UAB SME Bank

BANK'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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



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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF UAB SME BANK

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements UAB SME Bank (the Bank) which comprise the statement of financial position as at December 31, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows 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, the financial position of the Bank as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and International financial reporting Standards, adopted by European Union.

Basis for Opinion

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

Key Audit Matters

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

Expected credit losses for loans to customers

See of the explanatory note to financial statements, section "Material accounting policies", sub-sections "Credit-impaired financial instruments", "Assessment of expected credit losses", "Expected lifetime of financial instruments", "Presentation of credit loss allowance", section "Risk management", sub-section "Credit risk" and note 10 "Loans to customers", respectively pages 20, 26-30, 37-38.

As at 31 December 2023 in the bank's financial position statement, expected loan credit losses amounted to 765 thousand euros (note 10).

Bank's provisions for impairment due to credit risk of loans in 2023 year was 489 thousand euros in profit or loss and other comprehensive income statement for the year ended (Note 10).

Provisions for impairment due to credit risk reflect the expected credit losses (ECL) related to granted loans (positions) as the best assessment of the management on the date of the financial statements. We focused on this area because management is subject to complex and subjective judgments in determining impairment amounts.

The assessment of changes and valuation of active positions (stage 1 and 2 according to the hierarchy established in IFRS 9) and non-performing positions (stage 3) is carried out based on the Bank's knowledge of the circumstances of each specific borrower and their understanding. The related impairment provisions are determined on a case-by-case basis through a discounted cash flow analysis.

In the reporting year, the bank was inspected by the supervisory authority, which included an assessment of the credit risk management and expected credit loss model, and for this reason and due to the significantly increased uncertainty of the assessment due to the impact of the war in Ukraine on the economy, we considered that during the audit, the impairment of the value of the granted loans is related to a significant risk, therefore we paid increased attention to this area. Accordingly, we considered this area to be a key audit matter.

How we examined the main subject of the audit during the audit

In addition to other audit procedures, we performed the following audit procedures in this area:

- we gained an understanding of Bank ECL's impairment methodology and assessed whether it meets the relevant requirements of the 9th IFRS standard. By performing the procedures, we determined the relevant methods, assumptions and data sources and assessed whether these methods, assumptions and data and their application are appropriate in light of the requirements of IFRS 9;
- we gained an understanding of the significant control deficiencies regarding the application of the ECL model and credit risk management presented in the 08-02-2023 by inspection report of the Bank of Lithuania;
- we gained an understanding of the additional recalculation of ECL estimate performed by the Bank's credit committee on 07-03-2024 and this disclosure in the financial statements on 12-31-2023;
- we made inquiries to the employees of the Bank's risk management and information technology (IT) areas, in order to gain an understanding of the IT programs used in the loan impairment process. In addition, we assessed and verified the Bank's data security and access control environment;
- we inspected how the selected controls for loan approval, accounting and monitoring are implemented and functioning, including, but not limited to, controls for loan risk monitoring, loss events, default detection; in addition, we inspected the appropriateness of the classification into active and inactive positions, the calculation of past due days and the general estimate of ECL;
- we assessed whether the default definition and staging criteria were consistently applied in accordance with relevant international financial reporting standards;
- we have critically assessed whether there are any matters, taking into account the underlying documents (loan files) and discussions with the management and the business operations of the relevant customers, market conditions and historical loan repayment trends, that on 31 December 2023 would lead to assignment to stage 3;
- for exposures that may be assigned to Stage 3, we inspected the Bank's main assumptions used in calculating future cash flows, such as collateral values (including impairment factors) and realization periods. We inspected external valuator reports, relied on the Bank's internal evidence and analysis and publicly available market transaction data;
- based on the requirements of the applicable financial reporting standards, we assessed the accuracy and completeness of loan impairment and credit risk related disclosures in the financial statements.

Other Information

The other information comprises the information included in the Bank's annual report of 2023 year, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and International financial reporting Standards, adopted by European Union, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 shall communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements

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

In accordance with the decision made by shareholders on 29 April 2022 and audit agreement on 2 May 2022 we have been chosen to carry out the audit of the Bank's 2022 year and 2023 year financial statements. Our appointment to carry out the audit of Bank's

financial statements in accordance with the decision made by shareholders has have been renewed every 2 years and the period of total uninterrupted term of appointment is 4 years.

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

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

In the course of audit, we have not provided any other services except for audit of financial statements.

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

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

Certified auditor
Darius Gliaubicas[1]
Auditor's certification No. 000594
11 April, 2024

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

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 considering 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, holding a specialized banking license, are available across Baltics. Since the beginning of its operations, the Bank attracted more than 1470 business customers, of which more than 90% (data as at 31 December 2023) had a loan and/or a bank account. The bank's loan portfolio in 2023 reached 80 million euros, demonstrating a 27% growth compared to 63 million euros in 2022.

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 2023, the Bank's customers operated in retail (22%) and manufacturing (13%) industry, as well as construction (13%), transport and logistics (10%), management and consultancy (8%), real estate (5%) and business customer operating in other industries. The Bank's portfolio primarily comprises loans for working capital.

SME Bank partners

In 2023, as in the previous year, the Bank continued its cooperation with UAB Investicijų ir verslo garantijos (INVEGA). This partnership allowed small and medium-sized businesses to compensate up to 95% of the interest paid and, after the reorganization and merger of UAB "Žemės ūkios poskolų garantiju fondas" with INVEGA, included individual guarantees during the period of Russian aggression against Ukraine. In 2023, the bank has concluded an agreement on implementing the incentive financial measure "Portfolio guarantee 3" (hereafter called PG3 measure). To give small and medium-sized businesses more opportunities to grow, the Bank also worked with the European Investment Fund (hereinafter - EIF) under the "InvestEU" program for the financing of Lithuanian small and medium-sized businesses. This cooperation allows businesses to borrow on better credit terms for investments in innovation, sustainability projects, digitization, and receive microfinancing up to 50,000 euros.

As of 31 December 2023, the balance of EIF-backed loans granted was EUR 43 million, the amount of loans included in the PG3 backed portfolio amounted to more than 5.5 million EUR, with INVEGA individual guarantees - just over 11 million euros, thus providing a better access to credit facilities and rapid growth to at least 300 companies.

The bank, in cooperation with the EIF, contributes to the promotion of sustainable business - providing financing to small and medium-sized businesses focusing on pollution reduction, scientific research, innovation, digitization projects. Projects aimed at expanding infrastructure for the disabled are also financed.

As mentioned, in 2023 The bank continued to cooperate with INVEGA in providing preferential loans to farmers and agricultural companies affected by the Russian war in Ukraine. This measure aimed to ensure the economic stability of the regions and reduce the negative consequences caused to the financial condition of Lithuanian farmers and agricultural companies. 14 million euros was paid out during the program in support funds for more than 160 clients (as of 31 December 2023).

In 2023 The bank has partnered with Finnvera, a Finnish state-owned financing company, on a new guarantee agreement for small businesses in the Finnish market. The Bank is the only foreign Bank approved to cooperate with Finnvera.

SME Bank services

The Bank expanded cooperative partnerships with e-commerce and e-trade platforms, opening new opportunities for small and medium-sized businesses. In response to the growth of e-commerce business and its needs, the Bank started cooperation with an innovative payment infrastructure provider by offering payment initiation services to business customers and business financing services, and, amongst other things analyzing business account turnovers.

In 2023 the Bank significantly increased investments in the development of products and IT solutions to take care of the growing business need to receive fast, flexible financing and other banking services.

In 2023, to improve customer experience and ensure fast, safe, and smooth payments the bank implemented SEPA instant payments, launched a currency exchange service and joined the SWIFT network.

in 2023 the bank's main activities were as follows:

- improvement of lending products;
- provision of digital and non-cash services;
- development of everyday banking and payment services, giving customers the opportunity to use and exchange even more currencies, make periodic payments, etc.;
- development and implementation of a mobile application, which will be available to customers in the Google Play and Apple Stores.

