PayRay Bank, UAB

FINANCIAL STATEMENTS

for the year ended 31 December 2022

Prepared in Accordance with International Financial Reporting Standards, as Adopted by the European Union, Presented Together with Independent Auditor's Report

Translation note:
This version of financial statements is a translation from the original, which was prepared in the Lithuanian language. All possible care has been taken to ensure that the translation is accurate representation of the original. However, in all matters of information, views or opinions, the original language version of financial statements takes predence over this translation.

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GRANT THORNTON BALTIC UAB
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF PAYRAY BANK, UAB

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PayRay Bank, UAB (hereinafter "the Company"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, of the financial position of the Union as at 31 December 2022, and their financial performance and cash flows for the year then ended in accordance with the laws on accounting and financial reporting of the Republic of Lithuania and 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) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (Regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the 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 judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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.

Expected credit losses for loans

Please refer to the following sub-sections of Note 4 "Summary of significant accounting policies": "Impairment of Financial Assets", "Measurement of ECL", "Significant increase in credit risk (SICR)", "Credit risk grades", "Generating the term structure of PD", "Determining whether credit risk has increased significantly", "Definition of default", "Incorporation of forward-looking information", "Restructured financial assets", "Credit-impaired financial assets", "Presentation of *allowance for ECL in the statement of financial position", as well as Note 12 "Loans to customers", Note 13 "Factoring receivables", and the following sub-sections of Note 22 "Risk management": "Credit risk", "Credit risk management", "Off-balance sheet commitments", "Expected credit losses", on pages 30-33, 42 and 45-51, respectively.*

As at 31 December 2022, expected credit losses reported in the Bank's statement of financial position amounted to EUR 1584 thousand (see Notes 12, 13 and 22).

The Bank's credit loss allowances for loans in the statement of profit or loss and other comprehensive income for the year ended 31 December 2022 amounted to EUR 490 thousand (Note 22).

Credit loss allowances for loans represent the management's best estimate of the expected credit losses ("ECLs") within loans granted (exposures) at the reporting date. We focused on this area as the determination of loss allowances requires a significant judgment and subjectivity over the amounts of any such impairment.

Impairment allowances for performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) 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.

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 loss allowances are determined on an individual basis by means of a discounted cash flows analysis.

The targeted non-routine inspection is conducted by the supervisory authority in the Bank involving the assessment of the credit risk management practice and expected credit loss model. Due to a significant increase in estimation uncertainty affected by the reasons stated above and the impact of the war in Ukraine on the economy, we considered the impairment of the loans granted to be a significant risk, therefore, we focused more attention on this area in our audit. Accordingly, we determined this area to be a key audit matter.

How the Matter Was Addressed in the Audit

Our audit procedures among others included the following:

- we obtained an understanding of the Bank's ECL methodology and assessed its compliance with the relevant requirements of IFRS 9. 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 challenged the management on whether the level of the methodology's sophistication is appropriately based on our assessment of the entity-level factors.
- we obtained an understanding of significant deficiencies in the application of an ECL model and credit risk management included in the Bank of Lithuania's report of the targeted non-routine inspection.
- we made inquiries of the Bank's risk management and information technology (IT) personnel to gain understanding of IT applications used in the loan impairment process. Also, we assessed and tested the Bank's control environment for data security and access.
- we tested the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the monitoring of identification of events of default, as well as appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, and the overall ECL estimate.

- we assessed whether the definition of default and the staging criteria were applied consistently and in accordance with the relevant international financial reporting standards as adopted by the European Union,
- we evaluated whether in the loan staging and ECL measurement the Bank appropriately considered the impact of the war in Ukraine.
- we critically assessed the existence of any triggers for classification to Stage 3 as at 31 December 2022, by reference to the underlying documentation (loan files) and through discussion with the management and taking into consideration business operations of the respective customers as well as market conditions and historical repayment pattern.
- for the exposures with triggers for classification in Stage 3, challenging key assumptions applied in the 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.
- we discussed the deficiencies in accounting estimates of ECL model identified during the audit with the representatives of the Supervision Department of the Bank of Lithuania.
- we evaluated the accuracy and completeness of the loan impairment and credit risk-related disclosures in the financial statements by reference to the requirements of applicable financial reporting standards.

First-year audit

We have been chosen to carry out the audit of the Bank's financial statements for the first time. Initial audit engagements involve a number of considerations not associated with recurring audits. Additional planning activities and considerations necessary to establish an appropriate audit strategy and audit plan include, among others:

- Gaining an initial understanding of the Bank, its business plan and financial accounting, including its control environment and information systems sufficient to make audit risk assessments and develop the audit strategy and plan;
- Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles; and
- Communicating with the previous auditors.

How the Matter Was Addressed in the Audit

After being appointed as the Company's auditors in 2022, we developed an appropriate audit strategy and audit plan for this initial audit engagement. Our procedures included, in particular:

- obtaining initial understanding of the Bank and its business, including its business plan, business risks, IT systems used, internal control environment, internal controls and financial reporting framework, to assists in performing risk assessment procedures at the Bank's management assertion and financial statements level;
- obtaining audit evidence regarding opening balances and the appropriateness of selection and application of key accounting policies;
- close interaction with the previous auditors regarding key audit and accounting matters, as well as the audit procedures performed by them in key financial statements areas in previous periods;

- Discussion with the Bank's management, responsible employees and the Audit Committee, to understand their perspectives on the business, identified key risks and other areas of audit importance.

Other matters – targeted non-routine inspection by the Bank of Lithuania

The Bank of Lithuania conducts the targeted non-routine inspection of the Bank, however, no decision on the imposition of the sanction was taken as at the reporting date. There is uncertainty as to the potential impact of the sanction on the Bank's performance.

Other matters – decision of the Bank of Lithuania to impose enforcement measure

On 13 September 2022, the Bank of Lithuanian temporarily suspended the voting rights of a direct shareholder 2404 S.A. in the General Meeting of Shareholders of PayRay Bank, UAB.

Other information

The other information comprises the information included in the Bank's Annual Report for 2022, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection to our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Bank's annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and whether annual report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of financial statements, in our opinion, in all material respects:

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the laws on accounting and financial reporting of the Republic of Lithuania, and 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In accordance with the decision made by shareholders on 30 June 2022 we have been chosen to carry out the audit of the Bank's 2022 year and 2023 year financial statements for the first time. Our appointment to carry out the audit of the Company's financial statements in accordance with the decision made by the General Meeting of Shareholders is renewed every two years and the period of total uninterrupted engagement is one year.

We confirm that our opinion in the *Opinion* section is consistent with the additional report, which we have submitted to the Bank and the Audit Committee.

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.

Throughout our audit engagement period, we have provided non-audit services, comprising translation of financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Darius Gliaubicas.

Grant Thornton Baltic UAB
Audit company's licence No 001513
Upės st. 21-1, Vilnius

Lithuanian Certified Auditor
Darius Gliaubicas
License No 000594
27 April 2023

General information

PayRay Bank, UAB
Tel.: +370 611 64487
Company code: 304862948
Lvivo st. 25-702, Vilnius, Lithuania

Renato La Fianza (Director)

Board members

Renato La Fianza
Mindaugas Stasionis (until 31/03/2023)
Paulius Jokšas
Gianluca Balducci

Registered office

Lvivo st. 25-702
Vilnius
Lithuania

Auditor

Grant Thornton Baltic UAB
Upės st. 21-1, LT-08128 Vilnius

Banks

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

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

This annual management report has been prepared for 2022. Annual management report presents the information of PayRay Bank, UAB ("the Bank").

1. State of the Bank and overview of activities

In 2019, the Bank received a banking licence from the Bank of Lithuania and on 15 October 2020 it successfully became a bank; 100% of its share capital and voting rights belong to 2404 S.A. The Bank is supervised and regulated by the Bank of Lithuania and European Central Bank. The headquarters of the Bank are located in Vilnius, Lithuania.

In 2020, acceptance of deposits and other repayable funds from non-professional market participants was initiated. The Bank provides financing to legal entities and natural persons for business purposes.

The Bank made the following investments in subsidiaries: in September 2020, established a subsidiary PayRay SIA in Latvia, and 2021 a subsidiary PayRay Estonia OU in Estonia. The subsidiary in Estonia does not carry out activities.

The Bank has no physical service locations, except for the central headquarters in Vilnius. The Bank collects deposits from non-professional market participants via the Raisin platform, while financing and deposit services to legal entities are provided via direct or remote meetings.

The Bank does not hold and did not acquire its own shares in 2022.

On 25th March 2022, the Bank completed the acquisition of part of Optima Information Technology Srl business. The software development business was purchased as "transfer of going concern" and under the framework of "business combination under common control" as both parties had the same sole shareholder. Optima Information Technology Srl is a financial software development company based in Pistoia, Italy, which since 2018 has developed and provided product software solutions to the Bank. Thus the acquired business became a fundamental asset for the Bank which will play a strategic role in digitalization and improvement of the Bank's processes by providing access to tailor-made scalable software and an in-house software development team. The acquired business includes contracts with 13 specialized employees. The consideration agreed upon for the acquired business was EUR 1. IFRS 3 Business Combinations does not provide for any method for business combination of joint ventures, and therefore such acquisition was accounted for at carrying amount, with the difference being recorded in the balance sheet in equity as a profit (loss) not recognized in statement of profit and loss and other comprehensive income in accordance with generally accepted practice for business combinations under common control.

On 13 September 2022, the Board of the Bank of Lithuania adopted a decision in which a sole shareholder of the Bank 2404 S.A. voting rights have been temporarily suspended.

In Q4 2022, the Bank started collaboration with external consultants in shaping the Bank's Environmental, Social and Governance ("ESG") policies. Moreover, the new position of an ESG risk manager was created along with the implementation plan which covers areas of ESG risk management, ESG inclusion in the Bank's strategy, setting the ESG goals and performance indicators.

The Bank does not in any case allow, promote, facilitate nor tolerate the practices related to bribery, corruption, embezzlement and such practices are against the values and risk culture of the Bank. It is prohibited for employees to give, accept or facilitate the bribes and corruptive practices. In order to ensure appropriate behaviour from employees and to prevent corruption, bribery or any other inappropriate/improper behaviour, the Bank approved Code of Conduct and Ethics, as well as Anti-Bribery, Anti-corruption, Gifts and Invitations Procedure, additionally training sessions for employees in this field are conducted at least on once a year.

As at 31 December 2022, the Bank's equity amounted to EUR 29,953,307 (31 December 2021: EUR 34,268,670), the Bank assets totalled EUR 279,030,623 (31 December 2021: 180,884,755), and the Bank's financial result in 2022 was a loss of EUR 4,195,751 (2021: a loss of EUR 93,996).

In 2022, compared to previous reporting period, the Bank's net interest income increased by 56%, and the interest expenses on deposits amounted to EUR 3,091,111 (2021: EUR 648,446). Net commission income in 2022 were positive and totalled RUR 111,675, while in 2021 they were negative (EUR - 5,238).

The Bank's financing portfolio based on the type of financing as of the last day of the financial year consisted of the following:

- EUR 33,780,373 of factoring (31 December 2021: EUR 39,785,686);
- EUR 135,970,348 of loans (31 December 2021: EUR 82,967,646);
- EUR 18,221,659 of lease (31 December 2021: EUR 836,189).

The Bank's compliance with prudential ratios as at 31st December 2022 is presented in the table below:

Capital adequacy ratio	25.11%
Leverage ratio	10.09%

Liquidity coverage ratio	1626.02%
Net stable funding ratio	155.55%
Large exposure requirement	16.34%

2. *Strategy and plans*

The Bank provides services in Germany, Lithuania, and Latvia. In Germany, through the Raisin deposit platform, the Bank provides natural persons with the opportunity to choose a bank deposit offer with favourable interest rate while in Lithuania the Bank offers deposit service to legal entities. Lithuania and Latvia are the Bank's markets for financing activities.

The Bank's strategy for the coming years is to focus on the Lithuanian market for financing activities, aiming for asset diversification through products and clients. The key financing segment will remain small and medium sized enterprises.

