UAB SME Bank

BANK'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

Contents

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

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

In our opinion, the accompanying financial statements present fairly, in all material respects, of the financial position of the Bank as at 31 December 2022, and their financial performance and cash flows for the year then ended in accordance with the laws on accounting and financial reporting of the Republic of Lithuania and International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (Regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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 matter below, provide the basis for our audit opinion on the accompanying financial statements.

Expected credit losses for loans granted to customers

Please refer to sub-sections Credit loss allowance, Measurement of expected credit losses, Accounting for loss allowance and Section of Credit risk in Risk management and Note 7 "Loans to customers", in pages 20-21, 26-29 ir 36, respectively.

As at 31 December 2022, expected credit losses reported in the Bank's statement of financial position amounted to EUR 276 thousand (see Note 7).

The Bank's credit loss allowances in the statement of profit or loss and other comprehensive income for the year ended 31 December 2022 amounted to EUR 126 thousand (Note 7).

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

Impairment allowances for performing exposures (Stage 1 and Stage 2 based on the hierarchy of IFRS 9) and non-performing exposures (Stage 3) individually are determined based on the Bank's knowledge and understanding of each individual borrower. Related loss allowances are determined on an individual basis by means of a discounted cash flows analysis.

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

How the Matter Was Addressed in the Audit

Our audit procedures among others included the following:

- we obtained an understanding of the Bank's ECL methodology and assessed its compliance with the relevant requirements of IFRS 9. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of IFRS 9 requirements. Additionally, we challenged the management on whether the level of the methodology's sophistication is appropriately based on our assessment of the entity-level factors.
- we obtained an understanding of significant deficiencies in the application of an ECL model and credit risk management included in the Bank of Lithuania's report of the targeted inspection dated 8 February 2023.
- we obtained an understanding of the retrospective review of the Bank's ECL estimates carried out by the Credit Committee on 23 December 2022, and its response to the results of the review, and performed our own independent back-test.
- we made inquiries of the Bank's risk management and information technology (IT) personnel to gain understanding of IT applications used in the loan impairment process. Also, we assessed and tested the Bank's control environment for data security and access.
- we tested the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the monitoring of identification of events of default, as well as appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, and the overall ECL estimate.
- we assessed whether the definition of default and the staging criteria were applied consistently and in accordance with the relevant financial reporting standards.
- we evaluated whether in its loan staging and ECL measurement the Bank appropriately considered the impact of the war in Ukraine.
- we critically assessed the existence of any triggers for classification to Stage 3 as at 31 December 2022, by reference to the underlying documentation (loan files) and through discussion with the management and taking into consideration business operations of the respective customers as well as market conditions and historical repayment pattern.
- for the exposures with triggers for classification in Stage 3, challenging key assumptions applied in the Bank's estimates of future cash flows such as primarily collateral values (including related haircuts) and realization period by reference to our inspection of external valuation reports, the Bank's internal evidence and analyses and publicly available market transaction data.
- we evaluated the accuracy and completeness of the loan impairment and credit risk-related disclosures in the financial statements by reference to the requirements of applicable financial reporting standards.

Other matters

The Bank of Lithuania conducted the targeted inspection of the Bank, however, no decision on the imposition of the sanction was taken as at the reporting date. There is significant uncertainty as to the potential impact of the sanction on the Bank's performance. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

- The information given in the Bank's annual report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The 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 laws on accounting and financial reporting of the Republic of Lithuania, and International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed by the General Meeting of Shareholders on 29 April 2022 to audit the financial statements of the Bank for the year ended 31 December 2022. Our appointment to carry out the audit of the Company's financial statements in accordance with the decision made by the General Meeting of Shareholders is renewed every two years and the period of total uninterrupted engagement is two years.

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

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

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

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

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

Certified Auditor
Darius Gliaubicas
License No 000594
5 April 2023

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 regional areas.

The services of the Bank's holding a specialized banking license are available across Baltics, and, from 2022, in Finland. During a year and a half of its operation, the Bank attracted more than 700 business customers, of which more than 90% (data as at 31 December 2022) had a loan and/or a bank account.

The growing number of customers indicates the need for alternative financing solutions for small and medium-sized businesses. Small and medium-sized companies need tailor-made solutions that facilitate their establishment in the market, help them be more flexible, acquire greater negotiating power with suppliers and partners, be able to smoothly manage their operations and obtain some insurance against the threat they face in their economic activities.

SME Bank customer

In 2022, the Bank's customers operate in retail (30%) and manufacturing (18%) industry, as well as real estate (11%), construction (10%), scientific and technical (8%), transport and logistics (6%) and business customer operating in other industries. The Bank's portfolio mainly comprises loans for working capital.

SME Bank partners

As in the previous year, in 2022, the Bank continued its cooperation with UAB Investicijų ir verslo garantijos (INVEGA) and UAB Žemės ūkio paskolų garantijų fondu (ŽŪPGF). This allows 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 partnered with the European Investment Fund (EIF) to channel financing to Lithuanian SMEs. As at 31 December 2022, after the EIF programme ended, the Bank aims to pursue cooperation for EU INVEST programmes supporting innovation, digitalisation, microfinance and sustainability activities (in total four separate programmes).

As at 31 December 2022, the balance of EIF-backed loans granted was EUR 30 million, INVEGA-backed loans – EUR 11 million, thus providing a better access to credit facilities and rapid growth to at least 500 companies.

In 2022, the Bank teamed up wit the national development agency ŽŪPGF for provision of preferential loans to farmers suffering from Russia's war on Ukraine. The aim of this measure was to ensure the economic stability of the regions and to negative consequences caused to the financial condition of Lithuanian farmers. During the programme, the aid of EUR 5 million was granted to more than 50 customers, and the Bank has already received the aid of EUR 3 million to be granted in 2023, and intends to additionally issue up to EUR 7 million of preferential loans.

In 2022, the Bank entered into cooperation with Finnvera, a Finnish state fund, and became the first foreign-owned bank in Finland providing state-backed business loans.

While expanding to global markets, the Bank envisages continuing cooperation with Kredex in 2023 for provision of guarantees to customers in the Estonian market. At the same time, the Bank plans to conclude a new agreement with Finnvera in 2023 for guarantees intended for the Finnish market.

SME Bank services

In 2022, the Bank successfully developed cooperation partnerships with e-commerce and e-trade platforms, opening up new opportunities for small and medium-sized businesses. In response to the growth of e-commerce business and its needs, the Bank, in August 2022, started cooperation with UAB Kevin EU, an innovative payment infrastructure, by offering payment initiation services to business customers and business financing services, and, amongst other things, payment services were improved by analysing the turnover of business bank accounts. The newly developed banking services were offered to small and medium-sized companies in e-commerce industry and to sellers on UAB Pigu.lt platform.

In 2022, the Bank significantly increased its investments in the development of products and IT solutions in order to meet the growing business demand for fast, flexible financing and other banking services not only in Lithuania, but also in other EU countries where the Bank has started its expansion. A number of projects were initiated, including SEPA Instant payments, connection to the worldwide interbank financial telecommunication and payment system (SWIFT), development of foreign exchange module in the main system of the Bank and online banking, and improvement of functionality of international orders.

In Q2 2022, customers were offered a new product – overdraft. With growing customer base both locally and globally, efforts were made to introduce an internationally accepted mode for signing transactions also tailored for non-resident customers, to automate Know Your Customer (KYC), online customer identity verification and document submission processes.

In addition to emerging new products, the Bank put efforts to improve existing systems to provide customers with relevant and immediate information about the products used, and introduced new integrations to meet the highest standards on the prevention of money laundering and terrorist financing, as well as other regulatory requirements.

In 2023, the need for significant investments in the continuous development of IT infrastructure and improvement of operational effectiveness will persist, thus enabling to further accelerate the financing process in the Baltic States and other new markets. In 2023, the Bank plans to focus on further process automation, automatic credit solutions and growth in the number of customers. The Bank is also planning to further expand into the European Economic Area.