In addition to the newly introduced products, the Bank actively improved existing internal systems to provide customers with relevant information in real time about the products used and implemented new security integrations, allowing to meet the highest standards in the field of money laundering and terrorist financing prevention, as well as other regulatory requirements. Among other things, to strengthen cyber security and the resilience of the Lithuanian financial system, the Bank joined the cooperation of the Bank of Lithuania (LB), the National Cyber Security Center (NKSC), the Lithuanian Banks Association (LBA) and individual financial market participants, exchanging specific information on cyber threats.

SME Bank operational and financial overview

In 2023, the Bank earned EUR 7,443 thousand in interest income (2022: EUR 4,886 thousand). During 2023, the Bank formed a loan portfolio of EUR 80 million (2022: EUR 63 million) and incurred a net loss of EUR 473 thousand (2022: earned a net profit of EUR 696 thousand). In 2023 Bank has earned 492 thousand EUR realized profit and 49 thousand EUR unrealized profit disclosed in other comprehensive income from its operations with debt securities. As of 31 December 2023, the Bank had attracted EUR 106 million in customer deposits (2022: EUR 85 million).

In 2023, 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 of 31 December 2023, 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 2022: EUR 3,500,000).

By way of resolutions of the general meeting of shareholders adopted in 2023, the Bank's reserve capital was additionally increased by EUR 1,800 thousand (as of 31 December 2023, the reserve capital totaled EUR 3,800 thousand). The reserve is designed to support the increase in business lending volumes and to strengthen the capital base.

In February 2023 Virginijus Doveika became the Managing Director of the Bank, who, after receiving the permission of the Bank of Lithuania, was appointed the Chief Administrative Officer.

Between January and March 2024, the Bank of Lithuania carried out the Bank's routine inspection in anti-money laundering and terrorist financing (AMLTF). Currently, on the basis on the observations contained in the inspection report of the Bank of Lithuania, the Bank's management is making certain changes to improve the Bank's operations.

On 10th of October, 2023 according to the Resolution No 03-147 of the Board of the Bank of Lithuania and as a result of the inspection conducted by the Bank of Lithuania for the period from May 2021 to June 2022, enforcement measures (including a fine of EUR 170 thousand) were applied to UAB SME Bank.

No significant events have occurred after the end of the reporting period that could have a material impact on the Bank's activities and plans, except for those mentioned in Note 22.

Information about employees

The Bank has significantly expanded in 2023 – the number of employees of the Bank has increased by 69% compared to the previous reporting period. The bank has strengthened both its management and specialist teams to manage any operational risks.

Employee compensation in the Bank is managed in accordance with the internal documents regulating the remuneration policy, which were prepared in accordance with the legal acts of the Republic of Lithuania and aligned with the legal acts of the EU institutions: Directive 2013/36/EU (Article 92 d. 2), EBA Guidelines for a reliable remuneration policy according to the Directive 2013 /36/EU (EBA/GL/2021/04), EBA Guidelines on remuneration policies and practices related to the sale and provision of retail banking products and services (EBA/GL/2016/06) and others.

The bank has implemented a compensation management system, which includes basic salary and annual (for individual departments and positions - quarterly) variable compensation. Variable remuneration cannot amount to more than 100% of the annual fixed salary. More detailed information on the Bank's employee remuneration and remuneration policy is provided in the publicly published Pillar 3 report on the Bank's website https://smebank.lt/en/financial-results/.

Employees are prohibited from giving and accepting bribes or facilitating bribery and corruption. To ensure the proper behavior of employees and prevent corruption, bribery or other inappropriate/improper behavior, the Bank has approved the Code of Ethics, Anti-Bribery and Corruption Policy, and organizes training in this area for employees at least once a year.

SME bank plans and forecasts

The Bank's main goal is to be a reliable financial partner for SMEs, providing opportunities for growth and development to each SME regardless of industry, geographical location, or turnover.

Strategic business plan of the Bank specifies core business directions:

- customer number growth;
- profitability;
- proper risk management and compliance.

One of the Bank's most important operational strategies is to constantly increase the number of customers. This is an essential factor for the Bank's long-term and sustainable growth. The bank is considering the possibility of attracting customers in other markets.

For the bank, profitability is one of the essential factors in long-term and sustainable successful business operations. Profitability ensures the Bank's ability to provide quality services to customers, sustainably grow capital, invest in innovation and development. Sufficient profitability gives the Bank the opportunity to invest in innovative technologies, services, and innovations. This allows to maintain a competitive advantage and attract new customers.

As a responsible participant in the financial sector, the Bank plays a significant role in the economy. Appropriate risk management and an organized compliance function are an integral part of the Bank's daily operations; therefore, it is particularly important to have an effective risk management system and an effective compliance function.

The distinctiveness and uniqueness of the bank are its fully digital operations, individual solutions for each business, extremely fast decision-making and 24/7 service availability.

MANAGEMENT BODIES

The Bank has the following managerial bodies: the General Meeting of Shareholders, the Supervisory Board, the Management 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 Board

The Board of Supervisors exercises a supervisory function over the activities of the Bank. The Supervisory Board consists of three members elected by the General Meeting of Shareholders for a term of office of four years. The main tasks of the Supervisory Board include election and removal of the Members of the Board, the drawing up of actions plans and budgets, supervision of the Board activities 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, Sven Oliver Hein and Irmantas Kamienas are the members of the Supervisory Board. Their other positions currently being held are listed below.

Management Board

The Board is a collegial management body, elected by the Supervisory Board of the Bank. Currently, the Board is composed of four 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, ensuring adequate control of operations, accounting and asset management. The current members of the Board are the following: Audrius Milukas, Virginijus Doveika, Ieva Naudžiūnaitė, Marijana Romanova. Their other positions currently being held are listed 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 operations 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 Uniqum 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.
- Irmantas Kamienas, Member of the Supervisory Board
  - Main workplace: UAB SME Bank, Member of the Supervisory Board;
  - Other current positions: none.
- 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.
- Virginijus Doveika, Chief Administrative Officer
  - Main workplace: UAB SME Bank, Chief Administrative Officer.
  - Other current positions:
    - UAB Laicus, Director;
    - UAB Valstybės investicijų valdymo agentūra, Member of the Board.
- Ieva Naudžiūnaitė, Deputy Chief Administrative Officer
  - Main workplace: UAB SME Bank, Deputy Chief Administrative Officer/Executive Director.
  - Other current positions: none.
- Marijana Romanova, Chief Risk Officer
  - Main workplace: UAB SME Bank, Chief Risk Officer.
  - Other current positions: none.

Committees

Three committees have been established in the bank: Audit, Credit, Customer Relations, and from 1 April 2024 the fourth committee - the Assets and Liabilities Committee has started its activities.

The Audit Committee is established for the supervisory function of the Supervisory Board of the Bank. The audit committee prepares strategic and annual internal audit plans, considers internal audit reports, submits proposals for the selection of an external audit company and the engagement of additional services, and other matters as presented in the charter.

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 makes decisions granting credit facilities in accordance with the powers granted to the committee and, among other issues, handles non-standard loan projects, assesses the borrowers' status, and makes decisions on the further actions regarding debtors.

The Customer Relations Committee was established at the beginning of 2021 by a decision of the Board as a Compliance Committee. To better reflect the actual activities of the Committee, in December 2023 it was renamed to Customer Acceptance Committee and in April 2024 to Customer Relations Committee. This committee makes decisions on establishing, limiting, and terminating business relationships with clients, assessing reputational risks. The committee also examines issues related to the reputation of customers or the compliance of customers with the established risk appetite.

