EMBANK
European Merchant Bank

EUROPEAN MERCHANT BANK UAB

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF EUROPEAN MERCHANT BANK UAB

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects of the financial position of the Company as at December 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

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

Loans to customers

As referred to in Note 8 the balance of loans granted to the Company's customers before impairment amounted to EUR 29 773 thousand, while the related impairment (expected credit losses, ECLs) was EUR 93 thousand. The Company's accounting policy on expected credit losses is disclosed in the financial statements under the section of accounting policies Impairment of Financial Assets.

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

The significant assumptions applied by the management in determining the stage of loan impairment include the choice of the appropriate method and model, the identification of significant increases in the credit risk.

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

How the Matter Was Addressed in the Audit

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

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

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

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

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

Other Information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

Other requirements for the auditor's report under the European Parliament and of the Council Regulation No 537/2014.

In accordance with the decision made by audit committee on 25 February 2020 we have been chosen to carry out the audit of the Company's 2020 and 2021 year financial statements. The 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 Company and its audit committee.

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

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

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

Certified auditor
Darius Gliaubicas[1]
Auditor's certificate No. 000594
14 April, 2022
Vilnius, the Republic of Lithuania
Grant Thornton Baltic UAB
Audit firm certificate No. 001513

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

[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 FOR THE YEAR ENDED DECEMBER 31, 2021

Objective overview of the Company's condition, performance and development, description of key risks and uncertainties encountered

In 2020 the Company started providing financial services for corporate customers (accounts, payment services, credits, etc.).

The Bank is committed to implementing appropriate strategies and processes that identify, analyse and manage the risks associated with its activities as a means of minimising the impact of undesired and unexpected events on the Bank's business activities. The Bank performs the following actions to ensure efficient risk management:

- identifies business strategy and business objectives that reflect the interests of its stakeholders;
- identifies the threats to the achievement of its business objectives;
- controls and manages its exposure to risk by appropriate risk reduction and mitigation actions;
- regularly reviews its exposure to all forms of risk and reduce it as far as reasonably practicable or achievable;
- educates and train its staff members on risk management processes and potential risk awareness;
- regularly reviews the risks the Bank faces as a result of its business activities and of the business and economic climate in which the Bank operates;
- identifies cost effective risk treatment options;
- identifies and regularly measures key risk indicators and takes appropriate action to reduce its risk exposure;
- ensures that risks are assessed for all new products and services before they are implemented;
- regularly reviews its key risk controls to ensure that they remain relevant, robust and effective.

The Management Board holds overall responsibility for implementing the risk management strategy and risk policies and adhering to the risk appetite approved by the Supervisory Board. Risk Management function is responsible for carrying out risk assessments, overall process of risk analysis and evaluation, recording findings, providing periodic reports to the management and initiating appropriate management actions in a timely manner.

Based on the Bank's current Business Plan and initial risk assessment, the following risks are distinguished as material:

- Credit risk;
- Liquidity risk;
- Money Laundering and Counter Terrorist Financing Risk;
- Operational Risk;
- Interest Rate Risk;
- Compliance Risk;
- Strategic Risk.

The Company's financial risks are disclosed in the financial statements.

Companies 2021 financial and non-financial performance analysis and personnel information

On December 14, 2018 European Central Bank has granted European Merchant UAB a specialized Bank‘s license number 3. On June 6, 2019 the Company registered its Articles of Association at the Register of Legal Entities related to becoming a specialized Bank.

In 2019 the Company purchased a Core Banking System, carried out the preparation activities for the services provision according to the license (payments, term deposits, loans, etc.).

At the end of 2019 the Company started providing payment and lending services.

In 2021, we continue to built-up our balance sheet in-line with our strategy. Although the ongoing global pandemic and its challenges, we delivered responsive growth in 2021. After capital increase in January 2021 (5mn EUR), our loan portfolio reached to 29.7mn EUR end of 2021. Our deposit base continues to grow up with new customer acquisitions to 75,9mn EUR.

We continue to invest on digital and IT for our clients together with our employees to attract, increase customer satisfaction, create loyalty and keep them in bank. After the second half of the year we started to have positive results on monthly basis and earned 4.6mn EUR operating income in 2021.

Our key ratios related to balance sheet performance and earnings continue to improve like net interest margin, cost to income ratio, return on equity and asset.

In 2021 the Company generated 4 581 thousand EUR revenue. The expenses amounted to 5 186 thousand EUR. The 2021 result is 605 thousand EUR loss.

The average number of employees in 2021 was 47.

Subsidiaries

The Company has not established any subsidiaries in 2021.

Information about share capital

As of December 31, 2021, the company’s share capital was equal to 15 300 000 EUR. The share capital is divided into 15 300 000 ordinary registered shares with EUR 1 par value each.

The number of all own shares acquired and held by the Company and the nominal value thereof and the share of the authorized capital of these shares – in 2021 the Company did not acquire and did not own its own shares.

Number of own shares acquired and transferred during the reporting period and their nominal value and share of the authorized capital, which these shares constitute – in 2021 the Company did not acquire or transfer its own shares.

Information on payment for own shares, if they are acquired or transferred for remuneration – in 2021 the Company did not acquire or transfer its own shares.

Reasons for Acquisition of the Company's Own Shares during the Reporting Period – in 2021 the Company did not acquire or transfer its own shares.

Bank's plans and prognosis

The company continues working on new initiatives which shall be launched in the future, e.g. new trade finance and trade services products, credit cards, alignments with merchants and scaling-up POS and even offering of investment services.

According to our business strategy for coming years, the Bank foresees the opportunities again in working with SMEs, both local and international, as well as focusing on fintech's, namely Electronic Money Institutions (EMIs), Payment Service Providers (PSP's), Payment Institutions (PI's) and Non-Bank Financial Institutions (NBFI's).

Based on its expertise, current development trends and market analysis, the Bank will continue to focus on the several markets. This includes mainly Lithuania; the EU member states and other jurisdictions (UK and others).

In addition to this, credit institutions are also foreseen as the potential B2B partners of the Bank, while individuals are seen as the key funding providers in terms of placing term deposits into the Bank to earn the attractive return.

References and additional explanations on the data presented in the annual financial statements

References and additional explanations are given in the financial statements notes.