SME Bank's financial and activity reports

In 2022, the Bank earned EUR 4,886 thousand in interest income (2021: EUR 1,409 thousand). During 2022, the Bank built a loan portfolio of EUR 63 million (2021: EUR 41 million), and made a net profit of EUR 696 thousand (2021: incurred a net loss of EUR 219 thousand). As at 31 December 2022, the Bank had attracted EUR 85 million in customer deposits (2021: EUR 43 million).

- In 2022, 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 2022, 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 2021: EUR 3,500,000).

In December 2022, Mantvydas Štareika resigned from his function as a Chief Administrative Officer of the Bank. In February 2023, Virginijus Doveika was appointed Executive Director of the Bank, who, with the permission of the Bank of Lithuania, will be appointed Chief Executive Officer of the Bank. Ieva Naudžiūnaitė has been appointed acting Chief Executive Officer.

By the way of resolutions of the general meeting of shareholders adopted in 2022, the additional Bank's reserve capital of EUR 1,500 thousand was created during 2022 (as at 31 December 2022, the reserve capital totalled EUR 2,000 thousand). The reserve is designed to support the increase in business lending volumes and to strengthen the capital base.

In October 2022, the Bank of Lithuania initiated the Bank's routine inspection, which was still in progress as at the date of issue of financial statements. Currently, the Bank's management, on the basis on the observations contained in the inspection report of the Bank of Lithuania, makes certain changes in its internal processes to improve the Bank's operations.

No significant events have occurred after the end of the financial year, which could have material influence on the Bank's 19.

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 set of financial statements (including profit 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. The Supervisory Board consists of two 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.

Marius Svidinskas and Sven Oliver Hein are the 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. Currently, the Board is composed of three 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, Nemira Palaimienė and 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 Chief Administrative Officer of the Bank, members of the Board and the Supervisory Board:

- Marius Svidinskas, Member of the Supervisory Board
    - Main workplace: UAB EBV Finance, Executive, Member of the Board;
    - Other current positions:
        - UAB EASY DEBT SERVICE, 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.
- Sven Oliver Hein, Member of the Supervisory Board
    - Main workplace: Technische Hochschule Mittelhessen University of Applied Sciences, professor.
    - Other current positions:
        - OTRS AG, Member of the Supervisory Board;
        - BalticMore Agency UG, Member of the Advisory Board;
- Audrius Milukas, Chairman of the Board
    - Main workplace: UAB SME Finance, Chairman of the Board and Advisor for Strategic Affairs.
    - Other current positions:
        - UAB A. Miluko investicijos, Director,
        - UAB Open Circle Capital GP, Director.
- 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: Utenos trikotažas, Independent member of Audit Committee
- Virginijus Doveika, Executive Director
    - Main workplace: UAB SME Bank, Executive Director.
    - Other current positions:
        - UAB Laicus, Director;
        - UAB Valstybės investicijų valdymo agentūra, Member of the Board.
- Ieva Naudžiūnaitė, Acting Chief Executive Officer
    - Main workplace: UAB SME Bank, Acting Chief Executive Officer/Chief Operating Officer/Deputy Chief Executive Officer.
    - Other current positions: none.

Committees

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

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 Compliance Committee was established at the beginning of 2021 by a decision of 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.

Deputy Chief Executive Officer Ieva Naudžiūnaitė

(All amounts are in Euro, unless otherwise stated)

STATEMENT OF PROFIT OR LOSS OR OTHER COMPREHENSIVE INCOME

Items	Note	Current reporting period	Previous reporting period
Interest income recognised using the effective interest rate method	1, 3	4,885,646	1,408,593
Interest expenses	1	(734,568)	(150,535)
Net interest income (expense)		**4,151,078**	**1,258,058**
Fee and commission income	2, 3	449,699	36,954
Service and commission expense	2	(497,883)	(84,146)
Net fee and commission income (expense)		**(48,184)**	**(47,192)**
Loss on disposal of financial assets		(114,194)	(154,714)
Other operating income (expenses)		8,345	58,859
Other operating gain (loss)		**(105,849)**	**(95,855)**
Staff costs	4	(1,825,153)	(681,188)
Administrative expenses	5	(787,591)	(319,042)
Marketing expenses	5	(104,839)	(29,452)
Depreciation and amortization expenses	8, 9	(392,603)	(173,970)
PROFIT (LOSS) BEFORE IMPAIRMENT LOSS		**886,859**	**(88,641)**
Credit loss allowance	7	(125,543)	(150,329)
Other loss provisions		10,579	(14,220)
PROFIT (LOSS) BEFORE INCOME TAX		**771,895**	**(253,190)**
Income tax expense	11	(76,243)	34,470
NET PROFIT (LOSS)		**695,652**	**(218,720)**
TOTAL COMPREHENSIVE INCOME		**695,652**	**(218,720)**
Earnings (loss) per share (EUR per share)		0.20	(0.06)

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

These financial statements were prepared on 5 April 2023.

Deputy Chief Executive Officer

Ieva Naudžiūnaitė

Chief Financial Officer

Gerda Kacevičienė

STATEMENT OF FINANCIAL POSITION

Items	Note	Current reporting period	Previous reporting period
ASSETS			
Cash and cash equivalents	6	29,166,527	5,462,637
Loans to customers	7	63,268,761	41,184,109
Intangible assets	8	1,513,170	1,119,468
Property, plant and equipment	8	37,399	25,354
Right-of-use of assets	9	358,079	447,364
Deferred tax assets	11	-	34,470
Other assets	12	140,401	167,551
TOTAL ASSETS		**94,484,337**	**48,440,953**
LIABILITIES			
Customer deposits	13	85,382,353	42,584,799
Debt securities liabilities	14	2,010,689	1,519,958
Lease liabilities	9	360,409	443,748
Provisions for off-balance sheet liabilities		664	12,970
Deferred tax liabilities	11	13,332	-
Other liabilities	10	769,955	128,195
TOTAL LIABILITIES		**88,537,401**	**44,689,670**
EQUITY			
Issued capital	15	3,500,000	3,500,000
Reserve capital	15	2,000,000	500,000
Retained earnings (loss)	15	446,935	(248,717)
TOTAL EQUITY		**5,946,935**	**3,751,283**
TOTAL EQUITY AND LIABILITIES		**94,484,337**	**48,440,953**

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

These financial statements were prepared on 5 April 2023.

Deputy Chief Executive Officer

Ieva Naudžiūnaitė

Chief Financial Officer

Gerda Kacevičienė

STATEMENT OF CHANGES IN EQUITY

	Issued capital	Reserve capital	Retained earnings	Total equity
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**
Reserve capital	-	1,500,000	-	1,500,000
Net profit for the year	-	-	695,652	695,652
For the year ended 31 December 2022	**3,500,000**	**2,000,000**	**446,935**	**5,946,935**

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

These financial statements were prepared on 5 April 2023.

