UAB SME Bank

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

Contents

GRANT THORNTON BALTIC UAB

Reg. Code 300056169 | VAT Code LT100001220914 | Register of Legal Entities of the Republic of Lithuania

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF UAB SME BANK

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of UAB SME Bank (the Company), which comprise the statement of financial position as at December 31, 2021, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects of the financial position of the Company as at December 31, 2021, and of its financial performance and its 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 Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 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 financial statements.

Loans to customers

As referred to in Note 6 and the Credit Risk paragraph of the Risk Management section, the balance of loans granted to the Company's customers before impairment amounted to EUR 41 334 thousand, while the related impairment (expected credit losses, ECLs) was EUR 150 thousand. The Company's accounting policy on expected credit losses is disclosed in the financial statements under the section of Subsequent measurement and in the section Credit risk, part Impairment and provisioning policies.

Impairment of loans granted to customers is deemed subjective due to the management's judgement in determining the expected credit losses, which depend on the method and model chosen, significant assumptions and estimation uncertainty used.

The significant assumptions applied by the management in determining the stage of loan impairment include the choice of the appropriate method and model, the identification of significant increases in the credit risk, the assessment of forward-looking information used for different probability weighted scenarios, the assessment of customers with loans considered credit-impaired and the assessment of expected future cash flows related to the loans.

This matter is considered to be a key audit matter due to significant balance of loans granted to customers and estimation uncertainty involved in impairment testing of loans.

How the Matter Was Addressed in the Audit

We, among other audit procedures, have obtained an understanding (including understanding of the assumptions, methods and models used) and performed testing of the operating effectiveness of internal controls over the process of estimation of expected credit losses for loans to customers.

We have considered whether current loan impairment testing policy is adequate and in line with the requirements of IFRS 9 Financial Instruments.

We have assessed loans through selective testing to determine whether the criteria for determining if expected credit losses are forecast to actually default in the next 12 months or over lifetime of the loan are in line with the applicable accounting policy. For selected loans, we have also assessed management's cash flow forecast, expected loan repayment in the event of default by the customer and other sources of repayment.

We have assessed forward-looking information applied in the impairment model by comparing the management's estimates to publicly available information.

Finally, we have considered the adequacy of related disclosures in the financial statements in accordance with the IFRS requirements.

Other Information

The other information comprises the information included in the Company's annual report of 2021 year, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and 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 under the European Parliament and of the Council Regulation No 537/2014.

In accordance with the decision made by shareholders on 12 January 2021 we have been chosen to carry out the audit of the Company's financial statements for 2020 and 2021 year. The total uninterrupted term of appointment is 2 years.

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

We confirm that in light of our knowledge and belief, services provided to the Company 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 except for audit of financial statements.

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

Certified auditor
Darius Gliaubicas
Auditor's certificate No. 000594
31 March, 2022
Vilnius, the Republic of Lithuania
Grant Thornton Baltic UAB
Audit firm certificate No. 001513

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

ANNUAL REPORT

GENERAL

In 2021, the first Lithuanian based digital neo-bank intended for business clients UAB SME Bank (hereinafter the "Bank") started operating in the Lithuanian market. The Bank was established taking into account the lack of financing for small and medium-sized businesses: limited access to sources of financing and fewer opportunities for businesses operating in areas to receive full service.

In February 2021, after obtaining a specialized bank license, the Bank set the goal to complete information technology, process and administrative readiness and start banking services in the Baltic market. In May 2021, the Supervisory Board elected a new Board. Additionally, new Articles of Association of the Bank necessary for the provision of banking services were approved in May. At the same time, a new name of the Bank, UAB SME Bank (former UAB SME Digital Financing), was registered. In September, a permanent Chief Administrative Officer of the Bank was appointed by decision of the Board. The Bank commenced it activities in June 2021.

The Bank attracted 232 legal clients from all the Baltic States and raised a loan portfolio of EUR 41 million within a short period from the inception of its activities in mid-2021. In short-term, the Bank will be focused on process automation, automatic credit solutions and significant growth in the number of customers. The Bank has already joined the Single European Payments Area (SEPA) and the real-time gross settlement system for the euro (TARGET2). This enables the Bank's clients to successfully execute SEPA transfers. The Bank also cooperates with the guarantee fund Invega to provide small and medium-sized businesses (SMEs) with possibility to compensate up to 95% of the interest paid. In order to open up more opportunities for small and medium-sized businesses to grow, the Bank also signed a guarantee agreement with the European Investment Fund (EIF) to channel financing to Lithuanian SMEs. The guarantee agreement will support up to EUR 100 million in new financing to over 500 Lithuanian businesses, thus providing them with better credit terms and contributing to their growth.

In addition, the Bank uses a developed technologically innovative infrastructure to provide remote customer account opening service, which allows customers to become a customer of the Bank without leaving their home or office. The Bank is currently focusing on the development of an automatic credit decision-making mechanism that will enable SMEs to offer personalised financing solution in no time.

In the short term, the Bank plans to offer leasing and factoring services to its clients, and in the near future – credit cards for businesses, which will facilitate financing and expand the access of a buy-now-pay-later service to the SMEs segment in Lithuania. The Bank is also planning to expand into the European Economic Area.

In 2021, the Bank earned EUR 1,432 thousand in interest income (in 2020: EUR 32 thousand), however, due to the rapidly growing team and the Bank set up costs, the Bank incurred a net loss of EUR 218 thousand (in 2020: EUR 30 thousand of loss). As at 31 December 2021, the Bank had issued loans of more than EUR 41 million (in 2020: EUR 1,390 thousand) and collected more than EUR 43 million in customer deposits (in 2020: EUR 0).

In 2021, the Bank complied with all prudential requirements for credit institutions.

The Bank does not hold its own shares and did not acquire or dispose of them during the reporting period.

The Bank has not established subsidiaries, associates, branches or representative offices.

The Bank did not carry out any research and development activities.

As at 31 December 2021, the issued capital of the Bank amounted to EUR 3,500,000 and was divided into 3,500,000 ordinary registered shares with par value EUR 1 each (in 2020: 1,602,750 EUR).

In accordance with decision of the General Meeting of Shareholders of 20 December 2021, the Bank's reserve capital of EUR 500 thousand was formed. The reserve is designed to support the increase in business lending volumes and to strengthen the capital base.

No significant events have occurred after the end of the financial year, which could have material influence on the Bank's 16.

MANAGEMENT BODIES

The Bank has the following managerial bodies: the General Meeting of Shareholders, the Supervisory Council, the Board and the Chief Administrative Officer of the Bank.

General Meeting of Shareholders

The General Meeting of Shareholders is the highest governing body of the Bank, reviews and approves the annual financial statements (including profit and dividend distribution project), decides on amendments to the Articles of Association, elects the members of the Supervisory Board and decides on other matters permitted by law and the Articles of Association.

Supervisory Council

The Board of Supervisors exercises a supervisory function over the activities of the Bank. Supervisory Board consists of three members elected by the General Meeting of Shareholders for a term of office of four years. The main tasks of the Supervisory Board include: election and removal of the Members of the Board, monitoring the Bank's operations and their compliance with the laws, the Articles of Association and decisions of shareholders, supervision of the Board activities when approving transactions between the Bank and the Board members, the Bank's auditors and related parties, when reviewing and approving annual financial statements of the Bank prior to submitting to the General Meeting of Shareholders, including other matters provided for by the law or Articles of Association.

Vidas Danielius and Vytautas Šenavičius are members of the Supervisory Board. Other their current positions are listed in the table below.

Management Board

The Board is a collegial management body, elected by the Supervisory Board of the Bank. The Board is composed of six members elected for the period of four years. For the purpose of representing the interests of the Bank and assuming responsibility for the provision of financial services in accordance with the law, the Board is held liable, inter alia, for overseeing the overall and day-to-day management of the Bank's business, the proper organisation of the business, the organisational structure and allocation of functions and the organisation of internal control, the drawing up of actions plans and budgets, ensuring adequate control of operations, accounting and asset management. The current members of the Board are the following: Audrius Milukas, Marius Svidinskas, Mindaugas Mikalajūnas, Mantvydas Štareika, Nemira Palaimienė, Inga Kuktienė. Other their current positions are listed in the table below.