The important events that occurred after the end of the financial year

Ukraine and Russia long-term conflict turned into military aggression (direct war) from Russia side, many sanctions were applied to Russia from the world economies (USA, EU, Australia and etc). Though the impact of these sanctions should affect both the Lithuanian and EU economies through three main channels: foreign trade, raw material supply and prices, and business and household sentiment, the negative impact of these factors on Lithuania is mitigated by the fact that Lithuania's foreign trade with Russia has changed significantly and trade relations were much less intense than a decade ago.

Bank has diligently implemented the new laws, policies and sanctions as well as conducting an initial analysis on Ukraine war effect on loan portfolio by examining criteria including imports from related countries, exports to related countries, trade relations with surrounding countries, dependence on natural gas prices, dependence on oil prices, effect on tourism revenues, FX effects, dependence on raw material and commodity prices, and impact analysis of shareholder structure. The Bank's customers received low impact scores due to their commercial relations and export to Russia. For the time being, no loss is foreseen in the loan portfolio of our Bank due to the sanctions and no change is observed in the risk status of our bank's loan customers due to the sanctions. The Bank evaluated that there is no material effect of Ukraine and Russia conflict on financials as of December 31, 2021.

Information on the members of the Supervisory Board of the Company:

Name, family name	Workplace	Company code	Company address	Duties
Ekmel Cilingir	Akce Holding Malta Ltd.	C75291	Level 0, St. Julian's Business Centre, Triq Elija Zammit, St. Julian's, STJ 3155 Malta	Director
Vygintas Bubnys	UAB Grinda	120153047	Eigulių 32, 03150 Vilnius	Chairman of the Board-
Vaineta Barevičiūtė-Kryževičienė*	Intrum Global Business Services	303326659	Spaudos street 8, 05132 Vilnius	Operations Director
Hakan Turkmen	Private Practicing Lawyer	37519446166	Esentepe MAh. Buyukdere Cad. Yonca Apt. B Blok No: 151/20 34394 Sisli/Istanbul/Turkey	Managing Partner-Legal Attorney

* Vaineta Barevičiūtė-Kryževičienė resigned as of 31 March 2022.

Information on the members of the Board of the Company:

Name, family name	Workplace	Company code	Company address	Duties
Sarp Demiray	European Merchant Bank UAB	304559043	Gedimino ave. 35, Vilnius, LT–01109 Business Center Merchants' Club	CEO
Semin Dulek	European Merchant Bank UAB	304559043	Gedimino ave. 35, Vilnius, LT–01109 Business Center Merchants' Club	Deputy CEO
Justinas Dedela	European Merchant Bank UAB	304559043	Gedimino ave. 35, Vilnius, LT–01109 Business Center Merchants' Club	Deputy CEO
Mehmet Guven Aytas	European Merchant Bank UAB	304559043	Gedimino ave. 35, Vilnius, LT–01109 Business Center Merchants' Club	Head of Global Sales

* Eugenijus Preiksa has been appointed as a member of the Board as of 13 April 2022.

CEO Sarp Demiray 14 April, 2022

COMPREHENSIVE INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

Article	Notes	Financial year	Previous financial year
Net interest income	1	1 033 738	28 895
Net fee and commission income	2	3 409 856	333 871
Net currency exchange gain (loss)	3	32 167	(62 392)
Net gain (loss) on derivatives at fair value	3	(52 051)	37 813
Other income (loss)	3	(138 156)	-
Total revenue		**4 285 554**	**338 187**
Remuneration and related expenses	4	(2 658 628)	(2 150 351)
Depreciation and amortization	9-11	(628 025)	(425 560)
General and administrative expenses	5	(1 616 835)	(1 253 016)
Expected credit losses	8	(92 246)	(1 490)
Total expenses		**(4 995 734)**	**(3 830 417)**
PROFIT (LOSS) BEFORE TAXES		**(710 180)**	**(3 492 230)**
Income tax	12	105 002	700 000
NET PROFIT (LOSS) FOR THE YEAR		**(605 178)**	**(2 792 230)**

Profit (loss) per share		(0,04)	(0,30)

The financial statements were approved and signed on 14 April, 2022 by:

Sarp Demiray
CEO

Onder Ozcan
CFO

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 2021

Article	Notes no.	Financial year	Previous financial year Corrected
ASSETS			
Cash and cash equivalents	6	54 644 418	28 875 513
Terminal deposits	7	-	17 116 029
Loans to customers	8	29 679 988	1 989 850
Intangible assets	9	1 225 174	818 165
Tangible assets	10	57 786	82 966
Right of use assets	11	314 612	441 629
Deferred tax asset	12	805 002	700 000
Other assets	13	597 577	143 037
TOTAL ASSETS		**87 324 557**	**50 167 189**

LIABILITIES			
Deposits from financial institutions	14	50 301 803	24 755 092
Deposits from public	15	25 630 128	13 372 227
Lease liabilities	11	289 020	421 391
Other liabilities	16	533 112	5 442 807
TOTAL LIABILITIES		**76 754 063**	**43 991 517**
Equity			
Capital	17	15 300 000	10 300 000
Retained earnings (loss)		(4 729 506)	(4 124 328)
TOTAL EQUITY		**10 570 494**	**6 175 672**
TOTAL EQUITY AND LIABILITIES		**87 324 557**	**50 167 189**

The financial statements were approved and signed on 14 April, 2022 by:

Sarp Demiray
CEO

Onder Ozcan
CFO

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2021

Article	Share capital	Retained earnings (losses)	Total Equity
Balance at December 31, 2019	**3 300 000**	**(1 332 098)**	**1 967 902**
Profit (loss) for the year	-	(2 792 230)	(2 792 230)
Share capital increase	7 000 000	-	7 000 000
Balance at December 31, 2020	**10 300 000**	**(4 124 328)**	**6 175 672**
Profit (loss) for the year	-	(605 178)	(605 178)
Share capital increase	5 000 000	-	5 000 000
Balance at December 31, 2021	**15 300 000**	**(4 729 506)**	**10 570 494**

The financial statements were approved and signed on 14 April, 2022 by:

