PayRay Bank, UAB

FINANCIAL STATEMENTS AND CONSOLIDATED MANAGEMENT REPORT

for the year ended 31 December 2024

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 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 precedence over this translation.

Contents

General information

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

Renato La Fianza (Head of Administration)

Board members

Renato La Fianza
Paulius Jokšas
Gianluca Balducci
Simonas Skaržauskas (held office from 2024-09-10 to 2025-02-28)

Registered office

Lvivo st. 25-702, Vilnius, Lithuania

Audit firm

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF PAYRAY BANK, UAB

Report on the Audit of the Bank and Group Financial Statements

Opinion

We have audited the separate and the consolidated financial statements of PayRay Bank, UAB and its subsidiaries (the Group) which comprise the separate and the consolidated statement of financial position statement as at December 31, 2024, and the separate and the consolidated statement of profit and loss and other comprehensive income, the separate and the consolidated statement of changes in equity and the separate and the consolidated statement of cash flows for the year then ended, and notes to the separate and the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the separate and the consolidated financial position of the Bank and Group as at December 31, 2024, and its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, 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 2014 April 16 the European Parliament and of the Council Regulation (EU) No 537/2014 on specific statutory audit requirements for 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 and the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of Financial Statements and Other Assurance Services of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements and Other Assurance Services 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 separate and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Expected credit losses for Loans and factoring receivables

Refer to Material accounting policies sections „Impairment of financial assets“, „Measurement of ECL“, „Significant increase in credit risk (SICR)“, „Definition of default“, „Probability of default and credit risk grades“, „Credit-impaired financial assets“, „Incorporation of forward-looking information“, „Forborne financial assets“, „Presentation of allowance for ECL in the statement of financial position“, „Change in methodology for making accounting estimate“, „Assessing the recoverable amount of the exposure for the purpose of estimating expected losses“, „Criteria for assessing a significant increase in credit risk“, „Estimating ECLs for Stage 2 financial assets“, note 12 „Loans to customers and factoring receivables“ and note 22 „Risk management“ section „credit risk“, pages respectively 26-30, 43 and 49-60.

We focused on this area because application of the expected credit loss (ECL) model to loan impairment losses under IFRS 9 “Financial instruments” requires complex and subjective judgements over both the timing of recognition of impairment and the size of any such impairment.

The key features of the ECL model include classification of loans to three stages, assessment of credit risk parameters and application of forward-looking information. The amount of impairment provision for the Bank’s and the Group’s loans is based on the model calculations, taking into consideration the exposure at default, probability of default, probability of loss given default, changes in customer credit rating, other known risk factors impacting stage of each exposure, and taking into account estimated future cash flows from the loan repayments or sale of collateral (loss given default), and the ECL adjustments by expected impact of future macroeconomic scenarios.

As at 31 December 2024, The Bank's and the Group's expected credit losses in the statements of financial position amounted to EUR 5,083 thousand and EUR 4,749 thousand, respectively (see note 12).

The Bank's and the Group's provision for impairment of credit risk for the year ended 31 December 2024 in the separate and consolidated statements of profit or loss and other comprehensive income amounted to EUR 2,985 thousand and EUR 2,517 thousand, respectively.

How the Matter Was Addressed in the Audit

We assessed whether the Bank’s and Group’s accounting policies in relation to the ECL for loans to customers are in compliance with IFRS 9 by assessing each significant model component: exposure at default, probability of default and loss given default, definitions of default and significant increase in credit risk, use of macroeconomic scenarios.

We assessed the design and operating effectiveness of the controls over relevant loan data and the ECL calculations. Those controls included controls over recording of loans data in the system, credit analysis and approval before issuing loans, loans credit file periodic review, risk score/rating assessment, a timely review and update of collateral values and overdue days.

We determined that we could rely on those controls for the purpose of our audit.

Futher, we performed detailed recalculations of selected loans and the results provided by the models to ensure that the ECL are calculated and assigned to stages correctly and meet our expectations. These recalculations were carried out within the most significant and high-risk loan portfolio to obtain sufficient and appropriate evidence about the Bank.

Other Information

The other information comprises the information included in the consolidated management report of 2024 year, but does not include the separate and consolidated financial statements and our auditor’s report thereon. Management is responsible for the other information.

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

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

In addition, our responsibility is to consider whether information included in the consolidated management report for the financial year for which the financial statements are prepared is consistent with the financial statements and whether consolidated management 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 consolidated management report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the consolidated management report has been prepared in accordance with the requirements of the Law on Reporting by Undertakings and Groups of 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 separate and consolidated financial statements in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, 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 the separate and the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and the consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purpose of the group audit. We remain solely responsible for our audit opinion.

We shall 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 consolidated 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 for the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

We were appointed by management to audit the Bank's and the Group's 2024 and 2025 separate and consolidated financial statements under an audit agreement dated on 28 June 2024. Our appointment to audit the separate and consolidated financial statements of the Bank and the Group is renewable every 2 years and the total continuous period of appointment is 3 years.

We confirm that our opinion in the section 'Opinion' is consistent with the additional audit report which we have submitted to the Bank and Group and its audit committee.

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

In the course of audit, we have not provided any other services other than translation services except for audit of separate and consolidated financial statements.

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

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

Certified auditor
Darius Gliaubicas[1]
Auditor's certification No. 000594
28 April, 2025

This is a free translation into English of the Statutory Auditor's report issued in Lithuanian language

[1] An electronic document is signed with an electronic signature, has the same legal force as a signed written document and is a permissible means of proof. Only the independent auditor's report is signed with the electronic signature of the auditor.

Consolidated Management Report for the year ended 31 December 2024

1. Consolidated Management Report for the reporting period

The Consolidated Management Report is prepared for the year ended 31 December 2024. All numbers are rounded to the nearest thousand euro and presented as at 31 December 2024, unless specified otherwise. The Consolidated Management Report presents the information of PayRay Bank, UAB (hereinafter the "Bank") and its subsidiaries PayRay SIA and PayRay Estonia Ou(removed from the register on 22 March 2024) (jointly referred to as the "Group").

2. Information about the Group companies:

Name	PayRay Bank, UAB
Legal form	Private limited liability company
Address	Lvivo st. 25-702, Vilnius, Lithuania
Company code	304862948
Year of registration	2018

Main activities. PayRay Bank UAB is a credit institution operating in Lithuania under the licence issued by the Bank of Lithuania to accept deposits and other repayable funds from non-professional market participants and to provide financing services to legal entities and farmers. The Company started banking activity on 15 October 2020. The Bank is supervised and regulated by the Bank of Lithuania and European Central Bank.

Name	PayRay SIA
Legal form	Private limited liability company
Address	Gustava Zemgala g. 74, Ryga, Latvia
Company code	40203260896
Year of registration	2020

Main activities. PayRay SIA is the Bank's subsidiary, operating in Latvia. The Company provides financing services to legal entities in Latvia through the Bank's financial support. PayRay Bank UAB holds 100% of the Company's issued capital and voting rights.

Name	PayRay Estonia OU
Legal form	Private limited liability company
Address	Narva g. 5, Tallinn, Estonia
Company code	16147024
Year of registration	2021

Main activities. PayRay Estonia OU is the Bank's subsidiary, registered in Estonia. PayRay Bank UAB holds 100% of the Company's issued capital and voting rights. The company is commercially inactive, therefore was removed from the register on 22 March 2024.

3. State of the Group and overview of activities

The Group's principal activity is the provision of credit products (loans, factoring and lease) to small and medium-sized enterprises. The Group raises the funds necessary for its operations by collecting deposits from natural and legal persons.

In 2024, the euro area economy grew by 0.9%, driven by decreasing interest rates. The economic situation in the Group's operating markets remains diversified: in 2024, Lithuania's GDP grew by 2.7%, Spain's by 3.2%, and the Netherlands' by 0.9%, however, the largest economy in the euro area, Germany, contracted by 0.2%, and Latvia's GDP declined by 0.4%. In 2024, with the European Central Bank rapidly reducing interbank lending margins and consumption growth, a more significant overall economic recovery in the European Union is expected in 2025.

Aiming to reduce inflation to its target level of 2%, the European Central Bank maintained its sufficiently rigorous monetary policy in 2024, however, financing conditions eased and interbank lending rates decreased. By the end of 2023, the European Central Bank fixed the interest rate on the main refinancing operations at 4.5%, and reduced by 85 percentage points over the course of 2024 to 3.65% in December 2024. The decrease in base rates has a positive impact on interbank rates, resulting in a decrease in the 6-month Euribor by 130 basis points per year (from 3.86% as at 30 December 2023 to 2.56% as at 31 December 2024). Lower financing costs boosted both businesses and public borrowing. With cheaper borrowing, businesses sought more favourable financing terms, while households with credit obligations saw their purchasing power increase due to falling interest rates.

In 2024, the Group focused on providing financing services in the Lithuanian market. As financing conditions eased, businesses began to negotiate more actively for more favourable terms and lower lending rates. On 27 August 2024, the Bank of Lithuanian approved the request of the sole shareholder of the Group, 2404 S.A., of 23 November 2023, to recognise EUR 15,200 thousand of capital instruments as Common Equity Tier 1 capital. Due to this restriction, the Bank was unable to sell new financing services and grow its financing portfolio for most of 2024. The delay in the decision of the Bank of Lithuania regarding the Group's capital and the decisions of business customers to refinance their liabilities to the Bank resulted in a decrease in the total financing portfolio from EUR 149,204 thousand to EUR 86,163 thousand.

	Group		Bank	
EUR thousand	**As at 31 December 2024**	**As at 31 December 2023**	**As at 31 December 2024**	**As at 31 December 2023**
Loans	60,590	96,887	60,510	97,069
Factoring	12,953	34,383	12,953	34,383
Finance lease	12,620	17,934	12,598	17,612
Total	**86,163**	**149,204**	**86,061**	**149,064**

Given that the Group's and the Bank's financing portfolios are largely made up of floating-rate financing products, decreasing interbank interest rates further accelerated the decline in interest income. In 2024, the Group's interest income contracted by 15 % (the Bank's by 13%).

Due to the nature of the Group's business, in which lending activities are largely financed through term deposits from natural persons, the rapid growth of base interest rates in 2023 directly influenced the growth of interest on deposits. To manage the costs of funds required for portfolio financing, the Group made corresponding reductions in its deposit portfolio. During 2024, the amount of deposits accepted by the Group decreased by 40%, however, the interest expenses increased by 2.3% due to higher borrowing costs.

The increase in base interest rates had a negative impact on the Group's financial performance as decrease in interest income was higher than interest expense, resulting in a 24% decrease in the Group's net interest income for the year (a 22% decrease in the Bank's net interest income).

In 2024, the Group stepped up its efforts to improve operational efficiency by managing administrative costs while maintaining strong risk management and internal control processes. These efforts resulted in a decrease in administrative expenses by 4% (the Bank's by 3%) and a decrease in salary expenses by 3% (the Bank's by 1%).

Due to growing interest rates in 2024, the Group's financial liability administration burden for customers increased, which resulted in the Group recording EUR 2,985 thousand in additional allowances for credit losses in 2024 in accordance with its credit risk assessment procedures.

Restricted lending and business development opportunities, as well as increased borrowing costs due to higher interbank interest rates and the recognition of allowances for credit losses, resulted in the Group and the Bank recording negative financial performance in 2024: the Group incurred a loss of EUR 2,495 thousand in 2024 (2023: the Group generated a profit EUR 1,806 thousand), whereas the Bank a loss of EUR 2,697 thousand in 2024 (2023: the Bank generated a profit EUR 1,872 thousand). Due to the loss incurred, the Group's equity decreased from EUR 31,291 thousand as at 31 December 2023 to EUR 28,796 thousand as at 31 December 2024 (the Bank's from EUR 31,341 thousand to EUR 28,645 thousand).

The table below presents the Bank's and the Financial Group's compliance with prudential ratios as at 31 December 2024. The Financial Group consists of PayRay Bank UAB, PayRay SIA and 2404 S.A., the Bank's parent company. The table shows the Financial Group's ratios as it is the Financial Group regulated at the consolidated level rather than the Group.

Indicator	Financial Group	Bank
Total capital adequacy ratio	39.75%	39.57%
Leverage ratio	18.71%	18.88%
Liquidity coverage ratio	802.97%	837.36%
Net stable funding ratio	193.85%	193.26%
Large exposure indicator	11.82%	11.94%

During the reporting period, the Group's and the Bank's prudential indicators were significantly better than the minimum requirements set by the Bank of Lithuania.

4. Strategy and business plans

In 2024, the Group's activities covered the German, Lithuanian, Latvian, Spanish and Dutch markets. In Germany, Spain and the Netherlands, the Bank provided deposit services to natural persons through the Raisin platform. the services of Check24 deposit platform were used only in German market. In Lithuania, deposit services are offered only to legal entities. Although financing was provided in the Lithuanian and Latvian markets, no new financing agreements were concluded in the Latvian market during 2024.

In 2024, the Bank refinanced the portfolio of performing customers of the Group Company PayRay SIA, which provided financing services in Latvia. The remaining portfolio of non-performing customers continues to be administered by PayRay SIA having a minimal administrative structure.

The Group has no physical customer service locations, except for the central headquarters in Vilnius. The Bank collects deposits from non-professional market participants through deposit collection platforms, while deposit services to legal entities are provided via direct or remote meetings. Financing services are offered to legal entities and natural persons for business purposes via direct or remote meetings.

The Group's main customers in the provision of financing services are small and medium-sized enterprises, and its competitive edge is determined by the customer-oriented principles:

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

In 2025, management plans to review the Group's strategy and optimize operating costs.

5. Information on research and development

In 2024, the Group and the Company did not perform research and development activity.

6. Organisational 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 Board which currently consists of: the Head of Administration, the Deputy Head of Administration, the Head of Baltic Business, the Chief Technology Officer and the Chief Financial Officer (until 28/02/2025). The Management Board makes day-to-day executive decisions and implements the strategy of the Bank, implements risk management framework.

The Bank has the Audit Committee consisting of four members, which members are the same as those of the Bank's Supervisory Council.

7. *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 functions of the Supervisory Council are governed by the Rules of Procedure of the Supervisory Council. 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;
- The Bank's risk management policies;
- Regulations of the Bank's Credit Committee;
- The Bank's business continuity plan;
- The Bank's rules to prevent money laundering and terrorist financing;
- The Bank's financial accounting and reporting policies;
- The Bank's capital and liquidity adequacy assessment policies;
- other documents and policies relevant to the Bank.

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;
- 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 four committees are 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 Credit Risk Department.

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 Audit Committee consists of five members, of which four members are the same as those of the Bank's Supervisory Council. The Chairman of the Supervisory Council is 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 Chief Loan Workout Officer.

8. Risk management and internal controls

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

The Group is committed to the highest standards of professional conduct and promotes a compliance and risk management-based organizational culture. The Group's companies have a zero tolerance for conflicts of interest, illegal remuneration and the acceptance of gifts. All Group employees must be familiar with the Code of Ethics and Conduct, compliance and prevention of financial crime procedures, and adhere to these provisions when performing their assigned functions.

The Group acknowledges that every employee of the organization is responsible for the effectiveness of risk management and internal control framework. Employees are provided with mandatory training to ensure adherence to compliance and risk management requirements.

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, Loan Workout, 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 Head of Risk Management, is responsible for:

- Carrying out the supervision and control of the risk management process at the Group. It also actively provides guidelines and support to other structural divisions of the Group 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 Group's activities. The Risk management function shall also control whether other structural divisions of the Group ensure appropriate oversight of their main risks;
- The control of the process of assessing and identifying any risks that may arise during the implementation of new products or material amendments thereof, and how this may affect the Group's overall risk and risk profile.

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

Compliance function is responsible for behavioural and compliance risk. 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: assistance to the first line in identifying existent and potential behavioural and compliance risks and implementation of control measures to mitigate these risks; and monitoring and testing of the efficiency of control measures to prevent behavioural and compliance risks from occurring or mitigating them, and training for employees.

Head of Compliance is accountable to the Management Board and directly reports to the Head of Legal and Compliance.

The Prevention of money laundering, terrorist financing and financial crimes function bears the same responsibilities as the compliance function, only in the area of prevention of money laundering, terrorist financing and financial crime. The responsibilities of this function include developing, maintaining and evaluating the system for assessing the risk of money laundering and terrorist financing, and sanctions, monitoring and implementing the control system, implementing procedures, advising on a high-risk client acceptance and continuance, reporting to the Group's governing bodies, managing suspicious transaction reports and training staff.

The AML/CTF Compliance Officer is accountable to the Management Board and directly reports to the Head of Legal and Compliance.

Third line comprises 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.