Deputy Chief Executive Officer

Ieva Naudžiūnaitė

Chief Financial Officer

Gerda Kacevičienė

(All amounts are in Euro, unless otherwise stated)

STATEMENT OF CASH FLOWS

Items	Note	Current reporting period	Previous reporting period
Net profit (loss) before income tax		**771,895**	**(253,190)**
Adjustments:			
Credit loss allowance		125,543	150,329
Other loss provisions		(10,579)	14,220
Interest income		(4,797,889)	(1,362,057)
Interest expenses		824,347	148,308
Depreciation and amortisation		392,603	173,970
Right of use contract modification		20,937	-
Loss on termination of the rights to claim		114,194	154,714
TOTAL ADJUSTMENTS TO OPERATING ACTIVITIES		**(3,330,844)**	**(720,516)**
(Increase) decrease in loans to customers		(22,175,058)	(19,686,105)
Acquisition of claims to loans		-	(20,326,174)
Increase/(decrease) in customer deposits		42,483,350	42,434,635
(Increase)/decrease in finance lease receivables		-	(502,251)
(Increase) decrease in other receivables		27,150	(525,736)
Increase (decrease) in other payables		593,533	1,026,047
CHANGE IN ASSETS AND LIABILITIES OF OPERATING ACTIVITIES		**20,928,975**	**2,420,416**
Interest received		4,659,138	1,260,963
Interest paid		(385,794)	(22,168)
NET CASH FROM OPERATING ACTIVITIES		**22,643,370**	**2,685,505**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(751,335)	(1,079,590)
Acquisition of right-of-use assets		(18,668)	
Disposal of property, plant and equipment and intangible assets		40,000	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(730,003)**	**(1,079,590)**
CASH FLOWS FROM/USED IN FINANCING ACTIVITIES			
Paying up shares issued		-	1,897,250
Paying-up reserve capital	15	1,500,000	500,000
Issue of bonds	14	500,000	1,500,000
Loans received		-	203,000
Loans (repaid)		-	(203,000)
Interest paid		(128,117)	(8,704)
Loan liabilities paid, including interest		(81,360)	(57,146)
NET CASH FLOWS FROM/USED IN FINANCING ACTIVITIES		**1,790,523**	**3,831,400**
Net increase in cash and cash equivalents		**23,703,890**	**5,437,315**

(All amounts are in Euro, unless otherwise stated)

Cash and cash equivalents at the beginning of year		**5,462,637**	**25,322**
Cash and cash equivalents at end of year	**6**	**29,166,527**	**5,462,637**

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

These financial statements were prepared on 5 April 2023.

Deputy Chief Executive Officer

Ieva Naudžiūnaitė

Chief Financial Officer

Gerda Kacevičienė

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 2022.

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 2022, 48 employees were employed in the Bank (as at 31 December 2021: 25). In 2022, the average number of employees was 40 (2021: 16 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 December 2022		As at 31 December 2021	
	Number of shares	Interest held	Number of shares	Interest held
UAB Magnus Investments	1,627,500	46.5%	1,627,500	46.5%
UAB AKM Finance	1,627,500	46.5%	1,627,500	46.5%
UAB KR Finance	245,000	7%	245,000	7%
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 2022 and 2021, 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 financial accounting and financial reporting of the Republic of Lithuania. In addition, the financial statements are prepared in accordance with the Law on Banks of the Republic of Lithuania, the Law on Financial Statements of Entities of the Republic of Lithuania, taking into account other regulations and recommendations of the Bank 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 expense 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.

Adoption of new and/or amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

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

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

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

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

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

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

Standards issued but not yet effective and not early adopted and their amendments

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

IFRS 17 and IFRS 4: the Deferral of Effective Dates of IFRS 17 and IFRS 9 for Insurers (Amendments) (issued on 25 June 2020 with effective date of 1 January 2023).

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

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

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

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

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

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

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

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

The management has not yet evaluated the impact of the implementation of these amendments.

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

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

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

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

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

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

Amendments to IAS 1 "Non-current Liabilities with Covenants" (issued on 31 October 2022 with effective date of 1 January 2024, but not before it is adopted by the EU):

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

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

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

The amendments have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of these amendments.

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 Such investments mature in less than three months and are subject to 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 "Credit loss allowance".

Financial instruments

Financial instruments make up the majority of the Bank's assets on the balance sheet. Financial instrument: a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Cash and a contractual right to receive cash are classified as financial assets, meanwhile a contractual right to pay cash or deliver other financial assets are classified as financial liabilities. A derivative is a financial instrument whose value changes in response to the change in an underlying variable such as a foreign exchange, interest rate or share prices, requires little or no initial investment and is settled at a future date.

Classification of financial instruments in specific balance sheet items takes into account the nature of a financial instrument and its counterparty. A financial instrument without a specific counterparty or listed on a stock exchange is classified as a security in the balance sheet statement.

Financial assets

As at 31 December 2022 and 2021, the Bank's financial assets consisted of cash, cash equivalents and assets attributable to loans and other receivables.

Classification and measurement

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 Bank'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 (refer to paragraph "Contract costs" for more details)...

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

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, 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).

Amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus accrued interest, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any credit loss allowance.

Assets at amortised cost may be sold, but sales (other than sales low in volume or sales as part of problem debt recovery activities) are rare and infrequent.

Credit-impaired financial instruments

For debt instruments that are measured at amortised cost or fair value through other comprehensive income, the Bank assesses the credit loss allowance under the expected credit loss (ECL) model and reflects unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and reasonable and supportable information that is available without undue cost or effort at the reporting date. For the purpose of measuring these allowances, consideration is given as to whether credit risk has increased significantly since initial recognition. Under IFRS 9, the credit loss allowance is classified in three stages:

- Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition, and financial instruments that, in accordance with the Bank's accounting policy, is categorised at low credit risk (defined as rating) at the reporting date.
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment.
- Stage 3 includes credit-impaired financial assets that have objective evidence of impairment at the reporting date.

For financial instruments in Stage 1, a 12-month ECLs are recognised, whereas for financial instruments in Stage 2 and 3, lifetime expected credit losses. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. A 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Assessment of expected credit losses

Expected credit losses are measured on individual basis by discounting future cash flows, and taking into account the probability of default (PD), *exposure at default (EAD), and loss given default (LGD).* The PD represents the likelihood that a borrower will default on its obligation. The EAD means expected exposure at the time of the default, taking into account scheduled repayments of principal and interest, and expected further drawdowns on irrevocable facilities. The LGD represents the expected loss on a defaulted exposure, taking into account such factors as counterparty characteristics, collateral and product type. Expected credit losses are determined by projecting the PD, LGD and EAD for each future month over the expected lifetime of an exposure. The three parameters are multiplied together and adjusted for the probability of survival, or the likelihood that the exposure has not been fully prepaid or has been in default. This effectively calculates monthly ECL, which are discounted back to the reporting date using the original effective interest rate and summed. The sum of all months over the remaining expected lifetime results in the lifetime ECL and the sum of the next 12 months results in the 12-month ECL.

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

Expected lifetime of financial instruments

The lifetime of a financial instrument is relevant for both the assessment of significant increase in credit risk, which considers changes in the probability of default over the expected lifetime, and the measurement of lifetime ECL. The expected lifetime is generally limited by the maximum contractual period over which the Bank is exposed to credit risk, even if a longer period is consistent with business practice. All contractual terms are considered when determining the expected lifetime, including prepayment options and extension and rollover options that are binding to the Bank.

Presentation of credit loss allowance

For financial assets measured at amortised cost, credit loss allowance reduces the gross carrying amount of the assets in the statement of financial position. Such credit loss allowance and write-offs are recognised in the Bank's statement of profit or loss and other comprehensive income, under "Credit loss allowance". Write-offs are recognised when the amount of loss is ultimately determined and represent the amount before the utilisation of any previous allowances. Any subsequent recoveries of write-offs or impairment provisions are recognised as gains under "Credit loss allowance".

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:

- The rights to receive cash flows from financial assets have expired or
- The Bank has transferred its rights to receive cash flows from the financial asset;
- The Bank 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
    - the Bank has transferred substantially all the risks and rewards of the asset, or
    - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Transaction costs

In applying the effective interest method, the Bank identifies fees that are an integral part of the effective interest rate of a financial instrument. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, the fees are recognised as revenue when the instrument is initially recognised.

The Bank amortises any fees, points paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate over the expected life of the instrument.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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 2022 and 2021.

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, 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 in the respective carrying amounts is recognised in the statement of comprehensive income.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

If the Bank measures an asset or a liability initially at fair value and the transaction price differs from fair value, the difference is recognised in profit or loss.

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

In the absence of any directly observable input data, i.e. quoted prices (unadjusted) in active markets for identical assets or liabilities which the Bank can access at measurement date, the fair value is determined on the basis of the adjusted directly observable inputs.

In the case when the observable (directly or indirectly) inputs are not available, fair value is measured on the basis of unobservable inputs developed by the Bank using appropriate valuation techniques, such as income and market approach.