Sarp Demiray
CEO

Onder Ozcan
CFO

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2021

Article	Notes no.	Financial year	Previous financial year
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit (loss)		(605 178)	(2 792 230)
Adjustments:			
Depreciation and amortization		628 025	425 560
Elimination of financing and investing activity results		(84 218)	10 355
Deferred tax assets		(105 002)	(700 000)
Other non- monetary transactions		43 510	-
Changes:			
Decrease (increase) in loans to customer		(27 700 200)	(1 989 850)
Decrease (increase) in other receivables		(454 540)	(117 597)
Increase (decrease) in payables to customers and banks		37 765 232	37 956 491
Decrease (increase) in other liabilities		(36 134)	219 138
Net cash flow from operating activities		**9 451 495**	**33 035 931**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of tangible and intangible fixed assets		(882 837)	(622 590)
Investments to terminal deposits		17 116 029	(17 088 573)
Other increases in cash flow from investing activities		52 051	(37 811)
Net cash flows from investing activities		**16 285 243**	**(17 748 974)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		-	5 000 000
Net cash flows from financing activities		**-**	**5 000 000**
Net foreign exchange difference on cash and cash equivalents		**32 167**	**(24 064)**
Net increase in cash and cash equivalents		**25 768 905**	**20 262 893**
Cash and cash equivalents at the beginning of the year		**28 875 513**	**8 612 620**
Cash and cash equivalents at the end of the year		**54 644 418**	**28 875 513**

The financial statements were approved and signed on 14 April, 2022 by:

Sarp Demiray
CEO

Onder Ozcan
CFO

EXPLANATORY NOTES FOR THE YEAR ENDED DECEMBER 31, 2020

I. GENERAL INFORMATION

European Merchant Bank UAB (hereinafter the Company) – was registered as a joint stock company in the Enterprise Register of the Republic of Lithuania on 2017-06-28; the company's code is 304559043. The Head Office of the company is located at Gedimino avenue 35, 01109, Vilnius.

Main activity of the Company is provision of financial services.

On December 14, 2018 the European Central Bank has issued a specialized bank license no.3 for the European Merchant Bank UAB. On June 6, 2019 the Company registered its Articles of Association in the Register of Legal Entities related to becoming a specialized Bank.

As of December 31st, 2021, the authorized capital of the company was EUR 15 300 000 which is divided into 15 300 000 ordinary registered shares with EUR 1 par value each.

The sole company's shareholder is Akce Holding Malta LTD, Code: C7529, address Level 0, St. Julian's Business Centre, Triq Elija Zammit, St. Julian's, STJ 3155 Malta:

Shareholder	2021		2020	
	No of shares	**Ownership**	**No of shares**	**Ownership**
Akce Holding Malta Ltd.	15 300 000	100%	10 300 000	100%
Total		**100%**		**100%**

The company does not hold any own shares.

European Merchant Bank UAB has no subsidiaries or associated companies. The Bank also has no branches and representative offices.

The average number of employees in 2021 was 47 (2020 – 35).

II. BASIS OF PREPARATION OF FINANCIAL STATEMENT

Statement of compliance

The financial statements of the company are prepared in accordance with the Laws of the Republic of Lithuania, regulating accounting and financial accountability, as well as the International Financial Reporting Standards (IFRS) that have been adopted for use in the European Union.

These financial statements have been prepared on a going concern basis.

Basis of measurement

The financial statements are prepared on a historical cost basis.

Functional currency and foreign currency transaction

The financial statements are presented in the local currency - Euro (EUR).

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate prevailing at the date of the statement of financial position. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, while non-monetary assets carried at fair value or revalued amounts are translated at the exchange rate when the fair value was determined. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than EUR are recognized in the profit or loss.

The use of assessments and decisions in the financial statements

In the preparation of the financial statements in accordance with IFRS that have been adopted for use in the European Union, the management, based on the certain assumptions, has to evaluate factors which influence the choice of accounting principles as well as the effect on the assets, liabilities, income and expenses amounts. The actual results might differ from assumptions and forecasts. The evaluations, forecasts and assumptions are always reviewed and revised on a regular basis.

The effect of changes in evaluations is recognized in the period during which the evaluation is revised and for the coming periods if the evaluation affects the future periods as well. The evaluations might be revised based on the changed conditions which were used to make evaluation or if there are new information available or new experience gained during the period which might lead to more accurate evaluations.

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

Amendments to IFRS 16 Leases: COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendments) (issued on 31 March 2021, effective from 1 April 2021)

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

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

The amendments are effective in European Union for annual reporting periods beginning on or after 1 April 2021. The management of the Group has assessed that these amendments have no significant impact on these interim financial statements as no significant concessions/discounts have been received during the reporting period and are not expected to be received in subsequent periods.

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

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

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest

- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued

- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The amendments are effective in European Union for annual periods beginning on or after 1 January 2021. The management of the Group ant the Company's has assessed that these amendments have no significant impact on these interim financial statements.

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

Amendments to IFRS 9, IAS 39 and IFRS 7 will conclude phase two focused on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). These amendments will not have an impact on the Company's financial statements.

Standards and their changes approved but not yet in force and not applied in advance.

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

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

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

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss of SPLOCI.

- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.

- Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

The amendments are effective in European Union for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted.

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

The Company’s management is currently assessing the impact of these amendments on the Group's and the Company’s financial statements.

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 2021, but not before approval by the EU)

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. 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, but not before approval by the EU)

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. This IFRS will not have any impact on the financial position or performance of the Company 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, but not before approval by the EU)

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. Earlier application is permitted. The Amendments have not yet been endorsed by the EU. Company and the Group has not yet evaluated the impact of the implementation of these

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, but not before approval by the EU)

The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

The amendments become effective for annual reporting periods beginning on or after 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. The Amendments have not yet been endorsed by the EU. Company and the Group has not yet evaluated the impact of the implementation of these amendments.

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 and 15 July 2020 respectively, effective from 1 January 2023, but not before approval by the EU)

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

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, but not before approval by the EU)

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

The following presents the main principles of the accounting policy which have been consistently applied to all the years presented, unless otherwise stated.

Fixed assets

Intangible assets

A long-term intangible asset are those assets which useful life is more than one year and which cost exceeds EUR 1.000. An intangible asset is initially measured at cost. An intangible asset is recognized in the balance sheet only when its cost can be measured reliably and it is likely that future economic benefits attributable to the assets will accrue to the company. Intangible assets are initially measured at cost and subsequently at cost less accumulated amortization and accumulated impairment. The cost includes all expenses for purchasing, manufacturing, taxes and other direct costs to otherwise bring the goods to their current location and condition. An amortization of the intangible asset is calculated using the straight-line method of amortization based on the estimated useful life of the asset:

- Software 5 years
- Other intangible assets 5 years

Impairment

Assets that are amortized are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An excess of the carrying amount of an asset over its recoverable amount is recognized as an impairment loss. The recoverable amount is the assets value less sales expenses or value of the asset in use whichever is greater. For the purpose of the impairment assessing assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Impaired assets are reviewed for impairment at each reporting date.