9. Employees and remuneration policy

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

10. 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	Managerial positions in other companies/organisations	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, Gustava Zemgala st. 74, Riga, Latvia)	Member of the Board
Paulius Jokšas	Management Board	PayRay Bank, UAB (304862948, Lvivo st. 25, Vilnius, Lithuania)	Deputy Head of Administration	PayRay SIA (40203260896, Gustava Zemgala st. 74, Riga, Latvia)	Member of the Board
Gianluca Balducci	Management Board	PayRay Bank, UAB (304862948, Lvivo st. 25, Vilnius, Lithuania)	Chief Technology Officer		
Simonas Skaržauskas (held the position from 10/09/2024 to 28/02/2025)	Management Board	PayRay Bank, UAB (304862948, Lvivo st. 25, Vilnius, Lithuania)	Chief Financial Officer		
Gintautas Galvanauskas (held the position until 14/10/2024)	Supervisory Council	UAB Joldija (133865639, Tikslo st. 10, Kaunas dist., Lithuania) - Chairman of the Board, Head of Business Development	Chairman of the Supervisory Council Chair of the Audit committee	GGLIF, UAB (305825276, Lvivo st. 25, Vilnius, Lithuania)	CEO
				VŠĮ Futbolo klubas (304984471, J.Basanavičiaus st. 26, Vilnius, Lithuania)	Member of the Board

Name, surname	Management body of PayRay Bank, UAB	Main employment	Duties at the company PayRay Bank, UAB	Managerial positions in other companies/organisations	Duties at other company/organisation
				Raft Capital Management, UAB (Gedimino ave. 50, Vilnius, Lithuania)	Partner
Kęstutis Šliužas (held the position until 14/10/2024)	Supervisory Council	IPI Srl (IT03291129, Giuseppe Piermarini st. 19, Perugia, Italy) - Chief Executive Officer	Member of Supervisory Council Member of the Audit committee	AB Lietuvos Geležinkeliai (110053842, Geležinkelio st. 16, Vilnius, Lithuania)	Chairman of the Board
Tomas Andrejauskas (held the position until 14/10/2024)	Supervisory Council	Satimed UAB (303408412, Kauno st. 37, Utena, Lithuania) - Head of Business Development, Partner	Member of Supervisory Council Member of the Audit committee	Fitodenta, UAB (305460265, Raudondvario rd. 148, Kaunas, Lithuania)	CEO
				Lithuanian BIO (126374821, Balčikonio st. 3, Vilnius, Lithuania)	President, Chairman of the Board;
Roberto Pollara (held the position until 14/10/2024 and have been re-appointed since 07/04/2025)	Supervisory Council		Member of Supervisory Council Member of the Audit committee		
Boleslovas Stankus (holds the position since 07/04/2025)	Supervisory Council	PaymentHous, UAB (307049106, V.Nagevičiaus st. 3, Vilnius, Lithuania)	Chairman of the Supervisory Council Chair of the Audit committee	Association Karaliaus Mindaugo Lions klubas (126399447, Mindaugo st. 19-38, Vilnius, Lithuania)	Member of the Board
Kęstutis Motiejūnas (holds the position since 07/04/2025)	Supervisory Council	Regitra, AB (110078991, Liepkalnio st. 97A, Vilnius, Lithuania) – Member of the Board, Member of the Audit committee	Member of Supervisory Council Member of the Audit committee		
Gintaras Adomonis (holds the position since 07/04/2025)	Supervisory Council	Cirkonas, UAB (133612415, Kęstučio st. 58-3, Vilnius, Lithuania) - Director,	Member of Supervisory Council Member of the Audit committee	Valnetas, UAB (135778275, Kęstučio st. 58-3, Vilnius, Lithuania)	CEO

11. Shareholder, issued capital and data on acquisition of own shares

As at 31 December 2024, the sole shareholder of the Bank was 2404 S.A. holding 100% of shares in the Bank. On 13 September 2022, the Board of the Bank of Lithuania adopted a decision in which the sole shareholder's voting rights were temporarily suspended. As a result of the enforcement measure, the shareholder was unable to approve the Group's and the Bank's financial statements for the year ended 31 December 2023 and 2022.

Information about the Bank's and the Group's issued capital is disclosed in Note 18 to the financial statements.

The Bank does not hold and did not acquire its own shares in 2024. Subsidiaries did not acquire the Bank's shares either. The Bank and its subsidiaries have neither acquired nor disposed own shares during the reporting period.

12. Significant events after the end of the reporting period

In 2023, the Bank of Lithuania carried out a non-routine inspection of the Bank in the areas of the Bank's governance, management of internal control, credit risk, liquidity risk and interest rate risk in the banking book, and operational risk management and outsourcing of operational functions. On 15 January 2024, the Board of the Bank of Lithuania adopted a resolution, which obliged the Bank to remedy the breaches of the legal acts and deficiencies in the aforementioned areas, as well as imposed a fine of EUR 210 thousand. Most of the breaches and deficiencies identified by the Bank of Lithuania were remedied before the inspection findings were considered by the Board of the Bank of Lithuania, and the remaining deficiencies were remedied by 30 April 2024.

In 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. Geopolitical tensions escalated further in October 2023 when Hamas attacked Israel, leading to a military conflict in the Gaza Strip. The outbreak of conflicts and the ongoing significant changes in the geopolitical context were taken into account when preparing financial statements for the year ended 31 December 2023. The said geopolitical changes do not have a significant impact neither on the financial statements for the year ended 31 December 2024, nor on the performance of the Group and Bank.

In 2025, management plans to review the Group's strategy and optimize operating costs. In April 2025, the Group's management took the decision to change the Group's organizational structure, leading to the reduction of the Group's headcount.

The Consolidated Management Report were issued on 28 April 2025.

PayRay Bank, UAB
Head of Administration
Renato La Fianza

Group's and Bank's statements of financial position

for the year ended 31 December 2024

EUR thousand	Notes	As at 31 December 2024		As at 31 December 2023	
		Group	Bank	Group	Bank
Assets					
Cash on hand and balances with central banks	17	26,199	26,181	25,905	25,901
Loans to credit institutions	17	3,992	3,992	-	-
Securities issued by governments	13	22,986	22,986	37,579	37,579
Loans to customers and factoring receivables	12	86,163	86,061	149,204	149,064
Investments into subsidiaries	14	-	-	-	-
Intangible assets	10	122	122	219	219
Property, plant and equipment	9	119	119	172	172
Right-of-use assets	11	241	241	308	308
Deferred tax asset	8	-	-	325	325
Trade and other receivables	15	204	210	764	765
Other assets	16	319	452	186	394
Total assets		**140,345**	**140,364**	**214,662**	**214,729**
Liabilities					
Customer deposits	19	105,683	105,683	178,745	178,745
Lease liabilities	11	248	248	313	313
Payables	20	5,116	5,094	3,853	3,826
Provisions for off-balance sheet liabilities	22	1	106	1	1
Income tax payable	8	-	-	166	166
Other liabilities	20	501	588	293	337
Total liabilities		**111,549**	**111,719**	**183,372**	**183,387**
Equity					
Issued capital	18	36,425	36,425	36,425	36,425
Retained earnings	18	(7,629)	(7,780)	(5,134)	(5,083)
Total equity		**28,796**	**28,645**	**31,291**	**31,341**
Total equity and liabilities		**140,345**	**140,364**	**214,662**	**214,729**

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

Head of Administration		
Renato La Fianza	*Signed with e-signature*	*(date)*
Chief Financial Officer		
Simonas Skaržauskas	*(signature)*	*(date)*

Group's and Bank's statements of profit or loss and other comprehensive income

for the year ended 31 December 2024

		As at 31 December 2024		As at 31 December 2023	
EUR thousand	**Notes**	**Group**	**Bank**	**Group**	**Bank**
Interest income calculated using effective interest method	6	14,133	14,056	16,652	16,187
Interest expenses	6	(5,826)	(5,826)	(5,694)	(5,694)
Net interest income (expense)		**8,307**	**8,230**	**10,958**	**10,493**
Commission income	6	33	31	30	29
Commission expenses	6	(8)	(8)	(10)	(10)
Net commission income (expenses)		**25**	**23**	**20**	**19**
Other operating income	6	4	136	42	240
Other operating expenses	6	(92)	(92)	(106)	(102)
Impairment of investments in subsidiaries	14	-	-	-	(3)
Allowances for credit losses	22	(2,517)	(2,985)	(379)	(426)
Payroll expenses	7	(4,480)	(4,330)	(4,638)	(4,381)
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets	7	(319)	(319)	(374)	(353)
Administrative expenses	7	(3,105)	(3,042)	(3,247)	(3,145)
Finance costs	11	(10)	(10)	(10)	(10)
Profit (loss) before tax		**(2,187)**	**(2,389)**	**2,266**	**2,332**
Income tax expense	8	(308)	(308)	(460)	(460)
Profit (loss) for the year		**(2,495)**	**(2,697)**	**1,806**	**1,872**
Other comprehensive income		-	-	-	-
Total other comprehensive income, net of tax		**(2,495)**	**(2,697)**	**1,806**	**1,872**

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

Head of Administration		
Renato La Fianza	*(signature)*	*(date)*
Chief Financial Officer		
Simonas Skaržauskas	*(signature)*	*(date)*

Group's statement of changes in equity

for the year ended 31 December 2024

Group

EUR thousand	**Issued capital**	**Retained earnings (loss)**	**Total equity**
	EUR	**EUR**	**EUR**
As at 1 January 2023	**36,425**	**(6,939)**	**29,486**
Profit (loss) for the year	-	1,806	1,806
As at 31 December 2023	**36,425**	**(5,134)**	**31,291**
Profit (loss) for the year	-	(2,495)	(2,495)
As at 31 December 2024	**36,425**	**(7,629)**	**28,796**

Bank

EUR thousand	**Issued capital**	**Retained earnings (loss)**	**Total equity**
	EUR	**EUR**	**EUR**
As at 1 January 2023	**36,425**	**(6,956)**	**29,469**
Profit (loss) for the year	-	1,872	1,872
As at 31 December 2023	**36,425**	**(5,083)**	**31,341**
Profit (loss) for the year	-	(2,697)	(2,697)
As at 31 December 2024	**36,425**	**(7,780)**	**28,645**

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

Head of Administration		
Renato La Fianza	*(signature)*	*(date)*
Chief Financial Officer		
Simonas Skaržauskas	*(signature)*	*(date)*

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

Group's and Bank's statements of cash flows

for the year ended 31 December 2024

EUR thousand	Notes	As at 31 December 2024 Group	As at 31 December 2024 Bank	As at 31 December 2023 Group	As at 31 December 2023 Bank
Profit (loss) for the year		**(2,495)**	**(2,697)**	**1,806**	**1,872**
Operating activities					
Allowances for credit losses	22	2,591	3,082	375	421
Interest income	6	(14,133)	(14,056)	(16,652)	(16,187)
Interest expenses	6	5,826	5,826	5,694	5,694
Depreciation of property, plant and equipment and amortization of intangible assets	9,10,11	319	319	373	352
Impairment of investments in shares of subsidiaries	14	-	-	-	3
Change in deferred tax	8	325	325	294	294
Other non-cash transactions elimination	12	(56)	(70)	112	116
Total adjustments to operating activities		**(5,128)**	**(4,574)**	**(9,804)**	**(9,307)**
Working capital adjustments					
Net change in loans granted	12	60,595	60,247	34,744	34,512
Net change in loans granted to credit institutions	17	(4,000)	(4,000)	-	-
Change in trade and other receivables	15	560	555	(286)	(294)
Changes in other assets	16	(133)	(58)	(101)	(175)
Change of income tax payable	8	(166)	(166)	166	166
Changes in customer deposits	19	(72,122)	(72,122)	(65,115)	(65,115)
Change in payables	20	1,337	1, 344	584	594
Changes in other liabilities	20	208	251	(138)	(43)
Total changes in assets and liabilities of operating activities		**(13,721)**	**(13,949)**	**(30,146)**	**(30,354)**
Interest received		14,013	13,875	16,089	15,732
Interest paid		(6,766)	(6,766)	(3,750)	(3,750)
Net cash flows from operating activities		**(14,097)**	**(14,111)**	**(25,806)**	**(25,807)**
Investing activities					
Acquisition of securities issued by governments	13	14,558	14,558	(14,553)	(14,553)
Acquisition of property, plant and equipment	9, 11	(102)	(102)	(153)	(153)
Acquisition of intangible assets	10	-	-	-	-
Net cash flows used in investing activities		**14,456**	**14,456**	**(14,706)**	**(14,706)**
Financing activities					
Lease payments	11	(65)	(65)	2	2
Net cash flows from/used in financing activities		**(65)**	**(65)**	**2**	**2**
Increase (decrease) of cash and cash equivalents		294	280	(40,510)	(40,511)
Cash and cash equivalents at the beginning of the year/period	17	**25,905**	**25,901**	**66,415**	**66,413**
Cash and cash equivalents as at 31 December	17	**26,199**	**26,181**	**25,905**	**25,901**

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

Head of Administration		
Renato La Fianza	*(signature)*	*(date)*
Chief Financial Officer		
Simonas Skaržauskas	*(signature)*	*(date)*

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 Bank, 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 banking license to accept deposits and other repayable funds from non-professional market participants. PayRay Bank, UAB finally converted to a bank on 15 October 2020. The Bank's main activity is the provision of financing services to small and medium-sized enterprises. The Bank raises the funds it needs to operate its business by collecting deposits from natural and legal persons.

PayRay Bank, UAB Group is made up of the Bank and its subsidiaries (hereinafter the "Group"). As at 31 December 2024, the Bank had the following directly controlled subsidiaries:

- PayRay SIA (main activities: factoring, provision of loans and lease to small and medium-sized enterprises).

As at 31 December 2024 and 2023, 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. The Bank has 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 parent company's financial statements are prepares in accordance with the Group's accounting policy and IFRS. Financial data of PayRay SIA is included in the consolidated financial statements prepared by the Group.

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 parent company's financial statements are prepares in accordance with the Group's accounting policy and IFRS. Although commercially inactive in 2023, financial data of PayRay Estonia OU is included in the consolidated financial statements prepared by the Group. The Company was removed from the register on 22 March 2024.

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 practice" as both parties had the same sole shareholder.

As at 31 December 2023, the sole shareholder of the Bank was 2404 S.A. holding 100% of shares in the Bank. On 13 September 2022, the Board of the Bank of Lithuania adopted a decision in which the sole shareholder's voting rights were temporarily suspended. As a result of the enforcement measure, the shareholder was unable to approve the Group's and the Bank's financial statements for the year ended 31 December 2022.

As at 31 December 2024, the average number of the Group's employees was 69 (as at 31 December 2023, 67); the Banks - 67 employees (as at 31 December 2023, 63).

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

The Group's and the Bank's management prepared the Group's consolidated financial statements and the Bank's separate financial statements on 28 April 2025.

Basis of consolidation

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

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

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

2. Basis of preparation

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

Financial statements are presented in euros. All amounts have been rounded to the nearest thousand (EUR thousand), unless otherwise stated. Due to rounding of certain amounts to thousand, figures in the tables may differ. Such rounding errors are immaterial in these financial statements.

3. Significant accounting judgements and estimates

The preparation of the Group's and the Bank's 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 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.

Significant judgements and estimates that, in the management's opinion, have the most significant effect on the financial statements were made in these areas:

- Impairment of financial assets due to credit risk (section "Financial Assets"). Significant management judgements were made in assessing the significant increase in credit risk since initial recognition and in incorporating forward-looking information into the ECL estimate. In 2023, the Group also made fundamental changes to the methodology for estimating expected credit losses, taking into account the existing collateral of the financial instrument, clearly defined estimates of recovery rates for types of collateral, and changing the probability of loss from probability of bankruptcy to probability of default. The value of collateral relative to the financial asset used to calculate expected credit losses was also adjusted to take into account the assessment of forward-looking information, i.e. forecast market expectations and potential price adjustments in the market.
- *Accounting policies of factoring transactions* (section "Financial Assets"). In 2023, the Group made changes to the accounting policy of factoring transactions to provide more accurate and up-to-date information about factoring transactions in the financial statements. In 2022, the Group accounted for factoring transactions by disclosing the value of receivables acquired under assets and the value of prepayments to customers under liabilities. Following a change in the accounting policy of factoring transactions in 2023, the Group accounted for factoring transactions under assets by disclosing the difference between the value of the receivables acquired and the value of prepayments to customers (i.e. the value financed).
- *Going concern* (section "Going concern"). The Group's and the Bank's 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 Group and the Bank will not be able to continue as going concern, and the Group's and the Bank's activities are not restricted. However, the financial statements of a group company PayRay SIA, whose financial data are included in the Group's consolidated financial statements, have been prepared on the assumption that the company's operations will be discontinued in 2024. The Group's management decided to transfer the financing portfolio to the Bank. The existing customers of PayRay SIA will continue to be serviced by the Bank, thereby continuing the financing activities in Latvia, but optimising the Group's operating costs.
- *The Group'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.* The Group's

management estimates that the Group 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 Group 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 Group does incur any financial or non-financial liability for defaulting borrowers. As the Group 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 Group's accounts and disclosed in the Group's financial statements, under assets or liabilities. In 2023, the consolidation of national promotional institutions was completed with the merger of Investment and Business Guarantees UAB (INVEGA) with the Public Investment Development Agency (VIPA), the State Investment Management Agency (SIDA) and the Agricultural Credit Guarantee Fund (ACGF). On 30 August 2024, the name of Investicijų ir Verslo Garantijos UAB (INVEGA) was changed and the company continued to perform its functions as ILTE UAB. Therefore, the Group's partner in respect of these loans is not ACGF or INVEGA, but ILTE.