Assets and liabilities that are measured at fair value in the statement of financial position or are not valued at fair value, but information about them is disclosed, are categorized by the Bank into a three-level fair value hierarchy based on the availability of the inputs:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

Intangible assets

Intangible asset is an identifiable non-monetary asset without physical substance, which are 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 Bank and the cost of asset can be measured reliably. This requirement applies whether an intangible asset is acquired externally or generated internally.

Research costs are expensed, and development costs are capitalised and recognised in the balance sheet, if they can be reliably measured and it is probable that the future economic benefits that are associated with the asset will flow to the Bank. In other cases, development costs are expensed as they are incurred. If the Bank cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the Bank treats the expenditure on that project as if it were incurred in the research phase only.

Intangible assets are recognised initially at acquisition cost. Subsequent to the initial recognition, intangible assets are recognised at acquisition cost less accumulated amortisation and impairment loss, if any. The cost of intangible asset comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs. 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 amortisation 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.

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 is 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
- Cars: 5 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 liabilities and related right-of-use assets 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 9).

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases. Short-term leases are assessed on the basis of 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.

(All amounts are in Euro, unless otherwise stated)

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 carry 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 five consecutive years and 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.

Net interest income

Interest income on financial assets and interest expenses on financial liabilities include interest payments received or paid and changes in accrued interest during the period and any difference between initial amount and the maturity amount over the life of a financial instrument, which produces a constant rate of return over the instrument's life, referred to as the effective interest rate. The effective interest rate is the rate that discounts future cash flows to the gross carrying amount of a financial instrument or amortised cost of financial liabilities, taking into account transaction costs, premiums or discounts and fees paid or received that are an integral part of the return.

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

Net fee and commission income

Revenue from contracts with customers consists of service-related fees and is reported in the statement of profit or loss and other comprehensive income, under Fee and commission income. Fee and commission income consist mainly of fees related to services: 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. The total consideration received is allocated to each performance obligation, depending on whether they are satisfied either at a point in time or over time.

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.

Expense recognition

Interest on deposits are 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 IFRS 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.

Estimating expected credit losses for loans granted to customers

The Bank regularly reviews its portfolio of loans to determine whether they are credit-impaired. 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 7.

Deferred tax assets

Deferred 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 to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. For more information see Note 11.

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 2022	As at 31 December 2021
Cash and cash equivalents:		
Balances with the Bank of Lithuania, gross	28,924,401	3,543,639
Balances with commercial banks, gross	242,126	1,918,998
Loans and receivables from customers	63,491,322	41,517,438
Other assets		
Other assets	140,401	167,551
Credit risk exposures relating to off-balance sheet items		
Loan commitments	8,530,784	4,524,811
Total:	**101,329,034**	**51,672,437**

Credit loss allowance

The Bank assesses the credit loss allowance under the expected credit loss (ECL) model. Expected credit losses are assessed taking into account the Stage in which specific assets are categorized at each reporting date:

- 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.
- 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. Change level affecting migration is disclosed below.

	Change in probability of default
Migration from Stage 1 to Stage 2	If default rating downgrades: - by 3 grades (if initial grade (PD) was between 1 and 3) - by 2 grades (if initial grade (PD) was between 4 and 5) - by 1 grade (if initial grade was 6 or lower (below 10)

- 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.

Exposure migration to a better position occurs automatically in accordance with the rules laid down in the Bank's procedures:

	Change in probability of default
Migration from Stage 2 to Stage 1	No payments past due recorded over last 30 days Or If default rating increases and stays constant for the last 30 days: - by 3 grades (if initial grade (PD) was between 1 and 3) - by 2 grades (if initial grade (PD) was between 4 and 5) - by 1 grade (if initial grade (PD) was 6 or lower (below 10)
Migration from Stage 3 to Stage 2	No any payments past due recorded over last 30 days, only if the contract is not terminated, and the customer is not bankrupt.

If migration of an exposure is triggered by deteriorating financial indicators or other external factors, the transfer of the relevant exposure between stages is possible only with sufficient evidence that the credit risk has become acceptable and the exposure will be fully repaid on time. Decision for manual transfer of an exposure between stages is adopted by the Bank's Credit Committee.

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.

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 long history of its customers, the data on probability of default is purchased from the 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.

For exposures in Stage 1, the ECL is calculated by assessing the 12-month probability of default. This assessment is based on the current value of the exposure, its collaterals and the probability of default, i.e. the ECL is estimated by evaluating the probability of a customer bankruptcy and the Bank's position in such event, i.e. sufficiency of the Bank's collateral to cover the exposure.

When estimating ECL for exposures in Stage 2, the Bank considers lifetime probability of default, when potential ECLs are calculated for each remaining contractual maturity, taking into account the possible deterioration in value of the collateralised exposure (depreciation, amortisation of guarantees, discount rate applied). The total amount for the remaining contractual maturity is attributed to ECL.

Transaction costs (fees and commissions paid to agents, advisers, brokers and dealers) are excluded from EAD when calculating expected credit losses. These costs are expensed over the life of the financial instrument. If a financial instrument is categorised in Stage 3, remaining transaction costs are expensed as incurred. In 2022, the Bank incurred EUR 804 thousand of transaction costs (Note 18).

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

As at 31 December 2022	Gross value: Carrying amount	Gross value: Deferred administration fee	Gross value: Deferred transaction costs	Loss allowance	Amortised cost
Stage 1	46,305,165	(372,695)	472,261	(40,029)	46,364,702
Stage 2	15,458,177	(138,474)	93,609	(57,204)	15,356,108
Stage 3	1,727,980	(1,390)	-	(178,639)	1,547,951
Total:	**63,491,322**	**(512,559)**	**565,870**	**(275,872)**	**63,268,761**

As at 31 December 2021	Gross value: Carrying amount	Gross value: Deferred administration fee	Gross value: Deferred transaction costs	Loss allowance	Amortised cost
Stage 1	33,050,484	(151,468)	-	(80,125)	32,818,891
Stage 2	8,418,800	(31,532)	-	(42,084)	8,345,184
Stage 3	48,154	-	-	(28,120)	20,034
Total:	**41,517,438**	**(183,000)**	**-**	**(150,329)**	**41,184,109**

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

Days past due	**As at 31 December 2022** Stage 1	2	3	**Total:**	**As at 31 December 2021** Stage 1	2	3	**TOTAL:**
0–4 days	42,366,808	11,943,663	584,738	**54,895,209**	29,509,534	5,744,179	-	**35,253,713**
5–30 days	4,034,621	2,149,153	795,544	**6,979,318**	3,389,482	1,315,829	-	**4,705,311**
31–60 days	465	1,298,143	7,837	**1,306,445**	-	1,200,991	-	**1,200,991**
61–90 days	415	22,353	-	**22,769**	-	126,269	21,757	**148,026**
More than 90 days	2,421	-	338,471	**340,892**	-	-	26,397	**26,397**
Total:	**46,404,731**	**15,413,313**	**1,726,590**	**63,544,633**	**32,899,016,**	**8,387,268**	**48,154**	**41,334,438**

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 December 2022** Stage 1	2	3	**Total:**	**As at 31 December 2021** Stage 1	2	3	**TOTAL:**
Without collateral	15,303	-	-	**15,303**	105,702	1,968	9,400	**117,070**
<10%	733,539	127,624	-	**861,163**	227,321	38,478	-	**265,799**
From 10 to 49%	35,700,790	10,168,853	840,824	**46,710,467**	-	-	-	**-**
From 50 to 59%	1,742,865	3,396,468	89,094	**5,228,428**	276,619	-	-	**276,619**
From 60 to 69%	2,430,595	697,087	760,153	**3,887,835**	-	-	-	**-**
From 70 to 79%	3,846,154	68,138	-	**3,914,292**	157,387	11,405	-	**168,792**
From 80 to 89%	301,507	-	16,649	**318,156**	-	-	-	**-**
From 90 to 100%	1,079,446	673,399	-	**1,752,845**	1,157,881	41,405	26,397	**1,225,683**
More than 100%	554,532	281,743	19,869	**856,144**	30,974,106	8,294,012	12,357	**39,280,475**
Total:	**46,404,731**	**15,413,313**	**1,726,590**	**63,544,633**	**32,899,016**	**8,387,268**	**48,154**	**41,334,438**

Assets pledged to the Bank for loans issued are discounted at a discount rate of 10.34% as at 31 December 2022 for a period of one year. In 2022, the average discount rate was 8.83%.