Tangible assets

Long-term tangible assets are those assets which useful life is more than one year and which cost exceeds EUR 300-1.000. Tangible assets are held at historical cost less accumulated depreciation and any impairment in value whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposals of tangible assets are determined by reference to their carrying amount and are charged to the income statement. The cost includes all expenses for purchasing, manufacturing, taxes and other direct costs to otherwise bring the goods to their current location and condition. Asset maintenance costs are charged to the income statement when they are incurred. If the economic benefits increase for the company due to costs or if the useful life of the asset increases or if there are significant renewals of assets, then costs are capitalized and added to tangible assets and depreciated over the remaining useful life period of the improved asset.

Depreciation and amortization is calculated using the straight-line method of depreciation based on the estimated useful life of the asset. Useful lives, residual values and depreciation methods are reassessed and changed when necessary in connection with each closing day. The following amortization and depreciation useful life (years) are applied in the company for the respective asset category:

- Computers	3 years
- Office equipment	4 years
- Communication tools	5 years
- Other property and equipment	4 years
- Furniture	6 years

Cash and cash equivalents

Cash consists of cash on bank accounts. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

For the purposes of the cash flow statement, cash and cash equivalents comprise the cash on bank accounts.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When receivables are recognised initially, they are measured at fair value. Loans are carried at amortised cost using the effective interest method. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortization process.

Losses on loans and receivables and other financial assets impairment are established if there is objective evidence that the company will not be able to collect all amounts due or if there is objective evidence that the value of receivables is reduced, then the impairment loss is reported as a deduction from the carrying value of the loan. When receivables are uncollectible, it is written-off against the related allowances for loan impairment.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial Instruments

IFRS 9, Financial Instruments, combining all three aspects of accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

A financial instrument is any contract that gives rise to a financial asset to one entity and a financial liability or equity instrument to another.

Initial recognition and evaluation:

Assigning financial assets at initial recognition depends on the contractual cash flow characteristics of the financial asset and the Company's business model that defines the management of the financial asset. Except for trade receivables and contract assets that do not have a significant funding component, the Company recognizes financial assets at fair value through initial recognition plus, when financial assets are not measured at fair value through profit or loss, transaction costs. Trade receivables and contract assets that do not include a significant funding component are measured at the transaction price determined in IFRS 15.

For a financial asset to be designated and measured at amortized cost or fair value through other comprehensive income, the cash flows arising from the financial asset should be only principal and interest payments (SPPI) on the principal uncovered amount. This assessment is called the SPPI test and is performed for each financial instrument.

The Company's financial asset management model specifies how the Company manages its financial assets to generate cash flows. The business model determines whether cash flows will be generated by collecting contractual cash flows, by selling this financial asset or by using both options.

Ordinary purchases or sales of financial assets are recognized on the trade date, i.e. the date the Company undertakes to purchase or sell the financial asset.

Subsequent evaluation

After initial recognition, the Company assesses financial assets:

a) Amortized cost (debt financial instruments);
b) At fair value through other comprehensive income when the cumulative gain or loss after the derecognition is transferred to profit or (loss) (debt financial instruments).;
c) Fair value through other comprehensive income when the cumulative gain or loss on discontinuance is not transferred to profit or (loss) (equity).;
d) At fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets classified as at fair value through profit or loss, or financial assets at fair value through initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near future.

Derivatives, including segregated embedded derivatives, are also classified as held for trading unless they are classified as effective hedging instruments (in accordance with IFRS 9). Financial assets related to cash flows that are not only principal and interest payments are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria described above, under which debt instruments are classified as amortized cost or fair value through other comprehensive income, debt instruments may be classified as at fair value through profit or loss at initial recognition if it eliminates or significantly reduces accounting inconsistencies. Financial assets are carried at fair value through profit or loss in the statement of financial position at fair value through profit or loss in the statement of comprehensive income.

Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. Losses on loan and receivables impairment are established through profit or loss if there is objective evidence that the Bank will not be able to collect all amounts due. Evidence of impairment is based on the Expected Credit Losses model (ECL), which tests if the credit risk has not increased significantly after initial recognition.

The measurement of the provision for expected losses under the general model depends on whether the credit risk has increased significantly since initial recognition. The ECL model has a three-stage approach based on changes in the credit risk. Upon initial recognition and when the credit risk has not increased significantly after initial recognition, a provision shall be made for 12-month expected losses, and the financial asset is recognized as Stage 1. Twelve-month expected losses are the losses expected to occur during the instrument’s lifetime, but that can be linked to events occurring in the next 12 months. Stage 2 includes financial assets for which the credit risk has increased significantly since initial recognition, but there is no objective evidence of a loss. Stage 3 (in default) of the model includes assets for which the credit risk has increased significantly since initial recognition, and there has been objective evidence of a loss event on the balance sheet date.

A collective assessment of impairment is performed on all financial institutions' instruments that are not defaulted as of the reporting date.

The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial assets.

i) Financial liabilities

Initial recognition and evaluation:

Financial liabilities at initial recognition are classified as financial liabilities at fair value through profit or loss, loan receivables and payables. All financial liabilities at initial recognition are recognized at fair value and, for loans and receivables, less directly attributable transaction costs. The Company's financial liabilities include trade and other payables.

Subsequent evaluation

The measurement of financial liabilities depends on their classification as described below.

Financial liabilities are carried at fair value through profit or loss
Financial liabilities carried at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss at initial recognition. Financial liabilities are classified as held for trading if they are held for repurchase purposes in the near future.

Loans received and other amounts due

After initial recognition, loans and other payables are carried at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized or amortized. Amortized cost is calculated by reference to the discount or premium on the acquisition, as well as taxes or costs that are an integral part of the EIR. EIR amortization is included in financial expenses in the statement of comprehensive income.

Coverage of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is an enforceable right to settle the amounts recognized and is intended to be settled net, i.e. to realize the assets and fulfil their obligations at the same time.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:
i) The rights to receive cash flows from the asset according to agreement have expired; or
ii) The company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement, and the company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when it is settled, cancelled or expires. When one existing financial liability is replaced by another liability to the same lender but in other circumstances, or when the terms of an existing obligation are substantially changed, such a change is considered to be a termination of the original liability and a new liability occurs. The difference between the respective carrying amounts is recognized in the statement of comprehensive income.

Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

For the cash flow statement, cash and cash equivalents comprise the cash in the bank's account balances.

Share capital and reserves

Share capital is presented according to the company's articles of association. Consideration received for the shares sold in excess over their par value is shown as share premium.

The reserves are made from the distribution of fiscal year net profit decided by the shareholder meeting, in accordance with Republic of Lithuania' act of law as well as the company's articles of association.

According to Law on Companies of the Republic of Lithuania, mandatory reserve is compulsory under the Lithuanian regulatory legislation. Annual transfers of 5% of net result are required until the reserve reaches 10% of share capital. The mandatory reserve cannot be used for payment of dividends and it is established to cover future losses only.

Employee benefits

The company does not have any defined benefit, employee incentive plans or compensation through share-based incentive programs. Short-term benefits for employees are recognized as current operating costs for the period during which the employees provided the services. The benefits include salaries, social security contributions, bonuses, paid-holidays, and others.

Revenues

Revenues are recognized as income on an accrual basis when earned. The services are treated as completed and provided for the customer if the following conditions are satisfied:

- The amount of the revenue can be measured reliably,
- The transaction is completed or the probability of the transaction being completed could be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the enterprise.

The Bank's revenues from main operations are attributed to the interest income and from specialized bank services. Interest income is recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Fee and commission income is recognized on an accrual basis when the service is provided and is allocated over the life of the financial instrument. Such income includes a monthly service fee. Late payment fees are recognized when the payment is received from the customer.

Income from the financial activity is comprised of changes in the fair value of financial instruments. The fair value of the security is determined based on the quote based on information from an active market. The market is deemed to be active if there are enough frequent trades as well as the representative volume for the security in order to fairly evaluate the price on a continuous basis.

Gains and losses arising from the foreign currency translation of financial assets and liabilities are recognized at fair value as income or expenses of financial activities and included in the income statement for the period depending on if the foreign currency changes are net profit or loss respectively.

Expenses

Expenses are recognized on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent.

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.

General and administrative expenses include IT systems maintenance, communication expenses as well as other expenses.

Financial expenses include interests for debt as well as related administration expenses related to receivables. The interest expenses are recognized by using effective interest rate method.

Finance and operating lessee

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance lease

The Company recognizes the finance lease as assets and liabilities in the financial position statement, carried at the fair value of the finance lease at the beginning of the lease or minimal present value of the future lease payments, if the latter is lower. In calculating the present value of the minimum finance lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine. Otherwise, the company's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge payments are allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

For finance lease assets and lease liabilities the company calculates depreciation; in addition, the company also recognizes finance expenses related to finance lease. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets are not depreciated over the period longer than the lease term, unless the company, according to the lease contract, gets transferred their ownership after the lease term is over.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognized as income. Instead, it is deferred and amortized over the lease term.

Operating lease

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases.

Lease payments are recognized as an expense (less any discounts granted to the lessee) in proportion to the lease term. Payments received under leases (less any discounts granted to the lessee) are recognized as income on a straight-line basis over the lease term.

Income tax

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax expenses are calculated based on the information available as at the date of preparation of the financial statements. In accordance with the Law on Corporate Income Tax of the Republic of Lithuania, the current income tax rate is 15% on taxable income since January 1st, 2010.
Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and (or) derivative instruments. Such carrying forward is disrupted if the company changes its activities due to which these losses were incurred except when the company does not continue its activities due to reasons which do not depend on the company itself. The losses from disposal of securities can be carried forward for 5 consecutive years and can be covered only by profits from same kind transactions.

Deferred income tax

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets are tested on each closing period and recognized to the extent it is likely on each closing day that they can be utilized. If it is not probable that future taxable profit will be available against which the temporary differences can be utilized, then deferred tax assets are reduced accordingly.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
Deferred tax assets and liabilities are offset only if the company has a legally enforceable right to set off current tax assets against current tax liabilities.

Income tax and deferred income tax for the reporting period

Income tax and deferred income tax are charged or credited to profit or loss, except when they relate to items included directly to equity, in which case the deferred income tax is also accounted for in other comprehensive income.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed in the financial notes unless the possibility of an outflow of resources embodying economic benefits is marginal.

According to current laws, the Tax Inspectorate at any time could check the company‘s accounting registers for the last five years before the reporting period, and also can calculate and apply additional taxes and sanctions for the company. The management of the company has no any information about the events and conditions which can result in significant additional tax expenses or liabilities for the company.

A contingent asset is not recognized in the financial statements but disclosed in the financial notes when an inflow of economic benefits is probable.

Subsequent events

Events after the reporting date that provide additional information about the company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes when material.

Related parties

Parties are considered to be related if at least one of the conditions are met:

a. The person or its relative is treated as related to the company if the person:
i. Has control or jointly control of the company
ii. Can exercise a significant influence over the company
iii. Is the member of the management personnel of the company or of a parent of the company
b. An entity is related to the company if any of the following conditions are met:
i. An entity and the company are members of the same group (i.e. each parent, subsidiary, and fellow subsidiary is related to each other)
ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member)
iii. Both entities are joint ventures of the same third party

iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity

v. An entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company. If the company is itself such a plan, the sponsoring employers are also related to the company

vi. An entity is controlled or jointly controlled by a person identified in (a)

vii. A person identified in (a), (i) has a significant influence over an entity or is a member of the key management personnel of an entity (or of a parent of an entity)

Offsetting

In the preparation of the financial statements, assets and liabilities, as well as income and expenses, are not offset, except the cases when a specific IFRS note requires or allows a specific offsetting operation.

