# PayRay Bank, UAB

## SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

# Contents

# General information

PayRay Bank, UAB
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 g. 101, LT-08104, Vilnius, Lithuania

## Banks

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

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

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# Independent Auditor's Report

To the Shareholders of PayRay Bank UAB

## Report on the Audit of the Separate Financial Statements

### Opinion

We have audited the separate financial statements of PayRay Bank UAB ("the Bank"). The Bank's separate financial statements comprise:

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

In our opinion, the accompanying separate financial statements give a true and fair view of the non-consolidated financial position of the Bank as at 31 December 2020, and of its non-consolidated financial performance and its non-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 the Separate Financial Statements section of our report. We are independent of the Bank 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 the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Each audit matter and our respective response are described below.

*Impairment of loans granted and factoring receivables*

*The gross amount of loans granted in the separate 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 22 157 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 15 Factoring and other amounts receivable.*

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| 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.<br><br>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.<br><br>For non-performing exposures (Stage 3), the impairment assessment is based on the Bank'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.<br><br>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. | Our audit procedures in the area included, among others:<br>— obtaining understanding of the Bank'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;<br><br>— obtaining an understanding of the Bank's retrospective review of its ECL estimates and its response to the results of the review, and performing our own independent back-test;<br><br>— making inquiries of the Bank'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;<br><br>— 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; |

| | |
|---|---|
| | — assessing whether the definition of default and the staging criteria were applied consistently and in accordance with the relevant financial reporting standards;<br><br>— evaluating whether in its loan staging and ECL measurement the Bank appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic;<br><br>— For collective impairment allowance:<br>• obtaining the relevant forward looking information and macroeconomic forecasts used in the Bank's ECL assessment. Independently assessing the information by means of inspection of publicly available information and corroborating inquiries of the Management Board;<br>• challenging the collective loss given default (LGD), exposure at default (EAD) and probability of default (PD) parameters used by the Bank, 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;<br><br>— For impairment allowances calculated individually, for a risk-based sample of loans:<br>• 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.<br>• for the exposures with triggers for classification in Stage 3, challenging key assumptions applied in the Bank'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 Bank's internal evidence and analyses and publicly available market transaction data.<br><br>— 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 separate financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 separate financial statements are prepared is consistent with the separate 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 separate 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 separate financial statements are prepared is consistent with the separate financial statements; and
- The Bank'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 Separate Financial Statements

Management is responsible for the preparation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Bank'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 Bank'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 separate 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 separate 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 Bank's financial statements. Our appointment to audit the Bank'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 Bank 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 Bank 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

DOMANTA
S DABULIS

Digitally signed by
DOMANTAS DABULIS
Date: 2021.04.29
20:05:29 +03'00'

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.*

**PayRay Bank, UAB**
**Company code: 304862948, Lvovo g. 25-702, Vilnius, Lithuania**

# Separate statement of profit or loss and other comprehensive income

**for the year ended 31 December**

| | Explan-atory 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 expense | 6 | (259 168) | (166 944) |
| Net interest income | | 1 996 866 | 1 616 745 |
| Other operating income | 6 | 94 544 | 76 916 |
| **Total income** | | **2 091 410** | **1 693 661** |
| Impairment losses on receivables | 23 | (115 358) | (314 204) |
| Impairment losses on cash at bank | 17 | (71) | (2 069) |
| Personnel expenses | 7 | (1 680 364) | (1 311 820) |
| Administrative expenses | 7 | (986 059) | (680 264) |
| Finance costs | 8 | (7 096) | (6 249) |
| **Profit (loss) before tax** | | **(697 538)** | **(620 946)** |
| Income tax expense | 9 | 99 763 | 98 062 |
| **Profit (loss) for the year** | | **(597 775)** | **(522 884)** |
| **Other comprehensive income** | | **-** | **-** |
| **Total comprehensive income for the year, net of tax** | | **(597 775)** | **(522 884)** |

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

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

**PayRay Bank, UAB**
**Company code: 304862948, Lvovo g. 25-702, Vilnius, Lithuania**

# Separate statement of financial position

**31 December**

| | Explanatory notes | 2020 | 2019 |
|---|---|---|---|
| | | **EUR** | **EUR** |
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 77 830 | 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 | 14 | 250 000 | - |
| Other amounts receivable after one year | | 23 805 | 14 530 |
| Deferred income tax asset | 9 | 362 757 | 262 994 |
| | | **15 163 702** | **756 684** |
| **Current assets** | | | |
| Factoring and other amounts receivable | 15 | 21 457 552 | 32 632 321 |
| Loans granted | 13 | 1 874 287 | 2 817 947 |
| Other current assets | 16 | 11 956 | 28 516 |
| Cash and their equivalents | 17 | 4 860 689 | 3 644 003 |
| | | **28 204 484** | **39 122 787** |
| **Total assets** | | **43 368 186** | **39 879 471** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Authorised capital | 18 | 36 424 791 | 20 000 000 |
| Legal reserve | 18 | - | - |
| Retained earnings (losses) | 9 | (2 062 125) | (1 464 350) |
| **Total equity** | | **34 362 666** | **18 535 650** |
| **Non-current liabilities** | | | |
| Financial liabilities measured at amortised cost | 19 | - | 18 166 945 |
| Non-current lease liabilities | 12 | 36 435 | 97 421 |
| | | **36 435** | **18 264 366** |
| **Current liabilities** | | | |
| Current lease liabilities | 12 | 96 351 | 65 520 |
| Deposits | 20 | 6 067 402 | |
| Trade and other payables | 20, 22 | 2 547 253 | 2 820 565 |
| Employment related liabilities | | 208 609 | 76 647 |
| Other current liabilities | 21 | 49 470 | 116 723 |
| | | **8 969 085** | **3 079 455** |
| **Total equity and liabilities** | | **43 368 186** | **39 879 471** |

