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EMBANK
European Merchant Bank

EUROPEAN MERCHANT BANK UAB

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

WITH 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 European Merchant Bank UAB (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 April 16, 2014 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

Refer to Material accounting policies sections Credit impairment, Measurement of expected credit losses, Expected credit loss (ECL) Calculation – Input and forecasting methodologies, Definition of default and credit-impaired assets, determining a significant increase in credit risk since initial recognition, Expected lifetime, Modifications, Presentation of credit recoveries/credit loss allowances, Note 21 Financial risk management sub-section Credit risk and Note 10 Loans to customers on pages 27-31,40, and 45-50 respectively.

As of December 31, 2023, Bank’s expected credit losses on statement of financial position of loans amounted to 736 thousand EUR (Note 10).

Bank’s credit impairments included to statement of profit or loss and other comprehensive income for the expected credit losses for the year ended December 31, 2023 amounted to 656 thousand EUR.

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 updated the ECL model, we considered the impairment of the loans as a significant risk during the audit, so we have paid increased attention to this area. Accordingly, we thought that this area would be the main subject of the audit.

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; 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 made inquiries to the employees of the Bank's risk management and information technology (IT) areas, 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 checked how the selected controls for loan approval, accounting and monitoring are implemented and functioned, including, but not limited to, controls for loan risk monitoring, loss events, default detection; in addition, we checked 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 Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional 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 April 25, 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 5 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
19 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 FOR THE YEAR ENDED DECEMBER 31, 2023

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

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

The Bank is committed to implementing appropriate strategies and processes that identify, analyze and manage the risks associated with its activities as a means of minimizing 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 trains 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.

ESG risks are assessed for transition and physical risks and the sectors with material transition and physical risk are monitored based on ESG Risk Management Policy.

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

2023 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 Bank registered its Articles of Association at the Register of Legal Entities related to becoming a specialized Bank.

In 2019 the Bank 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 Bank started providing payment and lending services.

Consistent with our plan, we persevered in our endeavors to reinforce our financial position during 2023. Despite the adversities that emerged due to the invasion of Ukraine by Russia, rising prices of commodities and oil, and inflationary conditions, we were able to accomplish significant progress in 2023. As of the end of the year, our loan portfolio amounted to 35 925 thousand EUR, and our deposit base maintained a consistent upward trend, driven by the acquisition of new customers, and ultimately reaching a sum of 133 762 thousand EUR.

We continue to invest in digital and IT for our clients together with our employees to attract, increase customer satisfaction, create loyalty and keep them in the bank. We earned 9 303 thousand EUR operating income in 2023.

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 assets.

In 2023 the Bank generated 10 909 thousand EUR revenue. The expenses amounted to 9 818 thousand EUR. The 2023 result is 1 091 thousand EUR profit.

The average number of employees in 2023 was 64 (2022 – 59).

Subsidiaries

The Bank has not established any subsidiaries. The Bank has no established branches or representative offices.

Information about share capital

As of December 31, 2023, the Bank's share capital was equal to 15 300 thousand EUR. The share capital is divided into 15 300 thousand ordinary registered shares with EUR 1 par value each.

The number of all own shares acquired and held by the Bank and the nominal value thereof and the share of the authorized capital of these shares – in 2023 the Bank did not acquire and did not own its own shares.

The Bank did not acquire or transfer its own shares.

Information about research and development activities

The Bank did not carry out research and development activities.

Economic environment and outlook

The year 2023 brought formidable challenges to Lithuania's economy. Inflation soared to one of the highest rates in the EU, hitting a peak of 20% in January before gradually receding over the course of the year. However, this decline in inflation coincided with a rise in interest rates, placing strain on both mortgage holders and businesses.

Despite efforts to address economic hurdles, the Real GDP contracted by 0.3% in 2023, though this downturn was less severe than initially projected. The year began with negative growth but saw a robust recovery in the second quarter, followed by a period of stagnation. Factors such as subdued private consumption, sluggish exports, and tighter financing conditions contributed to the delays in economic recovery.