The Assets and Liabilities Committee was established by the Board's decision for effective management of the Bank's assets and liabilities and risks related to these areas. The main functions of the committee include supervision of asset and liability management policies and processes, implementation of the Bank's coordinated asset and liability strategy, review of the Bank's budget and allocation of sources of funds, review of liquidity, investment and business performance.

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.

Chief Administrative Officer



Virginijus Doveika

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Items	Notes	Current reporting period	Previous reporting period
Interest income recognised using the effective interest rate method	1	7 443 002	4 885 646
Interest expenses	1, 3	(2 670 765)	(919 819)
Net interest income (expense)		**4 772 237**	**3 965 827**
Fee and commission income	2	493 545	449 699
Service and commission expenses	2, 3	(554 518)	(312 632)
Net fee and commission income (expense)		**(60 973)**	**137 067**
Net result from debt securities transactions	4	**492 236**	**-**
Loss on disposal of financial assets		(22 731)	(114 194)
Other operating income (expenses)	5	(99 153)	8 345
Net other operating income (loss)		**370 352**	**(105 849)**
Staff expenses	6	(3 281 264)	(1 825 153)
Administrative expenses	7	(1 297 496)	(892 430)
Depreciation and amortization expenses	11, 12	(568 685)	(392 603)
PROFIT (LOSS) BEFORE IMPAIRMENT LOSS		**(65 829)**	**886 859**
Credit loss allowance	10	(488 717)	(125 543)
Other loss provisions		(14 972)	10 579
PROFIT (LOSS) BEFORE INCOME TAX		**(569 518)**	**771 895**
Income tax expense	14	96 279	(76 243)
NET PROFIT (LOSS)		**(473 239)**	**695 652**
Other comprehensive income		**49 254**	**-**
Items that may subsequently be reclassified to profit (loss)		**49 254**	**-**
Debt securities carried at fair value through other comprehensive income		**49 254**	**-**
Change in fair value during the year	4	541 490	-
Reclassification to profit (loss)	4	(492 236)	-
Related deferred income tax	4	(7 388)	-
Other comprehensive income less deferred income tax		**41 866**	**-**
TOTAL COMPREHENSIVE INCOME		**(431 373)**	**695 652**

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

These financial statements were prepared on 11 April 2024.

Chief Administrative Officer

Virginijus Doveika

Chief Financial Officer

Julija Tankeliūnaitė

STATEMENT OF FINANCIAL POSITION

Items	Notes	Current reporting period	Previous reporting period
ASSETS			
Cash and cash equivalents	8	5 675 277	29 166 527
Debt securities at fair value through other comprehensive income	9	27 813 232	-
Debt securities at amortized cost	9	519 244	-
Loans to customers	10	80 255 236	63 268 761
Intangible assets	11	2 090 195	1 513 170
Property, plant, and equipment	11	50 624	37 399
Right-of-use of assets	12	332 963	358 079
Deferred tax assets	14	68 119	-
Other assets	15	274 254	140 401
TOTAL ASSETS		**117 079 144**	**94 484 337**
LIABILITIES			
Customer deposits	16	105 899 185	85 382 353
Debt securities liabilities	17	1 952 143	2 010 689
Lease liabilities	12	326 070	360 409
Provisions for off-balance sheet liabilities		11 585	664
Deferred tax liabilities	14	-	13 332
Other liabilities	13	1 484 308	769 955
TOTAL LIABILITIES		**109 673 291**	**88 537 402**
EQUITY			
Issued capital	18	3 500 000	3 500 000
Reserve capital	18	3 800 000	2 000 000
Share option reserve	6	90 290	-
Legal reserve	18	22 347	-
Revaluation reserve	4	41 866	-
Retained earnings (loss)	18	(48 650)	446 935
TOTAL EQUITY		**7 405 853**	**5 946 935**
TOTAL EQUITY AND LIABILITIES		**117 079 144**	**94 484 337**

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

These financial statements were prepared on 11 April 2024.



Chief Administrative Officer

Virginijus Doveika



Chief Financial Officer

Julija Tankeliūnaitė

STATEMENT OF CHANGES IN EQUITY

	Issued capital	Reserve capital	Legal reserve	Share option reserve	Retained earnings	Revaluation reserve	Total equity
As at 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
As at 31 December 2022	**3 500 000**	**2 000 000**	**-**	**-**	**446 935**	**-**	**5 946 935**
Reserve capital	-	1 800 000	-	-	-	-	1 800 000
Legal reserve	-	-	22 347	-	(22 347)	-	-
Share option reserve	-	-	-	90 290	-	-	90 290
Net loss for the year	-	-	-	-	*(473 239)*	-	*(473 239)*
Other comprehensive income less deferred income tax	-	-	-	-	-	*41 866*	*41 866*
Total comprehensive income	-	-	-	-	(473 239)	41 866	(431 373)
As at 31 December 2023	**3 500 000**	**3 800 000**	**22 347**	**90 290**	**(48 650)**	**41 866**	**7 405 853**

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

These financial statements were prepared on 11 April 2024.

Chief Administrative Officer
Virginijus Doveika

Chief Financial Officer
Julija Tankeliūnaitė

STATEMENT OF CASH FLOWS

Items	Notes	Current reporting period	Previous reporting period
Net profit (loss) before income tax		**(569 518)**	**771 895**
Adjustments:			
Credit loss allowance		488 717	125 543
Other loss provisions		14 972	(10 579)
Interest income	1	(7 373 119)	(4 797 889)
Interest expenses	2,16	2 664 703	824 347
Share option expense		90 290	-
Depreciation and amortisation		548 481	392 603
Right of use contract modification	12	29 418	20 937
Loss on termination of the rights to claim		22 731	114 194
Income tax		7 440	-
Other non-monetary items		(462 755)	-
TOTAL ADJUSTMENTS TO OPERATING ACTIVITIES		**(3 969 122)**	**(3 330 844)**
(Increase) decrease in loans to customers		(17 427 299)	(22 175 058)
Increase/(decrease) in customer deposits		19 207 064	42 483 350
(Increase) decrease in other receivables		(133 853)	27 150
Increase (decrease) in other payables		779 583	604 990
(Increase) decrease in deferred tax assets		-	(11 457)
CHANGE IN ASSETS AND LIABILITIES OF OPERATING ACTIVITIES		**(2 425 495)**	**20 928 975**
Interest received		7 171 782	4 659 138
Interest paid		(1 143 221)	(385 794)
NET CASH FROM OPERATING ACTIVITIES		**3 915 416**	**22 643 370**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(1 060 200)	(751 335)
Acquisition of right-of-use assets		(82 832)	(18 668)
Disposal of property, plant and equipment and intangible assets		-	40 000
Acquisition of debt securities		(83 310 352)	-
Disposal of debt securities		55 644 688	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(28 808 696)**	**(730 003)**
CASH FLOWS FROM/USED IN FINANCING ACTIVITIES			
Paying-up reserve capital	18	1 800 000	1 500 000
Issue of bonds	17	-	500 000
Interest paid		(270 260)	(128 117)
Rent liabilities paid, including interest	12	(127 710)	(81 360)
NET CASH FLOWS FROM/USED IN FINANCING ACTIVITIES		**1 402 030**	**1 790 523**
Net increase in cash and cash equivalents		**(23 491 250)**	**23 703 890**
Cash and cash equivalents at the beginning of year		29 166 527	5 462 637
Cash and cash equivalents at end of year	8	**5 675 277**	**29 166 527**

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

These financial statements were prepared on 11 April 2024.

