy and applied practice (the results thereof will be recorded in the reports of internal audit), which will present an assessment whether the overall Remuneration Policy of the Bank, the applied practice and processes are working as designed, whether they are in compliance with the national and international requirements, principles and standards. The risk control functions of PayRay, UAB help to monitor whether the provisions of the Policy are coordinated with the Bank's position, business strategy, goals, values, whether the Policy is properly implemented in practice. The function of regulatory compliance, in addition to its other functions and powers, has to analyse the effect of the Policy on compliance of PayRay, UAB on the requirements of laws, regulations and internal procedures.

The principles of remuneration are linked to the employees' performance. The overall personal conduct is first of all assessed in the context of goals of the Remuneration System of PayRay Bank, UAB and the main values of PayRay Bank, UAB.

*The main features of the structure of the Remuneration System, including information about criteria used in assessment of performance, and adjustment of risk, the deferral policy and the eligibility criteria*

The remuneration of PayRay Bank, UAB consists of the fixed and variable remuneration.

The fixed remuneration is the one established by the employment contract, concluded with the employee, and long-term payments not related to the performance.

The variable remuneration included additional payments as a part of the Remuneration, offered in consideration of the sustainable operation of the Bank, which is adapted to a relevant risk, and (or) individual activity of the employee, exceeding the set goals of activity, set out in the description of the employee's function, and also taking into consideration the quantitative criteria, such as client satisfaction, compliance with internal rules, cooperation with colleagues.

The Remuneration Policy of PayRay Bank, UAB provides for additional requirements for the Established Employees (Assuming Material Risk).

The Established Employees are defined as employees of PayRay Bank, UAB (including also the executive staff, bodies of management and supervision), the professional activity and (or) decisions adopted whereof have a material impact on the nature of the Bank's risk, and who are treated as such, based on the performed analysis of quantitative and qualitative parameters, established according to the criteria, defined in Article 3 and 4 of the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014. In 2020, the function of regulatory compliance reviewed and expanded the list of Established Employees, taking into account the changes of

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employees and their responsibilities in PayRay Bank, UAB, and based on the newly announced technical standard of EBA, providing for criteria, defining the responsibility of the management and control functions, material business unit and material impact on the nature of its risk, and also the categories of employees whose professional activity has a material impact on the nature of the risk of the institution (EBA / RTS / 2020/05, 18 June 2020). The amendments therein were approved by the Board and the Supervisory Council of PayRay Bank, UAB.

Employee categories, specified in Article 3 and 4 of the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014, and clarified in the regulation technical standard of EBA, setting out the criteria, defining the management's responsibility and control functions, material business unit and material impact in the nature of its risk, as well as categories of employees whose professional activity has a material impact in the nature of risk of the institution, fall within the category of the Established Employees.

The fixed remuneration, paid to the Established Employees, has to reflect the professional expertise of these employees, and the level of responsibilities in the Bank, taking into account their education, rank, competences and skills, professional experience, relevant business operations and the level of remuneration in the market.

*The ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of the Directive*

*Information on valuation criteria for operating results on which the right to shares, options or variable portions of remuneration is based*

*The amount of variable remuneration for Established Employees is paid according to the following principle:* 50% of the set remuneration is paid for the previous or subsequent years, the remaining 50% is deferred for a three-years period. The latter portion of variable remuneration may vary every year on the basis of algorithms set out in the Remuneration Policy of the Bank, depending on the Bank's operating results.

The pool of variable remuneration / forecast for the financial year is established only upon assessment of the financial activity results of the Bank, taking into account current and future risks, working capital expenses, and liquidity support. As variable remuneration is granted to Established Employees for a period of 3 years, this assessment shall ensure that the ability of the Bank to strengthen its capital base is not limited when establishing the pool of variable remuneration.

Variable remuneration has to be granted taking into consideration the following: financial activity results of PayRay Bank, UAB (considering directly the operating results), operating results of the relevant structural department for the assessed period, and evaluation of qualitative and quantitative (both financial and non-financial) criteria for assessment of employees' performance results. Qualitative criteria include achievement of strategic goals, leadership, teamwork, creativity, motivation, proactiveness, initiative, loyalty, co-operation with other employees, implementation of goals and tasks formed by direct managers, feedback from direct managers and customers, etc. In all cases, this assessment comprises the evaluation on how an employee complies with high professional standards of the Financial Department and demonstrates compliance with Ethical principles of the Bank, its values and the culture of risk management. Performance criteria are set in a manner they do not promote assuming excessive risks or wrong sale of products, and the balance between compliance and risk-assuming for business objectives shall always be retained.