Export performance, particularly in sectors like plastics, wood, chemicals, and furniture, remained hindered by weak global demand. However, there were signs of improvement in service exports. Despite these challenges, the labor market showed resilience, with declining unemployment and increased employment, partly due to self-employment and individuals seeking refuge from the conflict in Ukraine.

Wage growth remained steady, supported by higher minimum wages, salary increases in the public sector, and a tight labor market. Although confidence indicators across various sectors reflected pessimism, consumer confidence started to improve. Private consumption is expected to rise, driven by reduced price pressures, though concerns regarding the conflict in Ukraine may lead to cautious spending habits.

Looking ahead, Lithuania and the EU are likely to continue grappling with challenges such as the Ukraine conflict, Western sanctions against Russia and Belarus, and higher loan interest rates. However, some of these adverse impacts are expected to ease in the latter half of 2024.

Weak external demand remains a barrier to overall growth, with GDP growth forecasted at around 2.0% in 2024. HICP inflation moderated from its peak of 18.9% in 2022 to 8.7% in 2023, primarily due to declining energy prices and slower growth in food and manufacturing prices. Projections for 2024 suggest further declines in HICP inflation, though it is expected to remain slightly above 2%.

Many analysts anticipate the European Central Bank (ECB) to initiate interest rate cuts in the second half of the year. This, coupled with falling inflation, recovering consumption, and expected investment growth, should facilitate a faster economic recovery. Potential interest rate cuts could particularly benefit mortgage holders in Lithuania, as many mortgages are tied to fluctuating interest rates linked to the 6-month EURIBOR rates.

The effects of current geopolitical tensions

Escalating geopolitical tensions, including ongoing conflicts such as the war in Ukraine, the Hamas-Israel conflict, China's assertion over Taiwan, and Houthi attacks on Red Sea shipping, are heightening global concerns. The Ukrainian war particularly impacts the economies of the Baltic States, exacerbating regional growth slowdowns and affecting global commodity markets, supply chains, inflation rates, and financial conditions. Despite the Baltic economies showing resilience, economic activity remains subdued. In response, the Lithuanian government introduced additional support packages at the end of 2022 and the beginning of 2023 to mitigate the impact of the energy crisis on businesses and vulnerable households.

Despite the ongoing escalation of geopolitical tensions since 2022 and the resultant economic uncertainties, European Merchant Bank has not observed any immediate concerns regarding liquidity, customer behavior, or overall business sentiment. Throughout 2023, corporate lending saw an increase, particularly in demand from the public sector and utilities industry, especially within the renewable energy sector. Overall, demand for long-term lending remained robust.

Business Strategy of the Bank and Business Plan looking forward

Bank has a vision of "Banking for Growth: providing business insight, products and technology to empower our clients."

The Bank ‘s mission is to ensure accessibility of digital banking services for SMEs and enable the underbanked businesses to reach their potential through our banking services, while ensuring compliance with EU standards. This forward-looking position is based on our core values of Partnership, Trust and Integrity, Smartness and Proactive Agility:

- We are more than just a bank; we are a partner for our clients, ensuring that every financial solution works towards its success.
- We believe in the future of business, based on transparency and trust and the integrity of banking activities.
- We harness technology and insights to provide sophisticated banking solutions, always reflecting on our clients’ evolving needs.
- We embrace change with foresight and flexibility, proactively adapt to the evolving financial landscape.

This translates for Fintechs to a total package consisting of a European banking license, accounts in-line with regulations, a single API-based software, and the know-how to provide a true embedded finance offering. For businesses, it’s accessible lending options for needs big and small, payment and account solutions for local and international business’ needs.

In that sense: The Bank ‘s mid-term strategy focuses on increasing the Bank's corporate loan portfolio while giving SME development a higher priority; growing funds from depositors; maintaining strong asset quality through efficient risk management and continuous organic growth for businesses. For Fintech, strategic focus is on being established as a pioneering bank that supports the FinTech ecosystem with the most advanced payment-banking systems and by offering superior customer service; setting up a full-fledged correspondent banking network and offering trade financing and Euroclearing services as well as growing a skilled staff for banking services with the knowledge and aptitude to use the newest methods and technologies. Bank also has a strategic priority to further build its global brand; establishing a strong brand awareness, building a solid reputation in the marketplace and being one of the first banks to come to mind in the sector.