The following items constitute a collateral acceptable to the Bank:
- Immovable property (commercial, residential, etc.), including buildings and land plots, loan to value (LTV) ratio adjusted to the purpose of collateral, with values indicated in the Bank's collateral procedure.
- Movable property: equipment, vehicles (light and heavy duty), inventories, LTV ratio adjusted to the type of collateral, with values indicated in the Bank's collateral procedure.
- State guarantees. Currently, the Banks collateral portfolio includes EIF and INVEGA guarantees. The INVEGA guarantee rate is set by the decision of INVEGA on a case-by-case basis, while the EIF guarantee is set at 70%.
- Financial assets: typically receivables, pledged at their value entered on the balance sheet, and these assets are subject to LTV 30%.
- The collaterals acceptable to the Bank with LTV set at 0% are considered as having zero value, i.e. sureties by natural/legal persons and bills of exchange.

Movable assets (other than inventories) are subject to depreciation over the useful life of 5 years. The value of inventories and receivables pledged to the Bank as collateral is reviewed on a quarterly basis in accordance with the specifications submitted by the customer. In the absence of adequate evidence, the value of such collateral is set to zero. Furthermore, if the Bank fails to receive a valid insurance of the immovable property pledged as collateral, the value attributed to the collateral of such property (i.e. value after applicable LTV) is reduced by 10%. If the Bank is not provided with the updated property valuation (commercial property valuation shall be reviewed annually, residential property – every three years), the 10% reduction in value also applies. If the Bank is not provided with the valid movable property insurance, the value of such collateral is set to zero.

Should the Bank become aware that the value of a collateral deteriorated significantly, the value of such collateral is reviewed without delay.

The table below provides the Bank's credit loss allowance for ECL:

	As at 31 December 2022	As at 31 December 2021
Impairment as at January 1	**150,329**	**-**
Established	76,088	203,196
Derecognised financial assets	(69,953)	(49,543)
Transfers between stages	130,818	23,227
Other	(11,411)	(26,551)
Impairment as at December 31	**275,872**	**150,329**

Change in total impairment for financial assets is presented below:

	As at 31 December 2022	As at 31 December 2021
Loss allowance for loans granted	125,543	150,329
Loss allowance for off-balance sheet loan commitments under signed loan agreements	(12,306)	12,970
Allowance for cash and cash equivalents	1,726	1,250
Impairment during 2022:	**114,963**	**164,549**

As at 31 December 2022	As at 31 December 2022	As at 31 December 2021
Impairment of loans recognised in the statement of profit or loss		
Increase in impairment loss	445,137	328,099
Impairment loss reversed	(249,641)	(128,227)
Write-offs (incl. terminations)	(69,953)	(49,543)
Total impairment of loans	**125,543**	**150,329**
* Impairment of Nostro accounts recognised in the statement of profit or loss:		
Increase in impairment loss	6,831	19,935
Impairment loss reversed	(5,105)	18,685
Total impairment of Nostro accounts	**1,726**	**1,250**
Total impairment:	**127,269**	**151,579**

* Nostro account is a bank account in the Bank of Lithuania, credit and other financial institutions.

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 2022, the Bank complied with the maximum exposure set for non-financial institution, the ratio was 19.6%. 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. The exposure to a financial institution cannot exceed 25% of the Bank's 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 December 2022		
Sector of economic activity	**Amount, EUR**	**Proportion, %**
Wholesale	12,028,892	19%
Manufacturing	11,148,533	18%
Retail	7,296,554	11%
Real estate	7,240,737	11%
Construction	6,124,925	10%
Other	5,849,836	9%
Administration and consulting services	4,979,017	8%
Transportation and warehousing	4,454,973	7%
Arts, entertainment, recreation, health care	2,657,308	4%
Operating and finance lease	1,763,858	3%
Total:	**63,544,633**	**100%**

As at 31 December 2021		
Sector of economic activity	**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 Bank's activities is not significant.

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 at carrying value without taking into account any collateral:

As at 31 December 2022						
	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total:
Assets						
Cash and cash equivalents	29,166,527	-	-	-	-	29,166,527
Loans and receivables from customers	891,689	4,577,036	18,544,802	38,061,281	1,469,825	63,544,633
Other assets	140,401	-	-	-	-	140,401
Total:	**30,198,617**	**4,577,036**	**18,544,802**	**38,061,281**	**1,469,825**	**92,851,561**
Liabilities						
Payables to customers	12,785,831	10,068,829	50,993,494	11,534,199	-	85,382,353
Debt securities issued	-	70,260	-	-	2,000,000	2,070,260
Lease liability	-	7,241	63,445	289,723	-	360,409
Other liabilities	768,996	959	-	-	-	769,955
Total:	**13,554,827**	**10,147,289**	**51,056,939**	**11,823,922**	**2,000,000**	**88,582,977**

As at 31 December 2021						
	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	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
Other assets	167,551	-	-	-	-	167,551
Total:	**5,806,238**	**1,357,219**	**9,330,783**	**29,820,949**	**433,196**	**46,748,385**
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 liability	-	12,557	361,165	63,525	6,501	443,748
Other liabilities	141,164	-	-	-	-	141,164
Total:	**3,909,027**	**12,663,501**	**26,574,115**	**1,563,525**	**6,501**	**44,716,669**

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%, 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 2022, the value of liquidity coverage ratio estimated at 174.5% (31 December 2021: 1,855%). As at 31 December 2022, the Bank's net stable funding ratio (NSFR) estimated at 170% (31 December 2021: 133%). Meanwhile, the Bank's leverage ratio was 4.71% as at 31 December 2022 (5.79% as at 31 December 2021).

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 2022, 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 2022, a 2 percentage point increase in market interest rates would decrease the Bank's equity by EUR 35 thousand and the annual profit by 0, and a 2pp decrease in market interest rates would increase the Bank's equity by EUR 35 thousand and the annual profit will not increase.

	As at 31 December 2022								
	> 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.	(450)	134	486	(170)	-	-	-	-	-
EFFECT NII* if interest rate decrease by 2p.p.	450	(134)	(486)	170	-	-	-	-	-
EFFECT EVE interest rate increase by 2p.p. p.**	(451)	160	771	(668)	179	94	(1)	-	(35)
EFFECT EVE if interest rate decrease by 2p.p.**	451	(160)	(771)	668	(179)	(94)	1	-	35

* 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: a Common Equity Tier 1 capital ratio 4.5%, a Tier 1 capital ratio of 6 % 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. The Bank has not issued capital instruments classified as Additional Tier 1, and therefore the Bank's Common Equity Tier 1 capital is not differ from that of Tier 1 capital.