– *Group'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 management estimates that the Group 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 Group 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 Group does incur any financial or non-financial liability for defaulting borrowers. As the Group 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 Group's accounts and disclosed in the Group's financial statements, under assets or liabilities. In 2023, the consolidation of national promotional institutions was completed with the merger of Investment and Business Guarantees UAB (INVEGA) with the Public Investment Development Agency (VIPA), the State Investment Management Agency (SIDA) and the Agricultural Credit Guarantee Fund (ACGF). On 30 August 2024, the name of Investicijų ir Verslo Garantijos UAB (INVEGA) was changed and the company continued to perform its functions as ILTE UAB. Therefore, the Group's partner in respect of these loans is not ACGF or INVEGA, but ILTE UAB (ILTE).

4. Summary of Significant Accounting Policies

In the process of handling its accounting records and preparing financial statements, the Group follows general accounting principles:

– *Group's principle.* In accordance with this principle, the Group shall be considered as a separate unit of accounting and the Group's financial statements shall reflect only its assets, equity and liabilities.
– Principle of going concern. Financial statements shall be prepared based on the assumption that the Group will continue its operations indefinitely and is not going to be liquidated or its operations shall not be suspended.
– *Principle of consistency.* In order to ensure that the data of the financial statements for one period can be compared with data from other periods, the accounting rules and methods should remain unchanged for a sufficiently long period. If certain accounting policies are changed during or after a reporting period, (i) comparative information about financial results that would have been achieved with previous accounting policies, and (ii) information on current financial results must be provided in the explanatory notes to the financial statements.
– *Principle of accrual.* Economic transactions and other events of the Group shall be recorded in accounting when they occur and shall be presented in financial statements of such periods, irrespective of the receipt or payment of cash. Financial statements drafted applying the accrual principle shall inform their users not only about the past events but also about obligations to pay or receive cash in the future.
– *Principle of periodicity.* The accounting activities of the Group are divided into financial years or other reporting periods and the financial statements are prepared for that reporting period. Financial

statements of the Group shall be prepared on the basis of data as 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 Group will earn the respective revenue. The accounting policies selected by the Group shall provide for the application of new methods of accounting without violating the principle of comparability of financial statements. All financial statements shall provide disclosures covering the current reporting year and at least one previous financial year (comparative information).
- *Principle of neutrality.* The accounting information of the Group shall be presented impartially. Presentation of accounting information should not affect the decisions taken by users of accounting information and should not result in predetermined outcome.
- *Principle of substance over form.* In recording transactions and other events of the Group, the economic substance should take precedence over formal requirements or legal form.

The principal accounting policies applied in the preparation of the Group's financial statements for 2024 are set out below.

Financial assets

Financial asset is any asset that is cash and cash equivalents, a contractual right to receive cash or another financial asset, and equity instruments of another companies.

- *Cash and cash equivalents.* Cash comprise cash on hand, cash balances held with the Bank of Lithuania and commercial banks, which can be used to finance the Group's day-to-day operations. Cash equivalents comprise money market instruments with original maturities of three months or less.
- *A contractual right to receive cash or another financial asset.* Contractual rights are represented by loans to customers (including finance lease), factoring receivables (recourse, limited recourse, non-recourse), securities issued by governments and accrued interest thereon.
- *Equity instruments of other entities.* Equity instruments comprise investments into subsidiaries.

<u>Recognition and initial measurement</u>

The Group recognises loans to customers (including finance lease), factoring receivables and prepayments at the grant date. Under this basis, financial assets are recorded when the Group receives cash or other financial assets, or obtains a contractual right to receive cash or any other financial assets. The Group recognises a financial asset in its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument, except for financial assets at amortised cost which is recognised at settlement date.

<u>Classification</u>

The management decides on the initial classification of the financial assets at the time of initial recognition. The Group's financial asset can be classified as measured at:

- Amortised cost
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVPL).

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the financial asset.

The business model reflects how the Bank and the Group manage the financial asset portfolios. Factors considered in determining the business model for a portfolio of financial assets include the evaluation and reporting of the financial asset's performance to management, the assessment and management of risk, compensation models, and the frequency, volume, cause and timing of sales.

The Group assesses the contractual terms of the financial asset to determine whether the contractual cash flows are solely payments of principal and interest (SPPI). This assessment takes into account whether contractual cash flows are consistent with a basic lending arrangement. The principal loan amount is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk, for other basic lending risks, as well as a profit margin. Where the risk or variability specified in contractual terms are not consistent with a basic lending arrangement, the related financial assets are not considered consisting of solely payments of principal and interest, and is measured at fair value.

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 financial asset 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 designated as at FVPL.

The sole objective of the Group's business model is to hold financial assets in order to collect contractual cash flows based on the management's judgement. The Group's business model remained unchanged during 2024.

Loans granted to customers, factoring receivables and Held-to-maturity securities issued by governments are classified as financial assets measured at amortised cost using the effective interest method. The value of financial assets is adjusted for transaction costs directly attributable to the acquisition of the financial asset.

Derecognition of financial assets.

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

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

The Group writes-off financial assets at amortised cost when it has no reasonable expectations of collecting of the loan from the debtor and it is not recoverable through the sale of collateral. A write-off constitutes a derecognition event and includes amounts arising from both a decrease in the gross value of the financial asset and a decrease in the allowance for credit losses.

Impairment of financial assets

The Group recognises loss allowances using the expected credit loss (ECL) model for the following financial instruments that are not measured at fair value through profit or loss and other comprehensive income:

- financial assets that are debt instruments (incl. factoring arrangements);
- cash and cash equivalents.

The Group measures loss allowances for credit losses at an amount equal to lifetime ECL, except for financial Instruments without significant increase in credit risk since initial recognition (Stage 1), for which loss allowances for credit losses is measured as 12- month ECL.

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'. The credit risk of Stage 1 financial instruments has not significantly increased since initial recognition and they are not credit-impaired.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument or maximum exposure period. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments". The credit risk of Stage 2 financial instruments has significantly increased since initial recognition, but they are not credit-impaired.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses:

- for financial assets are measured as the present value of all cash shortfalls, i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive;
- for undrawn loan commitments are measured as the present value of the difference between the contractual cash flows that are due to the Group's customer if the commitment is drawn down, and the cash flows that the Group expects to receive, if the commitment is drawn down.

Significant increase in credit risk (SICR)

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

In determining whether a significant increase in credit risk has occurred since initial recognition, the Group assesses the following criteria:

- when liabilities towards the Group are more than 30 days past due;
- when the customer's probability of default increases such that the client's credit grade is upgraded to a highest credit grade (10);
- when the pricing component of the credit risk assessment increases significantly;
- when the customer pledges additional collateral to the Group or agrees to other amendments to the agreement due to a significant increase in the customer's credit risk;
- when the Group decides to exercise enhanced monitoring over the customer;
- when the credit risk of the sector in which the Client operates increases significantly;
- when the likelihood of default by the customer increases significantly;
- when restructuring a loan to a customer in financial difficulty;
- when the customer enters bankruptcy proceedings;
- when tit is considered that the customer is unlikely to pay its credit obligations in accordance with Article 178 of the Regulation (EU) 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter the "Regulation"); and
- when, due to the borrower's financial difficulties, the terms of the loan are reviewed and relieved.

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.

Definition of default

The Group considers a customer to be in default when:

- the customer is past due more than 90 days on any material credit obligation to the Group;
- the Group considers that the customer is unlikely to pay its credit obligations in accordance with Article 178 of the Regulation.

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

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and

– based on data developed internally and obtained from external sources.

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

Probability of default and credit risk grades

The qualitative and quantitative factors are considered in defining probability of default. To determine the Client's probability of default, the Client's financial statements, auditor's reports, management reports, budgets and other information are periodically collected to assess the Client's:

– profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, changes in senior management and shareholders and other historical information;
– Data from credit reference agencies and the media;
– Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
– Insolvency records, including default, delay and various similar criteria related to the debtor's solvency ratios;
– Utilisation of the granted limit;
– Requests for and granting of forbearance;
– Existing and forecast changes in business, financial and economic conditions.

The Group allocates each exposure to a credit risk grade based on the exposure at default.

Description	Risk grade	PD from	PD to
Flawless	1	0.00%	0.14%
Excellent	2	0.15%	0.30%
Great	3	0.31%	0.62%
Very good	4	0.63%	1.24%
Good	5	1.25%	2.49%
Average risk	6	2.50%	3.74%
Higher than average risk	7	3.75%	4.99%
Increased risk	8	5.00%	7.49%
High risk	9	7.50%	9.99%
Highest risk	10	10.00%	99.99%
In default	11	100.00%	100.00%

Credit risk grade is 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 1 and 2 is smaller than the difference between credit risk grades 7 and 8.

Each exposure is allocated to a credit risk grade on initial recognition based on the information obtained about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired (referred to as 'Stage 3 financial assets'). In the event of a customer default (as defined above), the Group classifies the financial asset as credit impaired (customer's financial asset is moved to Stage 3).

A financial instrument that has been renegotiated as a result of a deterioration in the debtor's financial position is considered to be credit-impaired when non-viable forbearance measures are applied, or when a performing forborne financial instrument is more than 30 days past due, or that was previously classified as a non-viable forborne financial instrument that has recovered and classified as a performing forborne financial instrument.

Incorporation of forward-looking information

The Group incorporates forward-looking information both in assessing whether the credit risk of an exposure has increased significantly since initial recognition (through its impact on the probability of default), and in assessing the realisable value of the collateral in the future based on economic forecasts.

Because of homogeneous nature of Group's loans portfolio, it is reasonable to assume that without undue cost and effort it is practicable to focus on three selected forward-looking macroeconomic indicators when measuring the SICR on a portfolio level. Therefore, on a portfolio level, forecast changes in Lithuania's and Latvia's gross domestic product (GDP), unemployment and inflation rate are well-balanced indicators that can be used to signal increases in credit risk for all credit exposures in the portfolio. The forecast changes in GDP and unemployment rate are used to determine the probability of default. The forecast changes in GDP, unemployment and inflation rate to determine the realisable value of the collateral in the future.

The table below shows the portion of the effect of forward-looking information on 12-month PDs for different categories of the Group's clients.

Customer category	Portion, %
Lithuania's legal entities and farmers	27.32
Lithuania's legal entities operating in transport sector	42.15
Latvia's legal entities and farmers	27.39

Forborne financial assets

Forborne financial assets are financial assets whose contractual terms and conditions have been modified to reflect the customer's current or imminent financial difficulties. The purpose of the forbearance measure is to enable the borrower to make full payments again or to avoid foreclosure, or when this is not considered possible, to maximise the repayment of outstanding loans.

Changes in contractual terms include various forms of concessions such as amortisation suspensions, reductions in interest rates to below market rates, forgiveness of all or part of the loan, or issuance of new loans to pay overdue amounts or to avoid a default. Depending on when the forbearance measures are taken and the severity of the financial difficulties of the borrower, the forborne loan could either be treated as a performing forborne loan or a non-performing forborne loan.

Presentation of allowance for ECL in the statement of financial position

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

- Expected credit losses on financial assets carried at amortized cost are recorded in the allowance accounts and form an integral part of the carrying amount of those assets in the statement of financial position. Provisions reduce the total carrying amount of the asset.
- Expected credit losses on loan commitments are presented as provisions, i. y. liabilities in the statement of financial position.
- the change in the allowances for ECLs and the change in the provision for ECLs on loan commitments is recognised in the statement of profit or loss and other comprehensive income under "Allowance for expected credit losses".

<u>Change in methodology for making accounting estimate</u>

The Group carried out a review of its credit risk management framework for 2023 and made the following changes to the assessment of expected credit losses.

Estimating the probability of default

In 2023, the Group introduced an updated method for estimating the probability of default, which assesses the probability that the payment to the Group will be more than 90 days past due. In the past, the Group has used data of the probability of bankruptcy to assess the probability of default. The updated methodology for estimating the probability of default is based on three models for estimating the probability of default of specific financial assets: standard business customers, farmers and special purpose vehicles (mostly real estate financing transactions).

The probability of default methodology provides for a process that takes into account customers' events of defaults with respect to financial institutions (more than 90 days past due), assesses the most recent annual or quarterly financial statements, performs a customer's cash flow analysis by assessing the customer's obligations under the new financing agreement, assesses significant loan repayments after 12 months, evaluates the macro-economic forecasts under two macro-economic scenarios, and other credit risk criteria.

Assessing the recoverable amount of the exposure for the purpose of estimating expected losses

In 2023, the Group added the assessment of the recoverable amount of the exposure as a component that reduces the value of the exposure at default to the methodology for estimating expected credit losses, and therefore the updated methodology no longer uses the LGD indicator, which estimates the amount of the loss that the Group would incur in the event of a customer's default.

In assessing the recoverable amount of the exposure, the Group considers the cash flows expected from collateral and the historical recoverable cash flows, if the collateral is not realised. In cases where the Group estimates that the cash flows from the collateral will be less than the historical recoverable cash flows, if the collateral is not realised, the Group applies the latter estimate.

The Group uses the following collaterals to determine the recoverable amount of the exposure:

- Residential immovable property
- Non-residential immovable property
- Movable property
- State guarantees
- Security deposits
- Sureties, guarantees of natural and legal persons
- In factoring – financed invoices

For these collaterals, the Group, using expert judgement, makes estimates of the amount of the assets to be recovered, which are reviewed periodically based on the Group's historical data.

Criteria for assessing a significant increase in credit risk

In 2023, the Group updated the criteria for assessing a significant increase in credit risk, which are described in the sub-section "Significant increase in credit risk".

Estimating ECLs for Stage 2 financial assets

In estimating the lifetime ECLs for Stage 2 financial assets, the Group calculates and aggregates probability-weighted expected credit losses for different scenarios based on the timing of the event of default. In determining the amount of ECLs for each scenario, the Group assesses the probability of the scenario in terms of the customer's probability of default, the value of the exposure in the event of default and the recoverable amount of the exposure, and discounts ECLs to reflect the effect of time. The expected credit losses for each scenario are weighted by the probability of the scenario occurring, and then aggregated to calculate the total ECLs for the financial asset.

Financial liabilities

Recognition and initial measurement

The Group recognises a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument. Financial liabilities are recorded when the Group assumes a legal obligation to pay cash or settle other financial assets under an existing contract. Borrowings are recognized on the day of settlement. Forecast transactions, guarantees and warranties issued but not yet enforced shall not be recognised as liabilities of the enterprise until they meet the definition of a financial liability.

Financial liabilities are initially recognised at fair value. When financial liabilities are measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability are recognised in profit or loss and other comprehensive income. For other financial liabilities, the direct transaction costs is recognised as a reduction in fair value.

Classification

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for:

- financial assets at fair value through profit or loss and other comprehensive income. Such liabilities, including derivatives, are subsequently measured at fair value;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts;

- commitments to provide a loan at a below-market interest rate;
- contingent consideration recognised by an acquirer in a business combination.

As at the reporting date, the Group had no such liabilities.

Financial liabilities that are not designated as financial liabilities at amortised cost shall be classified as financial liabilities at fair value through profit or loss.

Derecognition of financial liability

A financial liability is derecognised by the Group when the obligation specified in the contract is discharged or cancelled or expires.