Chief Administrative Officer of the Bank

The Board appoints and recalls the Chief Administrative Officer. The Chief Administrative Officer is responsible for the day-to-day activities of the Bank, managing and carrying out the activities of the Bank, hiring and dismissing employees, concluding and terminating employment contracts and performing other functions.

Information on the other executive positions held by the manager of the Bank, members of the Board and the Supervisory Board:

- Vidas Danielius, member of the Supervisory Board
    - Main workplace: VšĮ Valdymo koordinavimo centras, Executive
    - Other current positions: none.
- Vytautas Šenavičius, Member of the Supervisory Board
    - Main workplace: APB Šenavičius ir partneriai RESPONSE, Executive
    - Other current positions:
        - VšĮ Finansinio švietimo institutas, Executive;
        - Lithuanian Association of Mutual Borrowing and Crowdfunding, Member of the Board
- Audrius Milukas, Director, Member of the Board
    - Main workplace: SME Finance UAB, Chairman of the Board and Advisor for Strategic Affairs.
    - Other current positions:
        - UAB A. Miluko investicijos, Director,
        - UAB Open Circle Capital GP, Director.
- Marius Svidinskas, Member of the Board
    - Main workplace: Lithuanian Factoring Association, Executive, Member of the Presidium.
    - Other current positions:
        - UAB EASY DEBT SERVICE, Member of the Board;
        - UAB „EBV Finance", Executive, Member of the Board;

        - UAB EBV Group, Executive;
        - UAB Magnus Investments, shareholder;
        - UAB Monsoon Capital, Member of the Board;
        - UAB SME Finance, Member of the Board.
- Mindaugas Mikalajūnas, Member of the Board
    - Main workplace: UAB SME Finance, CEO.
    - Other current positions:
        - UAB SME Finance, Member of the Board;
        - UAB Monsoon Capital, Member of the Board;
        - UAB Monsoon Investments; Executive;
        - UAB SME Capital, Executive;
        - UAB SME Capital 2, Executive;
        - UAB SME Capital 3, Executive;
        - UAB SME Credit, Executive;
        - UAB SME Finance Group, Executive;
        - UAB SME Loans, Executive;
        - UAB SME Digital Leasing, Executive;
        - SP.Z.O.O. SME Finance Poland, Executive.
- Mantvydas Štareika, Member of the Board
    - Main workplace: UAB SME Bank, Chief Administrative Officer
    - Other current positions:
        - UAB Elektromobilių sprendimų centras, Member of the Board.
- Nemira Palaimienė, Member of the Board
    - Main workplace: UAB SME Bank, Business Development Director EU
    - Other current positions: none.
- Inga Kuktienė, Member of the Board
    - Main workplace: UAB SME Bank, Chief Risk Officer
    - Other current positions:
        - VĮ Lietuvos oro uostai, Independent member of Audit Committee
        - Utenos trikotažas, Independent member of Audit Committee

Committees

The following three committees are in the Bank: Audit, Credit, Risk and Compliance Management.

The Audit Committee has been established by the Supervisory Board for supervisory tasks. The Audit Committee serves as a communication forum between the Supervisory Board and internal, external auditors. The Audit Committee approves the strategic and annual internal audit plans, considers the internal audit reports, adopts the decisions on the election of the external auditor and the acquisition of additional services, and other matters provided for in the Regulations.

The Credit Committee has been established by the Board of the Bank to manage credit risk as one of the key risks of the Bank. The Credit Committee takes decisions on loans above EUR 100 thousand and, among other issues, handles non-standard loan projects, assesses the borrowers' status and makes decisions on the further actions regarding debtors.

The Risk and Compliance Committee has been established at the beginning of 2022 by the Board. This Committee ensures the compliance of the Bank's processes and procedures, including services provided by the Bank, with laws and other regulatory requirements.

RISK MANAGEMENT

The Bank's risk management system includes policies, procedures, risk limits and controls to ensure adequate, timely and continuous identification, measurement, monitoring, management, mitigation and reporting of the risks posed by its activities at the business line and institution-wide levels. In identifying and assessing risks, the Bank applies appropriate methodologies, including both forward-looking and historical measures. This framework includes an assessment of the actual risk profile, taking into account the risk appetite of the institution, as well as the identification and estimation of potential and observable risk exposures under different assumptions or stress conditions, taking into account the risk potential of the institution. The Bank's risk management system also involves unavoidable risks.

The Bank identifies four key business risks: credit risk, market risk, operational risk and liquidity risk.

The Bank's risk objectives, as well as risk management, significance and nature of the risks are disclosed in the notes to the financial statements, in the risk management section. Effective risk management of the Bank allows seeking the highest return within level of risk acceptable to the Bank of Lithuania. The acceptable risk appetite of the Bank is defined in the Risk Limits and Indicators document, which provides for acceptable levels of each type of risk and indicators triggering the monitoring of one or another process on regular basis.

STATEMENT OF COMPREHENSIVE INCOME

Items	Note	Current financial year	Previous financial year
Interest income		1,432,345	31,711
Interest expense		(150,535)	(17,348)
Net interest income (expense)	1	**1,281,810**	**14,363**
Fee and commission income		13,201	-
Fee and commission expense		(84,146)	(159)
Net fee and commission income/(expense)	2	**(70,945)**	**(159)**
Loss on financial assets at amortised cost	6	(154,714)	-
Other operating income (expenses)		58,859	-
Other operating gain (loss)		**(95,855)**	**-**
Staff costs	3	(681,188)	(16,929)
Administrative expenses	4	(319,042)	(25,937)
Marketing expenses		(29,452)	(1,334)
Depreciation and amortisation	7, 8	(173,970)	-
PROFIT (LOSS) BEFORE IMPAIRMENT LOSS		**(88,642)**	**(29,996)**
Expected credit losses		(164,549)	-
PROFIT (LOSS) BEFORE INCOME TAX		**(253,191)**	**(29,996)**
Income tax expense	10	34,470	-
NET PROFIT (LOSS)		**(218,721)**	**(29,996)**
Earnings per share (EUR per share)		(0.06)	(0.06)

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

These financial statements were prepared on 31 March 2022.

Head of Administration
Mantvydas Štareika

Head of Finance
Agnė Gedraitė

STATEMENT OF FINANCIAL POSITION

Items	Note	Current financial year	Previous financial year
ASSETS			
Cash and cash equivalents	5	5,462,637	25,322
Loans to customers	6	41,184,109	1,390,000
Intangible assets	7	1,119,468	545,326
Property, plant and equipment	7	25,354	-
Right-of-use of assets	8	447,364	-
Deferred tax asset	10	34,470	-
Other assets	11	167,551	2,829
TOTAL ASSETS		**48,440,953**	**1,963,477**
LIABILITIES			
Payables to customers	12	42,584,799	-
Debt securities issued	13	1,519,958	-
Lease liabilities	8	443,748	-
Provisions for off-balance sheet liabilities		12,970	
Other liabilities	9	128,195	390,723
TOTAL LIABILITIES		**44,689,670**	**390,723**
EQUITY			
Issued capital	14	3,500,000	1,602,750
Reserve capital	14	500,000	-
Retained profit (loss)	14	(248,717)	(29,996)
TOTAL EQUITY		**3,751,283**	**1,572,754**
TOTAL EQUITY AND LIABILITIES		**48,440,953**	**1,963,477**

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

These financial statements were prepared on 31 March 2022.

Head of Administration
Mantvydas Štareika

Head of Finance
Agnė Gedraitė

STATEMENT OF CHANGES IN EQUITY

	Issued capital	Reserve capital	Retained earnings	Total equity
As at 31 December 2019	**2,500**	**-**	**-**	**2,500**
Increase of share capital by cash contributions	1,600,250	-	-	1,600,250
Net loss for the year	-	-	(29,996)	(29,996)
As at 31 December 2020	**1,602,750**	**-**	**(29,996)**	**1,572,754**
Increase of share capital by cash contributions	1,897,250	-	-	1,897,250
Reserve capital	-	500,000	-	500,000
Net loss for the year	-	-	(218,721)	(218,721)
For the year ended 31 December 2021	**3,500,000**	**500,000**	**(248,717)**	**3,751,283**

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

These financial statements were prepared on 31 March 2022.