At Bank, all the employees pride themselves on high professional standards, transparent practices, resilience to find solutions and long-term commitment to the Bank‘s partners.

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Bank combines its employees' passion for entrepreneurship with their banking experience, making them entrepreneurs at heart and seasoned bankers in practice.

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

As of January 23, 2024, Akce Holding Malta Ltd. has sold all its' shares to European Merchant Bank Holdings, UAB.

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

Name, Surname	Workplace	Company code	Company address	Responsibilities
Ekmel Cilingir	Akce Holding Malta Ltd.	C75291	Level 0, St. Julian's Business Centre, Triq Elija Zammit, St. Julian's, STJ 3155 Malta	CEO
Vygintas Bubnys	UAB Grinda	120153047	Eigulių 32, 03150 Vilnius	Chairman of the Board
Simona Grineviciene	ADB Gjensidige	110057869	Žalgirio str. 90, LT-09303, Vilnius	Head of Legal and Prevention Division Baltics
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

Information on the members of the Board of the Bank:

Name, Surname	Workplace	Company code	Company address	Responsibilities
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
Aurelijus Šveikauskas	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	European Merchant Bank UAB	304559043	Gedimino ave. 35, Vilnius, LT–01109 Business Center Merchants' Club	CRO

Bank's Committees

Audit Committee

The primary function of the Audit Committee is to assist the Supervisory Board of the Bank in fulfilling its oversight responsibilities for financial reporting processes, the effectiveness of internal controls, the internal audit process and monitoring of compliance with laws, regulations and the Bank's policies and procedures.

The Audit Committee maintains free and open communication with the Supervisory Board, Management Board, the independent auditors, internal audit, and any other party affected by the work of the Audit Committee.

Members:

- Ekmel Cilingir
- Vygintas Bubnys
- Simona Grinevičienė

Asset/Liability Committee (ALCO)

ALCO's primary duties and responsibilities are to assess the adequacy and monitor the implementation of the Bank's Asset, Liability, Risk, Liquidity and Fund Management Policy ensuring that assets and liabilities are appropriately managed to optimize profitability while minimizing risks. ALCO meets regularly every two weeks and additional meetings may be scheduled as needed based on circumstances.

Members:

- CEO
- CFO
- CRO
- Head of Global Sales
- Head of Local Sales
- Head of Financial Institutions

Risk Committee

The Supervisory Board of the Bank acts as – up until there is a separately established Risk Committee – the Risk Committee of the Bank.

The Supervisory Board, in the role of the Risk Committee:

- monitors the Bank's overall actual and future risk appetite and strategy, considering all types of risks, to ensure that they are in line with the business strategy, objectives, corporate culture, and values of the institution.
- oversees the implementation of the institution's risk strategy and the corresponding limits set.
- oversees the implementation of the strategies for capital and liquidity management as well as for all other relevant risks of the Bank (including reputational risk), in order to assess their adequacy against the approved risk appetite and strategy.

Credit Committee

The Credit Committee shall meet at least monthly and may hold additional meetings as needed or appropriate.

<u>Members:</u>

- CEO
- Head of Local Sales / Head of Global Sales
- Legal Counsel
- Local Credits Manager / International Credits Manager
- CFO

The specific authority and responsibilities of the Credit Committee include the following:

- approve credit proposals under the limit set to the Committee and make recommendations regarding credit proposals to the upper authorization level – Management Board and Supervisory Board of the Bank.
- monitoring of overall credits concentration limits, including credits to one borrower, by industry, by product.
- monitoring of the Bank’s credit products, origination volumes, market area and credit facilities development.
- monitoring the Bank’s quality of both credits portfolio and individual credits, credits portfolio tendencies, expected credit losses, and collateral policy.
- recommending to the Management Board for approval of Credit risk/Lending policies and procedures commensurate with the Bank’s specific risk tolerances and strategic goals and monitoring the implementation of lending policies.
- periodical review of the Bank’s credits grading system and monitor the performance of the system, including a review of classification reports, external credit reviews and examination reports.
- performing a periodic review of the Bank’s high-risk and non-performing credits. Review collection practices and strategies, as appropriate.
- preparing and making periodic reports to the Management Board.
- annual review of this Charter and recommend changes to the Management Board as needed.