Furthermore, the Bank plans to diversify its source of funding by starting to accept deposits in Spain and Netherlands through the Raisin deposit platform, as well as begin to collect deposits through Check24 deposit platform in Germany.

3. *Information on research and development activities*

During January–November 2022, the Bank invested in development of an automatic credit decision system. In December 2022, the project was terminated.

4. *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 key client-focused principles:

- Flexible business financing solutions;
- Fast and smooth processes from decision-making to client financing;
- High expertise in the segment of small and medium sized businesses.

5. *Organizational structure*

The Bank's organizational structure meets the specifics of the business model on the provision of banking services and implementation of advanced international business practices.

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 Management Board which currently consists of the Head of Administration, the Deputy Head of Administration, the Head of Baltic Business, and the Chief Technology Officer. The Management Board makes day-to-day executive decisions and implements the strategy of the Bank, implements risk management framework.

The Bank has established the Audit Committee, which members are the same as those of the Supervisory Council.

6. Governance structure

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

The Heads of the Bank are the members of the Supervisory Council, members of the Management Board, the Head of Administration, the Deputy Head of Administration, and the Head of the Internal Audit.

The General Meeting of Shareholders is convened annually, no later than four 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 legal acts;
- 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;
- Adopt other decisions provided in the Articles of Association of the Bank.

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 management 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 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 Management Board members and removes them from office. If the activities of the Bank are loss-making, the Supervisory Council must consider whether the Management Board members are fit for the position;
- Supervises the activities of the Management 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;
- Submits suggestions to the Management Board and the Head of Administration 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.

The Bank's Management Board is a collegial management body of the Bank consisting of four members. It manages the Bank and is liable for the Bank's financial services. The Management Board function is regulated by the Working regulations of the Management Board. The Management Board members are elected, removed from office, and supervised by the Bank's Supervisory Council. The Bank's Management 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 Management 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 Management Board elects (appoints) and removes from office the Bank's Head of Administration and Deputies.

The Management 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 the issuance of non-convertible bonds;
- Approval of the Management Board's working regulation;
- Decisions on other matters which, under the legislation and under the Bank's Articles of Association, must be considered and decided by the Management Board.

The Management Board implements the decisions taken by the General Meeting of Shareholders and by the Supervisory Council. The Management Board analyses and assesses the information submitted by the Head of Administration 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 Management Board analyses, and assesses the Bank's set of annual financial statements and draft appropriation of profit (loss) and submits them to the Supervisory Council and the General Meeting of Shareholders. Also, the Management 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

Management Board is responsible for the timely convening and organising of the General Meeting of Shareholders.

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

The Head of Administration 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 bodies.

Committees of the Bank

The following committees are established in the Bank: the Credit Committee, the Audit Committee, the Assets and Liabilities Committee and the Debt Management Committee.

The Credit Management Committee is established by the Management Board. **The Credit Committee** is responsible for the supervision of the Bank's credit risks. The main responsibilities of the Debt Management Committee are examining client credit requests, deciding on financing, and setting financing conditions.

The Debt Management Committee is chaired by the Head of Credits.

The Audit Committee is established by the Supervisory Council. **The Audit Committee** is responsible for overseeing the effectiveness of the Bank's internal control, risk management, and internal audit systems, legal compliance of the Bank's operations, and the process of financial reporting within the Bank.

The members of the Audit committee are those of the Supervisory Council. The Chairman of the Supervisory Council is also appointed as the Chairman of the Audit Committee.

The Assets and Liabilities Committee is established by the Management Board. **The Assets and Liabilities Committee** is responsible for implementing the liquidity strategy of the Bank, its assessing and making relevant decisions.

The Assets and Liabilities Committee is chaired by the Chief Financial Officer.

The Debt Management Committee is established by the Management Board. **The Debt Management Committee** is responsible for monitoring overdues of the customers, making and implementing decisions with regard to customers' overdues and debt recovery.

The Debt Management Committee is chaired by the Workout Manager.

7. *Risk management and internal controls*

The detailed information on the Bank's main risks and their management framework is provided in the section 22 of the Notes to the Financial Statements.

The Group acknowledges that every employee of the organization is responsible for the effectiveness of risk management and internal control framework.

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

The three lines 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 comprises all risk owning functions at the Bank. The first line includes functions such as Sales, Operations, Credits, Treasury, Finance, Legal and IT, which are considered risk owners.

Second line comprises the Bank's risk monitoring and supervision functions. It comprises of Risk management function, Compliance function, Information security function, Data protection function, and Prevention of money laundering, terrorist financing and financial crimes function.

Risk management function, steered by the Chief Risk Officer, is responsible for:

- Carrying out the supervision and control of the risk management process at the Bank. It also actively provides guidelines and support to other structural divisions of the Bank in implementing and maintaining a strong and sustainable risk culture;
- Identification, control and analysis of all the main risks which affect or may affect the Bank's activities. The Risk management function shall also control whether other structural divisions of the Bank ensure appropriate oversight of their main risks;
- Assessment of any potential risks that may arise during the implementation of new products or material amendments of them and determination how they can influence the Bank's overall risks and risk profile.

Chief Risk Officer is accountable to the Management Board and reports directly to the Deputy of Head of Administration.

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 the Bank's 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 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 to prevent behavioural and compliance risks from occurring or mitigating them.

Head of Compliance is accountable to the Management Board and by administrative procedure to the Deputy Head of Administration.

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

The Money Laundering Reporting Officer is accountable to the Management Board and by administrative procedure to the Deputy Head of Administration.

Third line is related to the Internal Audit function, which is independent from the first and second lines. Internal Audit function assess:

- Appropriateness of the Bank's governance framework;
- Adequacy and compliance of the existing policies and procedures with legal and regulatory requirements and with the risk appetite and strategy of the Bank;
- Adequacy, quality and effectiveness of the controls performed and the reporting done by the business units and the risk management and compliance functions.

The Internal Audit Manager is accountable to the Audit Committee which holds meetings at least quarterly. The Audit Committee accounts to the Bank's Supervisory Council at least once a year.

8. Employees and remuneration policy

Information on the Bank's employees and remuneration policy is provided in the Notes of the Financial Statements and the Bank's Risk Management and Capital Adequacy Report (https://www.payray.bank/lt/financial-reports-lt/).

9. *Information on the positions held by managers*

Information on other functions of the Head of Administration, the Management Board members and the members of the Supervisory Council 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/organisations where holds managerial positions	Duties at other company/organisation
Renato La Fianza	Management Board	PayRay Bank, UAB (304862948, Lvivo st. 25, Vilnius, Lithuania)	Head of Administration	PayRay SIA (40203260896, Duntes st. 3, Riga)	Member of the Board
Mindaugas Stasionis (until 31/03/2023)	Management Board	PayRay Bank, UAB (304862948, Lvivo st. 25, Vilnius, Lithuania)	Deputy Head of Administration	PayRay SIA (40203260896, Duntes st. 3, Riga) Anahata buveinė, VšĮ (305720752, Žemaitės st. 5-22, Vilnius, Lithuania)	Member of the Board Head
Paulius Jokšas	Management Board	PayRay Bank, UAB (304862948, Lvivo st. 25, Vilnius, Lithuania)	Head of Baltic Business	PayRay SIA (40203260896, Duntes st. 3, Riga)	Member of the Board
Gianluca Balducci	Management Board	PayRay Bank, UAB (304862948, Lvivo st. 25, Vilnius, Lithuania)	Chief Technology Officer	-	-
Gintautas Galvanauskas	Supervisory Council	UAB Joldija (133865639, Tikslo st. 10, Kaunas dist., Lithuania) - Chairman of the Board, Head of Business Development	Chairman of the Supervisory Council	GGLIF, UAB (305825276, Lvivo st. 25, Vilnius, Lithuania) UAB Energia futura (304433393, Draugystės st. 15M, Kaunas, Lithuania)	CEO Member of the Board

Name, surname	Management body of PayRay Bank, UAB	Main employment	Duties at the company PayRay Bank, UAB	Other companies/organisations where holds managerial positions	Duties at other company/organisation
				VŠĮ Futbolo klubas (304984471, J.Basanavičiaus st. 26, Vilnius, Lithuania)	Member of the Board
				UAB Sejico (303173811, Kruosto st. 2T, Kėdainiai dist., Lithuania)	Member of the Board
				Raft Capital Management, UAB (Gedimino av. 50, Vilnius, Lithuania)	Partner
Kęstutis Šliužas	Supervisory Council	IPI Srl (IT03291129, Giuseppe Piermarini st. 19, Perugia, Italy) - Chief Executive Officer	Member of Supervisory Council	AB Lietuvos Geležinkeliai (110053842, Geležinkelio st. 16, Vilnius, Lithuania)	Chairman of the Board
Tomas Andrejauskas	Supervisory Council	Satimed UAB (303408412, Kauno st. 37, Utena, Lithuania) - Head of Business Development, Partner	Member of Supervisory Council	Fitodenta, UAB (305460265, Raudondvario rd. 148, Kaunas, Lithuania) Lithuanian BIO (126374821, Balčikonio st. 3, Vilnius, Lithuania)	CEO President, Chairman of the Board;

Name, surname	Management body of PayRay Bank, UAB	Main employment	Duties at the company PayRay Bank, UAB	Other companies/organisations where holds managerial positions	Duties at other company/organisation
				Bioremedium, UAB (305913986, Universiteto st. 3, Vilnius, Lithuania)	Chief Technology Officer
Roberto Pollara	Supervisory Council	-	Member of Supervisory Council	-	-

* Mindaugas Stasionis ceased to perform his duties as a member of Board and a head of administration at PayRay Bank UAB from 31 March 2023.

10. Significant events after the end of the reporting period

Ongoing Russia's war in Ukraine and inflationary pressures continue to weigh on economies worldwide, resulting in slowed economic activity. Global growth is projected to decelerate sharply in 2023, especially in the euro area. The latest economic data in Germany and Lithuania revealed that both countries' gross domestic product contracted by 0.4% and 0.5% respectively during Q4 2022.

In order to fight high inflation, the European Central Bank has initiated monetary policy tightening. By the end of 2022, the European Central Bank's rate of main refinancing operations was 2.5% (compared to 0% at the start of the year) and it was increased to 3.0% on 8th February 2023. Moreover, the European Central Bank has increased the key interest rates by additional 50 basis points on 16th of March while indicating that further interest rate decisions will be determined by the assessment of the inflation outlook.

The sudden increase of Euribor rates driven by the European Central Bank's monetary policy had a positive impact on the Bank's financial results in Q1 2023. However, in the light of an uncertain economic outlook, the Bank closely monitors the economic situation and its loan portfolio performance. Taking into account the abovementioned circumstances, the Bank continuously reviews and adapts its financing guidelines for new credit origination.

In January 2023, the Bank of Lithuania started a non-routine inspection of the Bank. The focus of the inspection is credit risk management, liquidity management, interest rate risk management, and governance of the Bank. The results of the inspection are expected to be issued in Q2-Q3 2023.

Annual report designed in 27 April, 2023.