Reclassification

In order to improve the accuracy of the figures presented in the financial statements, the 2020 figures have been reclassified to certain items in the statement of financial position. This reclassification did not affect the Bank's net comprehensive income statement for the Year 2020. Information on how the reclassified figures have been presented is given in the table below:

Statement of financial position	2020 value before the reclassification	Reclassification value	2020 value after the reclassification
Tangible assets	524 595	(441 630)	82 965
Right of use assets	-	441 630	441 630

Statement of financial position	2020 value before the reclassification	Reclassification value	2020 value after the reclassification
Lease liabilities	(5 864 198)	421 391	(5 442 807)
Other liabilities	-	(421 391)	(421 630)

Statement of financial position	2020 value before the reclassification	Reclassification value	2020 value after the reclassification
Deposits from financial institutions	471 889	24 283 203	24 755 092
Deposits from public	37 655 430	(24 283 203)	13 372 227

III. NOTES TO THE FINANCIAL STATEMENTS

Note 1 Net interest income

Items	Financial year	Previous financial year
Interest income	1 413 796	110 400
Interest expense	(362 412)	(58 886)
Interest expense right of use fixed assets	(17 646)	(22 619)
TOTAL	**1 033 738**	**28 895**

Note 2 Net fee and commission income

Items	Financial year	Previous financial year
Fee and commission revenue	3 587 624	397 118
Fee and commission expenses	(177 768)	(63 247)
TOTAL	**3 409 856**	**333 871**

Note 3 Financial income and expenses

Items	Financial year	Previous financial year
Foreign currency translation and items in the statement of financial position revaluation net gain	143 768	46 540
Foreign currency translation and items in the statement of financial position revaluation net loss	(111 601)	(108 932)
Total exchange rate gain (loss)	**32 167**	**(62 392)**
Realized income (loss) from forward foreign exchange transactions	(51 087)	41 173
Unrealized income (loss) from forward foreign exchange transactions	(964)	(3 362)
Interest paid	-	2
Total result from forward foreign exchange transactions	**(52 051)**	**37 813**
Other income from the sale of equity assets	**(138 156)**	**-**

Note 4 Renumeration and related expenses

Items	Financial year	Previous financial year
Payroll expenses	2 369 043	1 689 848
Bonuses expenses	205 000	379 401
Social security contribution expenses	63 532	40 046
Other expenses	21 053	41 056
TOTAL	**2 658 628**	**2 150 351**

Note 5 General and administrative expenses

Items	Financial year	Previous financial year
Legal and consultancy expenses	407 951	108 601
IT expenses	239 940	322 995
Non-deductible VAT expense	232 324	170 452
Consultations expenses by the supervisory Board	177 599	175 949
Business trip expenses	70 490	23 623
Bank of Lithuania fine	65 000	-
Advertising and public relation expenses	55 481	29 444
Expenses related to the premises	46 288	39 554
Telecommunication expenses	44 864	18 701
Insurance expenses	43 386	31 354
Employees search and recruitment expenses	32 135	192 722
Memberships expenses	19 448	19 966
Financial statements audit expenses	18 150	10 000
Training expenses	16 179	11 310
Representation expenses	5 892	32 789
Office supplies expenses	2 961	3 667
Payments and settlements related expenses	1 620	476
Donation expenses	1 500	-
Transportation expenses	1 092	1 409
Other expenses	134 535	60 004
TOTAL	**1 616 835**	**1 253 016**

Note 6 Cash and cash equivalents

Items	Financial year	Previous financial year
Cash at Central Bank	47 827 042	21 896 720
Cash at other banks	5 920 565	5 946 769
Cash at Lithuanian banks	897 738	1 032 024
Expected credit losses (-)	(927)	
TOTAL:	**54 644 418**	**28 875 513**

Note 7 Terminal deposits

Items	Financial year	Previous financial year
Term deposits in foreign financial institutions	-	17 088 573
Accrued interest	-	27 456
TOTAL:	**-**	**17 116 029**

Note 8 Loans to customers

Items	Financial year	Previous financial year
Loans to small and medium companies	18 688 358	1 990 397
Loans to corporates	6 636 363	-
Loans to financial institutions	4 364 948	-
Accrued interest	83 128	943
Expected credit losses	(92 809)	(1 490)
TOTAL:	**29 679 988**	**1 989 850**

31-12-2021

Distribution of loans by overdue days	Gross loans	Expected Credit Losses (ECL)			Net loans	Impairment coverage, %
		Stage 1	Stage 2	Stage 3		
Not overdue	29 772 797	(92 809)	-	-	29 679 988	0,3
0-30 days	-	-	-	-	-	-
31-89 days	-	-	-	-	-	-
90 days and more	-	-	-	-	-	-
Total loans to customers	**29 772 797**	**(92 809)**	**-**	**-**	**29 679 988**	**0,3**

31-12-2020

Distribution of loans by overdue days	Gross loans	Expected Credit Losses (ECL)			Net loans	Impairment coverage, %
		Stage 1	Stage 2	Stage 3		
Not overdue	1 991 340	(1 490)	-	-	1 989 850	0,1
0-30 days	-	-	-	-	-	-
31-89 days	-	-	-	-	-	-
90 days and more	-	-	-	-	-	-
Total loans to customers	**1 991 340**	**(1 490)**	**-**	**-**	**1 989 850**	**0,1**

Note 9 Non-current intangible assets

Items	Financial year
Balance at December 31, 2020	**818 165**
a) Non-current intangible assets acquisition cost	
At December 31, 2020	1 098 215
Changes during the financial year:	
- Acquisition of assets	865 866
December 31, 2021	**1 964 081**
b) Amortization –	
At December 31, 2020	(280 050)
Changes during the financial year:	
- Depreciation during the financial year	(458 857)
December 31, 2021	**(738 907)**
c) Balance at December 31, 2021 (a) - (b)	**1 225 174**

Note 10 Non-current tangible assets

Items	Computer equipment	Other equipment	Total
Balance at December 31, 2020	**81 524**	**1 442**	**82 966**
a) Non-current tangible assets acquisition cost			
At December 31, 2020	115 191	2 322	117 513
Changes during the financial year:			
- Acquisition of assets	16 971	-	16 971
December 31, 2021	**132 162**	**2 322**	**134 484**
b) Amortization			
At December 31, 2020	**(33 666)**	**(881)**	**(34 547)**
Changes during the financial year:			
- Depreciation during the financial year	(41 430)	(721)	(42 151)
December 31, 2021	**(75 096)**	**(1 602)**	**(76 698)**
c) Balance at December 31, 2021 (a) - (b)	**57 066**	**720**	**57 786**

Note 11 Right of use assets

The value of the right to use assets is determined on the basis of the discounted lease payments (liabilities) over the lease term planned by the management. The depreciation period for these assets corresponds to the lease term of the asset. Lease payments that do not meet the criteria of the applicable standard are recognized as an expense. The discount rate used to depend on the term of the lease is 5 percent.

Short term or low value leases are recognized on a straight-line basis in the income statement.