Nomination Committee

The Supervisory Board of the Bank acts as – up until there is a separately established Nomination Committee – the Nomination Committee of the Bank.

The Supervisory Board, in the role of the Nomination Committee, is mainly responsible to:

- identify, recommend, and approve Management Board candidates.
- dismiss Management Board members.
- assess the balance of skills, knowledge, and experience in the bank’s body and prepare a description of the functions and abilities required.
- for the specific position and assess the time required to perform the position
- at least annually evaluate the balance of knowledge, skills, diversity, and experience of the individual Management Board members (and the Head of Administration, where applicable) and Management Board collectively.
- assess the structure, size, composition, and performance of the Management Board (and the Head of Administration, where applicable) and make recommendations with regard to any changes.

Information Security Committee (ISC)

The Information Security Committee's main duty is to provide recommendations to the Management Board of the Bank in relation to all information security efforts undertaken by the Bank. This committee also coordinates and communicates the direction, current state, and oversight of the information security program.

Members:

- CRO
- CISO
- CTO
- Head of Operations
- Compliance Manager
- DPO

The responsibilities of the Information Security Committee cover:

- formulating, reviewing, and recommending the information security policy of the Bank.
- review the effectiveness of policy implementations.
- providing clear direction and visible management support for security initiatives.
- initiating plans and programs to maintain information security awareness.
- approving and monitoring major information security projects and the status of information security plans and budgets, establishing priorities, and approving procedures.
- ensuring the security activities are executed in compliance with the policy.
- identifying significant threat changes and vulnerabilities.
- assessing the adequacy and coordinating the implementation of information security controls.
- promoting information security education, training, and awareness throughout the Bank.
- educating the team and staff on ongoing legal, regulatory and compliance changes as well as industry news and trends.
- reviewing the status of security awareness programs.
- assessing new developments or issues relating to information security.
- reporting to and or presenting to the Management Board on information security activities on at least a quarterly basis.

Detailed information regarding to Bank's remuneration policy is provided in a separate "Remuneration Policy" report published on https://em.bank/corporate-govarnance/.

As of December 31st, 2023 the number of the "Risk Takers" at the bank was 20.

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Remuneration awarded for the financial year

		A	B	C	D	Total
		Supervisory function	**Management function**	**Other senior management**	**Other identified staff**	
Fixed Remuneration	Number of identified staff	4	5	7	4	**20**
	Total fixed remuneration	454	648	561	125	**1 788**
	of which: Cash based	454	648	561	125	**1 788**
Variable Remuneration	Number of identified staff	4	5	7	4	**20**
	Total variable remuneration	-	124	84	9	217
	of which: Cash based	-	124	84	9	217
Total Remuneration		**454**	**772**	**645**	**134**	**2 005**

Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	Management body remuneration			Business areas		
	MB Supervisory function	**MB Management function**	**Total MB**	**Independent control functions**	**All other**	**Total**
Total number of identified staff	**4**	**5**	**9**	**-**	**-**	**20**
of which: members of the MB	4	5	9	-	-	18
of which: other senior management	-	-	-	2	5	7
of which: other identified staff	-	-	-	2	2	4
Total remuneration of identified staff	**454**	**772**	**1 226**	**217**	**562**	**2 005**
of which: variable remuneration	-	124	124	18	75	217
of which: fixed remuneration	454	648	1 102	199	487	1 788