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

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

**PayRay Bank, UAB**
**Company code: 304862948, Lvovo g. 25-702, Vilnius, Lithuania**

# Separate statement of changes in equity

**for the year ended 31 December**

| | Authorised share capital | Retained earnings (loss) | Total equity |
|---|---|---|---|
| | **EUR** | **EUR** | **EUR** |
| **31 December 2018** | **20 000 000** | **(941 466)** | **19 058 534** |
| 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 | - | - | - |
| **31 December 2019** | **20 000 000** | **(1 464 350)** | **18 535 650** |
| **1 January 2020** | **20 000 000** | **(1 464 350)** | **18 535 650** |
| Transfers | - | - | - |
| Net profit / (loss) for the year | - | (597 775) | (597 775) |
| Other comprehensive income | - | - | - |
| Total comprehensive income | - | (597 775) | (597 775) |
| Issue of share capital | 16 424 791 | - | 16 424 791 |
| Settlement of previous year losses | - | - | - |
| **31 December 2020** | **36 424 791** | **(2 062 125)** | **34 362 666** |

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

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

# Separate statement of cash flows

**for the year ended 31 December**

| | Explan-atory notes | 01/01/2020 – 31/12/2020 | 01/01/2019 – 31/12/2019 |
|---|---|---|---|
| | | EUR | EUR |
| **Operating activities** | | | |
| Profit / (loss) for the year | 9 | (597 775) | (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 trade receivables | 13, 15 | 8 405 | 96 379 |
| Net impairment loss on loans | 13,15 | 106 953 | 217 825 |
| Net impairment loss on cash at bank | 17 | 71 | 2 069 |
| Net interest income | 6, 8 | (1 954 316) | (1 550 600) |
| | | (2 340 289) | (1 690 778) |
| Working capital adjustments | | | |
| (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 | 15 | 11 166 365 | (23 388 889) |
| (Increase)/decrease in loans granted | 13 | 946 701 | (863 849) |
| (Increase)/decrease in other current assets | 16 | 16 559 | (13 967) |
| (Decrease)/increase in deposits | 20 | 6 067 402 | - |
| (Decrease)/increase in trade and other payables | 20 | (273 312) | 1 394 263 |
| (Decrease)/increase in employment related liabilities | | 131 962 | 56 169 |
| (Decrease)/increase in other current liabilities | 21 | (67 254) | (41 106) |
| | | 4 047 065 | (23 257 456) |
| Interest received | 6,13 | 2 220 584 | 1 723 794 |
| Interest paid | | (259 168) | - |
| **Net cash flows from operating activities** | | **3 668 191** | **(23 224 439)** |
| **Cash flows from investing activities** | | | |
| Investments into subsidiaries | 14 | (250 000) | - |
| Acquisitions of property, plant and equipment | 10 | (58 982) | (947) |
| Acquisition of intangible assets | 11 | (322 436) | (204 454) |
| **Net cash flows from investing activities** | | **(631 418)** | **(205 401)** |
| **Financing activities** | | | |
| Proceeds from issue of share capital | 18 | - | - |
| Loans and borrowings received | 6, 19 | (1 742 154) | 18 000 000 |
| Payment of lease liabilities | 12 | (77 862) | (65 255) |
| **Net cash flows from financing activities** | | **(1 820 016)** | **17 934 745** |
| Net increase/(decrease) in cash and cash equivalents | | 1 216 757 | (5 495 096) |
| Cash and cash equivalents at beginning of the year/period | 17 | 3 646 072 | 9 141 168 |
| **Cash and cash equivalents at 31 December** | **17** | **4 862 829** | **3 646 072** |

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

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

## 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.

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 Bank is provision of financial services. The Bank 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 Bank extends credit limit to it's 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 Bank applies recourse and directs the claim for the debt amount unpaid to the customer;
- non-recourse factoring, is a type of factoring where the Bank is purchasing amounts receivable (invoices) issued by it's customer to a third party and then collects payments according to the payment schedules of these invoices. In this case, the debtor of the Bank is the party towards which the invoice is issued. Also, in non-recourse factoring the Bank 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 Bank'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 Bank 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 Bank'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 Bank 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.

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

The shareholders of the Bank 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 Bank coincides with the calendar year.

## 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 Bank 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 Bank will not be able to continue its operations in the future, the Bank's activities are not limited.