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Variable remuneration may be granted only if the relevant employee acted in an honest way, no legal irregularities in his / her activity were identified, and his / her performance was evaluated positively over the last three years (or over the whole period of his / her employment in the Bank if this period is less than three years).

Variable remuneration cannot be granted, and the granted variable remuneration cannot be paid in the following cases:

- it would be contrary to the operating results of the Bank and performance results of an employee of the corresponding period;
- it would be contrary to and would threaten the reliability and effectiveness of the Bank's risk management;
- payment of variable remuneration would promote assuming excessive risk;
- it would be in non-compliance with the strategy, goals, values and long-term interests of the Bank.

Variable remuneration that has been already granted cannot be paid in case employment relations with an employee who is qualified as an Established Employee are terminated, in case of failure to fulfil liabilities or if such an employee who is qualified as Established Employee decides to resign and (or) terminate the employment contract.

According to the cases set out by the Remuneration Policy, PayRay Bank, UAB may reduce, hold, or recover the portion of or the total amount of the paid variable remuneration.

The Remuneration Policy also provides for mechanisms ensuring that employees of PayRay Bank, UAB do not use personal hedging strategies or, if applicable, hedging against decrease in Variable remuneration in order to mitigate the effect of the risk included in calculation models of the variable remuneration.

## ***10. Information on the positions held by managers***

***Information on other functions of the Director of PayRay Bank, UAB, of the Board Members of PayRay Bank, UAB and of the Members of Supervisory Council of PayRay Bank, UAB is presented in the table below:***

Name, surname	Management body of PayRay Bank, UAB	Main employment	Duties at the company PayRay Bank, UAB	Other companies/ organizations where the person holds managerial positions	Duties at other company/ organization
Renato La Fianza	Board	PayRay Bank, UAB	Head of Administration	-	-
Mindaugas Stasionis	Board	PayRay Bank, UAB	Deputy Head of Administration	-	-
Paulius Jokšas	Board	PayRay Bank, UAB	Head in Lithuania	-	-



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Name, surname	Management body of PayRay Bank, UAB	Main employment	Duties at the company PayRay Bank, UAB	Other companies/ organizations where the person holds managerial positions	Duties at other company/ organization
Gianluca Balducci	Board	PayRay Bank, UAB	Head of Technologies	-	-
Gintautas Galvanauskas	Supervisory Council	Joldija, UAB - Chairman of the Board, Head of Business Development	Member of Supervisory Council	Joldija, UAB - Chairman of the Board, Head of Business Development  Energia futura, UAB - Member of the Board	Joldija, UAB - Chairman of the Board, Head of Business Development  Energia futura, UAB - Member of the Board
Kęstutis Šliužas	Supervisory Council	IPI Srl, CEO	Member of Supervisory Council	Kaunas University of Technologies - Member of the Supervisory Council,  Finolita, UAB - Board Member;  IPI Srl, Director	Kaunas University of Technologies - Member of the Supervisory Council,  Finolita, UAB - Board Member;  IPI Srl, Director
Tomas Andrejauskas	Supervisory Council	Satimed, UAB - Advisor;	Member of Supervisory Council	Fitodenta, UAB - Director;  Satimed, UAB - Advisor;  Lithuanian Biotechnology  President of the Association, Board Member	Fitodenta, UAB - Director;  Satimed, UAB - Advisor;  Lithuanian Biotechnology  President of the Association, Board Member
Roberto Pollara	Supervisory Council	-	Member of Supervisory Council	-	-

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## *11. Significant events after the end of the reporting period*

In 2021, the Bank plans to sign an agreement with another similar deposit attraction platform in Germany which will probably lead to the increase in the number of clients.

In QIV of 2021 the Bank plans to start providing leasing services to business customers. Currently, the Bank is developing the software for management and accounting of leasing service.

In Q1 of 2021 the Bank signed an agreement with Rural Credit Guarantee Fund on loans with preferential interest rates regarding the financing of farmers affected by COVID-19.

In 2021, a subsidiary PayRay Estonia OU was established in Estonia.

On 30 March 2021, the Bank and the European Investment Fund (EIF) signed two guarantee agreements to finance difficulties facing small and medium sized enterprises from the European Guarantee Fund (EGF). EGF guarantee may be applied to a wide package of financial products: Investment and working capital loans, leasing. As a result, companies will be able to achieve a support that meets their need best and that will generate most benefit in a flexible manner. This measure is subject to less sector restrictions, and the guarantee is subject to lower pledge requirements. Maximum amount of the loan with the EGF guarantee is EUR 6 million. The guarantee is issued for the period from 3 months to 10 years. Lithuanian companies that employ up to 499 employees will have the possibility to use portfolio EGF guarantees.

PayRay Bank, UAB

Head of Administration

Renato La Fianza