Head of Administration

Mantvydas Štareika

Head of Finance

Agnė Gedraitė

CASH FLOW STATEMENT

Items	Note	Current financial year	Previous financial year
Net profit (loss) before income tax		(253,191)	(29,996)
Adjustments for non-cash items:			
Depreciation and amortisation		173,970	-
Result of loan sales	6	154,714	-
Impairment of loans to customers	6	164,549	-
Accrued expenses		27,579	
Accrued income		(101,094)	
Working capital changes:			
(Increase) decrease in loans to customers		(19,686,105)	(1,390,000)
Acquisition of claims to loans	6	(20,326,174)	-
Increase/(decrease) in customer deposits		42,533,196	-
(Increase)/decrease in finance lease receivables		(502,251)	-
(Increase) decrease in other receivables		(525,736)	19,518
Increase (decrease) in other payables		1,026,048	10,216
NET CASH FLOWS FROM OPERATING ACTIVITIES		**2,685,505**	**(1,390,262)**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(1,079,590)	(187,166)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,079,590)**	**(187,166)**
CASH FLOWS FROM/USED IN FINANCING ACTIVITIES			
Paying up shares issued	13	1,897,250	1,600,250
Paying up reserve capital	13	500,000	-
Issue of bonds	12	1,500,000	-
Loans received		203,000	-
Loans (repaid)		(203,000)	-
Interest paid		(8,704)	-
Loan liabilities paid, including interest	8	(57,146)	-
NET CASH FLOWS FROM/USED IN FINANCING ACTIVITIES		**3,831,400**	**1,600,250**
Net increase in cash and cash equivalents		**5,437,315**	**22,822**
Cash and cash equivalents at the beginning of year		25,322	2,500
Cash and cash equivalents at the end of the year	5	5,462,637	25,322

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

These financial statements were prepared on 31 March 2022.

Head of Administration
Mantvydas Štareika

Head of Finance
Agnė Gedraitė

NOTES TO THE FINANCIAL STATEMENTS

GENERAL

UAB SME Bank (hereinafter – the Bank) is a limited liability company registered with the Register of Legal Entities on 5 August 2019, company code 305223469. The Bank holds a Specialised Bank license issued by the European Central Bank through the Bank of Lithuania, accepts deposits and other repayable funds, and is engaged in the activity of lending and providing other financial services. The Bank was granted Licence No 7 on 12 February 2021.

On 31 May 2021, the Bank registered the Bank's Articles of Association, changed its former name UAB SME Digital Financing to UAB SME Bank.

The Bank is headquartered at Antano Tumėno st. 4-15, LT-01109 Vilnius, the Republic of Lithuania. As at 31 December 2021, 25 employees were employed in the Bank (as at 31 December 2020: 4). In 2021, the average number of employees was 16 (2020: 4 employees).

The Bank's shareholder structure is as follows:

1. UAB Magnus Investments, company code 304724648, registered address Antano Tumėno st. 4-107, Vilnius, the Republic of Lithuania.
2. UAB AKM Finance, company code 304234701, registered address Birželio 23-iosios st. 15-8, Vilnius, the Republic of Lithuania.
3. UAB KR Finance, company code 305850685, registered address Antano Tumėno st. 4, Vilnius, the Republic of Lithuania.

Shareholder	As at 31/12/2021		As at 31/12/2020	
	Number of shares	Ownership	Number of shares	Ownership
UAB Magnus Investments	1,627,500	46.5%	1,750,000	50%
UAB AKM Finance	1,627,500	46.5%	1,750,000	50%
UAB KR Finance	245 000	7%	-	-
In total:	**3,500,000**	**100%**	**3,500,000**	**100%**

The ultimate controlling shareholders of the Bank are Marius Svidinskas (46.5% of shares) and Kamilė Milukė (46.5% of shares).

The Bank's management is fully convinced of stable and balanced performance going forward and based on that prepared these financial statements based ongoing concern basis assumptions. In 2021 and 2020, the Bank did not hold its own shares, and had not established subsidiaries, associates or branches.

The principal accounting policies applied in the preparation of these financial statements are set out below.

ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the laws on accounting and financial reporting of the Republic of Lithuania.

The preparation of financial statements in conformity with IFRSs requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the management's knowledge of the current situation and actions, actual results ultimately may differ from those estimates.

These financial statements were prepared based on a going concern basis. The Bank's financial year coincides with a calendar year.

Amendments to existing standards and interpretations effective in 2021

During the reporting period, the Bank adopted new standards and amendments to existing standards and their interpretations, which are relevant to the activities and effective for annual periods beginning on or after 1 January 2021.

Amendments to IFRS 16 – Covid-19-Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021 with effective date of 1 April 2021)

These amendments extend the scope of the 2020 amendments by increasing the eligibility period for the application of practical expedient from 30 June 2021 to 30 June 2022.

On 28 May 2020, the International Accounting Standards Board (IASB) issued COVID-19-Related Rent Concessions, which amended IFRS 16 Leases. The 2020 amendment permitted lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications. Among other conditions, the 2020 amendment permitted lessees to apply the practical expedient only to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021. If a rent concession reduces lease payments both before and after 30 June 2021, IFRS 16 does not permit the practical expedient to be applied to that concession.

These amendments are effective in European Union for annual reporting periods beginning on or after 1 April 2021.

In the management's opinion, these amendments do not have a material impact on these financial statements as no significant concessions/discounts were received during the reporting period and are not expected to be received in subsequent periods.

Interest Rate Benchmark Reform– Phase 2– IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments) (issued on 27 August 2020 with effective date of 1 January 2021)

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments are effective in European Union for annual reporting periods beginning on or after 1 January 2021.

The management assessed that these amendments have no material impact on the financial statements.

*Amendments to IFRS 9, IAS 39 and IFRS 7: **Interest Rate Benchmark Reform** (issued on 27 August 2020 with effective date of 1 January 2021 and must be applied retrospectively)*

Amendments to IFRS 9, IAS 39 and IFRS 7 bring to a conclusion phase two which is focused on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR).

The management assessed that these amendments have no material impact on the financial statements.

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

New standards, amendments and interpretations that are not mandatory for reporting period beginning on 1 January 2021 and have not been early adopted when preparing these financial statements are presented below:

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

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

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

These amendments are effective in European Union for annual reporting periods beginning on or after 1 January 2022.

The management is currently assessing the impact of these amendments on financial statements.

*IFRS 17 and IFRS 4: **the Deferral of Effective Dates of IFRS 17 and IFRS 9 for Insurers** (issued on 25 June 2020 with effective date of 1 January 2023, but not before it is adopted by the EU).*

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

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

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

IFRS 17: Insurance Contracts (issued on 18 May 2017 with effective date of 1 January 2023, but not before it is adopted by the EU).

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

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

IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments) (issued on 7 May 2021 with effective date of 1 January 2023, but not before it is adopted by the EU)

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

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments) (issued on 12 February 2021 with effective date of 1 January 2023, but not before it is adopted by the EU)

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

Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current (issued on 23 January 2020 with effective date of 1 January 2023, but not before it is adopted by the EU).

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

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments) (issued on 12 February 2021 with effective date of 1 January 2023, but not before it is adopted by the EU).

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

Currency of all financial statements

The Bank keeps its accounting records and all amounts in these financial statements have been recorded and presented in euros, which is a national currency of the Republic of Lithuania.

Transactions in foreign currencies are initially recorded in the functional currency as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange as at the date of the statement of financial position. Monetary assets and liabilities measured at acquisition cost are translated using the exchange rate prevailing at the date of the transaction. Foreign exchange gain or loss resulting from that translation and from retranslation of assets and liabilities denominated in a foreign currency into a functional currency using the exchange rate prevailing at the balance sheet date are recorded in income or expense in the period in which they arise.

These financial statements are presented in euros, unless stated otherwise.

Cash and cash equivalents

Cash includes cash balances held with the Bank of Lithuania and commercial banks of the Republic of Lithuania, and other financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

The Bank tests cash and cash equivalents as financial assets for impairment on monthly basis. For more detailed description of the valuation model see section "Impairment and provisioning policies".

Financial assets

As at 31 December 2021 and 2020, the Bank's financial assets consisted of cash, cash equivalents and assets attributable to loans and other receivables.