The preparation of the Bank'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 Bank. The Bank assessed the impact of financial state of loans and ability to repay credits. The Bank assessed economic development trends, the impact of quarantine on business and state support programmes. More details on the impact of COVID-19 on the Bank's operations are 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.

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

*The bank's concept.* In accordance with this principle, the Bank shall be considered as a separate unit of accounting and the Bank'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 Bank 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.

**4. Accounting policies**

*Principle of accrual.* Economic transactions and other events of the Bank 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 Bank are divided into financial years or other reporting periods and the financial statements are prepared for that reporting period. Financial statements of the Bank 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 Bank will earn the respective revenue. The accounting policies selected by the Bank 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 Bank 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 Bank 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 Bank's financial statements for 2020 are set out below.

**Financial assets**

Recognition and initial measurement

The Bank 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 to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

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

Derecognition of financial assets

The Bank 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 Bank is recognized as a separate asset or liability.

**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 Bank 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 Bank has retained substantially all the risks and rewards of ownership of the transferred asset, the Bank shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the Bank shall recognise any income on the transferred asset and any expense incurred on the financial liability.

Impairment of financial assets

The Bank 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 Bank 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 Bank 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 Bank if the commitment is drawn down and the cash flows that the Bank expects to receive;
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

**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 Bank 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 Bank'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 Bank uses three criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on changes in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

Credit risk grades

The Bank 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 Bank 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.

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

The Bank 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 Bank uses simple modelling of PD in a homogeneous portfolio.

Determining whether credit risk has increased significantly

The Bank 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 Bank'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:<br>- decrease of credit risk grade by more than 5 steps for exposures with credit risk grades A1-A3 at initial recognition; or<br>- decrease of credit risk grade by more than 3 steps for exposures with credit risk grades B1-B3 at initial recognition; or<br>- decrease of credit risk grade by more than 2 steps for exposures with credit risk grades C1-C3 at initial recognition; or<br>- decrease of credit risk grade by more than 1 step for exposures with credit risk grades D1-D3 at initial recognition;<br><br>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 Bank'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 Bank 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 Bank 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 the Bank's Credit Committee deems appropriate is used.

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

The Bank 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).

<u>Definition of default</u>

The Bank considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank 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 Bank 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 Bank; 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.

<u>Incorporation of forward-looking information</u>

The Bank 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 Bank 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 Bank'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 Bank's credit portfolio is shorter than 12 months. In majority of cases, credit facilities granted by the Bank have 30-90 days revolving maturities after which credit is extended again. Each such time the Bank 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 Bank.

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 Bank 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.

**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 Bank did not have sufficient historic date 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 Bank 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 Bank 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 Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank 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 Bank 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 Bank 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 Bank 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.

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

Credit-impaired financial assets

At each reporting date, the Bank 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 a loan or advance by the Bank on terms that the Bank 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;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank 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 Bank 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.

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

**Financial liabilities**

Financial liabilities are recorded when the Bank 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 Bank's assets after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank'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 Bank'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 Bank'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.

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

When one is available, the Bank 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 Bank 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 Bank 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 Bank 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 Bank intends to use it for a period longer than one year, the Bank reasonably expects a flow of economic benefits from such asset in future periods, the Bank can reliably measure the acquisition costs of the asset, risk related to the asset has been transferred to the Bank and the acquisition cost of the asset exceeds the minimum cost of property, plant and equipment set by the Bank - EUR 1 500.

**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 non-current assets*

| Group of non-current assets | Method | Rate (in years) |
|---|---|---|
| PROPERTY, PLANT AND EQUIPMENT | | |
| 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 |
| Intangible assets | | |
| Software (computer) | linear | 3 |
| Core banking software | linear | 5 |
| Acquired rights | linear | 3 |
| Other intangible assets | linear | 4 |

Impairment of non-financial assets

The Bank 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 Bank 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.

**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 Bank 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 Bank 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 Bank 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 Bank's incremental borrowing rate.

Leases of property, plant and equipment that transfer to the Bank 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 Bank'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 Bank discounted lease payments using its incremental borrowing rate at 1 January 2020 of 3.52% (1 January 2019: 3.52%).

## 4. Accounting policies (cont'd)

### Income

The Bank'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 Bank 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 Bank'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 Bank 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 Banko of Lithuania 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.

**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 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 Bank ceases to carry out the activities that caused such tax losses to emerge, unless the Bank 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.

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.

**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 Bank's reasonable belief, will not have material impact on the Bank'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 Bank is currently assessing the impact of the amendments on its financial statements.

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

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 Bank'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 Bank'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 Bank's financial statements as the Bank does not apply hedge accounting.