CEO Sarp Demiray 19 April 2024

Signed electronically

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME STATEMENT

Items	Notes	Financial year	Previous financial year Corrected
Interest income at effective interest rate	**1**	4 783	1 833
Interest expenses	**1**	(1 415)	(461)
Net interest income		**3 368**	**1 372**
Commission income	**2**	5 932	5 277
Commission expenses	**2**	(90)	(95)
Net commission income		**5 842**	**5 182**
Other income (loss)	**3**	101	15
Net currency exchange gain (loss)	**4**	(12)	35
Net gain (loss) on derivatives at fair value	**5**	4	(35)
Staff expenses	**6**	(4 182)	(3 208)
Administrative expenses	**7**	(2 737)	(2 084)
Depreciation and amortization expenses	**11-13**	(726)	(588)
Credit recoveries/loss allowances	**9**	(656)	(78)
Profit (loss) before tax		**1 002**	**611**
Tax expense	**14**	89	(299)
Profit (loss) for the year		**1 091**	**312**
Total comprehensive income		**1 091**	**312**

The financial statements were signed on 19 April 2024 by:

Sarp Demiray
CEO

Signed electronically

Onder Ozcan
CFO

Signed electronically

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

Items	Notes	Financial year	Previous financial year
ASSETS			
Cash and cash equivalents	**8**	107 580	87 897
Bonds at amortized costs	**9**	415	-
Loans to customers	**10**	35 925	23 726
Derivatives	**11**	12	5
Intangible assets	**12**	1 945	1 616
Tangible assets	**13**	28	37
Right of use assets	**14**	50	188
Deferred tax asset	**15**	755	603
Trade and other receivables		136	222
Other assets	**16**	794	684
TOTAL ASSETS		**147 640**	**114 978**

LIABILITIES			
Deposits from financial institutions	**17**	75 063	60 309
Deposits from public	**18**	58 699	41 410
Lease liabilities	**14**	-	143
Trade and other payables		312	313
Other liabilities	**19**	1 593	1 921
TOTAL LIABILITIES		**135 667**	**104 096**
Equity			
Capital	**20**	15 300	15 300
Retained earnings	**20**	(3 327)	(4 418)
TOTAL EQUITY		**11 973**	**10 882**
TOTAL EQUITY AND LIABILITIES		**147 640**	**114 978**

The financial statements were signed on 19 April 2024 by:

Sarp Demiray
CEO

Signed electronically

Onder Ozcan
CFO

Signed electronically

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

Items	Capital	Retained earnings	Equity
Balance on December 31, 2021	**15 300**	**(4 730)**	**10 570**
Profit (loss) for the year	-	312	312
Balance on December 31, 2022	**15 300**	**(4 418)**	**10 882**
Profit (loss) for the year	-	1 091	1 091
Balance on December 31, 2023	**15 300**	**(3 327)**	**11 973**

The financial statements were signed on 19 April 2024 by:

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CEO

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STATEMENT OF CASH FLOWS

Article	Notes	Financial year	Previous financial year
Operating activities			
Profit (loss) for the year		**1 091**	**312**
Adjustments:			
Credit recoveries/credit loss allowances		656	78
Interest income		(4 617)	(1 833)
Interest expense		1 256	305
Depreciation and amortization		726	588
Elimination of financing and investing activity results		4	(39)
Deferred tax assets		(152)	202
Other non- monetary transactions		37	8
Total adjustments:		**(2 090)**	**(691)**
Net change in loans to customer		(12 968)	5 871
Net change in other receivables		(31)	(397)
Net change in payables to customers and banks		31 499	25 757
Net change in other liabilities		(367)	1 620
Total adjustments to operating assets and liabilities		**18 133**	**32 851**
Interest received		4 740	1 866
Interest paid		(707)	(180)
Cash flows from operating activities		**21 167**	**34 158**
Investing activities			
Acquisition of tangible and intangible fixed assets		(908)	(798)
Net change in bonds at amortized costs		(425)	-
Other increases in cash flow from investing activities		(4)	35
Cash flows from investing activities		**(1 337)**	**(763)**
Financial activities			
Premises rent payments have been paid		(143)	(146)
Cash flows from financial activities		**(143)**	**(146)**
Exchange rate difference on cash and cash equivalents		**(4)**	**4**
Net increase in cash and cash equivalents		**19 683**	**33 253**
Cash and cash equivalents at the beginning of the year		**87 897**	**54 644**
Cash and cash equivalents at the end of the year	**8**	**107 580**	**87 897**