Property, plant and equipment

The Group recognises property, plant and equipment if the following criteria are met:

- *Control.* The Group controls the item of property, plant and equipment. Control means the power to obtain future economic benefits related to the asset.
- *Future economic benefits.* It is probable that the Group will obtain future economic benefits associated with the asset. This probability is assessed based on factors such as the expected use of the asset, market demand and the Group's ability to generate future cash flows.
- *Reliability of cost estimation.* The cost of the asset can be measured reliably and exceeds the minimum cost of property, plant and equipment set by the Group, i.e. EUR 500. The cost comprises all the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- *Intention to use.* The assets are intended to be used by the Group for more than one year. If an asset is acquired for future use or development, it is not recognised as an item of property, plant and equipment until it is brought into use.

Property, plant and equipment is measured at cost, less accumulated depreciation and impairment loss. Assets are depreciated on a straight-line basis over their estimated useful lives set by the Group:

Category of assets	Depreciation method	Rate (in years)
Furniture	linear	6
Computers and communication equipment	linear	3
Assets other than listed above	linear	4

Intangible assets

The Group recognises an intangible asset if:

- *The asset is identifiable.* An intangible asset is identifiable when it:
  - is separable, i.e. is capable of being separated or divided from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability (regardless of whether the Group intends to do so); or
  - arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.
- *The Group controls resources.* The Group controls an asset if the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.
- *The Group expects future economic benefits from intangible assets.* This may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset.

An asset meets the above definition of an intangible asset recognised if, and only if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group (probability recognition criterion); and
- the cost of the asset can be measured reliably.

The Group applies the following criteria in recognising intangible assets:

- The Group applies a minimum capitalisation threshold of EUR 500 for the recognition of intangible assets, which means that intangible assets below this threshold must be expensed.
- The Group does not recognise intangible assets arising from Software-as-a-Service contracts.

Subsequent expenditure on intangible assets is recognised as an expense in the period in which it is incurred, unless:

- such expenditure can be measured reliably;
- assigned to a specific item; and
- it can be reliably estimated that subsequent expenditure is likely to increase the economic benefits of the asset.

Intangible assets are stated at cost, less accumulated amortization and impairment losses. Assets are amortised on a straight-line basis over their estimated useful lives set by the Group:

Category of assets	Amortization method	Rate (in years)
Computer software	linear	3
Core banking software	linear	5
Acquired rights	linear	3
Other intangible assets	linear	4

Lease

<u>Group is a lessor</u>

Lessor classifies leases as either operating or finance leases. In a finance lease, a lessor transfers substantially all the risks and rewards incidental to ownership of an asset to a lessee. In an operating lease, a lessor retains risks and rewards incidental to ownership of an asset.

The Group's, as a lessor's, leasing activities consist of finance lease, which is recognised in the balance sheet as loans receivable under "Loans to customers and factoring receivables". The carrying amount is equal to the net investment in the lease and is calculated as present value of future lease payments. Lease payments received are recognised partly as interest income in the in the statement of profit or loss and other comprehensive income and partly as instalments on the lease receivable, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease

<u>Group as a lessee</u>

Where the Group is a lessee, right-of-use assets and lease liabilities are recognised in the balance sheet for premises and car contracts that are classified as leases. The Group's right-of-use assets are accounted for under "Right-of-use assets" and lease liabilities are accounted for under "Lease liabilities". Depreciation and interest expenses of right-of-use assets relating to lease liabilities are recognised in the statement of profit or loss and other comprehensive income. The Group applies the short-term and low-value lease exemptions. Lease payments are recognised as expenses on a straight-line basis over the lease term and are recorded under "Administrative expenses".

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. Over time, the liability increases due to accrued interest and decreases due to lease payments. At the commencement date, the right-of-use asset is measured at cost, i.e. the same amount of the initial measurement of the lease liability, plus any other expenses (e.g. lease payments made at or before the commencement date). Subsequently, the right-of-use assets are depreciated over the lease period. The lease payments are discounted using the interest rate implicit in the lease.

After the commencement date, the carrying amount is remeasured to reflect any reassessment or lease modifications. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset. The Group recognises in profit or loss and other comprehensive income any gain or loss relating to the partial or full termination of the lease.

Income

The Group's revenue is made up of three main sources:

- *Interest income calculated using effective interest method.* Interest income includes interest, commissions, commitment and contract fees on loans, leasing and factoring contracts, and interest on deposits with the Bank of Lithuania, commercial banks and interest on government bonds (see section "Financial assets");
- *Commission income*, which includes contract fees from transactions in which the Group acts as an agent, default interest on loans, lease and factoring transactions.
- *Other operating income*, which include IT, risk management, financial, HR, legal, marketing and other services to other Group companies, as well as preparation of statements/certificates for third parties, etc.

Interest income on all interest-bearing financial instruments is recognised in the statement of profit or loss and other comprehensive income on accruals basis using the effective interest method. The effective interest 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 expected life of the financial instrument. The effective interest rate is the rate that exactly discounts estimated future cash flows over the expected life of the financial instrument or, if needed shorter period to the gross carrying amount of the financial asset.

Interest income on financial assets is calculated by applying the effective interest rate to the gross carrying amount, with two exceptions. Where financial assets measured at amortised cost have become credit-impaired subsequent to initial recognition (Stage 3 financial assets), interest income is calculated by applying the effective interest rate to the amortised cost, which is the gross carrying amount less credit loss allowance. If such financial assets are no longer credit-impaired, the calculation of interest income reverts back to the gross carrying amount basis. Where financial assets measured at amortised cost are credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost until the financial asset is derecognised from the balance sheet. The credit-adjusted effective interest rate is calculated based on the amortised cost of the financial asset rather than the gross carrying amount, and incorporates the impact of ECL in estimated future cash flows.

The calculation includes transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include additional costs that are directly attributable to the acquisition or issue of the financial asset.

Commission income from transactions in which the Group acts as an agent, and *Other operating income* are recognized in accordance with IFRS 15 Revenue from Contracts with Customers. Revenue is recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenue is considered earned when the following criteria are met:

- *Transfer of the control.* The Group transferred the control of goods and services to a buyer.
- *Determination of a transaction price.* The transaction price is determined based on the variable component of consideration and the time value of money.
- *Collectability.* It is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services.

When recognizing revenue under contracts with customers, the Group applies the following five-step revenue recognition model:

- *Identifying the contract with the customer.*
- *Identifying each party's performance obligations regarding the goods or services.*
- *Identifying transaction price for the goods or services to be transferred.*
- *Allocating the transaction price to performance obligations for the goods or services to be transferred.*
- *Recognising revenue when performance obligations regarding the goods or services are satisfied.*

Expenses

Expenses are classified in the following categories:

- interest expense on deposits from natural and legal persons (see section "Financial liabilities");

- deposit commission fee expenses (see section “Financial liabilities”);
- administrative expenses, including wages and salaries, IT services, legal services and other expenses;
- depreciation and amortisation charges (see sections “Intangible assets” and “Property, plant and equipment”);
- finance expense, including interest expense in accordance with IFRS 16 (see section “Lease”).

The Group recognises expenses on an accrual and matching basis in the reporting period in which they are incurred and in which the related revenue is earned, irrespective of the timing of related settlements. Expenses that are not related to income earned during the reporting period, but are expected to generate future economic benefits, are presented in the 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.

Interest expense on financial liabilities at amortized cost are recognized in the statement of profit or loss and other comprehensive income using the effective interest method.

Transactions in foreign currencies

Non-monetary assets and liabilities denominated in foreign currencies are recorded at the official rate published by the European Central Bank at the end of the reporting period. The resulting foreign exchange differences are recognised in profit or loss or other comprehensive income. All non-monetary assets and liabilities are translated using the exchange rate prevailing at the date of the transaction.

Foreign currency transactions settled during the reporting period are translated into euro at the official exchange rate published by the European Central Bank at the date of the transaction. The resulting foreign exchange differences are recognised in profit or loss and other comprehensive income for the year.

Employee benefits

Short-term employee benefits are recognised as expenses in the period when employees render the services to the Group. The payments include salaries, social security contributions, bonuses, paid leave, etc.

Termination benefits are payable whenever an employee’s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

The Group recognises vacation accruals, which are calculated on an individual basis for each employee as unused days of annual paid leave multiplied by the employee’s average daily wage. Unused days of annual paid leave and average wage are calculated in accordance with the legislation applicable to the employment contract.

The Group does not recognize pension accruals as the estimated amount thereof is immaterial.

Taxes

The Group’s taxes consist of current and deferred tax.

Current tax is the amount of income taxes payable in respect of the taxable profit (tax loss) for a period, using the tax laws and rates that have been enacted at the reporting date and any adjustments of taxes of prior periods. Taxable profit differs from profit recorded in the statement of profit or loss since it does not encompass items of revenue or expenses that are subject to tax or deductible for income tax purposes in the next year and also does not encompass items that are never subject to tax or never deductible for income tax purposes.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised in the tax jurisdiction concerned. Deferred tax asset is recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available.

Corporate income tax in the Republic of Lithuania

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

Corporate income tax in the Republic of Latvia

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

The Group applied the exemption to not disclose the information about deferred tax assets and liabilities related to the Pillar Two income taxes in its financial statements.

Going concern assumption.

Management is responsible for assessing the ability of the Group companies and the Group as a whole to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Group's company or to cease operations, or has no realistic alternative but to do so.

When assessing the ability of the Group companies and the Group as a whole to continue as a going concern, the Group's management looks out at least 12 months from the end of the reporting period. In making the assessment, the Group considers at least these factors:

- historical and projected financial results;
- liquidity and solvency situation;
- lending arrangements;
- industry and market conditions;
- nature of assets and liabilities;
- availability of funding;
- the management's plans and strategy;
- business continuity plans;
- compliance with laws and regulations;
- effect of significant events;
- support from stakeholders.

5. Application of new and amended International Financial Reporting Standards

(a) Standards, their amendments and interpretations effective for annual periods beginning on or after 1 January 2024.

During the reporting period, the Group and 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 2024.

- IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments) The amendment applies to annual reporting periods beginning on or after 1 January 2024. Amendments did not have a significant impact on the Group's and the Bank's financial statements.
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current (Amendments) The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and will need to be applied retrospectively in accordance with IAS 8. Amendments did not have a significant impact on the Group's and the Bank's financial statements, however, management made the required

disclosures in the Group's and the Bank's financial statements to comply with the amendments to IAS 1 Presentation of Financial Statements.

- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements (not endorsed by the EU) The amendment applies to annual reporting periods beginning on or after 1 January 2024. Amendments did not have a significant impact on the Group's and the Bank's financial statements.
- Amendments to IAS 1: Non-current Liabilities with Covenants The amendment applies to annual reporting periods beginning on or after 1 January 2024. Amendments did not have a significant impact on the Group's and the Bank's financial statements.

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

Standards and amendments to the existing standards issued but not yet effective and not early adopted by the Group and the Bank.

- Amendments to IFRS 9 and IFRS 7: Amendments to the Classification and Measurement of Financial Instruments The management assessed that these amendments will not have significant impact on the Group's and the Bank's financial statements.
- IFRS 18 Presentation and Disclosure in Financial Statements The management assessed that these amendments will not have significant impact on the Group's and the Bank's financial statements.
- IFRS 19 Subsidiaries without Public Accountability: Disclosures The management assessed that these amendments will not have significant impact on the Group's and the Bank's financial statements.
- Amendments to IAS 21: Lack of Exchangeability The management assessed that these amendments will not have significant impact on the Group's and the Bank's financial statements.

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

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Income:				
Interest income calculated using effective interest method	**14,133**	**14,056**	**16,652**	**16,187**
Loan interest income	*8,090*	*8,055*	*10,476*	*10,127*
Factoring interest Income	*2,428*	*2,428*	*2,975*	*2,969*
Lease interest income	*1,522*	*1,512*	*1,873*	*1,815*
Securities interest income	*505*	*505*	*374*	*374*
Deposit interest income	*540*	*540*	*141*	*141*
Default interest income	*399*	*389*	*273*	*231*
Adjustment to interest and commissions income on Stage 3 financial assets	*(81)*	*(101)*	*-*	*-*
Adjustment to the effective interest rate:				
Contract fee income	*663*	*661*	*446*	*436*
Commission income	*67*	*67*	*94*	*94*
Interest expenses	**(5,826)**	**(5,826)**	**(5,694)**	**(5,694)**
Interest expense on customer deposits	*(5,026)*	*(5,026)*	*(4,433)*	*(4,433)*
Adjustment to the effective interest rate:				
Customer deposit platform's transaction expenses	*(427)*	*(427)*	*(707)*	*(707)*
Interest expense on guarantees on the financing portfolio	*(373)*	*(373)*	*(554)*	*(554)*
Total income	**8,307**	**8,230**	**10,958**	**10,493**

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Commission income and expense:				
Commission income	**33**	**31**	**30**	**29**
Other commission income	*33*	*31*	*30*	*29*
Commission expenses	**(8)**	**(8)**	**(10)**	**(10)**
Total commission income and expense	**25**	**23**	**20**	**19**

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Other operating income and expenses:				
Other operating income	**4**	**136**	**42**	**240**
Certificate preparation, debt collection and other income	-	-	*36*	*24*
Income from related parties	-	*133*	-	*210*
Gain on disposal of non-current assets	-	-	*6*	*6*
Gain on interest on court judgements	*4*	*3*	-	-
Other operating expenses	**(92)**	**(92)**	**(106)**	**(102)**
Factoring insurance for receivables	*(92)*	*(92)*	*(106)*	*(102)*
Total operating income and expense	**(88)**	**44**	**(64)**	**138**

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

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Wages and salaries:				
Payroll expenses	4,143	4,034	4,087	3,896
Social security contributions	91	62	291	240
Vacation accruals	88	76	86	71
Remuneration to members of the Supervisory Board	158	158	174	174
Total personnel expenses	**4,480**	**4,330**	**4,638**	**4,381**

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets:				
Depreciation of property, plant and equipment	98	98	137	97
Depreciation of right-of-use assets	123	123	144	144
Amortization of intangible assets	98	98	112	112
Impairment of property, plant and equipments (-)	-	-	(19)	-
Total depreciation of property, plant and equipment and amortization of intangible assets	**319**	**319**	**374**	**353**

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Administrative expenses:				
Information technology expenses	913	913	1,272	1,272
Consultation, professional service expenses	460	423	392	331
Non-deductible VAT	458	401	425	381
Deposit insurance	232	232	195	195
Other expenses	218	262	223	249
Fines, default interest, contract termination charges	213	213	74	72
Legal services	207	194	163	156
Employee and office insurance expenses	90	89	104	101
Audit expenses	60	62	40	32
Car operating expenses	53	53	52	52
Bank charges	53	53	49	49
Utilities	46	46	51	51
Regulation, association membership expenses	40	40	47	45
Training and business trip expenses	38	38	47	47
Telecommunication expenses	13	12	46	45
Marketing and representation expenses	10	10	18	18
Expenses of write-off of non-current assets	1	1	49	49
Total administrative expenses	**3,105**	**3,042**	**3,247**	**3,145**

8. Taxes

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Income tax expense:				
Current income tax	-	-	166	166
Adjustment to income tax of the previous year	(18)	(18)	-	-
Change in deferred tax	326	326	294	294
Total	**308**	**308**	**460**	**460**

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

Reconciliation of effective tax rate:

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Profit (loss) before tax	(2,187)	(2,389)	2,265	2,332
Income tax calculated using the statutory tax rate in Lithuania	(238)	(238)	366	366
Tax effect of:				
Non-deductible expenses	83	83	140	140
Non-taxable income	(63)	(63)	(46)	(46)
Total current income tax expenses	(218)	(218)	**460**	**460**
Adjustment to income tax of the previous year	(17)	(17)	-	-
Impairment of deferred tax assets	543	543	-	-
Income tax expenses recognised in the statement of profit or loss and other comprehensive income	**308**	**308**	**460**	**460**

Calculation of income tax is based on requirements of the Lithuanian regulatory legislation on taxation. As of 1 January 2020, an increased income tax rate of 20% applies to banks' taxable profits exceeding EUR 2 million (the standard corporate tax rate in Lithuania is 15%). As of 1 January 2025, the following new income tax rates came into effect: an increased income tax rate of 21% applies to banks' taxable profits exceeding EUR 2 million and the standard corporate tax rate of 16% in Lithuania.

Deferred tax assets and liabilities:

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Deferred tax assets at the beginning of the period	325	325	619	619
Increase (decrease) in deferred tax assets from tax loss	218	218	(294)	(294)
Impairment of deferred tax assets	(543)	(543)	-	-
Total deferred tax assets	**-**	**-**	**325**	**325**

In 2023, the Bank earned a taxable profit of EUR 2,799 thousand. In 2023, in calculating the income tax payable, the taxable profit was reduced by 70% of accumulated tax losses carry forward from prior periods. As the Group and the Bank did not pay any advance income tax in 2023, the Group and the Bank recorded the income tax payable at the end of 2023. In 2024, the Group and the Bank incurred tax losses, therefore did not incur any income tax expense for the 2024 tax period and did not record income tax payable as at 31 December 2024.