PayRay Bank, UAB

Head of Administration

Renato La Fianza

PayRay Bank, UAB
Bank code: 304862948, Lvivo st. 25-702, Vilnius, Lithuania

Statement of profit or loss or other comprehensive income

for the year ended 31 December 2022

	Notes	2022	2021
		EUR	EUR
Interest income calculated using effective interest method	6	11 163 501	5 832 870
Interest expenses	6	(3 091 111)	(648 446)
Net interest income		**8 072 390**	**5 184 424**
Commission income	6	145 228	9 537
Commission expenses	6	(33 553)	(14 775)
Net commission income (expenses)		**111 675**	**(5 238)**
Other operating income	6	280 426	82 481
Impairment of investments in subsidiaries	22	(3 000 000)	-
Credit loss allowance	17, 22	(602 588)	(643 441)
Payroll expenses	7	(4 963 337)	(2 852 602)
Depreciation of property, plant and equipment and amortization of intangible	7	(615 989)	(234 204)
Administrative expenses	7	(3 624 989)	(1 635 248)
Finance costs	11	(5 051)	(3 680)
Profit (loss) before tax		**(4 347 463)**	**(107 508)**
Income tax expense	8	151 712	13 512
Profit (loss) for the year		**(4 195 751)**	**(93 996)**
Other comprehensive income		-	-
Total other comprehensive income, net of tax		**(4 195 751)**	**(93 996)**
Earnings (losses) per share		**(0)**	**(0)**

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

Director
Renato La Fianza
(signature) 27 April 2023 (date)

Authorised person of BDO auditas ir apskaita
Aurelija Janulaitytė
(signature) 27 April 2023 (date)

CFO
DOMENICO POLITI
27 APRIL 2023

PayRay Bank, UAB
Bank code: 304862948, Lvivo st. 25-702, Vilnius, Lithuania

Statement of financial position

for the year ended 31 December 2022

	Notes	2022 EUR	2021 EUR
Assets			
Cash on hand and balances with central banks	17	66 398 817	54 522 842
Securities issued by governments	16	22 790 253	-
Loans to customers and factoring receivables	12,13	186 680 732	122 907 274
Investments into subsidiaries	14	2 500	2 002 500
Intangible assets	10	1 589 285	587 115
Property, plant and equipment	9	274 676	112 814
Right-of-use assets	11	308 660	238 175
Deferred tax asset	8	527 981	376 269
Other financial assets	15	209 422	108 899
Other assets	16	248 297	28 867
Total assets		**279 030 623**	**180 884 755**
Liabilities			
Customer deposits	19	241 916 268	141 560 543
Lease liabilities	11	311 345	239 623
Payables	20	6 517 887	4 529 966
Provisions for off-balance sheet liabilities	22	18 226	137 404
Other liabilities	20	313 590	148 549
Total liabilities		**249 077 316**	**146 616 085**
Equity			
Issued capital	18	36 424 791	36 424 791
Retained earnings	18	(6 351 872)	(2 156 121)
Profit (loss) not recognized in statement of profit and loss and other comprehensive income	25	(119 612)	-
Total equity		**29 953 307**	**34 268 670**
Total equity and liabilities		**279 030 623**	**180 884 755**

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

Director
Renato La Fianza — (signature) — 27 April 2023 (date)

Authorised person of BDO auditas ir apskaita
Aurelija Janulaitytė — (signature) — 27 April 2023 (date)

CFO
DOMENICO POLITI — 27 APRIL 2023

Statement of changes in equity

for the year ended 31 December 2022

	Issued capital	Profit (loss) not recognized in statement of profit and loss and other comprehensive income	Retained earnings (loss)	Total equity
	EUR	EUR	EUR	EUR
As at 31 December 2020	**36 424 791**	**-**	**(2 062 125)**	**34 362 666**
Profit (loss) for the year	-	-	(93 996)	(93 996)
As at 31 December 2021	**36 424 791**	**-**	**(2 156 121)**	**34 268 670**
Profit (loss) for the year	-	-	(4 195 751)	(4 195 751)
Profit (loss) not recognized in statement of profit and loss and other comprehensive income	-	(119 612)	-	(119 612)
As at 31 December 2022	**36 424 791**	**(119 612)**	**(6 351 872)**	**29 953 307**

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

Director
Renato La Fianza

27 April 2023
(signature) (date)

Authorised person of BDO auditas ir apskaita
Aurelija Janulaitytė

27 April 2023
(signature) (date)

CFO
DOMENICO POLITI

27 APRIL 2023

PayRay Bank, UAB
Bank code: 304862948, Lvivo st. 25-702, Vilnius, Lithuania

Statement of cash flows

for the year ended 31 December 2022

	Notes	2022 EUR	2021 EUR
Profit (loss) for the year		**(4 195 751)**	**(93 996)**
Operating activities			
Credit loss allowance	17, 22	602 586	643 441
Interest income	6	(11 163 501)	(5 832 870)
Interest expenses	6	3 091 111	648 446
Depreciation of property, plant and equipment and amortization of intangible a	9,10,11	871 063	239 168
Impairment of investments in shares of subsidiaries	14	3 000 000	-
Change in deferred tax	8	(151 712)	(13 512)
Other non-cash transactions elimination		(35 178)	77 740
Total adjustments to operating activities		**(3 785 631)**	**(4 237 587)**
Working capital adjustments			
Net change in loans granted	12, 13	(63 972 489)	(86 087 993)
Changes in other financial assets	15	(100 523)	(77 534)
Changes in other assets		(219 430)	(307 369)
Changes in customer deposits	19	98 914 759	135 335 639
Change in trade payables	20	1 881 031	1 692 685
Changes in other liabilities	20	165 041	271 098
Total changes in assets and liabilities of operating activities		**36 668 389**	**50 826 526**
Interest received		10 649 803	5 477 598
Interest paid		(1 650 145)	(201 440)
Net cash flows from operating activities		**37 686 665**	**51 771 101**
Investing activities			
Investments in subsidiaries	14	(1 000 000)	(1 752 500)
Acquisition of securities issued by governments	16	(22 733 488)	-
Acquisition of property, plant and equipment	9, 11	(491 380)	(266 022)
Acquisition of intangible assets	10	(1 657 544)	(197 262)
Net cash flows used in investing activities		**(25 882 412)**	**(2 215 784)**
Financing activities			
Lease payments	11	71 722	106 836
Net cash flows from/used in financing activities		**71 722**	**106 836**
Net increase (decrease) in cash and cash equivalents		11 875 975	49 662 153
Cash and cash equivalents at the beginning of the year/period	17	**54 522 842**	**4 860 689**
Cash and cash equivalents as at 31 December	17	**66 398 817**	**54 522 842**

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

Director
Renato La Fianza

(signature) 27 April 2023 (date)

Authorised person of BDO auditas ir apskaita
Aurelija Janulaitytė

(signature) 27 April 2023 (date)

CFO
DOMENICO POLITI

27 APRIL 2023

Notes to the financial statements

for the year ended 31 December 2022

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 st. 25-702, Vilnius, Lithuania.

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

The principal activity of the Bank is provision of financial services. The Bank provides finance for small and medium-sized enterprises (SMEs) and collects deposits from natural and legal persons.

As at 31 December 2022 and 2021, the shareholder of the Bank was 2404 S.A., Bank code B224715, registered at 76, Grand Rue, L - 1660 Luxembourg, Luxembourg. The shareholder holds 100% of shares in the Bank.
In 2022 and 2021, the Bank had shares of one class held by one shareholder, 2404 S.A. Ultimate controlling persons are individuals holding 50% of shares each.

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

In 2021, the Bank established a company PayRay Estonia OU. The Bank became the parent company of PayRay Estonia OU owning 100% of the share capital of PayRay Estonia OU. PayRay Estonia OU 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. Although commercially inactive in 2022, financial data of PayRay Estonia OU is included in the consolidated financial statements prepared by the Bank.
On 25 March 2022, the Bank completed the partial acquisition of business from Technology Srl. The software development business was purchased as "transfer of going concern" and under the framework of "business combination under common control" as both parties had the same sole shareholder.

PayRay Bank, UAB prepares separate consolidated financial statements.

As at 31 December 2022, the average number of the Bank's employees was 89 (31 December 2021, 49).

The shareholder of the Bank has a statutory right to either approve these separate financial statements or not approve them and require a new set of financial statements to be prepared.

The Bank's financial reporting year coincides with a calendar year.

2. Basis of preparation

The financial statements have been prepared in accordance with the requirements of Lithuanian Law on Corporate Reporting, the Lithuanian Law on Accounting and 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 were prepared on a going concern basis. As at the date of approval of the financial statements, there were no indications that the Bank will not be able to continue as going concern, and the Bank's activities are not restricted.
The preparation of the financial statements in conformity with IFRS as adopted by the EU 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 reasonable under the current 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 sections of accounting policies:
- Section 'Financial Assets'. Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial ass(are solely payments of principal and interest (SPPI) on the principal amount outstanding.
- Section '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.

<u>Bank's activities under the incentive financial instrument of Žemės Ūkio Paskolų Garantijos Fondas to secure the liquidity during the period of the outbreak of COVID-19</u>

The Bank's management estimates that the Bank acts as a financial intermediary channelling funds from Žemės Ūkio Paskolų Garantijos Fondas under the incentive financial instrument "Loans to Secure the Liquidity of Undertakings Active in the Production, Processing and Marketing of Agricultural and Fishery Products During the Period of the Outbreak of COVID-19".
The basis for such management estimate is the agreement with Žemės Ūkio Paskolų Garantijos Fondas, which defines the Bank as a financial intermediary that lends funds received from Žemės Ūkio Paskolų Garantijos Fondas without taking final decisions on the granting of funds to borrowers, therefore the Bank does incur any financial or non-financial liability for defaulting borrowers.

3. Significant Accounting Judgements, Estimates and Assumptions (continued)

As the Bank acts as a financial intermediary when granting loans under the said incentive financial instrument, the funds received by borrowers from the Fund and loans repayable by borrowers under the instrument are not recorded in the Bank's accounts and disclosed in the Bank's financial statements, under assets or liabilities.

Bank's activities under the incentive financial instrument of Žemės Ūkio Paskolų Garantijos Fondas to secure the liquidity during the period of Russian military aggression against Ukraine

The Bank's management estimates that the Bank acts as a financial intermediary channelling funds from Žemės Ūkio Paskolų Garantijos Fondas under the incentive financial instrument "Loans to Secure the Liquidity of Undertakings Active in the Production, Processing and Marketing of Agricultural and Fishery Products in Response to Russian aggression against Ukraine".
The basis for such management estimate is the agreement with Žemės Ūkio Paskolų Garantijos Fondas, which defines the Bank as a financial intermediary that lends funds received from Žemės Ūkio Paskolų Garantijos Fondas without taking final decisions on the granting of funds to borrowers, therefore the Bank does incur any financial or non-financial liability for defaulting borrowers.
As the Bank acts as a financial intermediary when granting loans under the said incentive financial instrument, the funds received by borrowers from the Fund and loans repayable by borrowers under the instrument are not recorded in the Bank's accounts and disclosed in the Bank's financial statements, under assets or liabilities.

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 2022 and 2021 is included in the following notes:
- Section '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 8.

4. Summary of Significant Accounting Policies

General accounting principles

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

The bank's principle. 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.

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 at 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 information).

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.

Principle of substance over form. In recording transactions and other events of the Bank, the economic substance should take precedence over formal requirements or legal form.

The principal accounting policies applied in the preparation of the Bank's financial statements for 2022 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.

The Bank recognises a financial asset in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or disposal.

4. Summary of Significant Accounting Policies (continued)

Classification

On initial recognition, a financial asset is classified as measured at (i) amortised cost (ii) fair value through other comprehensive income (FVOCI) or (iii) fair value through profit or loss (FVPL).

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 with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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 FVPL.

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 during 2022.

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

Derecognition of financial assets.

The Bank derecognises financial assets when the contractual rights to the cash flows from this asset has expired or when the right to receive the agreed cash flows from this financial asset has been transferred during the transaction, i.e. all risks and rewards of ownership of financial assets are transferred. Any interest in such derecognised financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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.

4. Summary of Significant Accounting Policies (continued)

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);

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' (expected credit loss is recorded).

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' (credit risk is significantly increased).

Financial instruments for which a lifetime ECL is recognised and which are credit-impaired are referred to as 'Stage 3 financial instruments' (in default).

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.

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.

Notes to the financial statements

4. Summary of Significant Accounting Policies (continued)

Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections, payment and other information available from external registers. 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, timeliness of payments;
-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.

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 was limited in 2021–2022, therefore, the Bank uses simple modelling of PD in a homogeneous portfolio assessing exposures assigned to Stage 2 and 1 on collective, and those assigned to stage 3 on individual basis.