**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 Bank'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).

# Explanatory notes to the separate financial statements

**for the year ended 31 December**

**6. Sales**

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

**7. Personnel and administrative expenses**

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

| | 01/01/2020 – 31/12/2020 | 01/01/2019 – 31/12/2019 |
|---|---|---|
| **Administrative expenses** | EUR | EUR |
| Legal services | 124 196 | 113 004 |
| Lease of assets and equipment | 203 914 | 103 517 |
| Contract services | 59 350 | 86 737 |
| Depreciation of right-of-use assets | 90 940 | 61 740 |
| Insurance expenses | 72 000 | 62 292 |
| Accounting | 71 105 | 28 112 |
| Telecommunication expenses | 8 264 | 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 | 13 796 | 11 372 |
| Prevention of money laundering services | 8 333 | 10 000 |
| Membership fee for bank association | 8 942 | 9 577 |
| Business trip expenses | 3 834 | 7 386 |
| Office maintenance costs | 3 552 | 7 074 |
| Translation services | 9 245 | 3 321 |
| Equipment aquisition costs | 3 518 | 1 456 |
| Credit limit decision costs | 9 245 | - |
| Advertising | 44 064 | |
| Recruitment expenses | 39 355 | |
| Other | 72 697 | 63 799 |
| **Total administrative expenses** | **986 059** | **680 264** |

**8. Finance costs**

| | 01/01/2020 – 31/12/2020 | 01/01/2019 – 31/12/2019 |
|---|---|---|
| | EUR | EUR |
| Interest expenses on lease liabilities | (7 096) | (6 249) |
| **Total finance costs** | **(7 096)** | **(6 249)** |

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) |
| **Total interest expenses on lease liabilities** | **(7 096)** | **(6 249)** |

**9. Taxes**

The Bank 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:

| | | 01/01/2020 – 31/12/2020 | 01/01/2019 – 31/12/2019 |
|---|---|---|---|
| | | EUR | EUR |
| Profit/(loss) before tax | | (697 538) | (620 946) |
| Income tax calculated using the statutory tax rate in Lithuania | 15% | 104 630 | 93 142 |
| Tax effect of: | | | |
| *Non-deductible expenses* | | (9 307) | (5 285) |
| *Non-taxable income* | | 5 318 | 8 984 |
| *Tax incentives* | | - | - |
| *Additionally deductible expenses (decreasing profit / increasing loss)* | | - | 1 715 |
| Recognition of tax losses previously unrecognised | | - | - |
| **Total current year income tax expenses** | | **100 641** | **98 556** |
| Adjustment to income tax of the previous year | | (878) | ( 494) |
| **Income tax expenses reported in the statement of profit or loss** | | **99 763** | **98 062** |

The balance comprises temporary differences attributable to:

| | 2020 | 2019 |
|---|---|---|
| | 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 |
| **Total deferred tax asset** | **362 757** | **262 994** |

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%. As at 31 December 2020, the Bank 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.

**10. Property, plant and equipment**

| | Furniture | Advance payments | Total |
|---|---|---|---|
| | EUR | EUR | EUR |
| **Cost, original:** | | | |
| 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 | 28 366 | - | 28 366 |
| Additions | 58 982 | - | 58 982 |
| Disposals | - | - | - |
| Sold assets | - | - | - |
| Reclassification | - | - | - |
| Balance at 31 December 2020 | 87 348 | - | 87 348 |
| **Accumulated depreciation:** | | | |
| Balance as at 1 January 2019 | - | - | - |
| Depreciation for the year | (4 693) | - | (4 693) |
| Disposals | - | - | - |
| Sold assets | - | - | - |
| Balance at 31 December 2019 | (4 693) | - | (4 693) |
| Depreciation for the year | (4 825) | - | (4 825) |
| Disposals | - | - | - |
| Sold assets | - | - | - |
| Balance at 31 December 2020 | (9 518) | - | (9 518) |
| **Net book value as of 1 January 2019** | **26 019** | **1 400** | **27 419** |
| **Net book value as of 31 December 2019** | **23 673** | **-** | **23 673** |
| **Net book value as of 31 December 2020** | **77 830** | **-** | **77 830** |

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 Bank'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.

### 11. Intangible assets

| | Software | Total |
|---|---|---|
| | EUR | EUR |
| **Cost, original:** | | |
| 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 |
| | | |
| Accumulated amortisation: | | |
| 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) |
| | | |
| **Net book value as of 1 January 2019** | **204 454** | **204 454** |
| **Net book value as of 31 December 2019** | **204 454** | **204 454** |
| **Net book value as of 31 December 2020** | **526 280** | **526 280** |

### 12. Right-of-use assets

The Bank 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) |
| **Balance at 31 December 2019** | **92 337** | **67 870** | **160 207** |
| Additions | 40 611 | - | 40 611 |
| Depreciation for the year | (72 773) | (18 167) | (90 940) |
| **Net book value as of 31 December 2020** | **60 175** | **49 703** | **109 879** |

Lease liabilities

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

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) |
| **Total interest expenses on lease liabilities** | **(7 096)** | **(6 249)** |

Impact of lease liabilities on cash flows:

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

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

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

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

| | 2020 |
|---|---|
| **Maturity analysis. Contractual discounted cash flows** | **EUR** |
| Up to one year | 96 351 |
| From 1 to 5 years | 36 435 |
| More than 5 years | - |
| **Total discounted lease liabilities at 31 December 2020** | **132 786** |

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:

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

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) |
| Accrued interest income on loans calculated using effective interest rate method | 16 782 | - |
| **Carrying amount of current loans receivable** | **1 874 287** | **2 817 947** |

In 2019 the Bank 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 Bank's assessment, debt recovery process will last at least until the end of 2021.