Initial recognition

Financial assets are classified into the following three categories:

- Financial assets at fair value through profit or loss;
- Financial assets at fair value through other comprehensive income;
- Financial assets at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Bank initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Financial asset is classified and measured at amortised cost or fair value through other comprehensive income, where cash flows arising from financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

A financial asset is measured at amortized cost if the following two conditions are met and has not been classified as at fair value through other comprehensive income:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

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

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

Subsequent to initial recognition financial assets are not reclassified, unless the Bank changes its business model for managing those financial assets.

Trade receivables that do not have a significant financing component are measured at the transaction price identified under IFRS 15.

Subsequent measurement

Loans to customers and finance lease receivables, the provision of which is the basic strategic line of the Bank's business, constitute the majority of the Bank's assets and are classified as financial assets measured at amortised cost (as well as other qualifying assets such as cash equivalents, receivables from banks, other financial assets). These assets may be sold, but sales (other than sales low in volume or sales as part of problem debt recovery activities) are rare and infrequent.

The Bank estimates prospective expected credit losses (ECLs) on debt instruments that are measured at amortised cost or fair value through other comprehensive income. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECLs reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information about past events and current conditions, and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

ECLs are recorded as a deduction from the carrying amount of the assets and presented in the statement of profit or loss under "Impairment loss on loans granted". Financial assets at amortised cost are derecognized when the contractual rights to receive the cash flow from the assets expire, or the assets are written-off, or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

Further details on the subsequent measurement of financial assets are described in the section on credit risk management.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

1. the rights to receive cash flows from the asset have expired;
2. The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
    a. the Bank has transferred substantially all the risks and rewards of the asset, or
    b. the Bank has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Financial liabilities

The Bank's s financial liabilities consist of those designated at fair value through profit or loss and those carried at amortised cost.

The Bank can designate certain liabilities upon initial recognition as at fair value through profit or loss (fair value option); this designation cannot be changed subsequently. The Bank has not designated any financial liabilities as at fair value through profit or loss during the years ended 31 December 2021 and 2020.

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. These are deposits from banks or customers, debt securities in issue, and other various financial liabilities. Initially they are recognised at fair value, and subsequently stated at amortised cost, with any difference between net proceeds and the redemption value recognised in the statement of profit or loss over their period using the effective interest method. After initial recognition, financial assets are measured at amortised cost.

Financial liabilities are derecognised once the liabilities are discharged or cancelled, or expired. When one current financial liability is replaced with another financial liability to the same creditor but under other terms, or when the current liability's terms are significantly changed, this change is considered as a termination of the initial liability and signing of a new liability. The difference between respective balance values is recognised in the statement of comprehensive income.

Intangible assets

Intangible asset is an identifiable non-monetary asset without physical substance, which is going to be used longer than one year with their acquisition cost amounting to not less than EUR 3,000. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. Intangible assets are recognised initially at acquisition cost. Subsequent to the initial recognition, intangible assets are recognised at acquisition cost less accumulated amortisation and accumulated impairment loss, if any. The cost of intangible assets comprises its purchase price, including non-refundable acquisition taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Intangible assets are amortized on a straight-line basis over the estimated useful lives.

- Basic software: 3–5 years
- Other intangible assets: 5 years.

Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Amortisation periods for intangible assets with finite useful lives are reviewed at each financial year-end.

Property, plant and equipment

Property, plant and equipment are such assets, which are going to be used longer than one year with their acquisition cost amounting to not less than EUR 300. Property, plant and equipment is stated at cost less accumulated depreciation and estimated impairment losses, if any.

When assets are sold or written-off, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the profit or loss. The cost of property, plant and equipment comprises its purchase price, including non-refundable acquisition taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repair and maintenance costs incurred after property, plant and equipment are brought into use are usually recognised in the statement of profit or loss in the period when such costs arise. Where it can be clearly demonstrated that those costs will lead to an increase in the economic benefits embodied in the use and/or an increase in the estimated economic life of the asset, costs are capitalised by adding them to the cost of the property, plant and equipment.

Depreciation is provided on a straight-line basis to write off proportionally the cost of each asset over its estimated useful life. The assets' book values and useful lives are reviewed, and adjusted, if appropriate, at each reporting date. For the main types of property, plant and equipment, depreciation is calculated using the following estimated useful lives of the assets:

- Computer hardware and communication equipment (computers, computer networks and equipment) – 3 years
- Equipment and other assets not listed above – 4 years

The useful lives are reviewed periodically to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items in property, plant and equipment.

Lease – the Bank as a lessee

Under leases, the right-of-use assets and related liabilities are recognised when the Bank may start to exercise the right to use assets. Each lease payment is allocated between the lease liability and interest expenses. Interest expenses are recognised over the lease term. Lease payments are discounted using the Bank's incremental borrowing rate. The Bank applies a single recognition and measurement approach for all leases, except for current leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right of use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the initial measurement of the lease liability, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, lease payments are discounted using the Bank's incremental borrowing rate, which is reviewed periodically. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Bank's lease liabilities are accounted for under the caption "Lease liabilities" (Note 8).

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e. those leases, the annual lease payments of which are less than EUR 5,000 and do not contain a purchase option). Short-term leases are assessed based on a renewal probability. If the leases have a remaining lease term of less than 12 months at the reporting date, the possibility of extending the leases is then assessed. Extension options are only included in the lease term if the lease is reasonably certain to be extended, an assumption that it will be extended for the planned period is adopted. Lease payments on short term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Current and deferred income tax

Income tax on the profit for the year comprises current and deferred tax. Calculation of income tax is based on requirements of the Lithuanian regulatory legislation on taxation.

The income tax rate in the Republic of Lithuania is 15%.

Tax losses can be carried forward for unlimited consecutive years in Lithuania. As from 1 January 2014, tax loss carries forward that is deducted cannot exceed 70% of the taxable profit of the current financial year. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and can only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred tax is recognised, providing for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets have been recognised in the balance sheet to the extent the Bank's management believes it will be realised in the foreseeable future, based on taxable profit forecasts. When it is probable that future taxable profit will not be available against which the deferred income tax will be utilised, such deferred income tax is not recognized in the financial statements. At the end of 2021, the Bank recognised in its financial statements deferred tax assets, calculated as a result of a change in tax regulation following the start of banking activities and the costs of allowance for loan losses becoming allowable expenses. Consequently, on 31 December 2021, the tax losses were calculated and on the basis of which the deferred tax asset was recognised. As at 31 December 2020, the Bank's financial statements did not include deferred tax asset due to its insignificance.

Revenue recognition

Revenue is recognized when it is probable that future economic benefits will flow to the Bank and the amount of revenue can be measured reliably. Revenue is recognised on accrual basis when earned.

Interest income is recognised on accrual basis regarding the balance of debt. Fee and commission income is recognised on accrual basis and allocated throughout the expected life of the financial instrument. Such income includes a monthly loan administration fee.

The Bank calculates interest income applying effective interest rate. When financial asset value decreases and due to this reason, it is attributed to stage 3, the Bank recognises income by applying effective interest rate to the amortized cost of a financial asset (less ECLs). If financial asset's condition improves, it is returned to stage 2 or stage 1 and the Bank returns to the recognition of financial asset income from the amortised cost before ECLs.

Interest received on late payments and other liabilities related to loans are recognized as income on cash basis, upon receipt of cash from the clients.

Fee and commission income consist mainly of fees related to services, which are accounted for as commission income and include income from payment services, service plans, operation of accounts, etc. This amount reflects the consideration that the Bank expects to receive for the services rendered. Their recognition in the statement of comprehensive income depends on the fulfilment of the Bank's obligations. Income from the provision of services is recognised over the life of the financial instrument. Revenue from transactions is recognised at the time when the transaction occurs. Income from the services is recognised when the Bank fulfils its obligations by executing the specified transaction.

Expenses recognition

Interest on deposits is recognised on an accrual basis taking into account the amount of deposit and by using the interest rate applicable to the deposit agreement. Other operating expenses are recognised in accordance with the principles of accrual and comparability in the accounting period in which the related income is earned regardless of the time of the issue. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

Expenses are usually measured at amount paid or payable, including non-deductible VAT. In cases where a long settlement period is foreseen and no interest is deducted, the cost amount is estimated by discounting the settlement amount at the market rate.