Chief Administrative Officer
Virginijus Doveika

Chief Financial Officer
Julija Tankeliūnaitė

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

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 of 31 December 2023, 81 employees were employed in the Bank (as of 31 December 2022: 48). In 2023, the average number of employees was 64 (2022: 40 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 Antano Tumėno g. 4-15, 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 2023		As at 31 December 2022	
	Number of shares	Interest held	Number of shares	Interest held
UAB Magnus Investments	1 575 175	45,005%	1 627 500	46,5%
UAB AKM Finance	1 575 175	45,005%	1 627 500	46,5%
UAB KR Finance	349 650	9,99%	245 000	7%
Total:	**3 500 000**	**100%**	**3 500 000**	**100%**

The ultimate controlling shareholders of the Bank are Marius Svidinskas (45.005% of shares) and Kamilė Milukė (45.005% of shares).

The Bank's management is fully convinced of stable and balanced performance going forward and based on that prepared these financial statements on the basis of a going concern. In 2023 and 2022, 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.

MATERIAL 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 decisions 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 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 2023.

Standards, their amendments, and interpretations effective for annual periods beginning on or after 1 January 2023.

In the current year, the Bank has adopted all the new and revised Standards and Interpretations that are relevant to its operations and effective for accounting periods beginning on 1 January 2023

(a) The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2023

Amendments to IFRS 17 and IFRS 4: The deferral of effective dates for IFRS 17 and IFRS 9 for insurers (published 25 June 2020, effective from 1 January 2023)

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. 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 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 (published 18 May 2017, effective from 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 Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. This IFRS will not have any impact on the financial position or performance of the Bank as insurance services are not provided.

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

The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

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

The Amendments are effective for annual periods beginning on or after January 1, 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.

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021, effective from 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 January 1, 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.

(b) Standards and amendments that have been approved but are not yet effective and have not been applied in advance

Amendments to IAS 1: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current (issued on 23 January 2020, effective from 1 January 2024)

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. Management has not yet assessed the impact of applying these amendments.

The amendments in Non-current Liabilities with Covenants (Amendments to IAS 1) (issued on 31 October 2022, effective from 1 January 2024):

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.

Management has not yet assessed the impact of applying 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, effective from 1 January 2024):

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) requires 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 are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is 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.

Amendments to IAS 7 and IFRS 7 Supplier Finance Arrangements (issued on May 2023, effective from 1 January 2024, early application is possible):

Supplier Finance Arrangements amends IAS 7 Statement of Cash Flows to require an entity to provide additional disclosures about its supplier finance arrangements. The amendments also add supplier finance arrangements as an example within the liquidity risk disclosure requirements of *IFRS 7 Financial Instruments: Disclosures.* The Amendments have not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of these amendments.

Amendments to IAS 21 Lack of Exchangeability (issued on August 2023, effective from 1 January 2025, early application is possible):

Lack of Exchangeability amends IAS 21 The Effects of Changes in Foreign Exchange Rates to require an entity to apply a consistent approach to assessing whether a currency is exchangeable into another currency and, when it is not, to determining the exchange rate to use and the disclosures to provide.

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

Currency of 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.

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 2023 the Bank's financial assets consisted of cash, cash equivalents, debt securities and assets attributable to loans and other receivables. As at 31 December 2022, the Bank's financial assets consisted of cash, cash equivalents and assets attributable to loans and other receivables.

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".

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; it does not include the financial instrument contract administration fee and transaction costs. 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.

Fees that are an integral part of the effective interest rate are treated as an adjustment to the effective interest rate:

- Origination fees received by the Bank relating to the creation or acquisition of a financial asset.
- Commitment fees received to originate a loan, when the loan commitment is not measured at fair value through profit or loss, and it is probable that the Bank will enter a specific lending arrangement.
- Origination fees paid on issuing financial liabilities measured at amortised cost.

The Bank attributes the collected loan administration fees to the adjustment of the effective interest rate, since the fee includes the assessment of the borrower's financial condition, the assessment and registration of guarantees, collateral and other guarantees, agreements, negotiations on the terms of financial instruments, preparation and processing of documents and the completion of the transaction. This in turn is an integral part of the financial instrument. Charges are recognized over the life of the financial instrument.

Fees that are not an integral part of the effective interest rate for a financial instrument include:

- Fees charged for servicing a loan. These are recognised as revenue as the services are provided.
- Commitment fees to originate a loan when the loan commitment is not measured at FVPL, and it is unlikely that a specific loan will be made. These are recognised on a time basis over the commitment period.
- Loan syndication fees received by the Bank that arranges a loan and retains no part of the loan package for itself (or retains a part of the same effective interest rate for comparable risk as other participants).
- Investment management fees.

Fees received that are not part of the effective interest rate are accounted for in accordance with IFRS 15.

Financial liabilities

The Bank's financial liabilities consist of those designated at fair value through profit or loss and those carried at amortized 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 2023 and 2022.

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 assets are 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 12).

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.

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

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

Employee benefits

The Bank does not have any contribution and benefit plans, but in 2023 has introduced shared based payments using equity instruments. In order to reflect the stock options granted by the Bank, the Bank recognizes employee benefits as an expense in the statement of profit (loss) and other comprehensive income and, accordingly, the same amount as an increase in the share option reserve in equity. The fair value of such granted equity instruments is determined at the time of grant, i.e. on the day of grant. The grant date is the day on which the contract was concluded and the parties agreed on the terms of payment in shares. On the date of the grant, employees are granted the right to payment in shares. Since the rights to the granted equity instruments are not transferred until the employee met the service condition, it is assumed that the services are provided during the period of the transfer of rights. This means that cost and the corresponding increase in equity are recognized over the vesting period. Non-market vesting

conditions, such as the requirement that the employee remain with the company, are taken into account when deciding how much of the equity instruments to be vested will be vested.

Short-term employee benefits are recognized as an expense in the current period when employees provide services. Benefits include wages, social security benefits, bonuses, paid vacations, and more.

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 10.

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 14.

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 2023	As at 31 December 2022
Cash and cash equivalents:		
Balances with the Bank of Lithuania, gross	5 547 710	28 924 401
Balances with commercial banks, gross	127 567	242 126
Loans and receivables from customers	**81 264 119**	**63 491 322**
Debt securities	**28 332 476**	**-**
Other assets	**274 254**	**140 401**
Other assets		
Credit risk exposures relating to off-balance sheet items	14 111 021	8 530 784
TOTAL:	**129 657 147**	**101 329 034**

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.

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

	As at 31 December 2023				
	Gross value			Loss allowance	Amortised cost
	Carrying amount	Deferred administration fee	Deferred transaction costs		
Stage 1	61 148 825	(577 073)	381 143	(273 073)	60 679 822
Stage 2	15 847 164	(154 774)	96 946	(148 201)	15 641 135
Stage 3	4 268 130	(13 994)	23 457	(343 314)	3 934 279
Total:	**81 264 119**	**(745 841)**	**501 546**	**(764 588)**	**80 255 236**

	As at 31 December 2022				
	Gross value			Loss allowance	Amortised cost
	Carrying amount	Deferred administration fee	Deferred transaction costs		
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**

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 2023				As at 31 December 2022			
	Stage				Stage			
	1	2	3	Total:	1	2	3	Total:
0–4 days	57 108 630	10 779 877	1 140 123	**69 028 630**	42 366 808	11 943 663	584 738	**54 895 209**
5–30 days	3 826 879	1 433 607	264 763	**5 525 249**	4 034 621	2 149 153	795 544	**6 979 318**
31–60 days	777	3 575 852	366 340	**3 942 969**	465	1 298 143	7 837	**1 306 445**
61–90 days	1 237	-	1 176 086	**1 177 323**	415	22 354	-	**22 769**
More than 90 days	15 372	-	1 330 281	**1 345 653**	2 421	-	338 471	**340 892**
Total:	**60 952 895**	**15 789 336**	**4 277 593**	**81 019 824**	**46 404 730**	**15 413 313**	**1 726 590**	**63 544 633**