Right of use asset	Balance at January 1, 2021	Additions / Increase	Deposit	Depreciation	Balance at December 31, 2021
Premises	441 629	-	-	(127 017)	314 612
Total	**441 629**	**-**	**-**	**(127 017)**	**314 612**

Right of use asset	Balance at January 1, 2021	Additions / Increase	Payments	Balance at December 31, 2021
Lease liability	421 391	-	(132 371)	289 020
Total	**421 391**	**-**	**(132 371)**	**289 020**

Right of use asset	Balance at January 1, 2020	Additions / Increase	Deposit	Depreciation	Balance at December 31, 2020
Premises	380 767	167 266	13 645	(120 049)	441 629
Total	**380 767**	**167 266**	**13 645**	**(120 049)**	**441 629**

Right of use asset	Balance at January 1, 2020	Additions / Increase	Payments	Balance at December 31, 2020
Lease liability	371 931	167 266	(117 806)	421 391
Total	**371 931**	**167 266**	**(117 806)**	**421 391**

Note 12 Deferred income tax asset

Items	Financial year	Previous financial year
Accrued tax loses	825 647	699 905
Accrual for vacation reserve of social security contribution	241	95
Right of use asset	47 192	
Expected credit losses (1 stage)	13 921	
Other	596	
Differences between the useful lives of intangible fixed assets and financial and tax accounting	(39 242)	-
Lease liability	(43 353)	
Total deferred income tax asset	**805 002**	**700 000**
Subtract: post-valuation reduction of deferred tax asset	**-**	**-**
Net deferred income tax asset	**805 002**	**700 000**

Note 13 Other Assets

Items	Financial year	Previous financial year
Collateral given (Given to credit card issuer companies)	264 690	-
Prepaid expenses	229 587	85 855
Trade receivables	96 422	56 899
Other assets	6 878	283
TOTAL:	**597 577**	**143 037**

Note 14 Deposits from financial institutions

Items	Financial year	Previous financial year
Demand deposits	50 301 803	24 755 092
TOTAL:	**50 301 803**	**24 755 092**

Note 15 Deposits from public

Items	**Financial year**	**Previous financial year**
Demand deposits	2 260 091	2 182 925
Term deposits	23 300 807	11 156 452
Accrued interest	69 230	32 850
TOTAL:	**25 630 128**	**13 372 227**

Average rate interests on time deposits in 2021 year were 0,97%. (2020 – 0.94%)

Note 16 Amounts payables and liabilities

Items	**Financial year**	**Previous financial year**
Accrued expenses	289 729	55 648
Liabilities to vendors	140 423	120 659
Accrued vacation reserve	42 593	36 073
VAT payable	25 056	12 395
Changes in fair value Forward contracts	5 237	4 272
Amounts received from shareholders for increase of the share capital	-	5 000 000
Liabilities to employees	-	213 703
Other	30 074	57
Total	**533 112**	**5 442 807**

Note 17 Share capital and reserves

Share capital

As of December 31, 2020, the company’s share capital was equal to 15 300 000 EUR (as of December 31, 2020 – 10 300 000 EUR). The share capital is divided into 15 300 000 ordinary registered shares with EUR 1 par value each.

All shares as of December 31, 2021 and December 31, 2020 are fully paid-up. The company does not have any other types of shares except the ordinary shares as referred to above.

Mandatory reserve

As of December 31, 2021, the company did not have reserves. According to Law on Companies of the Republic of Lithuania, mandatory reserve is compulsory under the Lithuanian regulatory legislation. Annual transfers of 5% of net result are required until the reserve reaches 10% of share capital.

Note 18 Financial risk management

The company defines the risk as the possibility of a negative deviation from an expected financial outcome and negative impact for the company. One consequence of risk-taking is the occurrence of losses. The company shall make appropriate efforts to minimize expected losses through ensuring sound internal practices, good internal controls as well as insurance policies.
The most important types of risk the company is exposed to are:

- Credit risk
- Liquidity risk
- Market risk

This Note to the financial statements includes information about the impact of the risks on the company, its objectives, policy, and processes related to the risk assessment and management, also the information about the capital management. The quantitative disclosures are presented in other Notes to the financial statements.

The Management Board is responsible for the development and supervisory of risk management structure. The risk management policy of the company is designed to identify and analyses the risks that the company faces with, the implementation and the supervision of the respective limits and controls. The risk management policy and the risk management systems are revised on a regular basis to reflect the developments in the market conditions and the operations of the company. The company seeks to develop a disciplinary and constructive risk management policy where all employees are aware of their functions and obligations.

Credit risk
Credit risk means the risk for the company to incur losses due to the customers' failure to fulfil their financial obligations towards the company. The company uses several measures designed to continuously ensure that transactions are made with reliable customers and the transaction amounts do not exceed the approved credit risk limit. The company does not grant any guarantees in respect of obligations of other parties. The largest credit risk is represented by the carrying value of each unit of financial assets, including the derivative financial instruments in the statement of the financial position, if any. As a result, the company's management believes that the maximum risk is equal to the amounts receivable less the recognized impairment loss as of the statement of the financial position date.

Liquidity risk

The liquidity risk means the risk that the company is unable to meet its financial obligations in time. For liquidity risk management, the company's policy is to maintain a sufficient cash and cash equivalents enabling the company to fulfil its obligations under ordinary or complex conditions without incurring unacceptable loss or risk to the company's reputation.
The following table discloses the company's largest liquidity risk exposures irrespective of the security measures as of December 31, 2021:

	Amount/market value	Applicable weight	Value
Liquidity Buffer	**47 283 042**		**47 283 042**
Withdrawable central bank reserves	47 283 042	1,0	47 283 042
Retail deposits	**23 341 541**		**2 350 523**
deposits where the payout has been agreed within the following 30 days	18 188	1,00	18 188
Other retail deposits	23 323 353	0,10	2 332 335
Operational deposits	**22 999 065**		**5 700 512**
maintained for clearing, custody, cash management or other comparable services in the context of an established operational relationship	22 999 065		5 700 512
covered by Deposit Guarantee Scheme	246 271	0,05	12 314
not covered by Deposit Guarantee Scheme	22 752 794	0,25	5 688 198
Excess operational deposits	**28 862 056**		**22 514 857**
deposits by financial customers	19 702 165	1,00	19 702 165
deposits by other customers	7 159 891		2 812 692
covered by Deposit Guarantee Scheme	256 322	0,20	51 264
not covered by Deposit Guarantee Scheme	6 903 569	0,40	2 761 428
Non-operational deposits	**2 760 038**		**2 756 038**
correspondent banking and provisions of prime brokerage deposits	2 166 317	1,00	2 166 317
Deposits by financial customers	588 721	1,00	588 721
deposits by other customers	5 000		
covered by Deposit Guarantee Scheme	5 000	0,20	1 000
Committed facilities	**4 732 154**		588 731
credit facilities	4 732 154		588 731
to non-financial customers other than retail customers	4 347 102	0,10	434 710
to credit institutions	385 052	0,40	154 021
Other liabilities			
liabilities resulting from operating expenses	794 118	0,0	-
Total Outflows			**33 910 661**
Inflows Subject to 75% Cap			6 858 162
Reduction for Inflows Subject to 75% Cap			6 858 162
NET LIQUIDITY OUTFLOW			**27 052 499**
LIQUIDITY COVERAGE RATIO (%)			**174,78%**

Market risk

Market risk is the risk that the fair value, the company's results or future cash flows of financial instruments will fluctuate due to changes in market variables, such as interest rates, foreign exchange rates and equity prices. The purpose of the market risk management is to manage the open risk exposures with a view to maximizing the return.