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 exposures) across Stages	The Bank's customer's are grouped into five risk categories: 1. Low risk; 2. Moderate risk; 3. Increased risk; 4. High risk; 5. In-default. The customer is moved to a higher stage: - if the credit risk grade increase by more than one risk category, e.g. the customer's risk exposure changes from Low risk category to Increased risk category; - if the customer's risk category becomes material (i.e. the customer's risk is attributed to high risk or default risk categories); - if a significant loss events become known and, in the assessment of the Bank's Debt Management Committee or Risk Management Department, this may lead to a deterioration of the Customer's credit quality (the Bank is informed of the initiation of reorganisation or bankruptcy process against the company).

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.

The Bank considers that a significant increase in credit risk occurs when liabilities towards the Bank are 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.

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. The forborne loans are subject to a longer probation period.

4. Summary of Significant Accounting Policies (continued)

The Bank monitors the effectiveness of the criteria used to identify a significant increase in credit risk through regular reviews to validate whether:
- the criteria can be used to identify a significant increase in credit risk before the exposure defaults;
- the criteria mismatches the timing when an asset becomes past due for up to 30 days;
- the average time between determining a significant increase in credit risk and the occurrence of default is reasonable;
- typically, exposures are not moved directly from 12-month ECLs to credit-impaired ECLs; there is no reasonable change in loss allowance for the exposure to be moved from 12-month ECLs (Stage 1) to lifetime ECLs (Stage 2).

Definition of default

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.

Incorporation of forward-looking information

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.

To assess whether the credit risk has increased significantly, the Bank relies on a wide range of information, including forward-looking information. In its internal models, the Bank relies on macroeconomic indicators such as GDP and unemployment rate forecasts and actual metrics. Indicators of the respective countries are applied to individual markets, i.e. separately for Lithuania and Latvia.

Therefore, the information based on quarterly changes of actual and forecasted GDP and unemployment rate has 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.

To mitigate credit risk on financial assets, the Bank benefits intensively from guarantees issued by different institutions. The largest part of the portfolio is covered by guarantees from the public sector. Factoring transactions are additionally covered by insurance as a risk mitigation measure.

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.

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 2022, 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 in accordance with Article 161 of the Capital Requirements Regulation (CRR).

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, the EAD is not calculated since all contractual terms of lending and factoring commitments are 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.

4. Summary of Significant Accounting Policies (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or otherwise 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.

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 the statement of profit or loss and other comprehensive income under impairment loss on financial instruments. 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.

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 FVPL (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 statement of profit or loss.

Financial liability is derecognised when it is discharged, cancelled 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.

4. Summary of Significant Accounting Policies (continued)

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

When one is available, the 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 on 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.

Accounting of property, plant and equipment and intangible assets

Property, plant and equipment, and intangible assets shall be attributed to non-current where the following conditions are met: an asset is an identifiable non-monetary asset without physical substance, 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, i.e. EUR 500 (in 2021: EUR 500).

Property, plant and equipment is measured at cost, less accumulated depreciation and impairment loss. 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 subsequently at cost less any accumulated amortisation (except for goodwill) and any accumulated impairment loss.

Development costs are capitalised and recognised in the statement of financial positions, when the Bank controls the resulting asset, and if it is probable that future economic benefits that are attributable to the asset will flow to the Bank/Group and the cost of asset can be measured reliably. In other cases, development costs are expensed as they are incurred.

Depreciation and amortisation rates (in years) for non-current assets

Group of non-current assets	Method	Rate (in years)
PROPERTY, PLANT AND EQUIPMENT		
Furniture	linear	6
Computers and communication equipment	linear	3
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.

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, if no impairment loss had been recognised, net of amortisation or depreciation.

4. Summary of Significant Accounting Policies (continued)

Bank as a lessor

The receivables from the financial lease agreements are recognised in net present value of the minimum lease payments, from which the payments of principal received have been deducted, plus unguaranteed residual value at the end of contract. Lease payments collected are allocated between repayment of principal and financial income.

Financial income is recognised over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the financial lease. Initial service fees collected at issuance are included into the calculation of effective interest rate and lessor's net investment. Lessor's direct expenses, related to the contract, are part of effective interest rate and are booked as decrease of leasing income over the period of leasing contract. Allowances for lease receivables are presented on the respective line of statement of financial position at negative value.

The lease receivable from the client is recognised in the statement of financial position as of the moment of delivering the assets being the object of the agreement to the client. In case of transactions, in which the assets being the object of the agreement having a long delivery term have not yet been delivered to the client, the payments received from the lessees under these agreements are recognised in the statement of financial position under other liabilities. The amounts paid by the Bank for the assets under lease agreements not yet delivered are recognised in the statement of financial position as prepayments to suppliers under other assets.

Bank as a lessee

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires the lessee to recognise a right of use asset and an associated 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 fixed annual lease payments.

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 assets are 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 recognised 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 at the end of each reporting period.

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate and deposit interest rate.

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 as it accrues, using the effective interest 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. Interest income on late payment represents interest on delayed payment. Interest on late payment is recognised when it is highly probable to receive it.

4. Summary of Significant Accounting Policies (continued)

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.

Revenue from contracts with customers consists primarily of service-related fees and is reported in the statement of profit or loss and other comprehensive income, under commission income. Revenue is recognised when the performance obligation is satisfied, i.e. control of the goods or services is transferred to the customer. The total consideration received is allocated to each performance obligation, depending on whether they are satisfied either at a point in time or over time. Commission income for asset management and custody services is generally recognised as revenue over time, as services are performed. Where fees are variable, i.e. performance-based fees, revenue is recognised when it is highly probable that a significant reversal in the amount will not occur. Lending fees that are not an integral part of the effective interest rate are recognised as commission income. Lending and deposits fees are recognised both over time and at a point in time, depending on when the performance obligation is satisfied. Expenses for bought service directly attributable to generating commission income for service provided are reported as commission expenses.

The Bank's other income include income from acquisition of securities issued by governments, demand deposits in banks and income from intra-group transfer pricing transactions. The income is recorded in the Bank's statement of profit or loss or other comprehensive income under other operating income. Income is recognized on accrual basis when earned.

Expenses

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.

Foreign currency transactions

Transactions in foreign currencies are converted into Euros at the Euro and foreign exchange rates announced by the European Central Bank and the Bank 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 as expenses during the period in which they are incurred.

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.

Under the Law on Corporate Income Tax of the Republic of Lithuania, the taxable profit was subject to 15% income tax rate in 2022 and 2021. Tax expenses reported in these separate financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania. From 2020, the tax rate of 15% is applicable to commercial banks operating in 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 legislation of the Republic of Lithuania. An annual transfer of 5% of net profit is compulsory until the total of the reserve reaches 10% of the share capital. Legal reserve cannot be distributed for the payment of dividends. The reserve may be used only for covering the losses.

5. Application of new and amended International Financial Reporting Standards

During the reporting period, the Bank adopted new standards and amendments to existing standards and their interpretations, which are relevant to the activities and effective for annual periods beginning on or after 1 January 2022.

(a) Standards, their amendments and interpretations effective for annual periods beginning on or after 1 January 2022.

IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments) (all issued on 14 May 2020 with effective date of 1 January 2022)

The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

• IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
• IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss of the statement of profit or loss and other comprehensive income.
• IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
• Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

These amendments are effective in European Union for annual reporting periods beginning on or after 1 January 2022. The management assessed that these amendments has no material impact on these financial statements.

(b) Standards issued but not yet effective and not early adopted and their amendments

New standards, amendments and interpretations that are not mandatory for reporting period beginning on 1 January 2022 and have not been early adopted when preparing these financial statements are presented below:

IFRS 17 and IFRS 4: Deferral of the effective date of IFRS 17 and IFRS 9 for insurers (issued on 25 June 2020, effective for annual periods beginning on or after 1 January 2023)

The amendments to IFRS 17 are effective, retrospectively, for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. Overall, the amendments are designed to reduce costs by simplifying some requirements in the standard; make it easier to explain financial performance; and ease transition by deferring the effective date of the standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time.

The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2023.

The management has assessed that these amendments will not have any impact on the Bank's financial statements.

IFRS 17 Insurance Contracts (issued on 18 May 2017 with effective date of 1 January 2023).

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the IASB decided to defer the effective date to 2023. IFRS 17, Insurance Contracts, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

This IFRS will not have any impact on the financial position or performance of the Bank as insurance services are not provided.

IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments) (issued on 7 May 2021 with effective date of 1 January 2023).

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for reporting periods beginning on or after 1 January 2023. with earlier application permitted. The management has not yet evaluated the impact of the implementation of these amendments.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments) (issued on 12 February 2021 with effective date of 1 January 2023).

The amendments effective for reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The management has not yet evaluated the impact of the implementation of these amendments.

5. Application of new and amended International Financial Reporting Standards (continued)

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments) (issued on 12 February 2021 with effective date of 1 January 2023).

The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments become effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The management has not yet evaluated the impact of the implementation of these amendments.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current (issued on 23 January 2020 with effective date of 1 January 2024, but not before it is adopted by the EU).

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the Company issuing own equity instruments. The amendments have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of these amendments.

Amendments to IAS 1 "Non-current Liabilities with Covenants" (issued on 31 October 2022 with effective date of 1 January 2024, but not before it is adopted by the EU):
Modify the requirements introduced by Classification of Liabilities as Current or Non-current on how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances: Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are effective for reporting periods beginning on or after 1 January 2024. The amendments are applied retrospectively in accordance with IAS 8 and earlier application is permitted. The amendments have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of these amendments.

Amendments to IFRS 16 "Lease Liability in a Sale and Leaseback" with amendments that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale (issued on 22 September 2022 with effective date of 1 January 2024, but not before it is adopted by the EU).

Amendments to IFRS 16 "Lease Liability in a Sale and Leaseback" require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease. The amendments become effective for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted. A seller-lessee applies the amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to sale and leaseback transactions entered into after the date of initial application. The amendments have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of these amendments.

Notes to the financial statements

for the year ended 31 December 2022

6. Interest income and expenses, commission income and expenses and other operating income

	2022	2021
Income:	EUR	EUR
Interest income calculated using effective interest method	11 163 501	5 832 870
Interest expenses	(3 091 111)	(648 446)
Customer assessment services	3 300	6 100
Other operating income	277 126	76 381
Total revenue	8 352 816	5 266 905

	2022	2021
Commission income and expense:	EUR	EUR
Commission income	145 228	9 537
Commission expenses	(33 553)	(14 775)
Total commission income and expense	111 675	(5 238)

7. Personnel expenses, depreciation of property, plant and equipment and amortisation of intangible asset and administrative expenses

	2022	2021
Wages and salaries:	EUR	EUR
Personnel expenses (for employees registered in Lithuania)	3 492 268	2 717 619
Personnel expenses (for employees registered in other countries), including accrued vacation	1 027 298	-
Social security contributions (for employees registered in Lithuania)	61 559	55 281
Social security contributions (for employees registered in other countries)	233 773	-
Vacation accruals	148 439	79 702
Total personnel expenses	4 963 337	2 852 602

	2022	2021
Depreciation of property, plant and equipment and amortization of intangible assets	EUR	EUR
Amortization of intangible assets	397 327	136 427
Depreciation of property, plant and equipment	58 181	15 030
Depreciation of right-of-use assets	160 481	82 747
Total depreciation of property, plant and equipment and amortization of intangible assets	615 989	234 204

	2022	2021
Administrative expenses:	EUR	EUR
Non-deductible VAT	594 793	112 252
Rental costs of IT equipment for workplaces	524 364	-
Software maintenance	352 817	137 313
Legal services expenses	287 886	138 346
Administrative expenses of Italian branch	210 347	-
Cost of external data systems used	162 940	50 594
Deposit insurance	157 395	22 003
Bank charges	135 844	80 474
Insurance expenses	135 702	85 075
Contract services	82 475	26 795
Accounting services	69 757	87 974
Utilities	69 311	31 422
Business trips	62 646	12 659
Representation	59 764	40 401
Recruitment services	48 807	102 471
Membership fee for bank association	46 207	41 450
Advertising expenses	42 967	18 170
Telecommunication expenses	41 077	10 881
Lease of assets and equipment	34 589	223 536
Audit expenses	34 045	41 255
Vehicle maintenance and fuel costs	24 185	16 749
Training, conference costs	23 098	30 428
Information system expenses	21 200	128 271
Sponsorship expenses	20 000	5 300
Accounting software maintenance	18 467	6 880
Equipment acquisition costs	16 123	2 680
Internal governance procedure costs	9 536	8 714
Prevention of money laundering services	5 700	23 980
Office maintenance	-	5 423
Public relations	-	21 898
Other expenses	332 946	121 854
Total administrative expenses	3 624 989	1 635 248

8. Taxes

The Bank had no current income tax charge for 2022 and 2021.