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 2023				As at 31 December 2022			
	Stage				Stage			
	1	2	3	Total:	1	2	3	Total:
Without collateral	139 266	-	47 438	**186 704**	15 303	-	-	**15 303**
<10%	1 391 557	479 016	11 712	**1 882 285**	733 539	127 624	-	**861 163**
From 10 to 49%	49 472 045	14 337 637	3 609 431	**67 419 113**	35 700 790	10 168 853	840 824	**46 710 467**
From 50 to 59%	3 319 948	908 024	455 966	**4 683 938**	1 742 865	3 396 469	89 094	**5 228 428**
From 60 to 69%	1 939 757	64 659	132 489	**2 136 905**	2 430 595	697 087	760 153	**3 887 835**
From 70 to 79%	709 599	-	-	**709 599**	3 846 154	68 138	-	**3 914 292**
From 80 to 89%	614 468	-	-	**614 468**	301 507	-	16 649	**318 156**
From 90 to 100%	1 493 274	-	-	**1 493 274**	1 079 446	673 399	-	**1 752 845**
More than 100%	1 872 982	-	20 556	**1 893 538**	554 532	281 743	19 869	**856 144**
Total:	**60 952 896**	**15 789 336**	**4 277 592**	**81 019 824**	**46 404 731**	**15 413 313**	**1 726 589**	**63 544 633**

Assets pledged to the Bank for loans issued are discounted by applying the effective interest rate.

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 2023	As at 31 December 2022
Impairment as at January 1	**275 872**	**150 329**
Established	118 007	76 088
Derecognised financial assets	(55 150)	(69 953)
Transfers between stages	194 090	130 819
Other	231 769	(11 411)
Impairment as at December 31	**764 588**	**275 872**

Change in total impairment for financial assets is presented below:

	As at 31 December 2023	As at 31 December 2022
Loss allowance for loans granted	488 717	125 543
Loss allowance for off-balance sheet loan commitments under signed loan agreements	10 922	(12 305)
Allowance for cash and cash equivalents	(1 341)	1 726
Allowance for debt securities	5 391	-
Impairment during the year:	**503 689**	**114 964**

	As at 31 December 2023	As at 31 December 2022
Impairment of loans recognised in the statement of profit or loss		
Increase in impairment loss	1 095 465	445 137
Impairment loss reversed	(551 598)	(249 641)
Write-offs (incl. terminations)	(55 150)	(69 953)
Total impairment of loans	**488 717**	**125 543**
Impairment of Nostro[*] accounts recognised in the statement of profit or loss:		
Increase in impairment loss	43 986	6 831
Impairment loss reversed	(45 327)	(5 105)
Total impairment of Nostro accounts	**(1 341)**	**1 726**
Amount of impairment of debt securities measured at amortized cost recognized in the statement of profit (loss) and other comprehensive income:		
Increase in impairment loss	8 882	-
Impairment loss reversed	(6 273)	-
Total impairment of debt securities measured at amortized cost:	**2 609**	**-**
The amount of impairment of debt securities measured at fair value, changes in which are recognized in other comprehensive income, recognized in the statement of profit (loss) and other comprehensive income:		
Increase in impairment loss	11 149	-
Impairment loss reversed	(8 367)	-
Total impairment of debt securities measured at fair value with changes recognized in other comprehensive income:	**2 782**	**-**
Total impairment:	**492 767**	**127 269**

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 2023, the Bank complied with the maximum exposure set for non-financial institution, the ratio was 22,71%. 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 2023	
Sector of economic activity	**Amount, EUR**	**Proportion, %**
Manufacturing	18 228 613	22%
Wholesale	13 788 928	17%
Construction	12 860 193	16%
Retail	11 161 442	14%
Transportation and warehousing	6 082 733	8%
Other	5 819 097	7%
Administration and consulting services	5 170 909	6%
Real estate	4 022 162	5%
Arts, entertainment, recreation, health care	2 447 852	3%
Operating and finance lease	1 437 895	2%
Total:	**81 019 824**	**100%**

* Nostro – accounts on central bank and credit institutions

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%**

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 2023						
	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	5 675 277	-	-	-	-	5 675 277
Loans and receivables from customers	1 941 652	8 875 546	23 001 445	41 952 186	5 248 995	81 019 824
Debt securities	28 332 476	-	-	-	-	28 332 476
Other assets	166 543	6 015	42 321	53 824	5 551	274 254
Total:	**36 115 948**	**8 881 561**	**23 043 766**	**42 006 010**	**5 254 546**	**115 301 831**
Liabilities						
Payables to customers	10 464 205	12 941 423	76 425 100	6 068 457	-	105 899 185
Debt securities issued	-	-	-	-	2 000 000	2 000 000
Lease liability	-	15 437	71 392	239 241	-	326 070
Other liabilities	811 536	672 772				1 484 308
Total:	**11 275 741**	**13 629 632**	**76 496 492**	**6 307 698**	**2 000 000**	**109 709 563**

	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 (bonds)	-	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**

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 2023, the value of liquidity coverage ratio estimated at 310.17% (31 December 2022: 174.5%). As at 31 December 2023, the Bank's net stable funding ratio (NSFR) estimated at 156.89% (31 December 2022: 170%). Meanwhile, the Bank's leverage ratio was 4.49% as at 31 December 2023 (4.71% as at 31 December 2022).

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 2023, 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 2023 (thousand EUR)										
	One night	< 1 month	1–3 months	3–6 months	6–12 months	1–2 years	2–3 years	3–4 years	4–5 years	> 5 year	**Total**
EFFECT NII* if interest rate increase by 2p.p.	(43)	131	342	511	(200)	0	0	0	0	0	**741**
EFFECT NII* if interest rate decrease by 2p.p.	43	(131)	(342)	(511)	200	0	0	0	0	0	**(741)**
EFFECT EVE** interest rate increase by 2p.p. p.	1	(21)	(137)	(530)	492	50	(170)	(134)	7	101	**(341)**
EFFECT EVE** if interest rate decrease by 2p.p.	(2)	11	71	547	(1 031)	(108)	92	74	(17)	(243)	**(606)**

* 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, compliance risk, money laundering and terrorist financing risk, 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 1% 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 2023, the Bank complied with all own funds and additional capital buffer requirements, and the capital adequacy ratio estimated at 17.2%. 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. https://smebank.lt/en/financial-results/.

The table below shows the Bank's key performance indicators as at 31 December 2023:

Indicator	Amount	Indicator, %
Common Equity Tier 1 capital	5 225	12,9%
Tier 1 capital	5 225	12,9%
Tier 2 capital	1 742	-
Total capital	6 967	17,2%
Risk exposure amount	40 423	-

NOTE 1: Net interest income (expense)

	As at 31 December 2023	As at 31 December 2022
Interest income		
Loans to legal persons	7 124 483	4 807 938
Interest income	*7 120 578*	*4 726 628*
Effective interest rate adjustment:		
Loan administration fees	*385 690*	*408 635*
Credit commitment fees	*39 004*	*24 313*
Transaction costs	*(420 789)*	*(351 638)*
Loans to financial institutions	115 414	43 857
Interest income	*115 348*	*45 399*
Effective interest rate adjustment:		
Loan administration fees	*3 396*	*1 196*
Credit commitment fees	*675*	*203*
Transaction costs	*(4 005)*	*(2 941)*
Loans to households	33 636	26 273
Interest income	*32 048*	*25 862*
Effective interest rate adjustment:		
Loan administration fees	*1 530*	*238*
Credit commitment fees	*672*	*173*
Transaction costs	*(614)*	-
Deposits from legal persons	-	4 083
Balances with central banks	15 576	3 465
Deposits of financial institutions	-	21
Deposits in credit institutions	24 387	-
Deposits from households	-	9
Interest income from debt securities	**129 506**	-
Total interest income:	**7 443 002**	**4 885 646**
Interest expenses		
Interest expense on customer deposits	(2 224 222)	(571 696)
Effective interest rate adjustment:		
Bond interest expenses	(200 000)	(128 302)
Transaction costs	(228 767)	(185 251)
Interest for cash balances held with the Bank of Lithuania	-	(23 117)
Interest expense on assets	(17 776)	(11 453)
Total interest expenses	**(2 670 765)**	**(919 819)**
Net interest income	**4 772 237**	**3 965 827**