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Income tax payable	-	-	166	166
Total income tax payable	**-**	**-**	**166**	**166**
Income tax payable by term:				
Current (within 1 year)	-	-	166	166
Non-current (after 1 year)	-	-	-	-
Total income tax payable	**-**	**-**	**166**	**166**

9. Property, plant and equipment

Group

EUR thousand	**Furniture**	**Office equipment**	**Other equipment**	**Total assets**
Acquisition cost:				
Balance as at 1 January 2023	**105**	**224**	**40**	**369**
Increase over the year	-	10	-	10
Write-offs and disposals	(32)	-	(59)	(91)
Impairment of property, plant and equipments (-)	-	-	19	19
Balance as at 31 December 2023	**73**	**234**	**-**	**307**
Increase over the year	-	45	-	45
Write-offs and disposals	-	-	-	-
Impairment of property, plant and equipments (+)	-	-	-	-
Balance as at 31 December 2024	**73**	**279**	**-**	**352**
Accumulated depreciation:				
Balance as at 1 January 2023	**(39)**	**(16)**	**(19)**	**(73)**
Depreciation charge for the year	(17)	(80)	(21)	(118)
Write-offs and disposals	16	-	40	56
Balance as at 31 December 2023	**(39)**	**(96)**	**-**	**(135)**
Depreciation charge for the year	(13)	(85)	-	(98)
Write-offs and disposals	-	-	-	-
Balance as at 31 December 2024	**(52)**	**(181)**	**-**	**(233)**
Net book value as at 1 January 2023	**66**	**208**	**21**	**295**
Net book value as at 31 December 2023	**34**	**138**	**-**	**172**
Net book value as at 31 December 2024	**21**	**98**	**-**	**119**

Bank

EUR thousand	Furniture	Office equipment	Total assets
Acquisition cost:			
Balance as at 1 January 2023	**105**	**224**	**329**
Increase over the year	-	10	10
Write-offs and disposals	(32)	-	(32)
Balance as at 31 December 2023	**73**	**234**	**307**
Increase over the year	-	45	45
Write-offs and disposals	-	-	-
Balance as at 31 December 2024	**73**	**279**	**352**
Accumulated depreciation:			
Balance as at 1 January 2023	**(39)**	**(16)**	**(54)**
Depreciation charge for the year	(17)	(80)	(97)
Write-offs and disposals	16	-	16
Balance as at 31 December 2023	**(39)**	**(96)**	**(135)**
Depreciation charge for the year	(13)	(85)	(98)
Write-offs and disposals	-	-	-
Balance as at 31 December 2024	**(52)**	**(181)**	**(233)**
Net book value as at 1 January 2023	**66**	**208**	**275**
Net book value as at 31 December 2023	**34**	**138**	**172**
Net book value as at 31 December 2024	**21**	**98**	**119**

There were no property, plant and equipment pledged as at 31 December 2024.

There are no fully depreciated property, plant and equipment, which are still in use as at 31 December 2024.

10. Intangible assets

Group

EUR thousand	Computer software	Total intangible assets
Acquisition cost:		
Balance as at 1 January 2023	**773**	**773**
Additions	-	-
Write-offs	(59)	(59)
Balance as at 31 December 2023	**714**	**714**
Additions	-	-
Write-offs	-	-
Balance as at 31 December 2024	**714**	**714**
Accumulated amortisation:		
Balance as at 1 January 2023	**(409)**	**(409)**
Amortisation charge for the year	(112)	(112)
Write-offs	26	26
Balance as at 31 December 2023	**(495)**	**(495)**
Amortisation charge for the year	(97)	(97)
Write-offs	-	-
Balance as at 31 December 2024	**(592)**	**(592)**
Net book value as at 1 January 2023	**364**	**364**
Net book value as at 31 December 2023	**219**	**219**
Net book value as at 31 December 2024	**122**	**122**

Bank

EUR thousand	Computer software	Total intangible assets
Acquisition cost:		
Balance as at 1 January 2023	**773**	**773**
Additions	-	-
Write-offs	(59)	(59)
Balance as at 31 December 2023	**714**	**714**
Additions	-	-
Write-offs	-	-
Balance as at 31 December 2024	**714**	**714**
Accumulated amortisation:		
Balance as at 1 January 2023	**(409)**	**(409)**
Amortisation charge for the year	(112)	(112)
Write-offs	26	26
Balance as at 31 December 2023	**(495)**	**(495)**
Amortisation charge for the year	(97)	(97)
Write-offs	-	-
Balance as at 31 December 2024	**(592)**	**(592)**
Net book value as at 1 January 2023	**364**	**364**
Net book value as at 31 December 2023	**219**	**219**
Net book value as at 31 December 2024	**122**	**122**

The Group's and the Bank's intangible assets recognised in accounting are the PASS software used to administer factoring and leasing products. The title of to PASS was transferred to the Bank following the acquisition of the software development business of Optima Information Technology Srl. The business acquired in March 2022 included both the PASS software and contracts with a software development team of 13 specialized employees. As at 31 December 2024, the carrying amount of the PASS software was EUR 122 thousand, and the remaining useful life was 15 months.

The Group did not have any intangible assets pledged as at 31 December 2024.

11. Right-of-use assets

The Group has valid office premises, vehicles lease agreements.

Right-of-use assets

Group

EUR thousand	Office premises	Vehicles	Total
Balance as at 1 January 2023	**233**	**76**	**309**
Increase over the year	143	-	143
Depreciation charge for the year	(115)	(28)	(143)
Change due to contract termination	7	(7)	-
Net book value as at 31 December 2023	**267**	**41**	**308**
Increase over the year	14	43	57
Depreciation charge for the year	(94)	(30)	(124)
Change due to contract termination	-	-	-
Net book value as at 31 December 2024	**187**	**54**	**241**

Bank

EUR thousand	Office premises	Vehicles	Total
Balance as at 1 January 2023	**233**	**76**	**309**
Increase over the year	143	-	143
Depreciation charge for the year	(115)	(28)	(143)
Change due to contract termination	7	(7)	-
Net book value as at 31 December 2023	**267**	**41**	**308**
Increase over the year	14	43	57
Depreciation charge for the year	(94)	(30)	(124)
Change due to contract termination	-	-	-
Net book value as at 31 December 2024	**187**	**54**	**241**

Lease liabilities

Group

EUR thousand	**Office premises**	**Vehicles**	**Total**
As at 1 January 2023	**234**	**78**	**311**
Payments	(112)	(27)	(139)
Change due to contract termination	148	(7)	141
As at 31 December 2023	**269**	**44**	**313**
Increase over the year	14	42	56
Payments	(91)	(30)	(121)
Change due to contract termination	-	-	-
As at 31 December 2024	**192**	**56**	**248**

Bank

EUR thousand	**Office premises**	**Vehicles**	**Total**
As at 1 January 2023	**234**	**78**	**311**
Payments	(112)	(27)	(139)
Change in right-of-use assets	148	(7)	141
As at 31 December 2023	**269**	**44**	**313**
Increase over the year	14	42	56
Payments	(91)	(30)	(121)
Change in right-of-use assets	-	-	-
As at 31 December 2024	**192**	**56**	**248**

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

	2024		**2023**	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Interest expense on lease liabilities:				
Lease of office premises	(8)	(8)	(9)	(9)
Vehicle lease interest expenses	(2)	(2)	(1)	(1)
Total interest expense on lease liabilities	**(10)**	**(10)**	**(10)**	**(10)**

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

	2024		**2023**	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Future lease payments by term:				
Current (within 1 year)	120	120	106	106
Non-current (from 1 to 5 years)	128	128	207	207
Total	**248**	**248**	**313**	**313**

The Group's and the Bank's long-term lease payments include fixed lease payments. Lease payments for office space are indexed annually at the rate specified in the lease agreement. Both office and vehicle leases include extension option. Vehicle leases can be terminated by giving 1 month's notice, lease of office space - 6 months' notice. The Group's management believes that there are no significant risks arising from the residual value of the right-of-use assets at the end of the lease term.

12. Loans to customers and factoring receivables

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Loans to customers:				
Loans granted to customers	62,857	62,466	98,028	95,357
Accrued interest on loan	687	678	682	651
Loss allowance for loans granted (-)	(2,752)	(2,432)	(1,510)	(1,176)
Loans to related parties	-	596	-	2,848
Accrued interest on loans to related parties	-	94	-	54
Loss allowance for loans to related parties (-)	-	(690)	-	(352)
Lease receivables	12,939	12,918	18,267	17,926
Accrued interest on lease	365	363	122	120
Loss allowance for lease (-)	(684)	(683)	(454)	(434)
Total	**73,412**	**73,310**	**115,135**	**114,994**
Contract fee income	(202)	(202)	(314)	(314)
Total of loans granted to clients	**73,210**	**73,108**	**114,821**	**114,680**
Factoring receivables				
Receivables under factoring arrangements	13,903	13,876	34,111	34,084
Loss allowance for factoring receivables (-)	(1,313)	(1,278)	(184)	(149)
Accrued interest income under factoring arrangements	363	355	456	449
Total factoring receivables	**12,953**	**12,953**	**34,383**	**34,384**
Total loans to customers and factoring receivables	**86,163**	**86,061**	**149,204**	**149,064**

13. Securities issued by governments

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Securities issued by governments:				
Securities issued by governments	22,729	22,729	37,287	37,287
Accrued interest on securities issued by governments	257	257	292	292
Loss allowance for securities issued by governments	-	-	-	-
Total securities issued by governments	**22,986**	**22,986**	**37,579**	**37,579**

In 2023, the Group changed accounting policy and the assumptions used in accounting for impairment of financial assets. The changes to the measurement of expected credit losses are described in more detail in Note 4.

A summary of the government securities held by the Bank and the Group as at 31 December 2024 is presented below.

EUR thousand

ISIN	Buy-out date	Coupon rate	Country	Nominal value	Carrying amount
XS1295778275	As at 23 September 2025	1.375%	LV	3,000	3,026
XS2168038417	As at 6 May 2025	0.250%	LT	7,000	6,993
XS2114767457	As at 10 February 2025	0.000%	PL	5,000	4,995
SI0002104246	As at 13 February 2026	0.000%	SI	5,000	4,964
LT0000630097	As at 4 August 2025	1.300%	LT	3,000	3,008
Total					**22 986**

A summary of the government securities held by the Bank and the Group as at 31 December 2023 is presented below.

EUR thousand

ISIN	Buy-out date	Coupon rate	Country	Nominal value	Carrying amount
XS1295778275	As at 23 September 2025	1.38%	LV	3,000	3,045
XS2168038417	As at 6 May 2025	0.25%	LT	7,000	6,953
XS2114767457	As at 10 February 2025	0.00%	PL	5,000	4,963
SI0002104246	As at 13 February 2026	0.00%	SI	5,000	4,934
LT0000630097	As at 4 August 2025	1.30%	LT	3,000	3,012
FI4000560958	As at 13 August 2024	0.00%	FI	4,000	3,909
FR0127921312	As at 10 July 2024	0.00%	FR	4,000	3,923
DE000BU0E089	As at 21 August 2024	0.00%	DE	7,000	6,840
Total					**37,579**

14. Investments into subsidiaries

As at 31 December, the Bank's investments consisted of the following:

EUR thousand	**2024**	**2023**
Carrying amount of investments		
Investment into PayRay SIA	3,000	3,000
Impairment of investment into PayRay SIA (-)	(3,000)	(3,000)
Investment into PayRay OU	-	3
Impairment of investment into PayRay OU (-)	-	(3)
Total investments in subsidiaries	**-**	**-**

Bank investments into subsidiaries:

Name of the subsidiary	Country of location	Share of issued capital as at 31 December 2024
PayRay SIA	Latvia	100%

15. Trade and other receivables

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Advance solidarity contribution	74	74	181	181
VAT receivable	47	47	-	-
Security deposit for lease	42	42	40	40
Other receivables	41	47	15	16
Accrued prepaid VAT	-	-	528	528
Total	**204**	**210**	**764**	**765**

16. Other assets

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Other assets:				
Deferred expenses	93	92	180	178
Other accrued income	1	135	6	216
Repossessed assets held-for-sale	225	225	-	-
Carrying amount of repossessed assets held-for-sale	336	336	-	-
Impairment of repossessed assets held-for-sale	(111)	(111)	-	-
Total other assets	**319**	**452**	**186**	**394**

As at 31 December 2023, the Group disclosed VAT payable under “Payables” (see Note 20), separately from accrued prepaid VAT disclosed under “Other assets”, i.e. did not offset VAT payable against accrued prepaid VAT.

17. Cash and cash equivalents

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Balances with the central bank	10,441	10,441	13,882	13,882
Balances with commercial banks	12,734	10,235	11,530	9,030
3-month term deposit in commercial bank	5,513	5,513	3,000	3,000
Loss allowance for balances and term deposits in banks (-)	(2,489)	(8)	(2,507)	(11)
Total cash and cash equivalents	**26,199**	**26,181**	**25,905**	**25,901**

The cash and cash equivalents of the Group are held with commercial banks that are rated at least Baa1 to Aaa based on Moody's Credit ratings. In 2022, part of the Group’s cash (EUR 2,494 thousand) were held with Baltic International Bank which operated in Latvia. In December 2022, the Board of the Financial and Capital Market Commission of the Republic of Latvia suspended the provision of financial services by Baltic International Bank and restricted the use customers’ funds held in the bank. As a result, the Group recognised an impairment allowance for the full amount of cash (EUR 2,494 thousand) held with Baltic International Bank.

At the end of 2024, funds collected from customers under the incentive financial instrument of ILTE and repaid to ILTE, amounted to EUR 843 thousand and, at the end of 2023, to EUR 1,196 thousand (see Note 20).

18. Issued capital and retained earnings (losses)

The issued capital of PayRay Bank, UAB as at 31 December 2024 and 2023 consisted of 36,424,791 ordinary registered shares with the par value of EUR 1 each (EUR 36,424,791). All shares issued are fully paid. A share shall not be divided into parts. All shares issued by PayRay Bank, UAB are uncertificated ordinary registered shares.

The issued capital of PayRay, SIA as at 31 December 2024 and 2023 consisted of 3,000,000 ordinary registered shares with the par value of EUR 1 each (EUR 3,000,000). All shares issued are fully paid. A share shall not be divided into parts. All shares issued by PayRay, SIA are uncertificated ordinary registered shares.

The issued capital of PayRay Estonia, OÜ as at 31 December 2023 consisted of 2,500 ordinary registered shares with the par value of EUR 1 each (EUR 2,500). All shares issued are fully paid. A share shall not be divided into parts. All shares issued by PayRay Estonia, OÜ are uncertificated ordinary registered shares. PayRay Estonia Ou was removed from the register on 22 March 2024.

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 2024, the Bank’s accrued loss totalled EUR 7,236 thousand (the Group’s – EUR 7,085 thousand), therefore no allocations to the legal reserve were made (2023: the Group’s and the Bank’s accrued loss tolled EUR 5,134 thousand and EUR 5,083 thousand, respectively).

Below is the draft of the profit (loss) appropriation project for the financial year ended 31 December 2024:

Name	Amount
(a) Profit (loss) brought forward from the previous reporting period at the end of the current reporting period	**(5,083)**
(b) Net profit (loss) for the reporting year	(2,697)
(c) Transfers from reserves	-
(d) Owners' contributions to cover the Bank's losses (if shareholders decided to cover total or partial loss)	-
(e) Total distributable profit (loss)	**(7,780)**
(f) Amount of the profit allocated to the legal reserve	-
(g) Amount of the profit allocated to the reserve for the acquisition of own share	-
(h) Amount of the profit allocated to the other reserves	-
(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	-
(j) Amount of profit allocated to annual payments (bonuses) to the members of the Board, bonuses to employees and other purposes	-
(k) Retained earnings (loss) carry forward to the next reporting period	**(7,780)**

19. Customer deposits

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Deposits from natural persons	101,915	101,915	172,176	172,176
Germany	*74,808*	*74,808*	*171,546*	*171,546*
Spain	*16,871*	*16,871*	*630*	*630*
Netherlands	*10,236*	*10,236*	-	-
Interest accrued on deposits from natural persons	2,868	2,868	3,796	3,796
Germany	2,413	2,413	*3,793*	*3,793*
Spain	*330*	*330*	*3*	*3*
Netherlands	*125*	*125*	-	-
Deposits from legal persons	1,000	1,000	2,990	2,990
Lithuania	*1,000*	*1,000*	*2,990*	*2,990*
Interest accrued on deposits from legal persons	20	20	32	32
Lithuania	*20*	*20*	*32*	*32*
Total	**105,803**	**105,803**	**178,994**	**178,994**
Transaction costs	(120)	(120)	(249)	(249)
Total customer deposits	**105,683**	**105,683**	**178,745**	**178,745**
Deposits by maturity:				
Short-term (less than 1 year)	99,002	99,002	151,339	151,339
Long-term (more than 1 year)	6,681	6,681	27,406	27,406
Total customer deposits	**105,683**	**105,683**	**178,745**	**178,745**

As at 31 December 2024, weighted average annual deposit interest rate was set at 3.31% (as at 31 December 2023, at 3.10%). 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.