As at 31 December 2022, the Bank complied with all own funds and additional capital buffer requirements, and the capital adequacy ratio estimated at 17.8%. 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 as at 31 December 2022:

Indicator	Amount	Indicator, %
Common Equity Tier 1 capital	4,434	16.0%
Tier 1 capital	4,434	16.0%
Tier 2 capital	500	-
Total capital	4,934	17.8%
Risk exposure amount	27,765	-

NOTE 1. Net interest income (expense)

	As at 31 December 2022	As at 31 December 2021
Interest income		
Loans to legal persons	4,807,938	1,392,124
Interest income	*4,726,628*	*1,346,788*
Loan administration fees	*408,635*	*31,373*
Credit commitment fees	*24,313*	*13,963*
Transaction costs	*(351,638)*	-
Loans to financial institutions	43,857	-
Interest income	*45,399*	-
Loan administration fees	*1,196*	-
Credit commitment fees	*203*	-
Transaction costs	*(2,941)*	-
Loans to households	26,273	15,772
Interest income	*25,862*	*15,269*
Loan administration fees	*238*	*403*
Credit commitment fees	*173*	*100*
Transaction costs	-	-
Deposits from legal persons	4,083	693
Balances with central banks	3,465	-
Deposits of financial institutions	21	-
Deposits from households	9	4
Total interest income:	**4,885,646**	**1,408,593**
Interest expenses		
Interest expense on customer deposits	(571,696)	(73,771)
Bond interest expenses	(128,302)	(46,958)
Interest for cash balances held with the Bank of Lithuania	(23,117)	(13,489)
Interest expense on assets	(11,453)	(7,613)
Interest expense from loans from related parties	-	(8,704)
Total interest expenses	**(734,568)**	**(150,535)**
Net interest income	**4,151,078**	**1,258,058**

NOTE 2. Net fee and commission income (expense)

	As at 31 December 2022	As at 31 December 2021
Commission income		
Default interest income from legal persons	300,111	22,406
Commission income from payment services	100,610	4,617
Commission income from lending services	29,476	5,950
Other commission income	18,450	2,635
Default interest income from households	1,025	1,346
Default interest income from financial institutions	27	-
Total commission income:	**449,699**	**36,954**
Commission expenses		
Commission expenses related to collection of deposits	(286,968)	(55,794)
Commission expenses related to lending services	(187,424)	(19,724)
Commissions payable to banks	(15,943)	(5,628)
Commission expenses related to bonds	(7,548)	(3,000)
Total commission expenses:	**(497,883)**	**(84,146)**
Net commission (expenses)	**(48,184)**	**(47,192)**

NOTE 3. Reclassification in the statement of profit or loss and other comprehensive income for the year ended 31 December 2021

When preparing the financial statements for 2022, the following items were reclassified in the statement of profit or loss and other comprehensive income during 2021: default interest income was reclassified from interest income to fee and commission income, as default interest income is recognised in accordance with IFRS 15, therefore, cannot be classified as interest income. To maintain the comparability between current and previous reporting period, the Bank reclassified the items in the statement of comprehensive income of previous reporting period as follows:

Items	Previous reporting period after reclassification	Data of previous reporting period in audited financial statements
Interest income recognised using the effective interest rate method	**1,408,593**	**1,432,345**
Interest income on loans and administration fees	*1,393,833*	*1,393,833*
Default interest income	-	*23,752*
Credit commitment fees	*14,063*	*14,063*
Deposits	*697*	*697*
Fee and commission income	**36,953**	**13,201**
Commission income from lending services	*5,950*	*5,950*
Commission income from payment services	*4,617*	*4,617*
Other commission income	*2,633*	*2,634*
Default interest income	*23,752*	-

NOTE 4. Staff costs

	As at 31 December 2022	As at 31 December 2021
Wages and salaries and related tax expenses	1,743,243	641,444
Vacation accruals	39,655	27,579
Social security contributions	33,823	11,201
Other personnel expenses	8,432	964
Total:	**1,825,153**	**681,188**

NOTE 5. Administration and marketing expenses

	As at 31 December 2022	As at 31 December 2021
VAT and other taxes	232,408	93,840
IT and other communication expenses	232,108	72,020
Legal and consultation expenses	127,391	64,925
Marketing expenses	104,839	29,452
Office rent and maintenance expenses	35,542	23,987
Transport expenses	21,368	12,960
Accounting services	29,951	11,688
Consultation and non-financial audit services	19,890	3,600
Financial audit expenses	16,000	8,000
Business trip expenses	3,219	4,981
Other expenses	69,713	23,041
Total:	**892,430**	**348,494**

NOTE 6. Cash and cash equivalents

	As at 31 December 2022	As at 31 December 2021
Balances with the Bank of Lithuania		
Accounts with the Bank of Lithuania	28,196,294	3,355,639
Minimum reserve in local currency, gross	731,000	188,000
Loss allowance	(2,893)	-
Balances with the Bank of Lithuania, gross	**28,924,401**	**3,543,639**
Balances with commercial banks		
Gross value	242,210	1,920,248
Loss allowance	(84)	(1,250)
Balances with commercial banks, gross	**242,126**	**1,918,998**
Total:	**29,166,527**	**5,462,637**

The minimum reserves held at the Bank of Lithuania are calculated on a quarterly basis by applying the reserve ratio to deposits with maturity up to two years held by non-monetary financial institutions, subject to minimum reserve requirements. As from 1 January 2015, a 1% 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 at credit and other financial institutions and cash balances at the Bank of Lithuania are assigned to Level 1 financial assets. The following table shows the breakdown of the Bank's cash balances at credit and other financial institutions with different credit rating:

Rating	As at 31 December 2022	As at 31 December 2021
From A- to A+	240,887	1,896,681
Cash balances at banks without external rating (internal rating – Standard risks)	1,323	23,567
Total:	**242,210**	**1,920,248**

NOTE 7. Loans to customers

	As at 31 December 2022	As at 31 December 2021
Loans granted to customers	62,606,109	40,839,692
Interests accrued	239,845	101,094
Adjustments to fair value	132,809	393,652
Transaction costs	565,870	-
Carrying amount	**63,544,633**	**41,334,438**
Credit loss allowance	(275,872)	(150,329)
Total:	**63,268,761**	**41,184,109**

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 2022, the Bank sold back part of the loans purchased in 2021 from a related country for EUR 5,921 thousand. Gain (loss) on sale was not recognised.

The Bank has granted loans to customers in Lithuania, Latvia, Estonia and Finland. Breakdown of loans by geographic region is provided in the table below:

	As at 31 December 2022				Total
	Lithuania	Latvia	Estonia	Finland	
Loans granted to customers	60,557,563	337,925	586,950	1,123,671	62,606,109
Interests accrued	232,646	62	6,060	1,077	239,845
Adjustments to fair value	107,304	6,002	19,503	-	132,809
Transaction costs	559,129	-	-	6,741	565,870
Carrying amount	**61,456,642**	**343,989**	**612,513**	**1,131,489**	**63,544,633**
Credit loss allowance	(189,265)	(47,676)	(38,811)	(120)	(275,872)
Total:	**61,267,377**	**296,313**	**573,702**	**1,131,369**	**63,268,761**

	As at 31 December 2021				Total
	Lithuania	Latvia	Estonia	Finland	
Loans granted to customers	37,850,282	2,396,683	592,727	-	40,839,692
Interests accrued	94,227	2,718	4,149	-	101,094
Adjustments to fair value	293,658	68,174	31,820	-	393,652
Transaction costs	-	-	-	-	-
Carrying amount	**38,238,167**	**2,467,575**	**628,696**	**-**	**41,334,438**
Credit loss allowance	(120,402)	(23,305)	(6,622)	-	(150,329)
Total:	**38,117,765**	**2,444,270**	**622,074**	**-**	**41,184,109**

NOTE 8. Intangible assets and property, plant and equipment

Intangible assets for 2022	Basic software	Additional software	Other intangible assets	Total intangible assets
Net book value at the end of the previous financial year	**1,094,728**	**20,959**	**3,781**	**1,119,468**
(A) Intangible assets at acquisition cost				
At the end of the previous reporting period	1,203,040	24,828	3,781	1,231,649
Changes in current reporting period:				
- Additions	448,272	3,000	273,078	724,350
- Disposals	(40,000)	-	-	(40,000)
At the end of the reporting period	**1,611,312**	**27,828**	**276,859**	**1,915,999**
(b) Amortisation				
At the end of the previous reporting period	108,312	3,869	-	112,181
Changes in current reporting period:				
- Amortisation charge for the year	282,265	8,383	-	290,648
At the end of the reporting period	**390,577**	**12,252**	**-**	**402,829**
(c) Net book value at the end of the financial year (a)-(b)	**1,220,735**	**15,576**	**276,859**	**1,513,170**

As at 31 December 2022, the intangible assets consisted of basic and additional software, and other intangible assets. A basic software is a set of systems necessary for the purpose of carrying out the Bank's principal activities. An additional software is equipment not directly related to the Bank activities.