NOTE 2: Net fee and commission income (expense)

	As at 31 December 2023	As at 31 December 2022
Commission income		
Default interest income from legal persons	305 190	301 163
Commission income from payment services	113 525	100 610
Commission income from lending services	70 455	29 476
Other commission income	4 375	18 450
Total commission income:	**493 545**	**449 699**
Commission expenses		
Commission expenses related to lending services	(354 125)	(187 424)
Commission expenses related to collection of deposits	(127 524)	(101 717)
Commissions payable to banks	(35 923)	(15 943)
Commission expenses related to debt securities	(14 210)	-
Commission expenses related to bonds	(11 714)	(7 548)
Commission expenses related to payment services	(11 022)	-
Total commission expenses:	**(554 518)**	**(312 632)**
Net commission (expenses)	**(60 973)**	**137 067**

NOTE 3: Reclassification in the statement of profit or loss and other comprehensive income for the year ended 31 December 2022

When preparing the financial statements for 2023, the following items were reclassified in the statement of profit or loss and other comprehensive income during 2022: in order to more appropriately reflect the effective interest rate, Raisin GmbH's commission costs were reclassified from commission expenses to interest costs. 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	Reclassification	Data of previous reporting period in audited financial statements
Interest expenses	**(919 819)**		**(734 568)**
Interest expense on customer deposits	*(571 696)*		*(571 696)*
Effective interest rate adjustment:			
Bond interest expenses	*(128 302)*		*(128 302)*
Transaction costs	(185 251)	(185 251)	-
Interest for cash balances held with the Bank of Lithuania	*(23 117)*		*(23 117)*
Interest expense on assets	*(11 453)*		*(11 453)*
Commission expenses	**(312 632)**		**(497 883)**
Commission expenses related to lending services	*(101 717)*	*185 251*	*(286 968)*
Commission expenses related to collection of deposits	*(187 424)*		*(187 424)*
Commissions payable to banks	*(15 943)*		*(15 943)*
Commission expenses related to bonds	*(7 548)*		*(7 548)*

NOTE 4: Net result from debt securities transactions and other comprehensive income

	As at 31 December 2023	As at 31 December 2022
Realized gains from debt securities valued at fair value	505 958	-
Realized (losses) from debt securities valued at fair value	(13 722)	-
Net result from debt securities transactions	**492 236**	**-**
Change in fair value during the year	541 490	-
Reclassification to profit (loss)	(492 236)	-
Unrealized gains (losses) from debt securities measured at fair value	**49 254**	**-**
Deferred income tax	(7 388)	-
Total comprehensive income	**41 866**	**-**

NOTE 5: Other operating income (expenses)

	As at 31 December 2023	As at 31 December 2022
Membership fees	(4 215)	(4 680)
Remote identification services	(1 495)	(189)
Online compliance costs	(68 610)	(12 168)
Income (expenses) from financial assets and liabilities held for trading	3 619	-
Foreign exchange results	451	(181)
Other operating income (expenses)	(28 903)	25 563
Total:	**(99 153)**	**8 345**

NOTE 6: Staff expenses

	As at 31 December 2023	As at 31 December 2022
Wages and salaries and related tax expenses	3 051 655	1 743 243
Social security contributions	65 858	33 823
Share option expenses	90 290	-
Vacation accruals	62 686	39 655
Other personnel expenses	10 775	8 432
Total:	**3 281 264**	**1 825 153**

During 2023 share options were granted for one employee for the 39-month vesting period. As at 31 December 2023, the remaining contractual vesting period was 28 months. In total, the option to acquire 70,000 of the Bank shares free of charge was granted, and it was valued at fair value on the date of the grant of the share option, with the relevant costs and reserve recognized proportionately over the vesting period.

The fair value of the share options was determined evaluating the possible future results, estimating those results by probability, and discounting the outcomes to present value. The expected value of the share is determined by the indirect Black Scholes method, and by determining the price of the Bank's shares in comparison with the prices of the shares of the relevant comparable market entities.

NOTE 7: Administrative expenses

	As at 31 December 2023	As at 31 December 2022
IT and other communication expenses	334 508	232 108
VAT and other taxes	331 946	232 408
Bank of Lithuania penalty	170 000	-
Legal and consultation expenses	131 866	127 391
Office rent and maintenance expenses	78 611	35 542
Marketing expenses	74 187	104 839
Transport expenses	37 125	21 368
Accounting services	11 386	29 951
Financial audit expenses	18 000	16 000
Business trip expenses	5 870	3 219
Advisory and non-financial audit services	2 380	19 890
Other expenses	101 617	69 714
Total:	**1 297 496**	**892 430**

NOTE 8: Cash and cash equivalents

	As at 31 December 2023	As at 31 December 2022
Balances with the Bank of Lithuania		
Accounts with the Bank of Lithuania	4 595 265	28 196 294
Minimum reserve in local currency, gross	953 000	731 000
Loss allowance	(555)	(2 893)
Balances with the Bank of Lithuania, gross	**5 547 710**	**28 924 401**
Balances with commercial banks		
Gross value	128 648	242 210
Loss allowance	(1 081)	(84)
Balances with commercial banks, gross	**127 567**	**242 126**
Total:	**5 675 277**	**29 166 527**

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 2023	As at 31 December 2022
From A- to A+	104 852	240 887
Cash balances at banks without external rating (internal rating – Standard risks)	23 796	1 323
Total:	**128 648**	**242 210**

NOTE 9: Debt securities

	As at 31 December 2023	As at 31 December 2022
Debt securities at fair value through other comprehensive income		
Nominal value of debt securities	28 167 100	-
Change in fair value	(440 128)	-
Accrued coupon interest on debt securities	89 042	-
Impairment of debt securities	(2 782)	-
Total value of debt securities measured at fair value through other comprehensive income	**27 813 232**	**-**
Debt securities at amortized cost		
Nominal value of debt securities	500 000	-
Accrued coupon interest on debt securities	21 853	-
Impairment of debt securities	(2 609)	-
Total value of debt securities valued at amortized cost	**519 244**	**-**
Total debt securities:	**28 332 476**	**-**

Securities valued at fair value through other comprehensive income consist of securities of the following countries:

	As at 31 December 2023	As at 31 December 2022
Government securities of the Republic of Lithuania	8 124 891	-
Government securities of EU countries	19 688 341	-
	27 813 232	**-**

As at 31 December 2023, the fair value of debt securities was determined based on the average purchase and sale prices of official quotations. Securities valued at amortized cost include securities of the following countries:

	As at 31 December 2023	As at 31 December 2022
Debt securities of institutions of EU countries	519 244	-
	519 244	**-**

The calculated interest rate of the securities was fixed at 7.75%.

NOTE 10: Loans to customers

	As at 31 December 2023	As at 31 December 2022
Loans granted to customers	80 174 006	62 606 109
Interests accrued	310 469	239 845
Adjustments to fair value	33 803	132 809
Transaction costs	501 546	565 870
Carrying amount	**81 019 824**	**63 544 633**
Credit loss allowance	(764 588)	(275 872)
Total:	**80 255 236**	**63 268 761**

The annual difference of credit loss allowance was 488 716 euros.