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

Reconciliation of effective tax rate:

		2022	2021
		EUR	EUR
Profit (loss) before tax		(4 347 463)	(107 508)
Income tax calculated using the statutory tax rate in Lithuania	15%	(652 119)	(16 126)
Tax effect of:			
Non-deductible expenses		506 143	4 045
Non-taxable income		(5 736)	(1 431)
Total current year income tax expenses		**(151 712)**	**(13 512)**
Adjustment to income tax of the previous year		-	-
Income tax expenses reported in the statement of profit or loss		**(151 712)**	**(13 512)**

Deferred tax assets and liabilities:

	2022	2021
	EUR	EUR
Increase (decrease) in deferred tax assets from tax loss	527 981	376 269
Total deferred tax asset	**527 981**	**376 269**

Calculation of income tax is based on requirements of the Lithuanian regulatory legislation on taxation. As of 31 December 2022 and 2021, the standard income tax rate in Lithuania was 15%. As at 31 December 2022, 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.

9. Property, plant and equipment

	Furniture	Office equipment	Total
	EUR	EUR	EUR
Initial cost:			
Balance as at 1 January 2021	87 348	-	87 348
Increase over the year	5 952	44 062	50 014
Balance as at 31 December 2021	93 300	44 062	137 362
Increase over the year	41 540	223 644	265 184
Written off to depreciation expense	(29 615)	-	(29 615)
Reclassification	-	(44 062)	(44 062)
Balance as at 31 December 2022	105 225	223 644	328 869
Accumulated depreciation:			
Balance as at 1 January 2021	(9 518)	-	(9 518)
Depreciation charge for the year	(15 030)	-	(15 030)
Balance as at 31 December 2021	(24 548)	-	(24 548)
Depreciation charge for the year	(22 378)	(15 657)	(38 035)
Depreciation charge for on-balance sheet assets acquired	(1 080)	-	(1 080)
Assets written-off	9 469	-	9 469
Balance as at 31 December 2022	(38 537)	(15 657)	(54 194)
Net book value as at 1 January 2021	**87 348**	**-**	**87 348**
Net book value as at 31 December 2021	**68 752**	**44 062**	**112 814**
Net book value as at 31 December 2022	**66 689**	**207 987**	**274 676**

There was no impairment of property, plant and equipment as at 31 December 2022 and 2021.

There were no property, plant and equipment pledged.

There are no fully depreciated property, plant and equipment, which are still in use.

Notes to the financial statements

for the year ended 31 December 2022

10. Intangible assets

	Computer software	Total
	EUR	EUR
Initial cost:		
Balance as at 1 January 2021	526 890	526 890
Additions	197 262	197 262
Balance as at 31 December 2021	724 152	724 152
Additions	1 007 302	1 007 302
Written off to amortisation expense	(63 448)	(63 448)
Reclassification	44 062	44 062
In progress	672 552	672 552
Balance as at 31 December 2022	2 384 620	2 384 620
Accumulated amortisation:		
Balance as at 1 January 2021	(610)	(610)
Amortisation charge for the year	(136 427)	(136 427)
Balance as at 31 December 2021	(137 037)	(137 037)
Amortisation charge for the year	(351 823)	(351 823)
Written off to amortisation expense	17 939	17 939
Amortisation charge for on-balance sheet assets acquired	(324 415)	(324 415)
Balance as at 31 December 2022	(795 334)	(795 334)
Net book value as at 1 January 2021	**526 890**	**526 890**
Net book value as at 31 December 2021	**587 115**	**587 115**
Net book value as at 31 December 2022	**1 589 285**	**1 589 285**

11. 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 as at 1 January 2021	60 175	49 703	109 878
Increase over the year	165 295	50 713	216 008
Depreciation charge for the year	(64 126)	(23 585)	(87 711)
Balance as at 31 December 2021	**161 344**	**76 831**	**238 175**
Increase over the year	188 661	37 535	226 196
Depreciation charge for the year	(117 268)	(38 443)	(155 711)
Net book value as at 31 December 2022	**232 737**	**75 923**	**308 660**

Lease liabilities

	Office premises	Vehicles	Total
	EUR	EUR	EUR
As at 01 January 2021	**80 951**	**51 835**	**132 786**
Increase over the year	165 295	50 713	216 008
Payments	(85 592)	(18 616)	(104 209)
Change in right-of-use assets	-	(4 963)	(4 963)
As at 31 December 2021	**160 654**	**78 969**	**239 623**
As at 01 January 2022	**160 654**	**78 969**	**239 623**
Increase over the year	188 661	37 535	226 196
Payments	(126 665)	(32 576)	(159 241)
Change in right-of-use assets	10 994	(6 226)	4 768
As at 31 December 2022	**233 643**	**77 702**	**311 345**

As at 31 December, interest expense on (finance) lease liabilities were as follows:

	2022	2021
Interest expense on lease liabilities	EUR	EUR
Lease of office premises	(3 402)	(1 933)
Vehicle lease interest expenses	(1 649)	(1 747)
Total lease liability interest expenses	**(5 051)**	**(3 680)**

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

	2022	2021
	EUR	EUR
Within 1 year	163 840	108 610
From 1 to 5 years	147 505	131 013
	311 345	**239 623**

	2022	2021
Maturity analysis. Contractual discounted cash flows	EUR	EUR
Within 1 year	163 840	108 610
From 1 to 5 years	147 505	131 013
Total discounted lease liabilities as at 31 December 2022	**311 345**	**239 623**

12. Loans to customers

	2022	2021
Loans to customers:	**EUR**	**EUR**
Loans granted to customers	126 853 953	77 967 646
Lease receivables	18 221 659	836 189
Loans to related parties	9 116 395	5 000 000
Accrued interest on loans to customers	558 220	332 145
Accrued interest on loans to related parties	201 375	70 500
Accrued interest on lease	95 535	331
Loss allowance for loans granted (-)	(1 412 961)	(822 066)
Loss allowance for lease (-)	(106 267)	(1 806)
Total	**153 527 909**	**83 382 939**
Accrued income from loan contract fee	(617 644)	(170 301)
Total of loans granted to clients	**152 910 265**	**83 212 638**

In 2022, the Bank granted a loan of EUR 5,000,000 to SIA PayRay. In 2022, the Bank set off part of the loan amounting to EUR 883,605 under the supplement No LV-2021-11-10-1 to the agreement dated 16 December 2022.

13. Factoring receivables

Carrying amount of factoring receivables comprise receivables under different factoring agreements. The Bank has three types of factoring agreements: with recourse, with limited recourse and reverse factoring agreements. These amounts are also subject to the impairment requirements of IFRS 9.

	2022	2021
Factoring receivables:	**EUR**	**EUR**
Receivables under factoring arrangements	33 780 373	39 785 686
Accrued interest income under factoring arrangements	36 975	41 973
Loss allowance for factoring receivables (-)	(46 881)	(133 023)
Total factoring receivables	**33 770 467**	**39 694 636**

14. Investments into subsidiaries

As at 31 December, the investments consisted of the following:

	2022	2021
Carrying amount of investments	**EUR**	**EUR**
Investment into PayRay SIA	3 000 000	2 000 000
Impairment of investment into PayRay SIA (-)	(3 000 000)	-
Investment into PayRay OU	2 500	2 500
Total investments in subsidiaries	**2 500**	**2 002 500**

The Bank's investments into shares of PayRay SIA and PayRay OU:

Investments into subsidiaries	Country	Share of issued capital as at 31 December 2022
PayRay OU	Estonia	100%
PayRay SIA	Latvia	100%

15. Other financial assets

	2022	2021
Other financial assets:	**EUR**	**EUR**
Value of receivables (collateral)	40 035	24 450
Other receivables	169 387	84 449
Total other financial assets	**209 422**	**108 899**

Notes to the financial statements

16. Securities issued by governments and other assets

	2022	2021
Securities issued by governments:	**EUR**	**EUR**
Securities issued by governments, nominal value	22 733 488	-
Accrued interest on securities issued by governments	103 516	-
Loss allowance for securities issued by governments	(46 751)	-
Total securities issued by governments	**22 790 253**	**-**

ISIN	Buy-out date	Coupon rate	Country	Nominal value
XS2168038417	2025-06-05	0,25%	Republic of Lithuania	6 880 217
XS2114767457	2025-10-02	0,00%	Republic of Poland	4 908 500
SI0002104246	13/02/2026	0,00%	Republic of Slovenia	4 883 000
XS1295778275	23/09/2025	1,38%	Republic of Latvia	3 060 057
LT0000630097	2025-04-08	1,30%	Republic of Lithuania	3 001 714
Total:				**22 733 488**

	2022	2021
Other assets:	**EUR**	**EUR**
EU VAT receivable	13 154	902
Receivable from accountable persons	5 665	1 650
Other receivables	9 764	-
Other accrued income	141 585	-
Other deferred expenses	78 130	26 314
Total other assets	**248 298**	**28 866**

17. Cash and cash equivalents

	2022	2021
Cash and cash equivalents:	**EUR**	**EUR**
Balances with the central bank	43 724 244	48 437 977
Balances with commercial banks	2 744 475	6 088 967
Term deposit in commercial bank	20 000 000	-
Loss allowance for balances and term deposits in banks (-)	(69 902)	(4 102)
Total cash and cash equivalents	**66 398 817**	**54 522 842**

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.

18. Issued capital

The Bank's issued capital as at 31 December 2022 and 2021 consisted of 36,424,791 ordinary registered shares with the par value of EUR 1 each (EUR 36,424,791). All issued shares were 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 legislation of the Republic of Lithuania. An annual transfer of 5% of net profit is compulsory until the total of the reserve reaches 10% of the share capital. As at 31 December 2022, the Bank's accrued loss totalled EUR 6,351,872 and therefore no allocations to the legal reserve were made (in 2021: accrued loss tolled EUR 2 156 121).

Below is the draft of the profit (loss) appropriation project for the financial year ended 31 December 2022:

Name	Amount, EUR
(a) Profit (loss) brought forward from the previous reporting period at the end of the current reporting period	(2,156,121)
(b) Net profit (loss) for the reporting year	(4,195,751)
(c) Transfers from reserves	0
(d) Owners' contributions to cover the Bank's losses (if shareholders decided to cover total or partial loss)	0
(e) Total distributable profit (loss)	(6,351,872)
(f) Amount of the profit allocated to the legal reserve	0
(g) Amount of the profit allocated to the reserve for the acquisition of own share	0
(h) Amount of the profit allocated to the other reserves	0
(i) Amount of the profit allocated for payment of dividends, of which, where applicable, dividends paid to shareholders during the reporting period for the period shorter than the financial year	0
(j) Amount of profit allocated to annual payments (bonuses) to the members of the Board, bonuses to employees and other purposes	0
(k) Retained earnings (loss) carry forward to the next reporting period	(6,351,872)

19. Customer deposits

	2022	2021
Customer deposits:	**EUR**	**EUR**
Deposits from natural persons (GER)	204 400 617	118 401 719
Interest accrued on deposits from natural persons (GER)	1 747 058	372 486
Deposits from legal persons	35 990 000	23 000 000
Interest accrued on deposits from legal persons (LT)	142 236	75 842
Total	**242 279 911**	**141 850 047**
Deferred commissions on deposits	(363 643)	(289 504)
Total customer deposits	**241 916 268**	**141 560 543**

Average annual deposit interest rate is set at 1.38% Insurance coverage is provided for all the deposits from natural persons that are the object of deposit insurance in accordance with the requirements of legal acts and the amount of which does not exceed EUR 100 thousand.