Employee Benefits

The Bank does not have any contribution and benefit plans or share-based payment or promotion plans. Short-term employee benefits are recognised as a current expense in the period when employees render the services. These include salaries and wages, social security contributions, bonuses, paid holidays, etc.

Use of judgements and estimates in the preparation of financial statements

Based on the International Financial Reporting Standards as adopted by the European Union, the management, when preparing the financial statements, has to make certain estimates and assumptions that affect the disclosure of assets, liabilities, income, expenses and contingencies. The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future, are discussed below.

Expected credit losses of loans granted to customers

The Bank regularly reviews its portfolio of loans to assess impairment. In determining whether loan impairment loss should be recorded in profit or loss, the Bank uses estimates whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the Bank's debtors with similar risk characteristics. This estimate is based on the analysis of historical data about the group of debtors with similar risk characteristics and related future information. The probability of default is established for each group of debtors with similar risk characteristics and is used to determine impairment. Assumptions used are reviewed regularly to reduce any differences between loss estimate and actual loss incurred. For more detailed information on the amounts included see Note 6.

Deferred tax asset

Deferred income tax assets are recognized on temporary differences to the extent that it is probable that tax benefits will be utilized against the future taxable profit. Management judgement is required to determine the amount of deferred tax assets to be recognized based on the likely timing and amount of future taxable profits together with future tax planning strategies. Deferred income tax assets are recognized with reference to the Bank's projections of its operations results and taxable profit. Future events may occur which will cause the assumptions used for estimates. The effect of any changes in estimates will be recorded in the financial statements, when determinable. For more information see Note 10.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements, but disclosed when an inflow or economic benefits are probable.

Offsetting

While preparing the financial statements assets and liabilities, and income and expenses are not offset, except cases, when an individual international financial reporting standard requires such offset.

Events after the reporting period

Events after the reporting period that provide additional information about the Bank's position at the statement of financial position date (adjusting events) are disclosed in the financial statements. Events after the reporting period that are non-adjusting events are disclosed in the notes when material.

RISK MANAGEMENT

Risks are inherent in the Bank's activities. Risk management at the Bank is an ongoing process designed to ensure that the risks incurred by the Bank are identified and understood, their consequences are anticipated and measures are taken to mitigate the potential adverse effects of risk events.

The Bank's risk management encompasses the process of continuous recognition, assessment and control, taking into account on risk limits and other controls. The risk management process is important for the Bank's continued profitability and each individual within the Bank is responsible for managing risks related to their responsibilities.

The Bank is exposed to a credit risk, liquidity risk, market risk, operational risk, regulatory capital risk, etc.

Credit Risk

Credit risk is defined as the risk for the Bank to incur losses due to the customers' failure to fulfil their financial obligations towards the Bank. Credit exposures arise principally in lending activities and it is the most significant risk in the Bank's business.

The Bank has implemented a credit risk management system that is continually being refined and includes lending policies, credit risk limit control system, other credit risk management measures, as well as internal control and internal audit of credit risk management.

The Bank's Board has approved the credit risk management policies and procedures which lay down the principles for credit risk management, establish an acceptable level of credit risk and credit risk's structure and determine credit risk mitigation measures and their interaction. This ensures a uniform understanding of the principles for taking on exposure to credit risk and allows achieving consistency with the nature and complexity of the Bank's lending policy and the prudential requirements.

The Bank's credit risk management policy is based on the best practice in risk management of other banks. Therefore, the Bank's employees are keeping abreast of the credit risk management systems implemented in Lithuanian and foreign banks and their management achievements.

The table below illustrates the maximum credit risk. Maximum exposure to credit risk is disclosed net before collateral held.

	As at 31 December 2021	As at 31 December 2020
Cash and cash equivalents:		
Balances with the Bank of Lithuania, gross	3,543,639	-
Balances with commercial banks, gross	1,918,998	25,322
Loans and receivables from customers	41,514,342	1,390,000
Other assets		
Other assets	167,551	2,829
Credit risk exposures relating to off-balance sheet items		
Loan commitments	4,524,811	-
Total:	**51,669,341**	**1,418,151**

Impairment and provisioning policies

Upon assessing impairment losses on loans, cash at banks at amortized cost and at fair value through other comprehensive income and other financial assets, the Bank follows the requirements of the model of expected credit losses (ECLs) prescribed in IFRS 9 Financial Instruments. The Bank carries out valuation of assets on a monthly basis, based on valuation policies approved by the Board of the Bank. The ECL is measured by the formula:

PD x LGD x EAD = ECL

Where:

PD – probability of default. It represents the likelihood of a borrower on defaulting on its financial obligation.

LGD – loss given default. It represents the extent of loss the Bank is likely to incur in case the borrower defaults.

EAD – exposure at default. It represents expected exposure at the time of the default.

The financial assets are grouped into the following three stages:

1) Stage 1 financial assets – no significant increase in credit risk is observed since initial recognition. Stage 1 exposures are subject to a 12-month probability of default.
2) Stage 2 financial assets – significant increase in credit risk is observed since initial recognition. The Bank uses multiple criteria to assess whether the credit risk has increased. Main criteria include: credit rating decrease, payment delays (past due >30 days), other observable criteria (restructuring, granting relief, other qualitative factors showing increased credit risk). Stage 2 exposures are subject to a lifetime probability of default.
3) Stage 3 financial assets – credit-impaired financial assets Main criteria for inclusion the asset in Stage 3 include: bankruptcy of the customer; loss of income; payment delay >90 days; significant deterioration in financial performance; other observable criteria.

In case observable evidence is available, the Bank's employees responsible for impairment calculations can rank certain exposures to better or worse stage. It should be noted that some of the regulatory non-performing exposure criteria have their own exit periods, therefore the period for an exposure to be classified out of Stage 3 may actually be longer.

Based on the stage set for a specific loan, the model implemented in the Bank's systems calculates ECLs. ECLs are assessed at the end of each reporting period.

The probability of default of each borrower is assessed on an individual basis. Customers are divided into 10 risk groups for which a specific probability of default is determined. As the Bank does not yet have a history of its customers, the data on probability of default is purchased from the best service providers in the market and assigned to each of the risk groups. The rating of significant clients is reviewed quarterly, of others – once a year. If review reveals deterioration in the credit quality standing, the risk group is reviewed without delay.

The table below provides a breakdown of the Bank's loan portfolio by stages:

	As at 31/12/2021			As at 31/12/2020		
	Gross	Impairment	Amortised cost	Gross	Impairment	Amortised cost
Stage 1	32,899,016	(80,125)	31,818,891	1,390,000	-	1,390,000
Stage 2	8,387,268	(42,084)	8,345,184	-	-	-
Stage 3	48,154	(28,120)	20,034	-	-	-
In total:	**41,334,438**	**(150,329)**	**41,184,109**	**1,390,000**	-	**1,390,000**

The table below provides a breakdown of the Bank's loan portfolio by stages and days past due:

Days past due	As at 31/12/2021				As at 31/12/2020			
	Stage				Stage			
	1	2	3	Total:	1	2	3	TOTAL:
0–4 days	29,509,534	5,744,179		**35,253,713**	1,390,000	-	-	**1,390,000**
5–30 days	3,389,482	1,315,829		**4,705,311**	-	-	-	-
31–60 days		1,200,991		**1,200,991**	-	-	-	-
61–90 days		126,269	21,757	**148,026**	-	-	-	-
Past due more than 90 day			26,397	**26,397**	-	-	-	-
In total:	**32,899,016**	**8,387,268**	**48,154**	**41,334,438**	**1,390,000**	-	-	**1,390,000**

For loans to customers, LGD ratios are estimated by the Bank for each exposure individually.