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 2023				Total
	Lithuania	Latvia	Estonia	Finland	
Loans granted to customers	74 478 357	2 545 832	1 153 181	1 996 636	80 174 006
Interests accrued	301 363	4 645	3 771	690	310 469
Adjustments to fair value	31 057	2 746	-	-	33 803
Transaction costs	479 719	10 033	5 779	6 015	501 546
Carrying amount	**75 290 496**	**2 563 256**	**1 162 731**	**2 003 341**	**81 019 824**
Credit loss allowance	(721 283)	(40 063)	(3 242)	-	(764 588)
Total:	**74 569 213**	**2 523 193**	**1 159 489**	**2 003 341**	**80 255 236**

	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**

NOTE 11: Intangible assets and property, plant and equipment

Intangible assets for 2023	Basic software	Additional software	Other intangible assets	Total intangible assets
Net book value at the end of the previous financial year	**1 220 735**	**15 576**	**276 859**	**1 513 170**
(A) Intangible assets at acquisition cost				
At the end of the previous reporting period	1 611 312	27 828	276 859	1 915 999
Changes in current reporting period:				
- Additions	1 150 603	3 449	(132 263)	1 021 789
- Disposals	-	-	-	-
At the end of the reporting period	**2 761 915**	**31 277**	**144 596**	**2 937 788**
(b) Amortisation				
At the end of the previous reporting period	390 577	12 252	-	402 829
Changes in current reporting period:				
- Amortisation charge for the year	435 035	9 729	-	444 764
At the end of the reporting period	**825 612**	**21 981**	**-**	**847 593**
(c) Net book value at the end of the financial year (a)-(b)	**1 936 303**	**9 296**	**144 596**	**2 090 195**

Intangible assets for 2022	Basic software	Basic 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 2023 and 2022, the Bank did not have any intangible assets and property, plant and equipment that was fully depreciated, but still in use.

Property, plant and equipment in 2023	Equipment	Computers	Plant and machinery	Total property, plant and equipment
Net book value at the end of the previous financial year	**13 543**	**23 198**	**658**	**37 399**
(a) Property, plant and equipment at acquisition cost				
At the end of the previous reporting period	15 610	42 579	1 050	59 239
Changes in current reporting period:				
- Additions	6 065	29 364	2 983	38 412
At the end of the reporting period	**21 675**	**71 943**	**4 033**	**97 651**
(b) Depreciation				
At the end of the previous reporting period	2 067	19 381	392	21 840
Changes in current reporting period:				
- Depreciation charge for the year	6 287	18 467	433	25 187
At the end of the reporting period	**8 354**	**37 848**	**825**	**47 027**
(c) Net book value at the end of the financial year (a)-(b	**13 321**	**34 095**	**3 208**	**50 624**

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**	**24 350**	**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**

NOTE 12: Right-of-use assets and lease liabilities

The carrying value of right-of-use assets as at 31 December 2023 and 2022 and its movement throughout the year is disclosed in the tables below:

Right-of-use assets in 2023	Vehicles	Rented premises	Total
Net book value at the end of the previous financial year	**50 910**	**307 169**	**358 079**
(a) Carrying amount of the right-of-use assets			
At the end of the previous reporting period	69 117	380 481	449 598
Changes in current reporting period:			
- Additions	82 832	-	82 832
- Right of use contract modification	(68 505)	39 087	(29 418)
At the end of the reporting period	**83 444**	**419 568**	**503 012**
(b) Depreciation			
At the end of the previous reporting period	18 207	73 312	91 519
Changes in current reporting period:			
- Depreciation charge for the year	(8 669)	87 200	78 531
At the end of the reporting period	**9 538**	**160 512**	**170 050**
(c) Net book value at the end of the financial year (a)-(b)	**73 907**	**259 056**	**332 962**
Discount rate	6,81%	6,10 %	
Lease term	5 years	3 years	

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% ir 4,20%	
Lease term	Over 5 years	Over 5 years	

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

	2023	2022
As at January 1	**360 409**	**443 748**
Additions	82 832	18 668
Increase in interest	17 766	11 546
Payments	(127 710)	(92 906)
Payment and contract modification	39 701	(20 647)
Terminations	(46 928)	-
As at 31 December	**326 070**	**360 409**
Current liabilities	*94 960*	*84 699*
Non-current lease liabilities	*231 110*	*275 710*

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. In 2023, no penalties or termination fees were applied.

On 24 March 2022, the car lease was modified by extending maturity until 1 April 2027 and reducing lease payment to EUR 1,100. In 2023, a new car lease was signed for a period of 5 years.

NOTE 13: Other liabilities

	2023	2022
Taxes payable	519 697	26 117
Vacation accruals	194 020	72 871
Other liabilities	184 072	33 954
Trade payables	121 481	234 892
Balance of transit account for external payments	108 762	179 002
EIF guarantee fee payable	107 807	48 502
Accrued expenses	103 723	97 273
Debts to related parties	97 289	72 497
INVEGA guarantee fee payable	32 558	-
Payable to government authorities	13 824	959
Employment-related liabilities	1 075	3 888
Total:	**1 484 308**	**769 955**

Taxes payable include liabilities to INVEGA - the repayable amount of concessional loans and interest recovered from customers under the state aid program "Loans to ensure liquidity of economic entities operating in the fields of production, processing and trade of agricultural and fishery products in response to Russian aggression against Ukraine". For more details on off-balance sheet liabilities please refer to Note 19.

NOTE 14: Income tax and deferred tax

	2023	2022
Income tax expenses for the reporting period	-	(28 441)
Income tax expenses for the previous reporting period	7 440	-
Change in deferred income tax	96 064	(47 802)
Change in deferred income tax for the previous reporting period	(7 225)	-
Income tax benefit (expenses)	**96 279**	**(76 243)**

	2023	2022 m.
Profit (loss) before income tax	**(569 518)**	**771 895**
Tax calculated at a rate of 15%	85 428	(115 784)
Non-taxable income	45 778	45 174
Non-deductible expenses	(50 270)	(7 433)
Charity	300	1 800
Change in deferred income tax of the previous reporting year	215	-
Deferred income tax on other comprehensive income	7 388	
Income tax expenses of the previous reporting period	7 440	
Income tax benefit (expenses)	**96 279**	**(76 243)**

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:

	2023	2022
Profit (loss) before income tax	**(569 518)**	**771 895**
Non-taxable income	(305 190)	(301 162)
Non-deductible expenses	335 081	49 931
Total taxable profit (loss)	**(539 627)**	**520 664**
Tax rate	15%	15%
Deferred tax on tax losses	80 944	11 457
Deferred tax from tax losses of the previous reporting period	(6 754)	-
Deferred tax on right-of-use assets	(49 944)	(53 713)
Deferred tax on lease liability	48 911	54 061
Deferred tax on accrued expenses of the previous reporting period	(472)	-
Deferred tax on accrued expenses	(732)	(190)
Deferred tax on accrued expenses	3 555	(24 947)
Deferred tax on other comprehensive income	(7 388)	-
Total deferred tax asset	**68 119**	**(13 331)**
Deferred tax assets at the beginning of the period	**(13 331)**	**34 470**
Deferred tax assets at the end of the period	**68 119**	**(13 331)**

NOTE 15: Other assets

	As at 31 December 2023	As at 31 December 2022
Receivables from related parties	92	18 412
Accrued income and expenses	89 731	113 914
Advances paid	79 518	-
Other assets	104 913	8 075
Total:	**274 254**	**140 401**

Accrued income and expenses consisted of expenses for future periods from preferential loans under the state aid program "Loans to ensure liquidity of economic entities operating in the production, processing and trade of agricultural and fishery products in response to Russian aggression against Ukraine", as well as employees' health insurance expenses and memberships.