20. Payables and other liabilities

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Payables:				
Factoring payables	86	86	464	464
Payables to ILTE	843	843	1,196	1,196
Other payables	3,351	3,349	1,141	1,137
Security deposits received	271	271	324	324
Employment-related liabilities	173	173	329	329
Vacation accrual	392	372	318	296
VAT payable	-	-	81	80
Total payables	**5,116**	**5,094**	**3,853**	**3,826**

Payables by maturity:				
Current (within 1 year)	4,925	4,903	3,633	3,606
Non-current (after 1 year)	191	191	220	220
Total payables	**5,116**	**5,094**	**3,853**	**3,826**

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Other liabilities:				
Accrued expenses:	148	235	197	240
Commissions	*75*	*75*	*123*	*123*
Consultations	*9*	*9*	*23*	*21*
Lease termination fee	-	-	-	-
Audit of financial statements	*61*	*61*	*38*	*32*
Personnel management services	-	-	*2*	*2*
Related party transactions	-	*88*	-	*52*
Other	*3*	*2*	*11*	*11*
Deferred income	69	69	96	96
Payables for repossessed assets	284	284	-	-
Total other liabilities	**501**	**588**	**293**	**337**
Other liabilities by maturity:				
Current (within 1 year)	451	538	219	263
Non-current (after 1 year)	50	50	74	74
Total other liabilities	**501**	**588**	**293**	**337**

21. Related party transactions

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

Entities of the same ultimate beneficial owners

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Purchases of goods and services				
Purchases of goods and services	5	93	7	58
Total	**5**	**93**	**7**	**58**

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Sales of goods and services				
Sales of goods and services	-	133	2	212
Interest income	-	40	-	124
Total	**-**	**173**	**2**	**336**

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

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Payables and accruals (purchases of goods and services)				
Entities of the same ultimate beneficial owners	-	88	-	52
Total	**-**	**88**	**-**	**52**

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Receivables and accruals (sale of goods and services)				
Entities of the same ultimate beneficial owners	-	141	2	214
Total	**-**	**141**	**2**	**214**

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Loans to subsidiaries				
Loans granted	-	596	-	2,848
Interest accrued	-	94	-	54
Total	**-**	**690**	**-**	**2,902**

Key management personnel

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

Remuneration to the key management personnel of the Group and the Bank. In 2024, the Group's management consisted of 20 executives (2023: 18), and the Bank's of 20 executives (2023: 18).

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Remuneration (incl. bonuses)	2,070	2,070	1,972	1,972
Total	**2,070**	**2,070**	**1,972**	**1,972**

22. Risk management

In its activities, the Group is exposed to the following key risks:

- Credit risk
- IRRBB
- Liquidity risk
- Operational risk
- Concentration risk
- Strategic, business and income risks
- ESG risk
- Credit spread risk

Risk management framework

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

The Group's risk management framework is designed to identify and analyse the significant risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group'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 Group's Internal Auditor oversees how management monitors compliance with the Group's risk management framework and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Capital management

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

During the reporting period, the Group complied with all prudential ratios, except for the large exposure requirement at the consolidated Financial Group level (PayRay Bank UAB, PayRay SIA, 2404 S.A.) and at the Bank level.

Capital ratios applicable to the Group and the Bank:

- Common Equity Tier I capital ratio – 8%,
- Tier I capital ratio 11.5% (a capital conservation buffer of +2.5% and countercyclical capital buffer requirement of 1.0% were set above the regulatory minimum capital requirement of 8%),
- Leverage ratio – 3.0%.
- Large exposure requirement – 25% of the Bank's Tier I capital.

Interest rate risk

The key source of interest rate risk at the Group is interest rate risk and revaluation risk. The risk arises due to mismatch between the repurchase and revaluation terms of assets and liabilities resulting from the change in yield curve or resulting from interest rate options which may have an effect on future cash flows or due to differing reactions of yield curves to changes in interest rates. For the calculation of IRRBB, the Group uses net interest income (NII) sensitivity and sensitivity of economic value of equity (EVE). The impact on the EVE in the Group was assessed against all six standard scenarios referred to in the EBA guidelines. The impact on the NII in the Group was assessed against two standard scenarios (increased interest rates (+ 2 pp) and decreased interest rates (- 2 pp)).

As at 31 December 2024, the analysis of changes in interest rate risk in the banking book was as follows:

Group

EUR thousand	Overnight	Less than 1 month	1–3 months	3–6 months	6 months – 1 year	**Total**
Increased interest rates (+ 2 pp)	220	273	123	531	(149)	**998**
Decreased interest rates (- 2 pp)	(221)	(324)	(206)	(604)	90	**(1,265)**

Bank

EUR thousand	Overnight	Less than 1 month	1–3 months	3–6 months	6 months – 1 year	**Total**
Increased interest rates (+ 2 pp)	244	273	123	531	(149)	**1,022**
Decreased interest rates (- 2 pp)	(246)	(324)	(206)	(604)	90	**(1,290)**

As at 31 December 2023, the analysis of changes in interest rate risk in the banking book was as follows:

Group

EUR thousand	Overnight	Less than 1 month	1–3 months	3–6 months	6 months – 1 year	**Total**
Increased interest rates (+ 2 pp)	107	419	248	1,018	(528)	**1,264**
Decreased interest rates (- 2 pp)	(107)	(421)	(248)	(1,079)	385	**(1,470)**

Bank

EUR thousand	Overnight	Less than 1 month	1–3 months	3–6 months	6 months – 1 year	**Total**
Increased interest rates (+ 2 pp)	458	349	37	760	(355)	**1,249**
Decreased interest rates (- 2 pp)	(458)	(349)	(37)	(760)	355	**(1,249)**

Credit risk

Credit risk is a risk that the Group will incur financial losses, if a debtor or other counterparty fails to fulfil its liabilities. Credit risk arises principally from the Group's loans, factoring and lease arrangements, cash balances in other banks and EU Member State bonds acquired. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure – e.g. the risk of default of an individual debtor and sector risk.

Credit risk management

The Group created the Loan Committee and Debt Management Committee for the oversight of credit risk. Chief Risk Officer (second line), reporting to the Board of the Group, is responsible for managing the Group's credit risk, including the following:

- limiting concentrations of exposure to counterparties, industries and by bond issuers;
- developing and maintaining the Group'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 Group's portfolios are provided to the Group's Board and Supervisory Council. These include reports containing estimates of ECL allowances.
- providing advice, guidance and specialist skills to the Group's employees to promote best practice throughout the Group in the management of credit risk.

Head of Credits (first line) is accountable to the Managing Directors 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 regulatory and statutory requirements;
- establishing the authorisation structure for the approval and renewal of credit facilities. All authorisation limits are allocated to the Loan Committee;
- reviewing and assessing credit risk: Head of Credits assesses all credit exposures before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process.
- The Group implemented an updated methodology for the determination of the credit ratings and the ranges of probability of default:

	Risk grade	PD from	PD to
Flawless	1	0.00%	0.14%
Excellent	2	0.15%	0.30%
Great	3	0.31%	0.62%
Very good	4	0.63%	1.24%
Good	5	1.25%	2.49%
Average	6	2.50%	3.74%
Moderate	7	3.75%	4.99%
Increased risks	8	5.00%	7.49%
High risks	9	7.50%	9.99%
Highest risks	10	10.00%	99.99%
In default	11	100.00%	100.00%

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 fees and commissions.

Net outstanding means gross amount due net of expected credit losses.

Carrying amount means net amount due.

Diversification of credit portfolio as at 31 December 2024:

Group

EUR thousand	Outstanding - net	Outstanding - net (%)
L. Real estate transactions	28,256	38.60%
G. Wholesale and retail trade	16,106	22.00%
A. Agriculture, forestry and fisheries	8,923	12.19%
N. Administrative and support activities	6,205	8.48%
H. Transport and storage	5,199	7.10%
C. Manufacturing	4,991	6.82%
F. Construction	1,571	2.15%
M. Professional, scientific and technical activities	759	1.04%
J. Information and communication	490	0.67%
D. Supply of electricity, gas, vapour and air conditioning	286	0.39%
S. Other services	153	0.21%
R. Arts, entertainment and recreation	151	0.19%
Q. Human health and social work activities	51	0.07%
I. Accommodation and food service activities	46	0.06%
P. Education	23	0.03%
	73,210	**100.00%**

Bank

EUR thousand	Outstanding - net	Outstanding - net (%)
L. Real estate transactions	28,256	38.65%
G. Wholesale and retail trade	16,106	22.03%
A. Agriculture, forestry and fisheries	8,843	12.10%
N. Administrative and support activities	6,205	8.49%
H. Transport and storage	5,199	7.11%
C. Manufacturing	4,969	6.80%
F. Construction	1,571	2.15%
M. Professional, scientific and technical activities	759	1.04%
J. Information and communication	490	0.67%
D. Supply of electricity, gas, vapour and air conditioning	286	0.39%
S. Other services	153	0.21%
R. Arts, entertainment and recreation	151	0.20%
Q. Human health and social work activities	51	0.07%
I. Accommodation and food service activities	46	0.06%
P. Education	23	0.03%
	73,108	**100.00%**

Diversification of credit portfolio as at 31 December 2024 (factoring receivables) was as follows:

Group

EUR thousand	Outstanding - net	Outstanding - net (%)
N. Administrative and support activities	4,285	33.08%
H. Transport and storage	3,578	27.62%
G. Wholesale and retail trade	3,290	25.40%
C. Manufacturing	1,055	8.14%
D. Supply of electricity, gas, vapour and air conditioning	595	4.59%
R. Arts, entertainment and recreation	59	0.46%
A. Agriculture, forestry and fisheries	47	0.37%
F. Construction	22	0.17%
M. Professional, scientific and technical activities	22	0.17%
	12,953	**100.00%**

Bank

EUR thousand	Outstanding - net	Outstanding - net (%)
N. Administrative and support activities	4,285	33.08%
H. Transport and storage	3,578	27.62%
G. Wholesale and retail trade	3,290	25.40%
C. Manufacturing	1,055	8.14%
D. Supply of electricity, gas, vapour and air conditioning	595	4.59%
R. Arts, entertainment and recreation	59	0.46%
A. Agriculture, forestry and fisheries	47	0.37%
F. Construction	22	0.17%
M. Professional, scientific and technical activities	22	0.17%
	12,953	**100.00%**

Diversification of credit portfolio as at 31 December 2023:

Group

EUR thousand	Outstanding - net	Outstanding - net (after the change in accounting policy), %
G. Wholesale and retail trade	28,648	24.95%
L. Real estate transactions	26,934	23.46%
C. Manufacturing	12,106	10.54%
A. Agriculture, forestry and fisheries	10,980	9.56%
H. Transport and storage	10,444	9.10%
F. Construction	7,758	6.76%
N. Administrative and support activities	7,660	6.67%
K. Financing and insurance activities	3,306	2.88%
D. Supply of electricity, gas, vapour and air conditioning	2,832	2.47%
M. Professional, scientific and technical activities	1,997	1.74%
J. Information and communication	850	0.74%
E. Water supply	443	0.39%
Q. Human health and social work activities	249	0.22%
S. Other services	223	0.19%
R. Arts, entertainment and recreation	209	0.17%
I. Accommodation and food service activities	114	0.10%
P. Education	68	0.06%
	114,821	**100.00%**

Bank

EUR thousand	Outstanding - net	Outstanding - net (%)
G. Wholesale and retail trade	28,472	24.83%
L. Real estate transactions	26,934	23.49%
C. Manufacturing	11,858	10.34%
H. Transport and storage	10,404	9.07%
A. Agriculture, forestry and fisheries	9,173	8.00%
F. Construction	7,675	6.69%
N. Administrative and support activities	7,451	6.50%
K. Financing and insurance activities	5,857	5.11%
D. Supply of electricity, gas, vapour and air conditioning	2,705	2.36%
M. Professional, scientific and technical activities	1,997	1.74%
J. Information and communication	850	0.74%
E. Water supply	443	0.39%
Q. Human health and social work activities	249	0.22%
S. Other services	223	0.19%
R. Arts, entertainment and recreation	208	0.17%
I. Accommodation and food service activities	114	0.10%
P. Education	68	0.06%
	114,681	**100.00%**

Diversification of credit portfolio as at 31 December 2023 (factoring receivables) was as follows:

Group

EUR thousand	Outstanding - net	Outstanding - net (%)
G. Wholesale and retail trade	13,521	39.32%
H. Transport and storage	10,153	29.53%
N. Administrative and support activities	5,692	16.55%
C. Manufacturing	2,663	7.75%
F. Construction	1,728	5.03%
D. Supply of electricity, gas, vapour and air conditioning	444	1.29%
M. Professional, scientific and technical activities	106	0.31%
	34,383	**100.00%**

Bank

EUR thousand	Outstanding - net	Outstanding - net (%)
G. Wholesale and retail trade	13,521	39.32%
H. Transport and storage	10,153	29.53%
N. Administrative and support activities	5,692	16.55%
C. Manufacturing	2,663	7.75%
F. Construction	1,728	5.03%
D. Supply of electricity, gas, vapour and air conditioning	444	1.29%
M. Professional, scientific and technical activities	182	0.53%
	34,383	**100.00%**

Impairment of financial assets

The Group 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.

Maximum credit risk exposure

The following table presents the 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.

Group

EUR thousand	Maximum credit risk exposure 2024	Outstanding - gross, 2024	Outstanding loan commitment under the loan agreement, 2024	Maximum credit risk exposure, 2023	Outstanding - gross, 2023	Outstanding loan commitment under the loan agreement, 2023
Balances with the central bank	10,441	10,441	-	13,882	13,882	-
Funds and term deposits of up to 3 months in commercial banks	18,247	18,247	-	14,531	12,031	-
Term deposits of more than 3 months in commercial banks	4,000	4,000	-	-	-	-
Loans	63,841	63,341	500	100,697	98,397	2,300
Factoring	14,266	14,266	-	34,567	34,567	-
Finance lease	13,378	13,305	73	18,531	18,388	143
State bonds	22,986	22,986	-	37,579	37,579	-
Total	**147,159**	**146,586**	**573**	**219,787**	**214,844**	**2,443**

Bank

EUR thousand	Maximum credit risk exposure 2024	Outstanding - gross, 2024	Outstanding loan commitment under the loan agreement, 2024	Maximum credit risk exposure, 2023	Outstanding - gross, 2023	Outstanding loan commitment under the loan agreement, 2023
Balances with the central bank	10,441	10,441	-	13,882	13,882	-
Funds and term deposits of up to 3 months in commercial banks	15,748	15,748	-	12,031	12,031	-
Term deposits of more than 3 months	4,000	4,000	-	-	-	-
Loans	64,764	63,631	1,133	101,999	98,597	3,402
Factoring	14,231	14,231	-	34,533	34,533	-
Finance lease	13,354	13,281	73	18,189	18,046	143
State bonds	22,986	22,986	-	37,579	37,579	-
Total	**145,524**	**144,318**	**1,206**	**218,213**	**214,668**	**3,545**

In its lending activities, the Group aims to reduce its credit risk and expected credit losses. As a measure to mitigate this risk, customers provide the Group with various types of collaterals: real estate, wheeled vehicles, equipment, inventories, receivables, promissory notes, sureties, guarantees, etc. The Group also makes good use of guarantees to lower Group’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:

Group

EUR thousand	**Outstanding - net, 2024**	**Protected with insurance or guarantee*, 2024**	**Outstanding - net, 2023**	**Protected with insurance or guarantee*, 2023**
Factoring				
with recourse	10,800	6,812	17,757	9,744
without recourse	76	-	3,799	1,480
with limited recourse	2,077	2,077	12,827	12,827
reverse	-	-	-	-
Total factoring	**12,953**	**8,889**	**34,383**	**24,051**
Loans	60,589	45,283	96,887	75,886
Finance lease	12,621	9,972	17,934	14,050
Total	**86,163**	**64,144**	**149,204**	**113,987**