In 2019 the Bank has 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 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. As of 31 December 2019 the Bank 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 Bank 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 the 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 24.

#### 14. Investments into subsidiaries

As of 31 December, investments consisted of the following:

| | 2020 | 2019 |
|---|---|---|
| | **EUR** | **EUR** |
| | 250 000 | - |
| **Carrying amount of investments** | **250 000** | **-** |

Investment of PayRay Bank into PayRay SIA

| Investments into subsidiaries | Country | Share of authorised capital as at 31 December 2020 |
|---|---|---|
| PayRay SIA | Latvia | 100% |

#### 15. Factoring and other amounts receivable

The carrying amount of factoring and other receivables comprises amounts receivable that are subject to various factoring arrangements and advances paid to suppliers. The Bank 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 24.

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

| | 2020 | 2019 |
|---|---|---|
| | **EUR** | **EUR** |
| Amounts receivable under factoring arrangements | 21 565 491 | 32 739 056 |
| Accrued interest income on factoring calculated using the effective interest rate method | 2 066 | - |
| Advance payments | 9 210 | 4 076 |
| | **21 576 768** | **32 743 132** |
| Impairment of trade and other receivables (-) | (119 216) | (110 811) |
| **Total factoring and other receivables** | **21 457 552** | **32 632 321** |

**16. Other current assets**

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

| **Amounts receivable:** | **2020** | **2019** |
|---|---|---|
| | **EUR** | **EUR** |
| Receivable VAT | 272 | - |
| Receivable EU VAT | 466 | - |
| Receivables from accountable persons | 681 | - |
| **Total amounts receivable** | **1 419** | **-** |

| **Deferred costs:** | **2020** | **2019** |
|---|---|---|
| | **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 |
| **Total deferred costs** | 10 537 | 9 702 |
| **Total other current assets** | **15 454** | **9 702** |

**17. Cash and cash equivalents**

| | **2020** | **2019** |
|---|---|---|
| | **EUR** | **EUR** |
| Cash at bank | 4 862 829 | 3 646 072 |
| Impairment of cash at bank (-) | (2 140) | (2 069) |
| **Total cash and cash equivalents** | **4 860 689** | **3 644 003** |

The cash and cash equivalents of the Bank are carried at amortised cost in the statement of financial position. The cash and cash equivalents of the Bank 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 Bank has recognised impairment of cash at bank in the amount of EUR 2 140 (2019: EUR 2 069).

**18. Authorised share capital**

The Bank'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 Bank'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 Bank 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 Bank's loss was EUR 2 062 125 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.

### 19. Financial liabilities measured at amortised cost

| | 2020 | 2019 |
|---|---|---|
| | **EUR** | **EUR** |
| Non-current financial liabilities under loan agreement | - | 18 166 945 |
| **Total financial liabilities at amortised cost** | **-** | **18 166 945** |

As of 31 December 2019 Bank'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 Bank 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 Bank 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.

### 20. Deposits, current trade and other payables

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

| | 2020 | 2019 |
|---|---|---|
| | **EUR** | **EUR** |
| Deposits | 6 067 402 | 0 |
| Payables for factoring arrangements | 1 743 593 | 2 251 832 |
| Payables to related parties (see Note 22) | 705 535 | 527 046 |
| Other amounts payable | 96 630 | 40 192 |
| Advances received | 1 495 | 1 495 |
| | **8 614 655** | **2 820 565** |

As of 31 December 2020, the Bank's non-current 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. Accrued interest amounted to EUR 67 402.

### 21. Other current liabilities

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

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

### 22. Transactions with related parties

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

*Entities of the same ultimate benficial owners*

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

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

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| **Current payables (purchases of goods and services)** | | |
| Entities of the same ultimate benficial owners | 705 535 | 527 046 |
| **Total** | **705 535** | **527 046** |

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| **Non-current payables (non-current loan and interest)** | | |
| Entities of the same ultimate benficial owners | - | 18 166 945 |
| **Total** | **-** | **18 166 945** |

*Key management personnel*

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

Compensation of key management personnel of the Bank:

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| Wages and salaries | 313 121 | 216 689 |
| | **313 121** | **216 689** |

Remuneration to the Bank’s Board members amounted to EUR 10 422 in 2020.

### 23. Risk management

The Bank is exposed to the following risks:
• capital risk;
• credit risk;
• liquidity risk;
• operational risk.

**Risk management framework**

The Bank 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 Bank employs Chief Risk Officer, who is responsible for identification, monitoring of risks and implementing risk management policies and practices in the Bank.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, 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 Bank's activities. The Bank, 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 Bank's Internal Auditor oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. 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 Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank 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 Bank complied with all prudential ratios. Ratios applicable to the Bank:
- 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 Bank 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 Bank uses net interest income sensitivity and sensitivity of owned property economic value. Based on regulatory guidelines and internal assessment of a situation, the Bank sets interest rate floor for negative interest rates scenarios.

The Bank's interest rate, considering its insignificance, the following controls are applied in 2020 (described in documents Enterprise Risk management policy ir Procedure on Internal Capital and Liquidity Adequacy Assessment Process). Based on the decision of the Board of the Bank, 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.