Foreign exchange risk

Foreign exchange rate risk is the risk that the value of the Company assets and liabilities, including derivative financial instruments, will fluctuate due to changes in exchange rates or other relevant risk factors. The exchange rate risk arising from banking operations is managed by limiting the total value of assets and liabilities, including financial derivatives, in the same currency to the desired level by using derivatives such as foreign exchange forwards.
The Company manage the structural foreign exchange risk inherent in the structure of the balance sheet and income. Market risk arising from foreign currency positions is managed by setting a limit for open foreign currency positions.
The Company's monetary assets and monetary liabilities in different currencies on December 31, 2021 and 2020 were as follows:

	2021			**2020**		
	Assets	**Liabilities**	**Derivatives**	**Assets**	**Liabilities**	**Derivatives**
EUR	82 606 914	83 238 082	-	49 652 455	50 167 189	-
USD	562 829	56 207	470 000	226 430	-	270 000
GBP	154 768	29 390	120 000	97 311	-	90 000
TRY	45	-	-	9 097	-	80 000
JPY	-	-	-	93 348	-	90 000
AED	-	-	-	88 548	-	-
Total	**83 324 556**	**83 324 556**	**590 000**	**50 167 189**	**50 167 189**	**530 000**

Note 19 Prudential requirements

Capital adequacy

The Company has to comply with the prudential regulatory capital requirement determined by the European Central Bank, including capital adequacy ratio.

In addition, the Company has the following goals:
- To ensure the Company ability to comply with the capital adequacy requirements
- To ensure the ability to maintain an optimal capital level in order to ensure the growth of the investment portfolio and to protect against potential risks

Information on compliance with all prudential requirements of the Company

The Company has complied with all prudential requirements as of December 31, 2021:

CET1 Capital ratio - 4,5%	18,57%
T1 Capital ratio - 6%	18,57%
Total capital ratio - 8%	18,57%
Capital conservation buffer - 2,5%	1 150 947
Leverage ratio - shall be more than 3%	9,99%
Liquidity requirement - liquidity coverage ratio shall not be less than 100%	174,78%
Liquidity requirement - net stable funding ratio shall not be less than 100%	170,02%
Large exposure requirement for non-institutions- shall not exceed 25% of bank' s T1 capital	23,99%
Large exposure requirement for institutions- shall not exceed 100% of bank' s T1 capital	30,33%

Interest rate risk

As per the December 31, 2021 financial figures, the company has calculated Economic value of equity (EVE) in EUR. The scenarios of 2% increase or decrease in interest rates on various time buckets is calculated and EVE is hence found to be positive. The company did not have any derivatives with the purpose to manage interest rate risk.

Note 20 Transactions with related parties

The company's related parties are considered to be its shareholders, employees, Members of the Board, their close family members or entities that they directly or indirectly, through one or several intermediaries control or are controlled by, or are managed jointly with the company, and this relation enables one of the parties to exercise control or significant influence upon the other party in making financial or operating decisions.

2021-12-31

Related parties name	Acquisitions from related parties during 2021	Liabilities 2021-12-31	Income from related parties during 2021	Receivable 2021-12-31
Shareholder	-	-	-	-
Associated companies	-	3 317 185	102 344	-
Total	**-**	**3 317 185**	**102 344**	**-**

2020-12-31

Related parties name	**Acquisitions from related parties during 2020**	**Liabilities 2020-12-31**	**Income from related parties during 2021**	**Receivable 2020-12-31**
Shareholder	-	5 000 000	-	-
Associated companies	-	107 590	-	-
Total	**-**	**5 107 590**	**-**	**-**

Financial relationships with the Company's management are presented below:

Items	**Financial year**	**Previous financial year**
Amounts paid to Companies management and related parties:		
- Amounts related to employment relationships	638 037	547 857
- Allowance for work at the Supervisory Board	177 599	175 949
- Share-based payment	-	-
- Free of charge granted assets or services	-	-
- Other significant amounts	-	-

Note 21 Off balance sheet items

Items	**2021**	**2020**
Foreign exchange future contact to decrease the risk of the foreign currency exchange rate	590 000	530 000
Credit commitments granted	1 932 244	2 695 358
Guarantees	13 881	13 881

Note 22 Subsequent events

Ukraine and Russia long-term conflict turned into military aggression (direct war) from Russia side, many sanctions were applied to Russia from the world economies (USA, EU, Australia and etc). Though the impact of these sanctions should affect both the Lithuanian and EU economies through three main channels: foreign trade, raw material supply and prices, and business and household sentiment, the negative impact of these factors on Lithuania is mitigated by the fact that Lithuania's foreign trade with Russia has changed significantly and trade relations were much less intense than a decade ago.

Bank has diligently implemented the new laws, policies and sanctions as well as conducting an initial analysis on Ukraine war effect on loan portfolio by examining criteria including imports from related countries, exports to related countries, trade relations with surrounding countries, dependence on natural gas prices, dependence on oil prices, effect on tourism revenues, FX effects, dependence on raw material and commodity prices, and impact analysis of shareholder structure.

The Bank's customers received low impact scores due to their commercial relations and export to Russia. For the time being, no loss is foreseen in the loan portfolio of our Bank due to the sanctions and no change is observed in the risk status of our bank's loan customers due to the sanctions. The Bank evaluated that there is no material effect of Ukraine and Russia conflict on financials as of December 31, 2021.

These financial statements were signed and approved on April 14, 2022.

Sarp Demiray	Onder Ozcan
CEO	CFO