Notes to the financial statements

20. Payables and other liabilities

	2022	2021
Payables:	**EUR**	**EUR**
Factoring payables	3 062 086	3 232 642
Payables to Žemės Ūkio Paskolų Garantijų Fondas	814 767	70 407
Employment-related liabilities	655 679	250 321
Other payables	644 111	384 301
Security deposits received	611 938	341 864
Vacation accruals	288 316	203 736
Payable to the Ministry of Finance of the Republic of Lithuania	256 872	-
VAT payable	182 623	45 200
Prepayments received	1 495	1 495
Total payables	**6 517 887**	**4 529 966**

	2022	2021
Other liabilities:	**EUR**	**EUR**
Accrued expenses:		
Commissions	131 074	-
Customer management system	51 850	-
Consultations	48 530	70 000
Audit of financial statements	27 000	14 050
Personnel management services	13 441	38 500
Other	41 695	25 999
Other liabilities, total	**313 590**	**148 549**

21. Related party transactions

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

Entities of the same ultimate beneficial owners

	2022	2021
Purchases of goods and services	**EUR**	**EUR**
Purchases of goods and services	153 694	436 745
Total	**153 694**	**436 745**

	2022	2021
Sales of goods and services	**EUR**	**EUR**
Sales of goods and services	137 151	-
Interest income	130 875	70 500
Total	**268 026**	**70 500**

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

	2022	2021
Payables and accruals (purchases of goods and services)	**EUR**	**EUR**
Entities of the same ultimate beneficial owners	2 955	128 302
Total	**2 955**	**128 302**

	2022	2021
Receivables and accruals (sale of goods and services)	**EUR**	**EUR**
Entities of the same ultimate beneficial owners	9 764	-
Total	**9 764**	**-**

	2022	2021
Loans to subsidiaries (incl. accrued interest)	**EUR**	**EUR**
Loan to PayRay SIA	9 116 395	5 000 000
Interest accrued	201 375	70 500
Total	**9 317 770**	**5 070 500**

Repayment dates of loans granted to PayRay SIA: under agreements No LC20210300000172 and No LC20211200000565 – 12 March 2023, No LC20220500000704 – 31 May 2024. All the loans are subject to a fixed interest.

On 29 March 2023, the Bank granted a new loan of EUR 5,412,202 to Payray SIA: under agreement No LC20211200000861, repayment date is 31 March 2024.

Key management personnel

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

Remuneration of key management personnel (there were 13 managers in 2022 and 14 in 2021) was as follows:

	2022	2021
	EUR	**EUR**
Remuneration (incl. bonuses)	1 235 559	1 179 179
Total	**1 235 559**	**1 179 179**

22. Risk management

In its activities, 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 framework is designed 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's management, through training and governance 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 framework and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank.

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:
- Common Equity Tier I capital ratio – 8%. Common Equity Tier I capital ratio of PayRay Bank, UAB was 25.11%.
- Tier I capital ratio 10.5% (a capital conservation buffer of +2.5% was set above the regulatory minimum capital requirement of 8%) (as from 1 October 2023, the capital requirement increased to 11.5% due to countercyclical capital buffer requirement of 1%). Tier I capital ratio of PayRay Bank, UAB was 25.11%.
- Leverage ratio – 3.0%. As at 31 December 2022, the leverage ratio of PayRay Bank, UAB was 10.09%,
- Large exposure requirement – 25% of the Bank's Tier I capital. As at 31 December 2022, the Bank's issued loans to one client or a group of connected clients accounted 16.34% of the Bank's Tier I capital.

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 interest rate risk in the banking book (IRRBB), the Bank uses net interest income sensitivity and sensitivity of economic value of equity (DEVE).

In 2022, the Bank conducted stress testing of IRRBB by analysing sensitivity of net interest income and DEVE. The impact on the DEVE in the Bank was assessed against all six standard scenarios referred to in the European Banking Authority (EBA) guidelines.

As at 31 December 2022, the analysis of changes in interest rate risk in the banking book was as follows (EUR thousand):

	Overnight	Less than 1 month	1–3 months	3–6 months	6 months – 1 year	**Total**
Increased interest rates (+ 2pp)	1 325 000	(52 881)	105 167	58 825	(422 215)	**1 013 896**
Decreased interest rates (-+ 2pp)	(1 325 000)	52 881	(105 167)	(58 825)	422 215	**(1 013 896)**

As at 31 December 2021, the analysis of changes in interest rate risk in the banking book was as follows (EUR thousand):

	Overnight	Less than 1 month	1–3 months	3–6 months	6 months – 1 year	**Total**
Increased interest rates (+ 2pp)	1 021 000	(124 000)	13 000	(218 000)	(243 000)	**449 000**
Decreased interest rates (-+ 2pp)	(1 021 000)	124 000	(13 000)	218 000	243 000	**(449 000)**

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. the risk of default of an individual debtor and sector risk.

22. Risk manaaement (continued)

Credit risk management

The Bank created the Credit Committee and Debt Management Committee for the oversight of credit risk. Chief Risk Officer (second line), reporting to the Board of the Bank, is responsible for managing the Bank's credit risk, including the following:
•limiting concentrations of exposure to counterparties, industries and by bond issuers;
•developing and maintaining the Bank's processes for assessing ECLs. 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' portfolios are provided to the Bank's Board and Supervisory Council. 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.

Head of Credits (first line) is accountable to the Bank's Board and contributes to risk management, including:
• formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with any regulator 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 t the same review process.

Credit risk grades and corresponding probabilities of default:

	Risk grade	PD from	PD to
Low risk customers	A1	0,00%	0,19%
	A2	0,20%	0,29%
	A3	0,30%	0,49%
Medium risk customers	B1	0,50%	0,69%
	B2	0,70%	1,09%
	B3	1,10%	1,69%
Increased risk customers	C1	1,70%	2,59%
	C2	2,60%	3,79%
	C3	3,80%	5,69%
High risk customers	D1	5,70%	8,39%
	D2	8,40%	12,19%
	D3	12,20%	17,39%
Customers with default indication	E1	17,40%	24,19%
	E2	24,20%	32,59%
	E3	32,60%	100,00%

Diversification of credit portfolio as at 31 December 2022:

Industry sector	Outstanding, net (EUR thousand)	Outstanding, net (%)
G. Wholesale and retail trade	31 255	20,36%
L. Real estate transactions	29 244	19,05%
K. Financing and insurance activities	18 426	12,00%
C. Manufacturing	16 266	10,59%
F. Construction	15 999	10,42%
H. Transport and storage	13 031	8,49%
A. Agriculture, forestry and fisheries	9 279	6,04%
N. Administrative and support activities	8 759	5,71%
J. Information and communication	3 733	2,43%
D. Supply of electricity, gas, vapour and air conditioning	3 616	2,36%
M. Professional, scientific and technical activities	2 010	1,31%
E. Water supply	693	0,45%
R. Arts, entertainment and recreation	362	0,24%
Q. Human health and social work activities	312	0,20%
S. Other services	300	0,20%
I. Accommodation and food service activities	129	0,08%
P. Education	114	0,07%
Total	**153 528**	**100,00%**

Notes to the financial statements

22. Risk management (continued)

Diversification of credit portfolio as at 31 December 2022 (factoring receivables) was as follows:

Industry sector	Outstanding at nominal value, EUR EUR	Outstanding, net (%)
G. Wholesale and retail trade	18 579	55,01%
H. Transport and storage	5 892	17,45%
N. Administrative and support activities	4 285	12,69%
C. Manufacturing	3 261	9,66%
F. Construction	1 092	3,23%
D. Supply of electricity, gas, vapour and air conditioning	438	1,30%
M. Professional, scientific and technical activities	223	0,66%
Total	**33 770**	**100,00%**

Diversification of credit portfolio as at 31 December 2021:

Industry sector	Outstanding at nominal value, EUR EUR	Outstanding, net (%)
G. Wholesale and retail trade	20 682	24,80%
L. Real estate transactions	13 246	15,89%
H. Transport and storage	10 578	12,69%
C. Manufacturing	9 261	11,11%
A. Agriculture, forestry and fisheries	9 110	10,93%
K. Financing and insurance activities	7 092	8,51%
D. Supply of electricity, gas, vapour and air conditioning	4 613	5,53%
M. Professional, scientific and technical activities	2 945	3,53%
N. Administrative and support activities	2 582	3,10%
F. Construction	2 218	2,66%
Q. Human health and social work activities	573	0,68%
B. Mining and quarrying	127	0,15%
J. Information and communication	102	0,12%
I. Accommodation and food service activities	96	0,12%
E. Water supply	87	0,10%
R. Arts, entertainment and recreation	37	0,04%
P. Education	34	0,04%
Total	**83 383**	**100,00%**

Diversification of credit portfolio as at 31 December 2021 (factoring receivables) was as follows:

Industry sector	Outstanding at nominal value, EUR EUR	Outstanding, net (%)
G. Wholesale and retail trade	21 662	54,57%
H. Transport and storage	9 504	23,94%
N. Administrative and support activities	3 467	8,73%
C. Manufacturing	3 242	8,17%
F. Construction	1 685	4,24%
M. Professional, scientific and technical activities	133	0,34%
A. Agriculture, forestry and fisheries	2	0,01%
Total	**39 695**	**100,00%**

Impairment of financial assets

The Bank has six 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;
- lease arrangements;
- bonds (held-to-maturity);
- deposits in other banks;
- cash and cash equivalents.

22. Risk management (continued)

Maximum credit risk exposure

The following table presents the Bank's maximum credit risk exposure before considering any collateral held. The maximum exposure to credit risk equals the maximum amount that would have to be paid upon customer request.

	Maximum credit risk exposure in 2022 (EUR)	Gross outstanding in 2022 (EUR thousand)	Outstanding loan commitment under the loan agreement in 2022 (EUR)	Maximum credit risk exposure in 2022 (EUR)	Gross outstanding in 2021 (EUR thousand)	Outstanding loan commitment under the loan agreement in 2021 (EUR)
Balances with the central bank	43 740 845	43 740 845	-	48 535 654	48 535 654	-
Loans	144 229 043	136 729 942	7 499 101	104 679 833	83 370 292	21 309 541
Finance lease	19 431 504	18 317 194	1 114 310	2 403 490	836 518	1 566 972
Factoring	33 817 348	33 817 348	-	39 827 660	39 827 660	-
Securities issued by governments	22 837 003	22 837 003	-	-	-	-
Demand deposits and balances with commercial banks	22 727 874	22 727 874	-	5 991 290	5 991 290	-
Total	**286 783 617**	**278 170 206**	**8 613 411**	**201 437 927**	**178 561 414**	**22 876 513**

In its lending activities, the Bank aims to reduce its credit risk and expected credit losses. As a measure to mitigate this risk, customers provide the Bank with various types of collaterals: real estate, wheeled vehicles, equipment, inventories, receivables, promissory notes, sureties, guarantees, etc. The Bank also makes good use of guarantees to lower Bank's exposure to credit risk. The guarantees are issued by the European Investment Fund, Investicijų ir verslo garantijos UAB (INVEGA), and Žemės Ūkio Paskolų Garantijų Fondas UAB.

Portfolio as at 31 December by the type of financial asset:

	Net outstanding during 2022 (EUR)	Protected with insurance or guarantee,* during 2022	Net outstanding during 2021 (EUR)	Protected with insurance or guarantee,* during 2021
Factoring				
with recourse	14 803 419	11 513 838	11 480 353	562 183
without recourse	2 772 125	249 266	5 751 423	1 853 653
with limited recourse	16 194 923	16 194 923	22 462 860	22 462 860
reverse	-	-	-	-
Total factoring	**33 770 467**	**27 958 027**	**39 694 636**	**24 878 696**
Loans	135 316 982	104 141 512	82 548 227	43 476 151
Finance lease	18 210 927	16 979 663	834 712	834 712
Total	**187 298 376**	**149 079 202**	**123 077 575**	**69 189 559**

* Insurance providers: Atradius, Euler Hermes or Coface – loan and trade credit insurance; Guarantee providers: INVEGA, Žemės Ūkio Paskolų Garantijų Fondas, the European Investment Fund (EIF).