**23. Risk management continued**

**Credit risk**

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

**Management of credit risk**

The Bank created the Credit Committee for the oversight of credit risk. Chief Risk Officer, reporting to the top Management of the Bank and to the Credit Committee, is responsible for managing the Bank'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 Bank'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 Bank'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 Bank's portfolios are provided to the Bank'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 Bank's employees to promote best practice throughout the Bank in the management of credit risk.

### 23. Risk management continued

Table. Credit risk grades and corresponding probabilities of default

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

Regular audits of the Bank'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 | 35.99% |
| 49. Land transport and transport via pipelines | 7 004 980 | 18.65% |
| 10. Manufacture of food products | 3 909 191 | 10.41% |
| 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 materials | 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 | 522 010 | 1.39% |
| | **37 569 751** | **100.00%** |

**23. 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% |
| | **35 874 482** | **100.00%** |

Impairment of financial assets

The Bank has three types of financial assets that are subject to the expected credit loss model:
• factoring and other receivables, which are subject to 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 | | | | |
| *recourse* | 11 321 800 | 3 288 919 | 11 242 281 | 3 608 733 |
| *non-recourse* | 4 495 218 | 1 021 371 | 7 369 782 | 1 007 865 |
| *limited recourse* | 6 340 438 | 6 340 438 | 6 789 910 | 6 128 515 |
| *reverse* | - | - | 7 337 083 | - |
| **Total factoring** | **22 157 456** | **10 650 728** | **32 739 056** | **10 745 113** |
| Loans and borrowings | 15 412 295 | 10 155 916 | 3 135 424 | 685 000 |
| **Total** | **37 569 751** | **20 806 644** | **35 874 480** | **11 430 113** |

*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

**23. Risk management continued**

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

| | 2020 | 2019 |
|---|---|---|
| | **EUR** | **EUR** |
| Gross carrying amount – factoring receivables | 22 157 456 | 32 739 056 |
| Gross carrying amount – loans | 15 412 295 | 3 135 424 |
| **Gross outstanding debt nominal** | **37 569 751** | **35 874 480** |
| Loss allowance - factoring receivables | (119 349) | (110 811) |
| Loss allowance - loans granted | (333 471) | (226 651) |
| **Total loss allowance** | **(452 820)** | **(337 462)** |
| **Total outstanding debt nominal** | **37 116 931** | **35 537 018** |

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

| | Risk grade | Outstanding Nominal, EUR | ECL, EUR | Outstanding Balance, EUR |
|---|---|---|---|---|
| | A1 | - | - | - |
| Low risk customers | A2 | - | - | - |
| | A3 | 1 549 566 | (1 718) | 1 547 848 |
| | **Total** | **1 549 566** | **(1 718)** | **1 547 848** |
| | B1 | 2 228 917 | (4 387) | 2 224 530 |
| Medium risk customers | B2 | 5 015 049 | (17 963) | 4 997 086 |
| | B3 | 12 761 118 | (91 890) | 12 669 228 |
| | **Total** | **20 005 084** | **(114 240)** | **19 890 844** |
| | C1 | 14 896 669 | (84 751) | 14 811 918 |
| Increased risk customers | C2 | 663 642 | (4 111) | 659 531 |
| | C3 | 95 594 | (461) | 95 133 |
| | **Total** | **15 655 905** | **(89 323)** | **15 566 582** |
| | D1 | - | - | - |
| High risk customers | D2 | - | - | - |
| | D3 | - | - | - |
| | **Total** | **-** | **-** | **-** |
| | E1 | - | - | - |
| Customers with default indication | E2 | - | - | - |
| | E3 | 359 196 | (247 539) | 111 657 |
| | **Total** | **359 196** | **(247 539)** | **111 657** |
| **Total** | | **37 569 751** | **(452 820)** | **37 116 931** |

**23. Risk management continued**

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

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

**Off-balance sheet liabilities**

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

The Bank'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 Bank'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 Bank 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 Bank's operations and investments.

**Management of liquidity risk**

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

The Bank'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 Bank's reputation. The key elements of the Bank'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 Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding;
- stress testing of the Bank's liquidity position against various exposures and specific events.

**23. 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 |
|---|---|---|---|---|---|---|---|
| *Financial liability by type* | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Financial liabilities at amortised cost | | 6 067 402 | - | - | - | (5 933 873) | (133 529) |
| Trade and other payables | | 2 547 253 | (2 547 253) | (2 547 253) | - | - | - |
| Lease liabilities | | 132 785 | (132 785) | (25 498) | (25 706) | (45 147) | (36 435) |
| Other current liabilities | | 49 470 | (49 470) | (49 470) | - | - | - |
| | | **8 796 910** | **(2 729 508)** | **(2 622 221)** | **(25 706)** | **(5 979 020)** | **(169 964)** |
| *Financial asset by type* | | | | | | | |
| Non-derivative financial assets | | | | | | | |
| Factoring and other amounts receivable | | 22 011 379 | (22 136 605) | (7 464 170) | (5 796 440) | (8 118 468) | (757 527) |
| Non-current loans granted | | 13 234 074 | (13 234 074) | - | - | - | (13 234 074) |
| Current loans granted | | 1 871 597 | (2 122 332) | (385 436) | (378 826) | (1 358 070) | - |
| Other current assets | | 30 805 | (30 805) | (30 805) | - | - | - |
| | | **37 147 855** | **(37 523 814)** | **(7 880 411)** | **(6 175 265)** | **(9 476 538)** | **(13 991 601)** |