Following table shows the distribution of LTV (loan to discounted collateral value) ratios for the Group's loan portfolio:

LTV ratio, %	As at 31/12/2021				As at 31/12/2020			
	Stage				Stage			
	1	2	3	Total:	1	2	3	TOTAL:
Without collateral	105,702	1,968	9,400	**117,070**	1,390,000	-	-	**1,390,000**
<10%	227,321	38,478	-	**265,799**	-	-	-	-
From 10 to 49%	-	-	-	-	-	-	-	-
From 50 to 59%	276,619	-	-	**276,619**	-	-	-	-
From 60 to 69%	-	-	-	-	-	-	-	-
From 70 to 79%	157,387	11,405	-	**168,792**	-	-	-	-
From 80 to 89%	-	-	-	-	-	-	-	-
From 90 to 100%	1,157,881	41,405	26,397	**1,225,683**	-	-	-	-
More than 100%	30,974,106	8,294,012	12,357	**39,280,475**	-	-	-	-
In total:	**32,899,016**	**8,387,268**	**48,154**	**41,334,438**	**1,390,000**	-	-	**1,390,000**

Assets pledged for loans issued are discounted at a discount rate of 8.58% for a period of one year.

Change in total impairment for financial assets is presented below:

	As at 31/12/2021	As at 31/12/2020
Impairment as at 1 January	-	-
Allowance for loans granted, carrying value	150,329	-
Allowance for off-balance sheet loan commitments under signed loan agreements	12,970	-
Allowance for cash and cash equivalents	1,250	-
Impairment as at 31 December	**164,549**	-

Concentration risk

The Bank manages, limits and controls concentration of credit risk – in particular, to individual counterparties and groups of the associated counterparties as well as to economic sectors. The Bank complies with the supervisory requirements to limit the exposures to a single borrower and large exposures set by the Bank of Lithuania. As at 31 December 2021, the Bank complied with the maximum exposure set for non-financial institution and financial institution, the ratio was 18.21% and 53.72%, respectively. In line with the large exposure requirement, exposure to a client or a group of connected clients, i.e., loans granted, also any asset or off-balance-sheet asset share cannot exceed 25% of the institutions Tier 1 capital, or EUR 150 million, whichever the higher, provided that the sum of exposure values.

The following table breaks down concentration of the Bank's credit risk by sectors of economic activity before expected credit losses.

		As at 31/12/2021
	Amount, EUR	Proportion, %
Wholesale	10,565,829	25%
Manufacturing	6,875,395	16%
Real estate	5,314,072	13%
Construction	3,715,447	9%
Arts, entertainment, recreation, health care	3,681,897	9%
Transportation and warehousing	3,165,238	8%
Administration and consulting services	2,870,922	7%
Operating and finance lease	2,022,180	5%
Other	1,605,456	4%
Retail	1,518,002	4%
Total	**41,334,438**	**100%**

The geographical concentration risk in the Group's activities is not significant, as the Group gives priority to residents.

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial liabilities as they fall due. To manage liquidity risk, the Bank's policy provides for the maintenance of a sufficient amount of cash and cash equivalents to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The following table discloses the Bank's maximum liquidity risk exposure without taking into account any collateral:

	As at 31/12/2021					
	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	**In total:**
Assets						
Cash and cash equivalents	5,462,637	-	-	-	-	**5,462,637**
Loans and receivables from customers	176,050	1,357,219	9,330,783	29,820,949	433,196	**41,118,197**
Right-of-use of assets	-	21,796	352,918	66,735	5,915	**447,364**
Other assets	167,551	-	-	-	-	**167,551**
In total:	**5,806,238**	**1,379,015**	**9,683,701**	**29,887,684**	**439,111**	**47,195,749**
Liabilities						
Payables to customers	3,767,863	12,603,986	26,212,950	-	-	**42,584,799**
Debt securities issued (bonds)	-	46,958	-	1,500,000	-	**1,546,958**
Lease liabilities	-	12,557	361,165	63,525	6,501	**443,748**
Other liabilities	141,164	-	-	-	-	**141,164**
In total:	**3,909,027**	**12,663,501**	**26,574,115**	**1,563,525**	**6,501**	**44,716,669**

	As at 31/12/2020					
	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	In total:
Assets						
Cash and cash equivalents	25,322	-	-	-	-	**25,322**
Loans and receivables from customers	-	-	1,390,000	-	-	**1,390,000**
Other assets	2,829	-	-	-	-	**2,829**
In total:	**28,151**	**-**	**1,390,000**	**-**	**-**	**1,418,151**
Liabilities						
Other liabilities	390,723	-	-	-	-	**390,723**
In total:	**390,723**	**-**	**-**	**-**	**-**	**390,723**

Banks must hold sufficient liquid assets to cover net liquidity outflows under gravely stressed conditions over a period of 30 days. The value of the liquidity coverage ratio (LCR) must not be below 100 per cent, i.e., a credit institution's reserves of liquid assets must not be lower than net cash outflows over 30 calendar days under gravely stressed conditions.

As at 31 December 2021, the value of liquidity coverage ratio estimated at 1,855%. As at 31 December 2021, the Bank's net stable funding ratio (NSFR) estimated at 135%. Meanwhile, the Bank's leverage ratio was 5.79% as at 31 December 2021. The Bank received the licence on 12 February 2021, and the obligation to comply with the indicators apply only after the date of receipt, for which reason comparative figures are not provided.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. During the financial year no investments were made in financial instruments related to share prices, and all monetary assets and liabilities were denominated in euros, therefore the Bank was focusing solely on the management of interest rate risk.

Interest rate risk

As at 31 December 2021, the Bank did not have any derivatives with the purpose of managing interest rate risk. The Bank's interest rate gap position is related to the interest rates on a banking book portfolio. As at 31 December 2021, a 2 percentage point increase in market interest rates would decrease the Bank's equity by EUR 138 thousand and the annual profit by EUR 206 thousand, and a 2 percentage point decrease in market interest rates would increase the Bank's equity by EUR 138 thousand and the annual profit by EUR 206 thousand.

	As at 31/12/2021								
EUR thousand	Less than 1 month	1–3 months	3–6 months	6–12 months	1–2 years	2–3 years	3–4 years	4–5 years	**Total**
EFFECT NII* if interest rate increase by 2p.p.	(102)	(51)	(41)	(12)	-	-	-	-	**(206)**
EFFECT NII* if interest rate decrease by 2p.p.	102	51	41	12	-	-	-	-	**206**
EFFECT EVE interest rate increase by 2p.p.**	(101)	(60)	(64)	(44)	63	87	2	(21)	**(138)**
EFFECT EVE* if interest rate decrease by 2p.p.	101	60	64	44	(63)	(87)	(2)	21	**138**

* Net interest income (NII)

** Economic value of equity (EVE)

Foreign currency exchange risk

The Bank's risk management policy provided for the requirement to reconcile cash flows from highly probable future transactions in each foreign currency. The Bank does not use financial instruments to manage foreign exchange risk.

The Bank issues loans to customers only in EUR, and borrows also only in EUR. The Bank does not create significant currency positions in any other way. An insignificant foreign currency position may appear only in exceptional cases: if the customer executes settlement in another currency, foreign currency position may remain until the amount is converted into the main currency of the Bank.

Operational risk

Operational risk is the risk to incur losses due to inadequate internal control processes or incorrect process implementation, people, systems or external incidents. Within the Bank, operational risk management focuses on the risks arising from the people, systems and processes in which the Bank operates. This also includes other risks such as fraud, legal risks, physical or environmental risks.

In addition to calculating the capital requirement for operational risk based on the Basic Indicator Approach, it will be assessed whether the Bank's use of outsourcing requires additional Pillars 2 requirements. In calculating the minimum required capital requirement for operational risk, the Bank applies the Basic Indicator Approach. The calculation of the operational risk also makes part of the internal capital adequacy assessment process. The risk appetite, risk tolerance, and early warning limit for operational risk are implemented accordingly.

Regulatory capital

The Bank must hold sufficient capital for covering unexpected losses, ensuring the Bank's ability to comply with capital adequacy requirements, and maintain the optimal level of capital to grow the investment portfolio and to hedge against potential risks.

Banks must satisfy the following own funds requirements: 4.5% a Tier 1 capital ratio of 6% Equity Tier 1 capital ratio and a total capital ratio of 8% In addition to the capital requirement, to which the ratio of 8% is further applied, banks must meet additional capital buffer requirements: capital conservation buffer of 2.5% and institution's special countercyclical capital buffer requirement. The countercyclical capital buffer requirement of 0% was set by the decision of the Bank of Lithuania at the reporting date.