As at 31 December, loss allowance was set for receivables and loans granted as follows:

	2022	2021
	EUR	EUR
Gross carrying amount – factoring receivables	33 817 348	39 827 659
Gross carrying amount – loans	136 729 943	83 370 292
Gross carrying amount – finance lease	18 317 194	836 520
Gross outstanding debt nominal	**188 864 485**	**124 034 471**
Loss allowance – factoring receivables	(46 881)	(133 023)
Loss allowance – loans granted	(1 412 961)	(822 066)
Loss allowance – finance lease	(106 267)	(1 806)
Total loss allowance	**(1 566 109)**	**(956 895)**
Total outstanding debt nominal	**187 298 376**	**123 077 576**

22. Risk management (continued)

As at 31 December 2022, ECLs for factoring and other receivables were set by customers risk level as follows:

	Risk grade	Gross outstanding, EUR	Expected credit losses, EUR	Net outstanding, EUR
Low risk customers	A1	20 834	-	20 834
	A2	288 230	(105)	288 125
	A3	11 872 268	(6 498)	11 865 770
	Total	**12 181 332**	**(6 603)**	**12 174 729**
Medium risk customers	B1	20 351 663	(17 262)	20 334 401
	B2	42 197 870	(54 551)	42 143 319
	B3	46 271 974	(137 666)	46 134 308
	Total	**108 821 507**	**(209 479)**	**108 612 028**
Increased risk customers	C1	14 668 745	(63 862)	14 604 883
	C2	5 497 844	(32 237)	5 465 607
	C3	30 560 137	(323 474)	30 236 663
	Total	**50 726 726**	**(419 573)**	**50 307 153**
High risk customers	D1	5 235 928	(90 313)	5 145 615
	D2	946 578	(42 620)	903 958
	D3	67 899	(4 533)	63 366
	Total	**6 250 405**	**(137 466)**	**6 112 939**
Customers with default indication	E1	-	-	-
	E2	-	-	-
	E3	10 884 515	(792 988)	10 091 527
	Total	**10 884 515**	**(792 988)**	**10 091 527**
Total		**188 864 485**	**(1 566 109)**	**187 298 376**

As at 31 December 2021, ECLs for factoring and other receivables were set by customers risk level as follows:

	Risk grade	Gross outstanding, EUR	Expected credit losses, EUR	Net outstanding, EUR
Low risk customers	A1	-	-	-
	A2	191 832	(227)	191 605
	A3	2 293 737	(1 615)	2 292 122
	Total	**2 485 569**	**(1 842)**	**2 483 727**
Medium risk customers	B1	8 502 185	(10 013)	8 492 172
	B2	12 517 126	(26 810)	12 490 316
	B3	31 424 972	(124 747)	31 300 225
	Total	**52 444 283**	**(161 570)**	**52 282 713**
Increased risk customers	C1	52 583 607	(281 745)	52 301 862
	C2	3 577 951	(18 545)	3 559 406
	C3	11 757 687	(224 011)	11 533 676
	Total	**67 919 245**	**(524 301)**	**67 394 944**
High risk customers	D1	632 381	(7 612)	624 769
	D2	-	-	-
	D3	-	-	-
	Total	**632 381**	**(7 612)**	**624 769**
Customers with default indication	E1	-	-	-
	E2	-	-	-
	E3	552 992	(261 570)	291 422
	Total	**552 992**	**(261 570)**	**291 422**
Total		**124 034 470**	**(956 895)**	**123 077 575**

22. Risk management (continued)

Off-balance sheet commitments

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. Only lease and property development loan agreements require the Bank to provide financing; therefore, these agreements are subject to the ECL estimation for undrawn loan commitments.

As at 31 December 2022, expected credit losses for off-balance sheet commitments were set by customers risk level as follows:

	Risk grade	Gross off-balance sheet commitments, EUR	Expected credit losses, EUR	Net off-balance sheet commitments, EUR
	A1	28 340 588	-	28 340 588
Low risk customers	A2	2 100 731	-	2 100 731
	A3	14 592 779	-	14 592 779
	Total	45 034 098	-	45 034 098
	B1	4 146 013	-	4 146 013
Medium risk customers	B2	11 144 863	(572)	11 144 291
	B3	11 138 146	(397)	11 137 749
	Total	26 429 022	(969)	26 428 053
	C1	8 587 060	(1 417)	8 585 643
Increased risk customers	C2	2 831 596	(5 241)	2 826 355
	C3	3 414 077	(10 560)	3 403 517
	Total	14 832 733	(17 218)	14 815 515
	D1	100 000	(39)	99 961
High risk customers	D2	-	-	-
	D3	118 599	-	118 599
	Total	218 599	(39)	218 560
	E1	-	-	-
Customers with default indication	E2	-	-	-
	E3	2 701 619	-	2 701 619
	Total	2 701 619	-	2 701 619
Total		89 216 071	(18 226)	89 197 845

As at 31 December 2021, expected credit losses for off-balance sheet commitments were set by customers risk level as follows:

	Risk grade	Gross off-balance sheet commitments, EUR	Expected credit losses, EUR	Net off-balance sheet commitments, EUR
	A1	-	-	-
Low risk customers	A2	208 168	-	208 168
	A3	3 163 162	-	3 163 162
	Total	3 371 330	-	3 371 330
	B1	7 574 531	-	7 574 531
Medium risk customers	B2	11 525 536	(61)	11 525 475
	B3	16 197 766	(380)	16 197 386
	Total	35 297 833	(441)	35 297 392
	C1	27 559 689	(54 803)	27 504 886
Increased risk customers	C2	5 183 265	(8 632)	5 174 633
	C3	8 247 595	(38 235)	8 209 360
	Total	40 990 549	(101 670)	40 888 879
	D1	2 168 644	(35 293)	2 133 351
High risk customers	D2	-	-	-
	D3	-	-	-
	Total	2 168 644	(35 293)	2 133 351
	E1	-	-	-
Customers with default indication	E2	-	-	-
	E3	638 503	-	638 503
	Total	638 503	-	638 503
Total		82 466 859	(137 404)	82 329 455

Carrying amount of loans at the end of 2022 and 2021 by stages:

	Stage 1		Stage 2		Stage 3	
	2022-12-31	2021-12-31	2022-12-31	2021-12-31	2022-12-31	2021-12-31
Factoring	33 672 567	39 675 246	38 186	-	59 714	19 389
Loans	120 420 498	81 427 458	5 012 589	796 466	9 883 895	324 304
Finance lease	16 661 853	834 712	1 401 156	-	147 918	-
Total	170 754 918	121 937 416	6 451 931	796 466	10 091 527	343 693

22. Risk management (continued)

Expected credit losses

When calculating expected credit losses, the clients' PDs are adjusted based on the GDP and unemployment rate forecasts presented by the Ministry of Finance of the Republic of Lithuania. In Latvia, the clients' PDs are adjusted based on the GDP and unemployment rate forecasts presented by the Ministry of Finance of the Republic of Latvia.

The probability of default is adjusted by considering 12-month projections for customers in Stage 1 and three-year projections for customers in Stage 2 based on the contract maturity (one of two ways to adjust the likelihood of bankruptcy of customers in Stage 2).

There were no any debts written off in 2022.

Movement of credit loss allowances during 2022 by stages:

	Expected credit losses at the beginning of 2022, EUR thousand	Change in expected credit losses, EUR thousand	Expected credit losses at the end of 2022, EUR thousand
Provisions for on-balance sheet financial assets:			
Cash and balances at banks			
Stage 1	4	66	70
Stage 2	-	-	-
Stage 3	-	-	-
Bonds			
Stage 1	-	47	47
Provisions for on-balance sheet financial assets:			
Stage 1	684	(63)	621
Stage 2	7	145	152
Stage 3	266	527	793
Total:	**961**	**722**	**1 683**
Provisions for financial liabilities granted:			
Stage 1	137	(119)	18
Total provisions:	**1 098**	**603**	**1 701**

Breakdown of loans in Stage 3 by type of collateral at the end of 2022 (comparative information for 2021 is not provided due to lack of historical data):

	Gross outstanding, EUR
Real estate	29 794
Motor and wheeled vehicles	37 801
National and supranational guarantees	1 014 661
Without collateral	9 802 259
Total:	**10 884 515**

Breakdown of exposures in Stage 3 by type of financing at the end of 2022 (comparative information for 2021 is not provided due to lack of historical data):

	Gross outstanding, EUR	Expected credit losses, EUR	Net outstanding, EUR	Fair value of collateral, EUR
Factoring	67 613	(7 899)	59 714	27 719
Loans	10 649 616	(765 721)	9 883 895	887 863
Finance lease	167 286	(19 368)	147 918	146 008
Total	**10 884 515**	**(792 988)**	**10 091 527**	**1 061 590**

22. Risk management (continued)

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.

Liquidity risk management

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 financing base, including collection of term deposits (short and long-term) and equity;

- maintaining an asset portfolio diversified by maturity: short-term working capital financing (up to 12 months), medium-term working capital financing (up to 36 months), and loans and lease with a longer maturities (up to 10 years);

- 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 s not available as potential collateral for obtaining financing;

-stress testing of the Bank's liquidity position against various exposures and specific events;

- Asset-liability committee (ALCO) established by the Bank regularly is responsible for monitoring liquidity targets, maturities and prudential indicators. The ALCO Committee decides on financing plans for the Bank to meet its performance objectives in terms of financing costs, sources and other liquidity-related elements.

The table below presents remaining contractual maturities for the Bank;s financial assets and financial liabilities:

As at 31 December 2022 EUR	Carrying amount	Gross nominal inflow /(outflow)	0–3 months	3–6 months	6–12 months	More than 1 years
Financial liabilities by type						
Non-derivative financial liabilities						
Customer deposits	242 279 911	240 390 617	43 197 804	19 285 059	98 199 932	79 707 822
Lease liabilities	311 345	311 345	39 509	42 024	82 306	147 506
Total	242 591 256	240 701 962	43 237 313	19 327 083	98 282 238	79 855 328
Financial assets by type						
Non-derivative financial assets						
Factoring and other receivables	33 770 467	33 780 373	899 039	8 288 201	8 213 124	16 380 009
Loans to customers	135 316 982	135 970 348	14 081 945	1 595 808	19 254 575	101 038 020
Finance lease	18 210 927	18 221 659	-	-	25 927	18 195 732
Other financial assets	209 422	209 422	169 387	-	40 035	-
Securities issued by governments	22 790 253	22 790 253	-	-	-	22 790 253
Total	210 298 051	210 972 055	15 150 371	9 884 009	27 533 661	158 404 014

As at 31 December 2021 EUR	Carrying amount	Gross nominal inflow /(outflow)	0–3 months	3–6 months	6–12 months	More than 1 years
Financial liabilities by type						
Non-derivative financial liabilities						
Customer deposits	141 850 047	141 401 719	14 349 749	16 862 760	57 591 343	52 597 867
Lease liabilities	239 623	239 623	29 188	28 892	58 121	123 422
Total	142 089 670	141 641 342	14 378 937	16 891 652	57 649 464	52 721 289

22. Risk management (continued)

As at 31 December 2021 EUR	Carrying amount	Gross nominal inflow /(outflow)	0–3 months	3–6 months	6–12 months	More than 1 years
Financial assets by type						
Non-derivative financial assets						
Factoring and other receivables	39 694 636	39 785 686	9 880 180	7 713 886	26 739	22 164 881
Loans to customers	83 382 938	82 967 646	847 121	3 606 082	341 823	78 172 620
Finance lease	834 712	836 189	-	-	195 127	641 062
Other financial assets	108 899	108 899	108 899	-	-	-
Total	124 021 186	132 195 956	11 581 751	12 103 657	600 295	107 910 253

The terms used in the tables of this Note have the following meanings:
Gross outstanding means the final due principal, accrued interest, interest past due, contract administration fees, commissions and other contract fees.
Net outstanding means gross amount due net of expected credit losses.
Carrying amount means net amount due.