| 31 December 2019 EUR | Note | Carrying amount | Gross nominal inflow /(outflow) | 0-3 months | 3-6 months | 6-12 months | More than 1 year |
|---|---|---|---|---|---|---|---|
| *Financial liability by type* | | | | | | | |
| Non-derivative liabilities | | | | | | | |
| 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) | - |
| | | **21 267 174** | **(22 384 589)** | **(10 069 855)** | **(140 436)** | **(819 655)** | **(11 354 643)** |
| *Financial asset by type* | | | | | | | |
| Non-derivative financial assets | | | | | | | |
| 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 |
| | | **35 569 610** | **36 026 785** | **34 659 975** | **206 063** | **780 076** | **380 671** |

**23. 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 Bank 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 Bank. There may be some fraud risks involved and some clients may try to exercise fraudulent activity against the Bank.

| Risks (not audited) | Material/Not Material (not audited) |
|---|---|
| Operational risk | Material |
| Anti-money laundering (AML) risk | Material |

**Operational and AML risk management**

The Bank'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 Bank'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 Bank.

The Bank 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, ussing Know Your Customer (KYC) procedures, etc.

Managing the Bank'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 Bank'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 Bank implements money laundering and terrorist financing risk identification, assessment, and management procedures, as well as effective tools to mitigate such risks.

**24. Fair value**

The carrying values of the Bank'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 2019 | |
| | EUR | EUR | EUR | EUR |
| **Financial assets** | | | | |
| Other amounts receivable after one year | 23 805 | 23 805 | 14 530 | 14 530 |
| Factoring and other amounts receivable | 21 457 552 | 21 457 552 | 32 632 321 | 32 632 321 |
| Loans granted | 15 687 438 | 15 687 438 | 2 817 947 | 2 817 947 |
| Other current assets | 11 956 | 11 956 | 28 516 | 28 516 |
| Cash and their equivalents | 4 860 689 | 4 860 689 | 3 644 003 | 3 644 003 |
| **Financial liabilities** | | | | |
| Financial liabilities measured at amortised cost | 6 067 402 | 6 067 402 | 18 166 945 | 18 166 945 |
| Trade and other amounts payable | 2 547 253 | 2 547 253 | 2 820 565 | 2 820 565 |
| Other current liabilities | 49 470 | 49 470 | 116 723 | 116 723 |

Quantitative disclosures of the Bank'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 |
| **Financial assets** | | | | |
| Other amounts receivable after one year | - | 23 805 | - | 23 805 |
| Factoring and other amounts receivable | - | 21 457 552 | - | 21 457 552 |
| Loans granted | - | 15 687 438 | - | 15 687 438 |
| Other current assets | - | 11 956 | - | 11 956 |
| Cash and their equivalents | - | 4 860 689 | - | 4 860 689 |
| **Financial liabilities** | | | | |
| Financial liabilities measured at amortised cost | - | 6 067 402 | - | 6 067 402 |
| Trade and other amounts payable | - | 2 547 253 | - | 2 547 253 |
| Other current liabilities | - | 49 470 | - | 49 470 |

Quantitative disclosures of the Bank'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 |
| **Financial assets** | | | | |
| 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 |
| **Financial liabilities** | | | | |
| Financial liabilities measured at amortised cost | | 18 166 945 | | 18 166 945 |
| Trade and other amounts payable | - | 2 820 565 | - | 2 820 565 |
| Other current liabilities | - | 116 723 | - | 116 723 |

**25. Contingent liabilities**

In 2020, the Bank 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.

**26. Effect of COVID-19 on the Bank'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 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 2020, the Bank 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 50 000.
- 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 interes 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 Bank 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 Company and immediately took the needed actions:
- Unavailability of staff for extended period of time. To address this risk the Bank 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 Bank reviewed the factoring portfolio by restricting financing to non-essential goods retail and transportation as well as construction sectors. The Bank provides no financing to end consumers.
- An adverse effect on the assets value due to deteriorating economic environment. The Bank's Management finds this risk as not material. Non-current assets as collaterals are not taken. The Bank's factoring portfolio is mainly insured by trade credit insurance Euler Hermes. The Bank 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 Bank 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.