As at 31 December 2021, the Bank complied with all own funds and additional capital buffer requirements, and the capital adequacy ratio estimated at 16.4%. Further information on the Bank's compliance with indicators is provided for in the Pillar 3 report, which is publicly available on the Bank's website.

The table below shows the Bank's key performance indicators.

Indicator	Amount, EUR thousand	Indicator, %
Common Equity Tier 1 capital	2,632	10.4%
Tier 1 capital	2,632	10.4%
Total capital	4,132	16.4%
Risk exposure amount	25,248	-

NOTE 1: Net interest income (expense)

	As at 31/12/2021	As at 31/12/2020
Interest income		
Loans to legal persons	1,432,345	31,711
Total interest income:	**1,432,345**	**31,711**
Interest expense		
Interest expense on customer deposits	(73,771)	-
Bond interest expenses	(46,958)	-
Interest for cash balances held with the Bank of Lithuania	(13,489)	-
Interest expense from loans from related parties	(8,704)	(17,348)
Interest expense on assets	(7,613)	-
Total interest expenses	**(150,535)**	**(17,348)**
Net interest income	**1,281,810**	**14,363**

NOTE 2: Net fee and commission income (expense)

	As at 31/12/2021	As at 31/12/2020
Commission income		
Commission income from lending services	5,950	-
Commission income from payment services	4,617	-
Other commission income	2,634	-
Total commission income:	**13,201**	**-**
Commission expenses		
Commission expenses related to deposits	(55,794)	-
Commission expenses related to lending services	(19,724)	-
Commissions payable to banks	(5,628)	(159)
Commission expenses related to bonds	(3,000)	-
Total commission expenses:	**(84,146)**	**(159)**
Net commission (expenses)	**(70,945)**	**(159)**

NOTE 3: Staff costs

	As at 31/12/2021	As at 31/12/2020
Wages and salaries and related tax expenses	641,444	15,224
Vacation accruals	27,579	1,435
Social security contributions	11,201	270
Other personnel expenses	964	-
TOTAL:	**681,188**	**16,929**

NOTE 4: Administrative expenses

	As at 31/12/2021	As at 31/12/2020
Tax expenses	93,840	307
IT and other communication expenses	72,020	-
Legal and consultation expenses	64,925	22,405
Office rent and maintenance expenses	23,987	2,545
Transport expenses	12,960	667
Accounting services	11,688	-
Financial audit expenses	11,600	-
Business trip expenses	4,981	-
Other expenses	23,041	13
TOTAL:	**319,042**	**25,937**

NOTE 5: Cash and cash equivalents

	As at 31/12/2021	As at 31/12/2020
Balances with the Bank of Lithuania		
Correspondent account with the Bank of Lithuania	3,355,639	-
Minimum reserve in local currency, gross	188,000	-
Balances with the Bank of Lithuania, gross	**3,543,639**	**-**
Balances with commercial banks		
Gross	1,920,248	25,322
Expected credit losses (-)	(1,250)	-
Balances with commercial banks, gross	**1,918,998**	**25,322**
TOTAL:	**5,462,637**	**25,322**

The minimum reserves held at the Bank of Lithuania are calculated by applying, to the amount of eligible liabilities, the reserve ratios for the corresponding categories of liabilities. As from 1 January 2015, a 1% required reserve ratio applies. The minimum reserves are held at the Bank of Lithuania as deposits on demand. The Bank is free to dispose of the funds held in the Bank's settlement account with the Bank of Lithuania, the average of which may not be less than the estimated minimum reserve during the entire reserve maintenance period.

Cash balances in correspondent accounts and funds in the Bank of Lithuania are assigned to Level 1 financial assets. The following table discloses the Bank's cash balances in correspondent accounts by credit ratings:

Rating	As at 31/12/2021	As at 31/12/2020
From A- to A+	1,896,681	25,322
Cash balances at banks without external rating (internal rating – Standard risks)	23,567	-
In total:	**1,920,248**	**25,322**

NOTE 6: Loans to customers

	As at 31/12/2021	As at 31/12/2020
Loans to SMEs	40,839,692	1,390,000
Interests accrued	101,094	-
Adjustment to the acquisition cost of claims due to related party transfer pricing	393,652	-
Expected credit losses (-)	(150,329)	-
In total:	**41,184,109**	**1,390,000**

During the financial year 2021, the Bank acquired claims for EUR 20,326 thousand from the related party. The acquisition cost of claims was determined by calculating the present value of future cash flows using a discount rate corresponding to market conditions.

In 2021, the Bank sold some of these loans as non-performing and accounted for a loss of EUR 101 thousand from sales. Additionally, some of the loans were repaid before their maturity, which generated an additional loss of EUR 53 thousand for the Bank. The total amount of the loss was recorded in the statement of comprehensive income under the line item “Loss on financial assets measured at amortised cost”.

NOTE 7: Intangible assets and property, plant and equipment

Intangible assets	**Basic software**	**Additional software**	**Other intangible assets**	**Total intangible assets**
Net book value at the end of the previous financial year	**545,326**	**-**	**-**	**545,326**
(A) Intangible assets at acquisition cost				
At the end of the previous reporting period	545,326	-	-	545,326
Changes in current reporting period:				
- Additions	657,714	24,828	3,781	686,323
At the end of the reporting period	**1,203,040**	**24,828**	**3,781**	**1,231,649**
(b) Amortisation				
At the end of the previous reporting period	-	-	-	-
Changes in current reporting period:				
- Amortisation charge for the year	108,312	3,869	-	112,181
At the end of the financial year	**108,312**	**3,869**	**-**	**112,181**
(c) Net book value at the end of the financial year (a)-(b)	**1,094,728**	**20,959**	**3,781**	**1,119,468**

Property, plant and equipment	**Plant**	**Computers**	**Plant and machinery**	**Total property, plant and equipment**
Net book value at the end of the previous financial year	**-**	**-**	**-**	**-**
(a) Property, plant and equipment at acquisition cost				
At the end of the previous reporting period	-	-	-	-
Changes in current reporting period:				
- Additions	824	31,067	364	32,255
At the end of the financial year	**824**	**31,067**	**364**	**32,255**
(b) Amortisation				
At the end of the previous reporting period	-	-	-	-
Changes in current reporting period:				
- Amortisation charge for the year	103	6,717	81	6,901
At the end of the financial year	**103**	**6,717**	**81**	**6,901**
(c) Net book value at the end of the financial year (a)-(b)	**721**	**24,350**	**283**	**25,354**

NOTE 8: Right-of-use assets and lease liabilities

The carrying value of right-of-use assets as at 31 December 2021 and its movement throughout the year is disclosed in the tables below:

	Vehicles	Rented premises	In total
Net book value at the end of the previous financial year	-	-	-
(a) Carrying amount of the right-of-use assets			
At the end of the previous reporting period	-	-	-
Changes in current reporting period:			
- Additions	90,055	623,114	713,199
- derecognition of right-of-use assets	-	(210,917)	(210,917)
At the end of the financial year	**90,055**	**412,197**	**502,252**
(b) Amortisation			
At the end of the previous reporting period	-	-	-
Changes in current reporting period:			
- Amortisation charge for the year	4,503	50,385	54,888
At the end of the financial year	**4,503**	**50,385**	**54,888**
(c) Net book value at the end of the financial year (a)-(b)	**85,552**	**361,812**	**447,364**
Discount rate	1.79%	3.15%	
Lease term	More than 5 years	More than 5 years	

Carrying value of lease liabilities and their movement throughout the period was as follows:

	2021	2020
As at January 1	-	-
Acquisitions	703,792	-
Increase in interest	7,614	-
Payments	(64,760)	-
Terminations	(202,898)	
As at 31 December	**443,748**	-
Current liabilities	*78,395*	-
Non-current liabilities	*365,353*	-

On 31 December 2021, the existing lease of the premises was terminated and a new lease was signed for the term until 31 December 2026. The loss of EUR 8,018 resulting from termination of the lease was disclosed in the statement of comprehensive under the line item other operating income (expenses). No penalty or termination fees were imposed.