Intangible assets in 2021	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 reporting period	**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 in 2022	Equipment	Computers	Plant and machinery	Total property, plant and equipment
Net book value at the end of the previous financial year	**721**	**24350**	**283**	**25,354**
(a) Property, plant and equipment at acquisition cost				
At the end of the previous reporting period	824	31,067	364	32,255
Changes in current reporting period:				
- Additions	14,786	11,512	686	26,984
At the end of the reporting period	**15,610**	**42,579**	**1,050**	**59,239**
(b) Depreciation				
At the end of the previous reporting period	103	6,717	81	6,901
Changes in current reporting period:				
- Depreciation charge for the year	1,964	12,664	311	14,939

At the end of the reporting period	2,067	19,381	392	21,840
(c) Net book value at the end of the financial year (a)-(b)	**13,543**	**23,198**	**658**	**37,399**

As at 31 December 2022 and 2021, the Bank did not have any intangible assets and property, plant and equipment was fully amortised/depreciated but still in use.

Property, plant and equipment in 2021	Equipment	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 reporting period	**824**	**31,067**	**364**	**32,255**
(b) Depreciation				
At the end of the previous reporting period	-	-	-	-
Changes in current reporting period:				
- Depreciation charge for the year	103	6,717	81	6,901
At the end of the reporting period	**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 9. Right-of-use assets and lease liabilities

The carrying value of right-of-use assets as at 31 December 2022 and 2021 and its movement throughout the year is disclosed in the tables below:

Right-of-use assets in 2022	Vehicles	Rented premises	Total
Net book value at the end of the previous financial year	**85,552**	**361,812**	**447,364**
(a) Carrying amount of the right-of-use assets			
At the end of the previous reporting period	90,055	412,197	502,252
Changes in current reporting period:			
- Additions	-	18,668	18,668
- Right of use contract modification	(20,937)	-	(20,937)
At the end of the reporting period	69,118	430,865	499,983
(b) Depreciation			
At the end of the previous reporting period	4,503	50,385	54,888
Changes in current reporting period:			
- Depreciation charge for the year	13,704	73,312	87,016
At the end of the reporting period	18,207	123,697	141,904
(c) Net book value at the end of the financial year (a)-(b)	**50,911**	**307,168**	**358,079**
Discount rate	1.88%	3.15 and 4.20%	
Lease term	More than 5 years	More than 5 years	

Right-of-use assets in 2021	Vehicles	Rented premises	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 reporting period	**90,055**	**412,197**	**502,252**
(b) Depreciation			

At the end of the previous reporting period	-	-	-
Changes in current reporting period:			
- Depreciation charge for the year	4,503	50,385	54,888
At the end of the reporting period	**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:

	2022	2021
As at January 1	**443,748**	**-**
Additions	18,668	703,792
Increase in interest	11,546	7,614
Payments	(92,906)	(64,760)
Payment and contract modification	(20,647)	-
Terminations	**-**	**(202,898)**
As at 31 December	**360,409**	**443,748**
Current liabilities	*84,699*	*78,395*
Non-current lease liabilities	*275,710*	*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.

On 24 March 2022, the car lease was modified by extending maturity until 1 April 2027 and reducing lease payment to EUR 1,100.

NOTE 10. Other liabilities

	2022	2021
Trade liabilities	234,892	61,937
Balance of transit account for external payments	179,002	-
Accrued expenses	97,273	16,781
Debts to related parties	72,497	-
Vacation accruals	72,871	29,014
EIF guarantee fee payable	48,502	2,165
Taxes payable	26,117	-
Employment-related liabilities	3,888	18,298
Payable to government authorities	959	-
Other liabilities	33,954	-
Total:	**769,955**	**128,195**

Payable to government authorities comprise liabilities to ŽŪPGF. For more details on off-balance sheet liabilities please refer to Note 16.

NOTE 11. Income tax and deferred tax

	2022	2021
Current income tax expenses	(28,441)	-
Change in deferred tax	(47,802)	34,470
Income tax benefit (expenses)	**(76 243)**	**34,470**

	2022	2021
Profit (loss) before income tax	**771,895**	**(253,190)**
Tax calculated at a rate of 15%	(115,784)	37,979

Non-taxable income	45,174	23,752
Non-deductible expenses	(7,433)	(27,261)
Charity	1,800	-
Income tax benefit (expenses)	**(76,243)**	**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:

	2022	2021
Profit (loss) before income tax	**771,895**	**(253,191)**
Non-taxable income	(301,163)	(23,753)
Non-deductible expenses	49,931	22,344
Total taxable profit (loss)	**520,664**	**(254,598)**
Tax rate	15%	*15%*
Deferred tax on tax losses	11,457	38,190
Deferred tax on right-of-use assets	(53,712)	(67,104)
Deferred tax on lease liability	54,061	66,562
Deferred tax on accrued expenses	(190)	(3,177)
Deferred income tax on non-current assets	(24,947)	-
Total deferred tax asset	**(13,332)**	**34,470**
Deferred tax assets at the beginning of the period	**34,470**	**-**
Deferred tax assets at the end of the period	**(13,332)**	**34,470**

NOTE 12. Other assets

	As at 31 December 2022	As at 31 December 2021
Receivable from related parties	18,412	120,722
Other assets	121,989	46,829
Total other assets	**140,401**	**167,551**

NOTE 13. Customer deposits

The Bank collects deposit in local market using outsourced services. As from June 2021, in addition to a fully functioning deposit collection process through Zinspilot platform (operate by Raisin GmbH from July 2021), the Bank decided to establish partnership with a new deposit collection platform. The Bank started using Weltsparen, the second platform operated by Raisin GmbH, in July 2022. The collected deposits are recorded in the main system of the Bank, and are subject to fixed interest rate. In 2022, the average interest rate paid on deposits was 1.92% (2021: 0.48%).

	As at 31 December 2022			As at 31 December 2021		
	Zinspilot	Weltsparen	Total	Zinspilot	Weltsparen	Total
Term deposits	24,006,839	48,304,811	72,311,650	38,764,636	-	38,764,636
Accrued interest to customers	109,937	232,568	342,505	51,603	-	51,603
Deferred commission expenses	(13,501)	(44,132)	(57,633)	-	-	-
Average interest rate	*0.90%*	*2.44%*	*1.92%*	*0.48%*	-	*0.48%*
	24,103,275	**48,493,247**	**72,596,522**	**38,816,239**	**-**	**38,816,239**

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 Fund. In 2022, these costs amounted to EUR 65,684 (2021: 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 December 2022	As at 31 December 2021
Demand deposits	12,785,831	3,768,560
Term deposits	72,311,650	38,764,636
Deferred commission expenses	(57,633)	-
Accrued interest to customers	342,505	51,603
Total:	**85,382,353**	**42,584,799**

NOTE 14. Debt securities liabilities

By the supplement of 21 September 2022 to the subscription agreement for subordinate bonds of 15 July 2021, the substitution was agreed to the Bank's issue of 1,500 subordinated bonds in dematerialised book-entry form with a nominal value of EUR 1,000 each. The maturity of the bonds issued is extended until 1 October 2029, and the annual interest rate is changed from 7 to 10%. Interest payment is due every three months.

On 5 September 2022, the Bank additionally issued 500 units of 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 are redeemable in seven years and pay annual interests of 10% every three months. The bonds meet the criteria to be included under Tier 2 Capital.

All bonds issued by the Bank are not be subject to pledge.