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. The Bank divides operational risk and its management into the following areas: money laundering and terrorist financing risk, process risk, information and communication technology risk, legal and compliance risk, external risk and personnel 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
Money laundering risk (ML)	Material

Operational and ML 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 the management of operational risk. He also responsible for monitoring operational risk controls. 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 risk, adequacy of controls and related procedures thereof;
-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, verifying the compliance with covenants, and, for the purpose of factoring, verifying the invoices submitted and supporting documents in compliance with the Bank's procedures. An for the purpose of financing, assessing the appropriateness of the customer's compliance with obligations towards the Bank (is not past due, performs other contractual obligations, et.).

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 AML Compliance Officer. He is responsible for the day to day implementation of the Bank's Anti-Money Laundering and Counter-Terrorist Financing Policy and International Sanctions Policy, 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.

23. 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 amount of financial liabilities not measured at fair value approximates their fair value.

	Carrying amount	Fair value	Carrying amount	Fair value
	As at 31 December 2022		As at 31 December 2021	
	EUR	EUR	EUR	EUR
Financial assets				
Cash on hand and balances with central banks	66 398 817	66 398 817	54 522 842	54 522 842
Loans to customers	135 316 982	135 316 982	82 548 555	82 548 555
Factoring and other receivables	33 770 467	33 770 467	39 694 636	39 694 636
Finance lease	18 210 927	18 210 927	834 383	834 712
Other financial assets	209 422	209 422	108 899	108 899
Securities issued by governments	22 790 253	22 790 253	-	-
Financial liabilities				
Customer deposits	241 916 268	241 916 268	141 560 543	141 560 543
Payables	6 517 887	6 517 887	4 529 966	4 529 966

Quantitative disclosures of the Bank's financial assets and liabilities in the fair value measurement hierarchy as at 31 December 2022:

	Level 1	Level 2	Level 3	Total
	EUR	EUR	EUR	EUR
Financial assets				
Cash on hand and balances with central banks	66 398 817	-	-	66 398 817
Loans to customers	-	135 316 982	-	135 316 982
Factoring and other receivables	-	33 770 467	-	33 770 467
Finance lease	-	18 210 927	-	18 210 927
Other financial assets	-	209 422	-	209 422
Securities issued by governments	-	22 790 253	-	22 790 253
Financial liabilities				
Customer deposits	-	241 916 268	-	241 916 268
Payables	-	6 517 887	-	6 517 887

Quantitative disclosures of the Bank's financial assets and liabilities in the fair value measurement hierarchy as at 31 December 2021:

	Level 1	Level 2	Level 3	Total
	EUR	EUR	EUR	EUR
Financial assets				
Cash on hand and balances with central banks	54 522 842	-	-	54 522 842
Loans to customers	-	82 548 555	-	82 548 555
Factoring and other receivables	-	39 694 636	-	39 694 636
Finance lease	-	834 383	-	834 383
Other financial assets	-	108 899	-	108 899
Financial liabilities				
Customer deposits	-	141 560 543	-	141 560 543
Payables	-	4 529 966	-	4 529 966

24. Restatement of comparative information

The Bank reviewed the methodology for classifying items in the separate financial statements, and decided to reflect more accurately the classification of the items in the financial statements, by making corresponding adjustments to the comparative information for 2021.
The adjustment impact on the Bank's statement of profit and loss and other comprehensive income, the statement of financial position and the statement of cash flows is presented below:

Statement of profit or loss or other comprehensive income

	2021 (before restatement) EUR	Restatement	2021 (after restatement) EUR
Interest income calculated using effective interest method	5 832 870	-	5 832 870
Default interest	9 537	(9 537)	-
Interest expenses	(500 954)	(147 492)	(648 446)
Other operating income	82 481	-	82 481
Commission expenses	-	(14 775)	(14 775)
Commission income	-	9 537	9 537
Net commission income (expenses)	-		(5 238)
Credit loss allowance		(643 440)	(643 441)
Loss allowance for doubtful receivables	(641 478)	641 478	-
Loss allowance for cash at banks	(1 962)	1 962	-
Payroll expenses	(2 852 602)	-	(2 852 602)
Depreciation of property, plant and equipment and amortization of intangible assets	-	(234 204)	(234 204)
Administrative expenses	(2 031 720)	396 471	(1 635 248)
Finance costs	(3 680)	-	(3 680)
Profit (loss) before tax	(107 508)	-	(107 508)
Income tax expense	13 512	-	13 512
Profit (loss) for the year	(93 996)	-	(93 996)
Other comprehensive income	-	-	-
Total other comprehensive income, net of tax	(93 996)	-	(93 996)

Statement of financial position

	2021 (before restatement) EUR	Restatement	2021 (after restatement) EUR
Assets			
Cash on hand and balances with central banks	54 522 842		54 522 842
Loans to customers and factoring receivables		122 907 273	122 907 274
Loans to customers	83 382 938	(83 382 938)	-
Factoring receivables	39 694 636	(39 694 636)	-
Investments into subsidiaries	2 002 500	-	2 002 500
Intangible assets	-	587 115	587 115
Intangible assets	587 115	(587 115)	-
Property, plant and equipment	112 814	-	112 814
Right-of-use assets	238 175	-	238 175
Deferred tax asset	376 269	-	376 269
Other financial assets	108 899	-	108 899
Other non-financial assets	2 552	(2 552)	-
Other assets	315 820	(286 953)	28 867
Total assets	181 344 560	(459 805)	180 884 755
Liabilities			
Customer deposits	141 850 047	(289 504)	141 560 543
Lease liabilities	239 622	-	239 622
Payables	4 529 966	-	4 529 966
Provisions	137 404	-	137 404
Other liabilities	318 851	(170 301)	148 550
Total liabilities	147 075 890	(459 805)	146 616 085
Equity			
Issued capital	36 424 791	-	36 424 791
Retained earnings	(2 156 121)	-	(2 156 121)
Total equity	34 268 670	-	34 268 670
Total equity and liabilities	181 344 560	(459 805)	180 884 755

24. Restatement of comparative information (continued)

Statement of cash flows

	2021 (before restatement) EUR	Restatement	2021 (after restatement) EUR
Profit/(loss) for the year	(93 996)	-	(93 996)
Cash flows from/used in operating activities			
Credit loss allowance	-	643 441	643 441
Interest income	-	(5 832 870)	(5 832 870)
Interest expenses	-	648 446	648 446
Depreciation of property, plant and equipment and amortization of intangible assets	-	239 168	239 168
Impairment of investments in shares of subsidiaries	-	-	-
Change in deferred tax	-	(13 512)	(13 512)
Other non-cash transactions elimination	4 963	72 777	77 740
Depreciation and amortization of non-current assets	151 457	(151 457)	-
Depreciation of right-of-use assets	82 748	(82 748)	-
Impairment of factoring receivables, net	13 674	(13 674)	-
Impairment of loans, net	490 401	(490 401)	-
Impairment of balances at banks, net	1 962	(1 962)	-
Impairment of off-balance sheet commitments, net	137 404	(137 404)	-
Net interest income	(5 341 454)	5 341 454	-
		-	
Total adjustments to operating activities	(4 552 841)	315 254	(4 237 587)
Working capital adjustments			
Net change in loans granted	(68 775 127)	(17 312 866)	(86 087 993)
Changes in other financial assets	-	(77 534)	(77 534)
Changes in other assets	(384 903)	77 534	(307 369)
Changes in customer deposits	135 782 645	(447 006)	135 335 639
Change in trade payables	2 043 485	(350 800)	1 692 685
Changes in other liabilities	-	271 098	271 098
Decrease (increase) in deferred income tax asset	(13 512)	13 512	-
(Increase)/decrease in factoring receivables	(17 668 137)	17 668 137	-
Total changes in assets and liabilities of operating activities	50 984 450	(157 924)	50 826 526
Interest received	5 832 870	(355 272)	5 477 598
Default interest received	9 537	(9 537)	
Interest paid	(500 954)	299 514	(201 440)
Net cash flows from operating activities	51 773 063	(1 962)	51 771 101
Investing activities			
Investments in subsidiaries	(1 752 500)	-	(1 752 500)
Acquisition of securities issued by governments	-	-	-
Acquisition of property, plant and equipment	(50 014)	(216 008)	(266 022)
Purchase of intangible assets	(197 261)	(1)	(197 262)
Net cash flows used in investing activities	(1 999 775)	(216 009)	(2 215 784)
Financing activities			
Lease payments	(109 173)	216 009	106 836
Net cash flows from/used in financing activities	(109 173)	216 009	106 836
Net increase (decrease) in cash and cash equivalents	49 664 114	(1 961)	49 662 153
Cash and cash equivalents at the beginning of the year/period	4 820 280	40 409	4 860 689
Cash and cash equivalents as at 31 December	54 484 394	38 448	54 522 842

25. Notes

Contingent liabilities

There are no any legal proceeding to which the Bank is a subject.

Business acquisition

Optima Information Technology Srl is a financial software development company based in Pistoja, Italy, developing and providing individual software ordering solutions to the Bank since 2018. The acquired business will therefore be a key asset for the Bank, playing a strategic role in digitizing and improving the Bank's processes, providing access to a scope-customized software for international expansion, as well as access to an in-house software development team. The acquired business includes contracts with 13 specialized employees.

25. Notes (continued)

The business was acquired for EUR 1,00. IFRS 3 Business Combinations does not provide for any method for business combination of joint ventures, and therefore such acquisition was accounted for at carrying amount, with the difference being recorded in the balance sheet in equity as a profit (loss) not recognized in statement of profit and loss and other comprehensive income in accordance with generally accepted practice for business combinations under common control.

Business acquisition is presented in the statements of financial position.

Company	2022-03-31
Property, plant and equipment	12 009
Intangible assets	448 572
Receivables	109 320
Total disposed assets	569 901

Company	2022-03-31
Employee benefits	91 851
Trade payables and other current liabilities	597 662
Total disposed liabilities, related to disposed assets	689 513

Company	2022-03-31
Loss from business acquisition	119 612
Total loss from business acquisition	119 612

Significant events after the end of the reporting period

The ongoing Russia's war in Ukraine and inflationary pressures continue to weigh on the global economic situation, resulting in slower economic activity. Global growth is projected to decelerate sharply in 2023, especially in the euro area. The latest economic data for Germany and Lithuania revealed that the gross domestic product of both countries decreased by 0.4% during Q4 2022.

In order to fight high inflation, the European Central Bank has initiated monetary policy tightening. By the end of 2022, the European Central Bank's rate of main refinancing operations was 2.5% (compared to 0.0% at the start of the year), and it was increased to 3.0% on 8 February 2023. Moreover, the European Central Bank indicated that the key interest rates will be increased by additional 50 basis points, and does not rule out the possibility of further increasing them in the near future.

The sudden increase of Euribor rates driven by the European Central Bank's monetary policy had a positive impact on the Bank's financial results in the first quarter of 2023. However, in the light of an uncertain economic outlook, the Bank closely monitors the economic situation and its loan portfolio performance. Taking into account the abovementioned circumstances, the Bank continuously reviews and adapts its financing guidelines for new credit origination.

On 24 February 2022, after the Russian Federation recognized the independence of the self-proclaimed Donetsk and Luhansk people's republics and invaded Ukraine, the military conflict escalated to other regions of the country. The significant changes in the geopolitical context that took place after February 2022 were take into account when preparing financial statements for the year ended 31 December 2022. The said geopolitical changes do not have a significant impact on the financial statements for the year ended 31 December 2022, as they are insignificant to the activities of the Bank.

As of the end of the financial year up to approval of the financial statements, there were no post-balance sheet events that could have influence on the separate financial statements or be additionally disclosed.

Director
Renato La Fianza

(signature) 27 April 2023 (date)

Authorised person of BDO auditas ir apskaita
Aurelija Janulaitytė

(signature) 27 April 2023 (date)

CFO
DOMENICO POLITI

27 APRIL 2023