NOTE 16: 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 2023, the average interest rate paid on deposits was 3.78% (2022: 1.92%).

	As at 31 December 2023				
	„Zinspilot"	„Weltsparen"	Lithuanian depositors	Foreign depositors	Total
Term deposits	1 443 240	92 173 895	486 500	-	94 103 635
Demand deposits	-	-	8 943 597	1 520 608	10 464 205
Accrued interest to customers	21 625	1 463 533	8 608	-	1 493 766
Deferred commission expenses	(1 130)	(161 291)	-	-	(162 421)
Average interest rate	*2,73%*	*3,81%*	*4,10%*	-	*3,78%*
	1 463 735	**93 476 137**	**9 438 705**	**1 520 608**	**105 899 185**

	As at 31 December 2022				
	„Zinspilot"	„Weltsparen"	Lithuanian depositors	Foreign depositors	Total
Term deposits	24 006 839	48 304 811	-	-	72 311 650
Demand deposits	-	-	11 713 058	1 072 773	12 785 831
Accrued interest to customers	109 937	232 568	-	-	342 505
Deferred commission expenses	(13 501)	(44 132)	-	-	(57 633)
Average interest rate	*0,90%*	*2,44%*	-	-	*1,92%*
	24 103 275	**48 493 247**	**11 713 058**	**1 072 773**	**85 382 353**

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 2023, these costs amounted to EUR 91,524 (2022: EUR 65,684) 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.

NOTE 17: 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 dematerialized 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 dematerialized book-entry form. The bonds were not included in trading on a regulated market. The bonds are redeemable in seven years and pay annual interest 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 subject to pledge.

As at 31 December 2023, the Bank's liabilities related to the bonds consisted of the following:

	As at 31 December 2023	As at 31 December 2022
Issued bonds	2 000 000	2 000 000
Interests accrued	-	70 260
Transaction costs related to bonds issuance	(47 857)	(59 571)
Total debt securities	**1 952 143**	**2 010 689**

NOTE 18: Equity

	As at 31 December 2023	Par value of share Eur	As at 31 December 2022
Structure of authorised share capital at the end of previous 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**
Structure of authorised share capital at the end of reporting period:			
Ordinary shares	3 500 000	1	3 500 000
Reserve capital	3 800 000		2 000 000
Total:	**7 300 000**		**5 500 000**

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 2023.

During 2023, the Bank did not acquire and disposed of its own shares, and did not hold its own shares as at 31 December 2023 and 2022.

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. In 2023 during the general shareholders' meetings, the reserve capital was additionally increased by 1,800,000 euros (March 3, 2023 – 500,000 euros, October 2, 2023 – 1,000,000 euros, December 27, 2023 – 300,000 euros). As at 31 December 2023, the Bank's reserve capital set by cash contributions of its shareholders totaled EUR 3,800,000, the purpose of which is to guarantee the financial stability of the Bank.

Legal reserve

As of 31 December 2023, a legal reserve of 22,347 euros was formed from the undistributed profit of 2022.The Bank is obliged to form a legal reserve under the legislation of the Republic of Lithuania. The Bank is 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.

Profit distribution proposal

	2023
Profit (loss) brought forward from the previous reporting period	**424 589**
Net profit for the reporting period	(473 239)
Retained earnings	**(48 650)**
Transfers to legal reserve	-
Retained earnings (losses):	**(48 650)**

NOTE 19: Off-balance sheet assets and liabilities, contingencies

On 31 December 2023, the Bank undertook the commitment to provide loans for the total amount of EUR 14 111 021 (31 December 2022: EUR 8 530 784).

The Bank acts as a financial intermediary channeling funds from INVEGA to farmers suffering from Russia's war on Ukraine. The basis for such management estimate is the agreement with INVEGA, which defines the Bank as a financial intermediary that lends funds received from INVEGA 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 14 million euros received under the said incentive financial instrument. As at 31 December 2023, the balance of loaned funds was EUR 13.5 million euros.

The Tax Authorities may at any time during three 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.

Between January and March 2024, the Bank of Lithuania carried out the Bank's routine inspection in anti-money laundering and terrorist financing (AMLTF). Currently, the Bank's management, on the basis on the observations contained in the inspection report of the Bank of Lithuania, is making certain changes to improve the Bank's operations.

NOTE 20: Fair value

	Carrying amount	Level 1	Level 2	Level 3	Total:
Financial assets as at 31 December 2023					
Cash and cash equivalents	5 675 277	5 675 277	-	-	5 675 277
Loans to customers	80 255 236	-	80 255 236	-	80 255 236
Debt securities	28 332 476	28 332 476	-	-	28 332 476
Other assets	274 254	-	-	274 254	274 254
Financial liabilities as at 31 December 2023					
Payables to customers	105 899 185	-	105 899 185	-	105 899 185
Debt securities issued	1 952 143	-	1 952 143	-	1 952 143
(Finance) lease liabilities	326 070	-	-	326 070	326 070
Other liabilities	1 484 308	-	-	1 484 308	1 484 308

	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

NOTE 21: Related party transactions

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 2023 and 2022, a number of transactions with related parties took place in the course of normal activities. These transactions are disclosed in the tables below:

2023 m.	Acquisitions	Sales	Receivables	Payables
Shareholders	-	-	-	-
Company A	606 055	68 601	180	97 289
Company B	-	692 747	617 320	-
Other related companies	248 401	2 378	714	(40 742)
Total:	**854 456**	**763 726**	**618 214**	**56 547**

2022 m.	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**

In 2023, as in 2022, the majority of acquisitions consisted of sales agency and consultancy services. Intermediary and consultation expenses were estimated by observing the arm's length principle.

2023 m.	Loans granted	Interest income	Loans received	Interest expenses
Shareholders	-	-	-	-
Company A	841 026	151 248	-	-
Company B	2 400 000	234 466	-	-
Other related companies	-	-	-	-
Total:	**3 421 026**	**385 714**	-	-

2022 m.	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**	-	-

Information about payments to members of the Board, Chief Administrative Officer and key management personnel in 2023 and 2022 is disclosed in the table below:

	2023	2022
Remuneration payable to the Board members and key management personnel:		
Board members	364 568	274 530
Other key management personnel	1 111 743	593 748
Total:	**1 476 311**	**868 278**

In 2023, average number of management employees was 19 (2022: 14).

NOTE 22: Subsequent events

Routine inspection by the Bank of Lithuania

Between January and March 2024, the Bank of Lithuania carried out the Bank's routine inspection in anti-money laundering and terrorist financing (AMLTF). Currently, the Bank's management, on the basis on the observations contained in the inspection report of the Bank of Lithuania, is making certain changes to improve the Bank's operations.

Supervisory Review and Evaluation Process (SREP) by the Bank of Lithuania

Taking into account the results of the supervisory review and evaluation process, the Board of the Bank of Lithuania determined the additional capital requirement for the Bank at 5.55% of the total sum of the risk-weighted positions.

Taking into account the size of the additional capital requirement, the following minimum SREP own funds requirements have been approved:

- 7.62% Bank's total level 1 equity capital adequacy ratio;
- 10.16% Bank's Tier 1 capital adequacy ratio;
- 13.55% Bank's total SREP capital adequacy ratio.

In addition to these requirements, the Bank was recommended to have an additional capital size of 1% of the second tier guidelines (P2G).

Bank's reserve capital

In January 2024, the shareholders raised the Bank's reserve capital through additional contributions of EUR 1000 thousand.

In February 2024, the bank's reserve capital was increased by EUR 300 thousand cash contribution from shareholders.

In March2024, the bank's reserve capital was increased by EUR 300 thousand cash contribution from shareholders.

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 2023.

These financial statements were prepared on 11 April 2024.

Chief Administrative Officer
Virginijus Doveika

Chief Financial Officer
Julija Tankeliūnaitė