**27. 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 schare 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 whould have an effect on the separate financial statements as at 31 December 2020.

| | | |
|---|---|---|
| | | 29 April 2021 |
| Director<br>Renato La Fianza | (signature) | (date) |
| | | 29 April 2021 |
| Chief Financial Officer<br>Albertas Gruodis | (signature) | (date) |

### 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.

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 |

### *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.

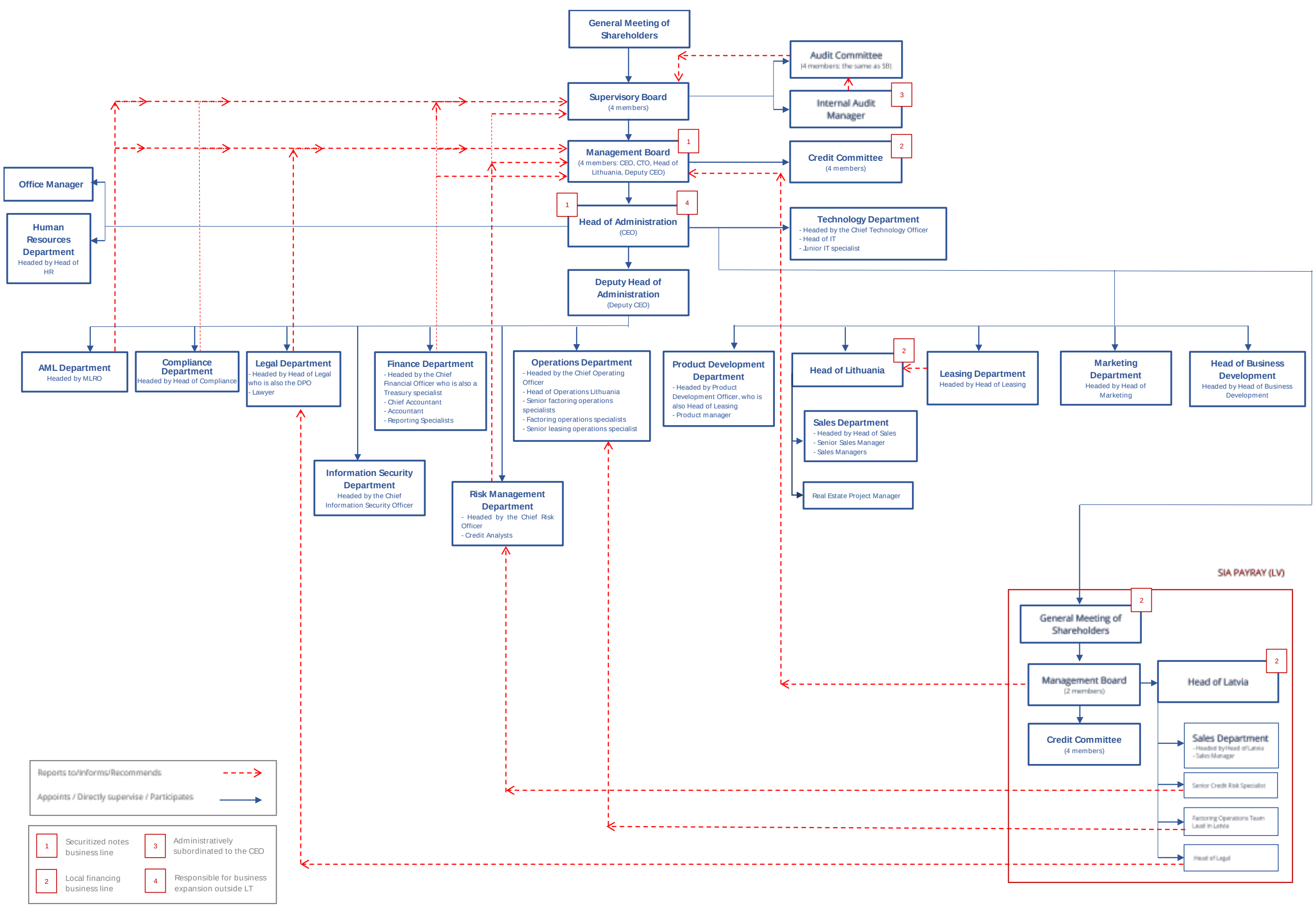
The Supervisory Council delegates certain functions to the Bank's Audit Committee, the members of which are the same as those of the Supervisory Council.

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.



### *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;

• 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;

• 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;

• 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.

## 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.

<u>The risk control function</u>, 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.

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.

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.

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 vales, 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 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.

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 by 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 | - | - |

| 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 Develop-ment | Member of Supervisory Council | Joldija, UAB – Chairman of the Board, Head of Business Development<br><br>Energia futura, UAB – Member of the Board | Joldija, UAB – Chairman of the Board, Head of Business Development<br><br>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,<br><br>Finolita, UAB – Board Member;<br><br>IPI Srl, Director | Kaunas University of Technologies – Member of the Supervisory Council,<br><br>Finolita, UAB – Board Member;<br><br>IPI Srl, Director |
| Tomas Andrejauskas | Supervisory Council | Satimed, UAB – Advisor; | Member of Supervisory Council | Fitodenta, UAB – Director;<br><br>Satimed, UAB – Advisor;<br><br>Lithuanian Biotechnology<br><br>President of the Association, Board Member | Fitodenta, UAB – Director;<br><br>Satimed, UAB – Advisor;<br><br>Lithuanian Biotechnology<br><br>President of the Association, Board Member |
| Roberto Pollara | Supervisory Council | - | Member of Supervisory Council | - | - |

### *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