Bank

EUR thousand	**Outstanding - net, 2024**	**Protected with insurance or guarantee*, 2024**	**Outstanding - net, 2023**	**Protected with insurance or guarantee*, 2023**
Factoring				
with recourse	10,800	6,812	17,757	9,744
without recourse	76	-	3,799	1,480
with limited recourse	2,077	2,077	12,827	12,827
reverse	-	-	-	-
Total factoring	**12,953**	**8,889**	**34,383**	**24,051**
Loans	60,510	45,283	97,069	75,413
Finance lease	12,598	9,950	17,612	14,024
Total	**86,061**	**64,122**	**149,064**	**113,488**

** Insurance providers: Atradius, Euler Hermes or Coface – loan and trade credit insurance; Guarantee providers: ILTE, European Investment Fund (EIF), ALTUM.*

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

Group

EUR thousand	**2024**	**2023**
Gross carrying amount – factoring receivables	14,266	34,567
Gross carrying amount – loans	63,341	98,397
Gross carrying amount – finance lease	13,305	18,388
Outstanding debt nominal - gross	**90,912**	**151,352**
Loss allowance – factoring receivables	(1,313)	(184)
Loss allowance – loans granted	(2,752)	(1,510)
Loss allowance – finance lease	(684)	(454)
Total loss allowance	**(4,749)**	**(2,148)**
Total outstanding debt nominal	**86,163**	**149,204**

Bank

EUR thousand	**2024**	**2023**
Gross carrying amount – factoring receivables	14,231	34,533
Gross carrying amount – loans	63,631	98,597
Gross carrying amount – finance lease	13,281	18,046
Outstanding debt nominal - gross	**91,143**	**151,176**
Loss allowance – factoring receivables	(1,278)	(150)
Loss allowance – loans granted	(3,121)	(1,528)
Loss allowance – finance lease	(683)	(434)
Total loss allowance	**(5,082)**	**(2,112)**
Total outstanding debt nominal	**86,061**	**149,064**

As at 31 December 2024, ECLs for factoring and other receivables were set by customers risk level as follows:

Group

EUR thousand	Risk grade	Outstanding - gross	Expected credit losses	Outstanding - net
Flawless	1	-	-	-
Excellent	2	638	-	638
Great	3	1,358	(1)	1,357
Very good	4	7,337	(17)	7,320
Good	5	23,367	(80)	23,287
Average	6	9,302	(38)	9,264
Moderate	7	9,824	(24)	9,800
Increased risks	8	10,998	(127)	10,871
High risks	9	4,384	(48)	4,336
Highest risks	10	10,187	(239)	9,948
In default	11	13,517	(4,175)	9,342
Total		**90,912**	**(4,749)**	**86,163**

Bank

Customer category	Risk grade	Outstanding - gross	Expected credit losses	Outstanding - net
Flawless	1	-	-	-
Excellent	2	638	-	638
Great	3	1,358	(1)	1,357
Very good	4	7,337	(17)	7,320
Good	5	23,367	(80)	23,287
Average	6	9,302	(38)	9,264
Moderate	7	9,824	(24)	9,800
Increased risks	8	10,998	(127)	10,871
High risks	9	4,384	(48)	4,336
Highest risks	10	10,187	(239)	9,948
In default	11	13,748	(4,508)	9,240
Total		**91,143**	**(5,082)**	**86,061**

As at 31 December 2023, ECLs for factoring and other receivables were set by customers risk level as follows:

Group

EUR thousand	Risk grade	Outstanding - gross	Expected credit losses	Outstanding - net
Flawless	1	16,543	(2)	16,541
Excellent	2	17,232	(4)	17,228
Great	3	44,190	(26)	44,164
Very good	4	20,369	(27)	20,342
Good	5	9,810	(35)	9,775
Average	6	12,737	(70)	12,667
Moderate	7	5,296	(36)	5,260
Increased risks	8	5,218	(43)	5,175
High risks	9	5,250	(109)	5,141
Highest risks	10	4,180	(211)	3,969
In default	11	10,527	(1,585)	8,942
Total		**151,352**	**(2,148)**	**149,204**

Bank

Customer category	Risk grade	Outstanding - gross	Expected credit losses	Outstanding - net
Flawless	1	16,543	(2)	16,541
Excellent	2	17,232	(4)	17,228
Great	3	43,894	(26)	43,868
Very good	4	19,861	(26)	19,835
Good	5	9,680	(35)	9,645
Average	6	12,636	(70)	12,566
Moderate	7	5,121	(36)	5,085
Increased risks	8	4,151	(43)	4,108
High risks	9	5,250	(109)	5,141
Highest risks	10	4,180	(212)	3,968
In default	11	12,628	(1,549)	11,079
Total		**151,176**	**(2,112)**	**149,064**

Off-balance sheet commitments

The Group's standard factoring and credit line facility agreements may be at any time and without prior notice unconditionally terminated. Accordingly, expected credit losses are not calculated on unused limit. Lease and loan agreements (other than credit line facilities) require the Group to provide financing; therefore, these agreements are subject to the ECL estimation for undrawn loan commitments.

As at 31 December 2024, expected credit losses for off-balance sheet commitments were set by customers risk level as follows:

Group

Customer category	Risk grade	Off-balance sheet commitments - gross	Expected credit losses	Off-balance sheet commitments - net
Flawless	1	-	-	-
Excellent	2	257	-	257
Great	3	1,516	-	1,516
Very good	4	2,213	-	2,213
Good	5	6,318	(1)	6,317
Average	6	1,337	-	1,337
Moderate	7	2,526	-	2,526
Increased risks	8	578	-	578
High risks	9	433	-	433
Highest risks	10	883	-	883
In default	11	179	-	179
Total		**16,240**	**(1)**	**16,239**

Bank

Customer category	Risk grade	Off-balance sheet commitments - gross	Expected credit losses	Off-balance sheet commitments - net
Flawless	1	-	-	-
Excellent	2	257	-	257
Great	3	1,516	-	1,516
Very good	4	2,213	-	2,213
Good	5	6,318	(1)	6,317
Average	6	1,337	-	1,337
Moderate	7	2,526	-	2,526
Increased risks	8	578	-	578
High risks	9	433	-	433
Highest risks	10	883	-	883
In default	11	812	(105)	707
Total		**16,873**	**(106)**	**16,767**

As at 31 December 2023, expected credit losses for off-balance sheet commitments were set by customers risk level as follows:

Group

Customer category	Risk grade	Off-balance sheet commitments - gross	Expected credit losses	Off-balance sheet commitments - net
Flawless	1	14,683	-	14,683
Excellent	2	7,726	(1)	7,725
Great	3	12,768	-	12,768
Very good	4	6,528	-	6,528
Good	5	7,779	-	7,779
Average	6	3,837	-	3,837
Moderate	7	604	-	604
Increased risks	8	1,027	-	1,027
High risks	9	1,406	-	1,406
Highest risks	10	500	-	500
In default	11	413	-	413
Total		**57,271**	**(1)**	**57,270**

Bank

Customer category	Risk grade	Off-balance sheet commitments - gross	Expected credit losses	Off-balance sheet commitments - net
Flawless	1	14,683	-	14,683
Excellent	2	7,726	(1)	7,725
Great	3	12,682	-	12,682
Very good	4	6,161	-	6,161
Good	5	7,683	-	7,683
Average	6	3,718	-	3,718
Moderate	7	501	-	501
Increased risks	8	711	-	711
High risks	9	1,406	-	1,406
Highest risks	10	500	-	500
In default	11	1,107	-	1,107
Total		**56,878**	**(1)**	**56,877**

	2024		2023	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Provisions for off-balance sheet liabilities by term:				
Short-term (less than 1 year)	1	106	1	1
Long-term (more than 1 year)	-	-	-	-
Total	**1**	**106**	**1**	**1**

Carrying amount of portfolio at the end of 2024 and 2023 by stages:

Group **EUR thousand**			2024	2023
Outstanding - gross	Stage 1	Factoring	3,198	25,393
	Stage 1	Loans	13,960	78,721
	Stage 1	Finance lease	2,256	8,469
	Total		**19,414**	**112,583**
	Stage 2	Factoring	8,285	8,969
	Stage 2	Loans	40,177	11,849
	Stage 2	Finance lease	9,519	7,424
	Total		**57,981**	**28,242**
	Stage 3	Factoring	2,783	205
	Stage 3	Loans	9,204	7,827
	Stage 3	Finance lease	1,530	2,495
	Total		**13,517**	**10,527**
Total			**90,912**	**151,352**
Expected credit losses	Stage 1	Factoring	(7)	(46)
	Stage 1	Loans	(39)	(117)
	Stage 1	Finance lease	(1)	(7)
	Total		**(47)**	**(170)**
	Stage 2	Factoring	(30)	(20)
	Stage 2	Loans	(394)	(88)
	Stage 2	Finance lease	(103)	(285)
	Total		**(527)**	**(393)**
	Stage 3	Factoring	(1,276)	(118)
	Stage 3	Loans	(2,319)	(1,305)
	Stage 3	Finance lease	(580)	(162)
	Total		**(4,175)**	**(1,585)**
Total			**(4,749)**	**(2,148)**
Outstanding - net	Stage 1	Factoring	3,191	25,347
	Stage 1	Loans	13,921	78,604
	Stage 1	Finance lease	2,255	8,462
	Total		**19,367**	**112,413**
	Stage 2	Factoring	8,255	8,949
	Stage 2	Loans	39,783	11,761
	Stage 2	Finance lease	9,416	7,139
	Total		**57,454**	**27,849**
	Stage 3	Factoring	1,507	87
	Stage 3	Loans	6,885	6,522
	Stage 3	Finance lease	950	2,333
	Total		**9,342**	**8,942**
Total			**86,163**	**149,204**

Bank EUR thousand			2024	2023
	Stage 1	Factoring	3,198	25,393
	Stage 1	Loans	13,960	77,974
	Stage 1	Finance lease	2,256	8,247
	Total		**19,414**	**111,614**
	Stage 2	Factoring	8,285	8,969
Outstanding - gross	Stage 2	Loans	40,177	10,576
	Stage 2	Finance lease	9,519	7,389
	Total		**57,981**	**26,934**
	Stage 3	Factoring	2,748	171
	Stage 3	Loans	9,494	10,047
	Stage 3	Finance lease	1,506	2,410
	Total		**13,748**	**12,628**
Total			**91,143**	**151,176**
	Stage 1	Factoring	(7)	(47)
	Stage 1	Loans	(39)	(116)
	Stage 1	Finance lease	(1)	(7)
	Total		**(47)**	**(170)**
	Stage 2	Factoring	(30)	(20)
Expected credit losses	Stage 2	Loans	(393)	(88)
	Stage 2	Finance lease	(104)	(285)
	Total		**(527)**	**(393)**
	Stage 3	Factoring	(1,241)	(83)
	Stage 3	Loans	(2,689)	(1,324)
	Stage 3	Finance lease	(578)	(142)
	Total		**(4,508)**	**(1,549)**
Total			**(5,082)**	**(2,112)**
	Stage 1	Factoring	3,191	25,346
	Stage 1	Loans	13,921	77,858
	Stage 1	Finance lease	2,255	8,240
	Total		**19,367**	**111,444**
	Stage 2	Factoring	8,255	8,949
Outstanding - net	Stage 2	Loans	39,784	10,488
	Stage 2	Finance lease	9,415	7,104
	Total		**57,454**	**26,541**
	Stage 3	Factoring	1,507	88
	Stage 3	Loans	6,805	8,723
	Stage 3	Finance lease	928	2,268
	Total		**9,240**	**11,079**
Total			**86,061**	**149,064**

Expected credit losses

When calculating expected credit losses, the clients' PDs are adjusted based on the GDP, unemployment and inflation 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).

Expected credit losses are impacted by collateral that can reduce the Group's losses in the event of a customer's bankruptcy. During 2024, the Group did not identify any significant changes in the quality of customer collateral.

There were no any financial assets written off in 2024. The Group does not have any financial assets written-off for full recovery in respect of amounts legally due to the Group that have been written-off because they are not expected to be recovered.

The movement of loss allowance in 2024 is summarised by stages as follows:

Group

EUR thousand	**ECL at the beginning of 2024**	**Change in ECL**	**Adjustment to ECL for Stage 3 financial assets**	**ECL at the end of 2024**
Provisions for on-balance sheet financial assets:				
Cash and balances at banks				
Stage 1	11	5	-	16
Stage 2	-	-	-	-
Stage 3	2,496	(15)	-	2,481
Bonds				
Stage 1	-	-	-	-
Provisions for on-balance sheet financial assets:				
Stage 1	171	(124)	-	47
Stage 2	392	135	-	527
Stage 3	1,585	2,671	(81)	4,175
Total:	**4,655**	**2,672**	**(81)**	**7,246**
Provisions for financial liabilities granted:				
Stage 1	1	-	-	1
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Total provisions:	**4,656**	**2,672**	**(81)**	**7,247**

Bank

EUR thousand	**ECL at the beginning of 2024**	**Change in ECL**	**Adjustment to ECL for Stage 3 financial assets**	**ECL at the end of 2024**
Provisions for on-balance sheet financial assets:				
Cash and balances at banks				
Stage 1	11	5	-	16
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Bonds				
Stage 1	-	-	-	-
Provisions for on-balance sheet financial assets:				
Stage 1	170	(123)	-	47
Stage 2	393	134	-	527
Stage 3	1,549	3,060	(101)	4,508
Total:	**2,123**	**3,076**	**(101)**	**5,098**
Provisions for financial liabilities granted:				
Stage 1	1	-	-	1
Stage 2	-	-	-	-
Stage 3	-	105	-	105
Total provisions:	**2,124**	**3,181**	**(101)**	**5,204**

Breakdown of loans in Stage 3 by type of collateral as at 31 December:

Group

EUR thousand	**Outstanding - gross, 2024**	**Outstanding - gross, 2023**
Real estate	3,230	1,445
Motor and wheeled vehicles	668	1,516
Other equipment	154	188
National and supranational guarantees	4,647	5,115
Without collateral	4,818	2,263
Total	**13,517**	**10,527**

Bank

EUR thousand	Outstanding - gross, 2024	Outstanding - gross, 2023
Real estate	3,151	1,377
Motor and wheeled vehicles	668	1,350
Other equipment	148	188
National and supranational guarantees	4,630	5,083
Without collateral	5,151	4,630
Total	**13,748**	**12,628**

Breakdown of exposures in Stage 3 by type of financing at the end of 2024:

Group

EUR thousand	Outstanding - gross	Expected credit losses	Outstanding - net	Fair value of collateral
Factoring	2,783	(1,276)	1,507	1,002
Loans	9,204	(2,319)	6,885	6,961
Finance lease	1,530	(580)	950	906
Total	**13,517**	**(4,175)**	**9,342**	**8,869**

Bank

EUR thousand	Outstanding - gross	Expected credit losses	Outstanding - net	Fair value of collateral
Factoring	2,748	(1,241)	1,507	1,002
Loans	9,494	(2,689)	6,805	6,880
Finance lease	1,506	(578)	928	883
Total	**13,748**	**(4,508)**	**9,240**	**8,765**

Breakdown of exposures in Stage 3 by type of financing at the end of 2024:

Group

EUR thousand	Outstanding - gross	Expected credit losses	Outstanding - net	Fair value of collateral
Factoring	205	(118)	87	82
Loans	7,827	(1,305)	6,522	6,149
Finance lease	2,495	(162)	2,333	2,386
Total	**10,527**	**(1,585)**	**8,942**	**8,617**

Bank

EUR thousand	Outstanding - gross	Expected credit losses	Outstanding - net	Fair value of collateral
Factoring	171	(83)	88	82
Loans	10,047	(1,324)	8,723	5,952
Finance lease	2,410	(142)	2,268	2,332
Total	**12,628**	**(1,549)**	**11,079**	**8,366**

Liquidity risk

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

Liquidity risk management

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

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

- maintaining a diversified 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 Group's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining financing;
- stress testing of the Group's liquidity position against various exposures and specific events;
- Asset-liability committee (ALCO) established by the Group regularly is responsible for monitoring liquidity targets, maturities and prudential indicators. The ALCO Committee decides on financing plans for the Group 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 Group's financial assets and financial liabilities:

Group

As at 31 December 2024, EUR thousand	Carrying amount	Nominal inflows/ (outflows) - gross	0–3 months	3–6 months	6–12 months	More than 1 years
Financial liabilities by type						
Non-derivative financial liabilities						
Customer deposits	105,683	105,803	38,636	20,542	39,944	6,681
Lease liabilities	248	248	32	31	57	128
Total	**105,931**	**106,051**	**38,668**	**20,573**	**40,001**	**6,809**
Financial assets by type						
Non-derivative financial assets						
Factoring and other receivables	12,953	14,266	11,612	2,640	14	-
Loans to customers	60,590	63,543	15,299	3,484	10,173	34,587
Finance lease	12,620	13,305	2,191	762	1,614	8,738
State bonds	22,986	22,986	4,995	6,993	6,034	4,964
Demand deposits in banks	26,199	28,688	28,688	-	-	-
Loans to credit institutions	3,992	4,000	-	4,000	-	-
Trade and other receivables	204	203	141	30	-	32
Total	**139,544**	**146,991**	**62,926**	**17,909**	**17,835**	**48,321**

Bank

As at 31 December 2024, EUR thousand	**Carrying amount**	**Nominal inflows/ (outflows) - gross**	**0–3 months**	**3–6 months**	**6–12 months**	**More than 1 years**
Financial liabilities by type						
Non-derivative financial liabilities						
Customer deposits	105,683	105,803	38,636	20,542	39,944	6,681
Lease liabilities	248	248	32	31	57	128
Total	**105,931**	**106,051**	**38,668**	**20,573**	**40,001**	**6,809**
Financial assets by type						
Non-derivative financial assets						
Factoring and other receivables	12,953	14,231	11,577	2,640	14	-
Loans to customers	60,510	63,832	14,993	4,079	10,173	34,587
Finance lease	12,598	13,282	2,168	762	1,614	8,738
State bonds	22,986	22,986	4,995	6,993	6,034	4,964
Demand deposits in banks	26,181	26,189	26,189	-	-	-
Loans to credit institutions	3,992	4,000	-	4,000	-	-
Trade and other receivables	210	211	148	30	-	32
Total	**139,430**	**144,731**	**60,070**	**18,504**	**17,835**	**48,321**

Group

As at 31 December 2023, EUR thousand	**Carrying amount**	**Nominal inflows/ (outflows) - gross**	**0–3 months**	**3–6 months**	**6–12 months**	**More than 1 years**
Financial liabilities by type						
Non-derivative financial liabilities						
Customer deposits	178,745	178,994	36,998	29,993	84,597	27,406
Lease liabilities	313	313	26	27	54	206
Total	**179,058**	**179,307**	**37,024**	**30,020**	**84,651**	**27,612**
Financial assets by type						
Non-derivative financial assets						
Factoring and other receivables	34,383	34,566	28,497	4,695	1,277	97
Loans to customers	96,886	98,711	19,114	8,857	19,662	51,078
Finance lease	17,935	18,389	1,632	1,061	2,358	13,338
State bonds	37,579	37,579	-	-	14,672	22,907
Demand deposits in banks	25,905	28,413	28,413	-	-	-
Loans to credit institutions	-	-	-	-	-	-
Trade and other receivables	764	764	724	-	-	40
Total	**213,452**	**218,422**	**78,380**	**14,613**	**37,969**	**87,460**

Bank

As at 31 December 2023, EUR thousand	**Carrying amount**	**Nominal inflows/ (outflows) - gross**	**0–3 months**	**3–6 months**	**6–12 months**	**More than 1 years**
Financial liabilities by type						
Non-derivative financial liabilities						
Customer deposits	178,745	178,994	36,998	29,993	84,597	27,406
Lease liabilities	313	313	26	27	54	206
Total	**179,058**	**179,307**	**37,024**	**30,020**	**84,651**	**27,612**
Financial assets by type						
Non-derivative financial assets						
Factoring and other receivables	34,384	34,532	28,463	4,695	1,277	97
Loans to customers	97,068	98,912	18,576	11,587	18,883	49,866
Finance lease	17,612	18,047	1,593	1,042	2,288	13,124
State bonds	37,579	37,579	-	-	14,672	22,907
Demand deposits in banks	25,901	25,913	25,913	-	-	-
Loans to credit institutions	-	-	-	-	-	-
Trade and other receivables	765	765	725	-	-	40
Total	**213,309**	**215,748**	**75,270**	**17,324**	**37,120**	**86,034**

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 Group divides operational risk and its management into the following areas: money laundering and terrorist financing risk, risk of international sanctions, 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 Group. There may be some fraud risks involved and some clients may try to exercise fraudulent activity against the Group.

Risks (not audited)	**Material/Not Material (not audited)**
Operational risk	Material
Money laundering and terrorist financing risk, risk of international sanctions (ML/TF)	Material

Operational and ML/TF risk management

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group's risk management 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 Group's standards is supported by a programme of periodic reviews by Internal Audit. The results of Internal Audit reviews are discussed with the Management of the Group.

The Group has processes in place to mitigate the risks described above by: assessing the documents presented before financing, verifying the compliance with covenants, and, for the purpose of factoring, verifying the invoices submitted and supporting documents in compliance with the Group's procedures. And for the purpose of financing, assessing the appropriateness of the customer's compliance with obligations towards the Group (is not past due, performs other contractual obligations, et.).

Managing the Group's risks relating to money laundering and terrorist financing, and international sanctions is an integral part of its overall risk management system. The Anti-Money Laundering and Counter-Terrorism Financing Compliance Officer is responsible for the day to day implementation of the Group'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 Group implements money laundering and terrorist financing, and international sanctions identification, assessment, and management procedures, as well as effective tools to mitigate such risks.

Compliance with prudential ratios

The table below presents the Bank's and the Financial Group's compliance with prudential ratios as at 31 December 2024. The Financial Group consists of PayRay Bank UAB, PayRay SIA and 2404 S.A., the Bank's parent company. The table presents the Financial Group's ratios, as the Financial Group is regulated at the consolidated level.

Indicator	Financial Group	Bank
Total capital adequacy ratio	39.75%	39.57%
Leverage ratio	18.71%	18.88%
Liquidity coverage ratio	802.97%	837.36%
Net stable funding ratio	193.85%	193.26%
Large exposure indicator	11.82%	11.94%

At the end of the reporting period, the Financial Group and the Bank complied with all prudential requirements and standards.

23. Fair value

The Group and the Bank perform fair value measurements for financial assets and liabilities at amortised cost that are not included in the statement of financial position at fair value.

The carrying amount of the Group's main financial assets and liabilities approximates their fair value. 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.

Group	2024		2023	
EUR thousand	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash on hand and balances with central banks	26,199	26,199	25,905	25,905
Loans to customers	60,590	59,771	96,886	98,158
Loans to credit institutions	3,992	3,845	-	-
Factoring receivables	12,953	12,542	34,383	32,902
Finance lease	12,620	12,852	17,935	18,998
Securities issued by governments	22,986	22,717	37,579	36,689
Trade and other receivables	204	204	764	764
Financial liabilities				
Customer deposits	105,683	102,338	178,745	173,477
Payables	248	248	3,853	3,853

Bank	**2024**		**2023**	
EUR thousand	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash on hand and balances with central banks	26,181	26,181	25,901	25,901
Loans to customers	60,510	59,438	97,068	98,649
Loans to credit institutions	3,992	3,845	-	-
Factoring receivables	12,953	12,518	34,384	32,895
Finance lease	12,598	12,833	17,612	18,663
Securities issued by governments	22,986	22,717	37,579	36,689
Investments into subsidiaries	-	-	-	-
Trade and other receivables	210	210	765	765
Financial liabilities				
Customer deposits	105,683	102,338	178,745	173,477
Payables	5,094	5,094	3,826	3,826

Quantitative disclosures of the Group’s financial assets and liabilities in the fair value measurement hierarchy as at 31 December 2024:

Group **EUR thousand**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Cash on hand and balances with central banks	26,199			**26,199**
Loans to customers		59,771		**59,771**
Loans to credit institutions		3,845		**3,845**
Factoring and other receivables		12,542		**12,542**
Finance lease		12,852		**12,852**
Securities issued by governments	22,717			**22,717**
Other financial assets		204		**204**
Financial liabilities				
Customer deposits		102,338		**102,338**
Payables		248		**248**

Bank **EUR thousand**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Cash on hand and balances with central banks	26,181			**26,181**
Loans to customers		59,438		**59,438**
Loans to credit institutions		3,845		**3,845**
Factoring and other receivables		12,518		**12,518**
Finance lease		12,833		**12,833**
Securities issued by governments	22,717			**22,717**
Investments into subsidiaries			-	**-**
Other financial assets		210		**210**
Financial liabilities				
Customer deposits		102,338		**102,338**
Payables		5,094		**5,094**

Quantitative disclosures of the Group's financial assets and liabilities in the fair value measurement hierarchy as at 31 December 2023:

Group **EUR thousand**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Cash on hand and balances with central banks	25,905			**25,905**
Loans to customers		98,158		**98,158**
Loans to credit institutions		-		**-**
Factoring and other receivables		32,902		**32,902**
Finance lease		18,998		**18,998**
Securities issued by governments	36,689			**36,689**
Trade and other receivables		764		**764**
Financial liabilities				
Customer deposits		173,477		**173,477**
Payables		3,853		**3,853**

Bank **EUR thousand**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Cash on hand and balances with central banks	25,901			**25,901**
Loans to customers		98,649		**98,649**
Loans to credit institutions		-		**-**
Factoring and other receivables		32,895		**32,895**
Finance lease		18,663		**18,663**
Securities issued by governments	36,689			**36,689**
Investments into subsidiaries			-	**-**
Trade and other receivables		765		**765**
Financial liabilities				
Customer deposits		173,477		**173,477**
Payables		3,826		**3,826**

The objective of using a fair value valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange. The Group and the Bank use different valuation technique to determine the fair value of a financial instrument: quoted prices in active markets, valuation techniques based on observable inputs and valuation techniques based on internal models.

<u>Level 1 Quoted market prices</u>

Level 1 assessments are made using unadjusted identical instrument quoted prices in active markets, where quoted prices are easily available and reflect factual and regularly performed market transactions between unrelated parties. For disclosure purposes, the Group and the Bank attribute purchases of government debt securities and cash and balances with central banks to Level 1 in the fair value hierarchy.

<u>Level 2 Assessing method using observable data</u>

Fair value calculated using level 2 methods, when variables that have material impact on the fair value, is directly or indirectly available in the market. Using assessment methods of level 2, discounted cash flows, option pricing methods, latest transactions and other financial instrument that are basically the same, prices are utilised. For disclosure purposes, the Group and the Bank attribute financing granted to natural and legal persons, deposits from natural and legal persons, other financial assets and payables to Level 2 in the fair value hierarchy.

<u>Level 3 Assessing method using significant unobservable data</u>

Fair value calculated using level 3 methods, when the lowest-level variables that have reasonable impact on the fair value, are not supported by available market data. Such methods usually include extrapolation of similar observed data, analysis of historical data and implementation of other analytical methods. For disclosure purposes, the Group and the Bank attribute investments in the subsidiaries' assets to Level 3 in the fair value hierarchy.

In estimating the fair value of fixed- and variable-rate loans, factoring receivables and finance leases, future cash flows are discounted at a market rate, adjusted by a margin for new lending. Similar valuation technique is used in estimating the fair value of the customer deposit liabilities.

24. Restatement of comparative information

In order to more accurately reflect the financial results of the Group and the Bank, the Group and the Bank reviewed and changed the methodology for grouping items in the separate financial statements, accordingly adjusting the comparative information for 2023.

The impact of these adjustments on the Group's and the Bank's financial statements is presented below:

Group	**As at 31 December 2023**		
EUR thousand	**Before restatement**	**Restatement**	**After Restatement**
Interest income calculated using effective interest method	16,379	273	16,652
Interest expenses	(5,694)	-	(5,694)
Net interest income (expense)	**10,685**	**273**	**10,958**
Commission income	303	(273)	30
Commission expenses	(10)	-	(10)
Net commission income (expenses)	**292**	**(273)**	**20**
Other operating income	42	-	42
Other operating expenses	(106)	-	(106)
Impairment of investments in subsidiaries	-		-
Allowances for credit losses	(379)	-	(379)
Payroll expenses	(4,638)	-	(4,638)
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets	(374)	-	(374)
Administrative expenses	(3,247)	-	(3,247)
Finance costs	(10)	-	(10)
Profit (loss) before tax	**2,266**	**-**	**2,266**
Income tax expense	(460)	-	(460)
Profit (loss) for the year	**1,806**	**-**	**1,806**
Other comprehensive income	-	-	-
Total other comprehensive income, net of tax	1,806	-	1,806

Notes to the financial statements

for the year ended 31 December 2024

Bank	As at 31 December 2024		
EUR thousand	**Before restatement**	**Restatement**	**After Restatement**
Interest income calculated using effective interest method	15,956	231	16,187
Interest expenses	(5,694)	-	(5,694)
Net interest income (expense)	**10,262**	**231**	**10,493**
Commission income	260	(231)	29
Commission expenses	(10)	-	(10)
Net commission income (expenses)	**250**	**(231)**	**19**
Other operating income	240	-	240
Other operating expenses	(102)	-	(102)
Impairment of investments in subsidiaries	(3)	-	(3)
Allowances for credit losses	(426)	-	(426)
Payroll expenses	(4,381)	-	(4,381)
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets	(353)	-	(353)
Administrative expenses	(3,145)	-	(3,145)
Finance costs	(10)	-	(10)
Profit (loss) before tax	**2,332**	**-**	**2,332**
Income tax expense	(460)	-	(460)
Profit (loss) for the year	**1,872**	**-**	**1,872**
Other comprehensive income	-	-	-
Total other comprehensive income, net of tax	**1,872**	**-**	**1,872**

	As at 31 December 2023					
	Before restatement		Restatement		After Restatement	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**	**Group**	**Bank**
Profit (loss) for the year	**1,805**	**1,872**	**-**	**-**	**1,805**	**1,872**
Operating activities						
Allowances for credit losses	375	421	-	-	375	421
Interest income	(16,379)	(15,956)	(273)	(231)	(16,652)	(16,187)
Interest expenses	5,694	5,694	-	-	5 694	5 694
Depreciation of property, plant and equipment and amortization of intangible assets	373	352	-	-	373	352
Impairment of investments in shares of subsidiaries	-	3	-	-	-	3
Change in deferred tax	294	294	-	-	294	294
Other non-cash transactions elimination	112	116	-	-	112	116
Total adjustments to operating activities	**(9,531)**	**(9,076)**	**(273)**	**(231)**	**(9,804)**	**(9,307)**
Working capital adjustments						
Net change in loans granted	34,744	34,512	-	-	34,744	34,512
Net change in loans granted to credit institutions	-	-	-	-	-	-
Change in trade and other receivables	(286)	(294)	-	-	(286)	(294)
Changes in other assets	(101)	(175)	-	-	(101)	(175)
Change of income tax payable	166	166	-	-	166	166
Changes in customer deposits	(65,115)	(65,115)	-	-	(65,115)	(65,115)
Change in payables	584	594	-	-	584	594
Changes in other liabilities	(138)	(43)	-	-	(138)	(43)
Total changes in assets and liabilities of operating activities	**(30,146)**	**(30,354)**	**-**	**-**	**(30,146)**	**(30,354)**
Interest received	15,816	15,501	273	231	16,089	15,732
Interest paid	(3,750)	(3,750)	-	-	(3,750)	(3,750)
Net cash flows from operating activities	**(25,806)**	**(25,807)**	**-**	**-**	**(25,806)**	**(25,807)**
Investing activities						
	-	-	-	-	-	-
Acquisition of securities issued by governments	(14,553)	(14,553)	-	-	(14,553)	(14,553)
Acquisition of property, plant and equipment	(153)	(153)	-	-	(153)	(153)
Acquisition of intangible assets	-	-	-	-	-	-
Net cash flows used in investing activities	**(14,706)**	**(14,706)**	**-**	**-**	**(14,706)**	**(14,706)**
Financing activities						
Lease payments	2	2	-	-	2	2
Net cash flows from/used in financing activities	**2**	**2**	**-**	**-**	**2**	**2**
Increase (decrease) of cash and cash equivalents	(40,510)	(40,511)	-	-	(40,510)	(40,511)
Cash and cash equivalents at the beginning of the year/period	66,415	66,413	**-**	**-**	66,415	66,413
Cash and cash equivalents as at 31 December	**25,905**	**25,902**	**-**	**-**	**25,905**	**25,902**

25. Notes

Contingent liabilities

The Group is not involved legal proceedings as a defendant or third party.

Significant events after the end of the reporting period

In 2025, management plans to review the Group's strategy and optimize operating costs. In April 2025, the Group's management took the decision to change the Group's organizational structure, leading to the reduction of the Group's headcount.

Head of Administration		
Renato La Fianza	*(signature)*	*(date)*
Chief Financial Officer		
Simonas Skaržauskas	*(signature)*	*(date)*