As at 31 December 2022, the Bank's liabilities related to the bonds consisted of the following:

	As at 31 December 2022	As at 31 December 2021
Issued bonds	2,000,000	1,500,000
Interests accrued	70,260	46,958
Accrued expenses related to bond issue	(59,571)	(27,000)
Total debt securities	**2,010,689**	**1,519,958**

NOTE 15. 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 (-)	-		-
Total:	**3,500,000**		**3,500,000**
Structure of authorised share capital at the end of reporting period			
Ordinary shares	3,500,000	1	3,500,000
Reserve capital	2,000,000		500,000
Total:	**5,500,000**		**4 000,000**

Except for the aforementioned ordinary registered shares, the Bank does not have any other type of shares. The issued capital of the Bank was fully paid as at 31 December 2022.

During 2022, the Bank did not acquire and disposed of its own shares, and did not hold its own shares as at 31 December 2022 and 2021.

Reserve capital

On 20 December 2021, the reserve capital of EUR 500,000 was set by cash contributions of the Banks shareholders. In 2022, the decisions to increase the Banks reserve capital was made during the shareholder meetings (on 15 February 2022, 11 May 2022 and 8 August 2022) – by EUR 500,000 at each meeting. As at 31 December 2022, the Bank's reserve capital set by cash contributions of its shareholders totalled EUR 2,000,000, the purpose of which is to guarantee the financial stability of the Bank.

Legal reserve

As at 31 December 2022, the Bank did not have legal reserves. The Bank is obliged to form a legal reserve under the legislation of the Republic of Lithuania. The Bank ir 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.

Board's profit distribution proposal

	2022
Profit (loss) brought forward from the previous reporting period	**(248,717)**
Net profit for the reporting period	695,652
Retained earnings	446,935
Transfers to legal reserve	(22,347)
Retained earnings:	**424,588**

NOTE 16. Off-balance sheet assets and liabilities, contingencies

On 31 December 2022, the Bank undertook to provide loans for the total amount of EUR 8,530,784 (31 December 2021: EUR 4,524,811).

The Bank acts as a financial intermediary channelling funds from ŽŪPGF to farmers suffering from Russia's war on Ukraine. The basis for such management estimate is the agreement with ŽŪPGF, which defines the Bank as a financial intermediary that lends funds received from ŽŪPGF without taking final decisions on the granting of funds to borrowers, therefore the Bank does incur any financial or non-financial liability for defaulting borrowers. As the Bank acts as a financial intermediary when granting loans under the said incentive financial instrument, the funds received by borrowers from the Fund and loans repayable by borrowers under the instrument are not recorded in the Bank's accounts and disclosed in the Bank's financial statements, under assets or liabilities. The Bank, in the capacity as a financial intermediary, loaned funds of EUR 5,000 thousand received under the said incentive financial instrument. As at 31 December 2022, the balance of loaned funds was EUR 5,000 thousand.

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 Company'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 17. Fair value

	Carrying amount	Level 1	Level 2	Level 3	Total:
Financial assets as at 31 December 2022:					
Cash and cash equivalents	29,166,527	29,166,527	-	-	29,166,527
Loans to customers	63,268,761	-	63,268,761	-	63,268,761
Other assets	140,401	-	-	140,401	140,401
Financial liabilities as at 31 December 2022:					
Payables to customers	85,382,353	-	85,382,353	-	85,382,353
Debt securities issued	2,010,689	-	2,010,689	-	2,010,689
(Finance) lease liabilities	360,409	-	-	360,409	360,409
Other liabilities	769,955	-	-	769,955	769,955

	Carrying amount	Level 1	Level 2	Level 3	Total:
Financial assets as at 31 December 2021:					
Cash and cash equivalents	5,462,637	5,462,637	-	-	5,462,637
Loans to customers	41,184,109	-	41,184,109	-	41,184,109
Other assets	167,551	-	-	167,551	167,551
Financial liabilities as at 31 December 2021:					
Payables to customers	42,584,799	-	42,584,799	-	42,584,799
Debt securities issued	1,519,958	-	1,519,958	-	1,519,958
(Finance) lease liabilities	443,748	-	-	443,748	443,748
Other liabilities	128,195	-	-	128,195	128,195

NOTE 18. 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 2022 and 2021, a number of transactions with related parties took place in the course of normal activities. These transactions are disclosed in the tables below:

2022	Acquisitions	Sales	Receivables	Payables
Shareholders	-	-	-	-
Company A	1,044,568	73,644	2,919	72,497
Company B	-	234,108	1,795,884	-
Other related companies	284,390	1,284	16,826	32,190
Total:	**1,328,958**	**309,036**	**1,815,629**	**104,687**

2021	Acquisitions	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	-
Total:	**20,451,973**	**5,990,579**	**120,722**	**-**

In 2022, the majority of acquisitions consisted of sales agency and consultancy services (2021: acquisition of rights to claim). Intermediary and consultation expenses were estimated by observing the arm's length principle.

2022	Loans granted	Interest income	Loans received	Interest expenses
Shareholders	-	-	-	-
Company A	1,400,000	173,571	-	-
Company B	2,400,000	71,707	-	-
Other related companies	-	-	-	-
Total:	**3,800,000**	**245,278**	-	-

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

Remuneration of the Bank's management

Information about payments to members of the Board, Chief Administrative Officer and key management personnel in 2022 and 2021 is disclosed in the table below:

	2022	2021
Remuneration payable to the Board members and key management personnel:		
Board members	274,530	52,446
Other key management personnel	593,748	250,497
Total:	**868,278**	**302,943**

In 2022, average number of management was 14 (2021: 4).

NOTE 19. Events after the reporting period

COVID-19 impact

All remaining COVID-19 restrictions were lifted during Q1 2022. The management believes that the Bank maintains a sufficient liquidity position with business demonstrating a strong ability to adapt to changes and an adequate flexibility to mitigate the negative impact of the COVID-19 pandemic.

Military conflict in Ukraine

On Feb 24, 2022 Russia started the military invasion into Ukraine. In response to this many countries across the globe, including EU Members, imposed economic sanctions on Russia and Belarus.

Following outbreak of military invasion, the Bank paid great attention to the analysis and further supervision of the lending portfolio and existing customers. A customer review was carried out with a particular focus on entities whose shareholders have interests in Russia or Belarus. The review also included customers whose business activities were affected by supply chain disruptions caused by economic sanctions imposed on Russia and Belarus. The respective consideration was paid to customer ownership structures, sales and supply markets, location of manufacture and other related factors. This analysis revealed that the impact on the Bank's customers is minimal and that the number of our customers with ownership affiliation with the affected region is limited. The Bank continuously monitors high-risk customers to identify potential risks at early stage and manage the risk more effectively.

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 (PD) values 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.

The Bank's management observes the Ukraine-related situation and adjusts the funding strategy and processes, as the need arises. The Bank reviews the lists of economic sanctions, and does not maintain business relations with the entities subject to these sanctions. The Bank also has no subsidiaries in Ukraine, Russia or Belarus.

As to the Bank management's current estimates, the war in Ukraine did not have a direct impact on the Bank's activities or financial performance. From the outbreak of the war and up to the reporting date, the Bank maintained stable financial performance.

Routine inspection by the Bank of Lithuania

In October 2022, the Bank of Lithuania initiated the Bank's routine inspection, which was still in progress as at the date of issue of financial statements. Currently, the Bank's management, on the basis on the observations contained in the inspection report of the Bank of Lithuania, makes certain changes in its internal processes to improve the Bank's operations.

Bank's reserve capital

In March 2023, the shareholders raised the Bank's reserve capital through additional contributions of EUR 500 thousand.

Additionally, on 15 March 2023, changes took place in the Bank's shareholding: UAB Magnus Investments - 45,005%, UAB AKM Finance - 45,005% and UAB KR Finance - 9,990%.

As of the end of the financial year up to approval of the financial statements, no other subsequent events have occurred, which would affect these financial statements and should be disclosed in the financial statements for the year ended 31 December 2022.

These financial statements were prepared on 5 April 2023.

Deputy Chief Executive Officer

Ieva Naudžiūnaitė

Chief Financial Officer

Gerda Kacevičienė