NOTE 9: Other liabilities

	2021	2020
Debts to related parties	-	361,013
Trade liabilities	61,937	27,540
Vacation accruals	29,014	1,435
Employment-related liabilities	18,298	735
Other liabilities	18,946	-
Total:	**128,195**	**390,723**

NOTE 10: Current and deferred income tax

	2021	2020
Current income tax expenses	-	-
Change of deferred income tax	34,470	-
Income tax benefit (expenses)	**34,470**	**-**

Recognised income tax income (expenses) can be reconciled with income tax expense amount, resulted from the application of statutory income tax rate to profit before tax as follows:

	2021	2020
(Loss) before income tax	**(253,191)**	**(29,996)**
Non-taxable income	(23,753)	-
Non-deductible expenses	22,344	-
Total taxable profit (loss)	**(254,598)**	**(29,996)**
Tax rate	*15%*	*15%*
Deferred tax on tax losses	38,190	4,499
Deferred tax on right-of-use assets	(67,104)	
Deferred tax on lease liability	66,562	
Deferred tax on accrued expenses	(1,975)	(4,499)
Total deferred tax asset	**34,470**	**-**
Deferred tax assets at the beginning of the period	**-**	**-**
Deferred tax assets at the end of the period	**34,470**	**-**

NOTE 11: Other assets

	As at 31/12/2021	As at 31/12/2020
Receivable from related parties	120 722	-
Other assets	46,829	2,829
Total other assets	**167,551**	**2,829**

NOTE 12: Payables to customers

All deposits are accepted only from citizens of the European Union and only in euro. Deposits are subject to fixed interest rates. Collection of deposits is outsourced to third parties. In 2021, the average interest rate paid on deposits was 0.48%.

Pursuant to the Law on Insurance of Deposits and Liabilities to Investors of the Republic of Lithuania, the Bank is obliged to pay annual contributions to the Deposit and Liabilities to Investors Insurance Funds. In 2021, these costs amounted to EUR 12,407 and were classified as service and commission costs in the statement of comprehensive income. As from 2015, insurance coverage is provided for all the deposits 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.

	As at 31/12/2021	As at 31/12/2020
Term deposits	38,764,636	-
Demand deposits	3,768,560	-
Interests accrued	51,603	-
Income tax benefit (expenses)	**42,584,799**	-

NOTE 13: Debt securities

On 5 July 2021, the Bank issued 1,500 subordinated bonds with a nominal value of EUR 1,000 each in dematerialised book-entry form. The bonds were not included in trading on a regulated market. The bonds meet the criteria to be included under Tier 2 Capital. The bonds are redeemable in five years and pay annual interests of 7% twice a year. Bonds issued are not subject to pledge.

As at 31 December 2021, the Bank's liabilities related to the bonds consisted of the following:

	As at 31/12/2021	As at 31/12/2020
Issued bonds	1,500,000	-
Interests accrued	46,958	-
Accrued expenses related to bond issue	(27,000)	-
Total debt securities	**1,519,958**	**-**

NOTE 14: Equity

	Number of shares	Nominal value per share, EUR	Amount
Structure of authorised share capital at the end of previous reporting period			
Ordinary shares	3,500,000	1	3,500,000
Subscribed unpaid capital (-)	(1,897,250)		(1,897,250)
TOTAL:	**1,602,750**		**1,602,750**
Structure of issued capital and reserve capital at the end of previous reporting period:			
Ordinary shares	3,500,000	1	3,500,000
Reserve capital	500,000		500,000
TOTAL:	**4,000,000**		**4,000,000**

Except for the aforementioned ordinary registered shares, the Bank does not have any other type of shares. The subscribed unpaid capital at the end of the previous reporting period was paid on 6–7 January 2021. The issued capital of the Bank was fully paid as at 31 December 2021.

During 2021, the Bank did not acquire and disposed of its own shares, and did not hold its own shares as at 31 December 2021 and 2020.

Reserve capital

On 20 December 2021, the reserve capital of EUR 500,000 was set by cash contributions of the Banks shareholders. The purpose of the Bank's reserve capital is to guarantee the financial stability of the Bank.

Legal reserve

As at 31 December 2021, the Bank did not have legal reserves. The entity is obliged to form a legal reserve under the legislation of the Republic of Lithuania. The entity isr required to make annual transfers comprising 5% of the net profit calculated in accordance with the requirements of the legislation on financial accounting of the Republic of Lithuania until the reserve reaches 10% of the issued capital.

Retained earnings (loss)

	2021
Retained loss at the end of previous reporting period:	**(29,996)**
Net (loss) for the reporting period	(218,721)
Result to be distributed	**(248,717)**
Amount of the profit allocated to the legal reserve	-
Amount of the profit allocated to the reserve capital	-
Retained loss at the end of previous reporting period:	**(248,717)**

NOTE 15: Off-balance sheet assets and liabilities, contingencies

On 31 December 2021, the Bank undertook to provide loans for the total amount of EUR 4,524,811.

The Tax Authorities may at any time during five successive years after the end of the reporting tax year carry out an inspection on the Bank's books and accounting records and impose additional taxes or fines. The Bank's management is not aware of any circumstances that would cause the company any additional material tax liabilities.

NOTE 16: Transactions with related parties

Related parties are defined as shareholders, employees, members of the Board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with the Bank, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

During 2021 and 2020, a number of transactions with related parties took place in the course of normal activities. These transactions are disclosed in the tables below:

2021	Purchases	Sales	Receivables	Payables
Shareholders	-	-	-	-
Company A	20,374,541	5,934,732	93,178	
Company B	-	55,847	6,351	
Other related companies	77,432	-	21,193	-

2020	Purchases	Sales	Receivables	Payables
Shareholders	-	-	-	-
Company A	410,455	-	-	361,013
Company B	-	-	-	-
Other related companies	-	-	-	-

2021	Loans granted	Interest income	Loans received	Interest expense
Shareholders	-	-	-	-
Company A	-	-	-	-
Company B	600,000	246,664	-	-
Other related companies	-	-	-	8,704

2020	Loans granted	Interest income	Loans received	Interest expense
Shareholders	-	-	-	-
Company A	-	-	-	-
Company B	1,390,000	31,711	-	-
Other related companies	-	-	-	-

Remuneration of the Bank's management

Information about payments to members of the Board and Chief Administrative Officer in 2021 and 2020 is disclosed in the table below:

	2021	2020
Management remuneration charged per year:		
- Employment-related remuneration	268,339	52
- Other significant amounts	34,604	-

In 2021, average number of management was 4 (in 2020: 1).

NOTE 17: Events after the reporting period

Although the effects of the health crisis have diminished, not all sectors have recovered to the same extent. In addition, rising energy prices and inflation aggravate the negative effect on the Lithuanian and European economies. The management regularly monitors the impact on the quality of the loan portfolio and new sales. It is evident that the changing economic environment does not have the same impact in all sectors and segments of customers that we take into account both when selling new services and assessing the quality of the existing portfolio. If necessary, the Bank stands ready to offer the customers a range of financing options and flexible terms of existing contracts.

To support the growth of business volumes and strengthen the capital base, the Bank's shareholders raised the Bank's reserve capital by EUR 500 thousand on 15 February 2022. The additional reserve is included in the Bank's Tier 1 capital.

On 24 February 2022, the Russian Federation has launched a military invasion against the independent state of Ukraine. We have carried out an initial assessment of the potential consequences of the invasion on our loan portfolio. We assessed customer ownership structures, sales and supply markets, location of manufacture and other related factors. This analysis revealed that the impact on our customers is minimal and that the number of our customers with ownership affiliation with the affected region is limited. Willing to reflect potential losses, the Bank reduces reserves/receivables (if they are pledged) of high-risk customers, if collateral is not available, proportionally the share of suppliers/buyers from Russia, Belarus or Ukraine in the customer's supply chain. Additionally, customer ratings and probability of default values (PD) are adjusted: for mid-risk clients, the PD ratio is increased to the maximum PD value set for the customer's risk level. This has no significant impact on the Bank's loan portfolio. To date, all credit exposures in question are secured with collateral. Customer risks associated with the supply of materials, location of manufacturing facilities/operations in most cases can be easily mitigated or eliminated. Nevertheless, given that the situation is unpredictable and constantly changing, the current assessment is preliminary in nature and will be regularly reviewed. We do not see any risks to the Bank's ability to continue as a going concern.

These financial statements were prepared on 31 March 2022.

Head of Administration
Mantvydas Štareika

Head of Finance
Agnė Gedraitė