The financial statements were signed on 19 April 2024 by:

Sarp Demiray CEO	Onder Ozcan CFO
Signed electronically	Signed electronically

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

EXPLANATORY NOTES

I. GENERAL INFORMATION

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

Main activity of the Bank is provision of financial services.

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

As of December 31, 2022, the capital of the Bank was 15 300 thousand EUR which is divided into 15 300 thousand ordinary registered shares with EUR 1 par value each.

The sole Bank'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	2023		2022	
	No of shares	**Ownership**	**No of shares**	**Ownership**
Akce Holding Malta Ltd.	15 300 000	100%	15 300 000	100%
Total		**100%**		**100%**

As of January 23, 2024, Akce Holding Malta Ltd. has sold all its' shares to European Merchant Bank Holdings, UAB.

The Bank does not hold its own shares.

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

The average number of employees in 2023 was 64 (2022 – 59).

II. ACCOUNTING POLICY

Statement of compliance

The financial statements of the Bank 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.

The financial statements are also prepared according to the Republic of Lithuania Law on Banks, Law of the Republic of Lithuania on Reporting by Undertakings and other regulations and advice of the Bank of Lithuania.

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

Basis of measurement

The financial statements are prepared using several measurement bases. Financial assets and liabilities are measured at amortized cost. The carrying amounts of financial assets and liabilities subject to fair value hedge accounting are adjusted for changes in fair value attributable to the hedged risk. Non-monetary items are measured on a historical cost basis, unless otherwise specified.

Functional currency and foreign currency transaction

The financial statements are presented in euro and all figures are rounded to thousands of euro (EURth) unless indicated otherwise.

Due to the rounding of individual amounts to thousands of euros in the tables, the numbers may not match, such rounding errors are insignificant in these financial statements.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Financial 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, must 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 is new information available or new experience gained during the period which might lead to more accurate evaluations.

Adoption of new and revised International Financial Reporting Standards

In the current year, the Bank has adopted all of 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 recognize 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. The application of this amendment did not have a significant effect on the Bank's 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)

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 application of this amendment did not have a significant effect on the Bank's financial statements.

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. The application of this amendment did not have a significant effect on the Bank's financial statements.

(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 recognize 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 recognizing 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 after the date of initial application. The Bank has not yet evaluated the impact of the implementation of these amendments.

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 Bank 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.

Material accounting policies

Presentation of financial statements (IAS 1)

Financial statements provide a structured representation of the Bank's financial position, financial results and cash flows, to provide information useful in connection with financial decisions. The financial statements also indicate the results of executive management's administration of the resources entrusted to them. Complete financial statements consist of Bank's profit or loss and other comprehensive income statement, a statement of financial position, statements of changes in equity, cash flow statements and notes. Bank's statements of profit and loss and other comprehensive income contains all revenue and expense items, provided that a special IFRS does not require or allow otherwise. Other revenue and expense items are recognized in the same statement as other comprehensive income.

Financial Instruments (IAS 32, IFRS 9)

Financial instruments represent the largest part of the Bank's financial position. A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Cash and contractual rights to receive cash are examples of financial assets, whereas a contractual obligation to deliver cash or another financial asset is an example of financial liability. A derivative is a financial instrument that is distinguished by the fact that its value changes in response to the change in a specified variable, such as foreign exchange rates, interest rates or share prices, it requires little or no initial net investment, and it is settled on a future date. Financial instruments are classified on relevant lines of financial position depending on the nature of the instrument and the counterparty.

Recognition and derecognition

Financial assets and liabilities are recognized on the financial position on the trade date, which is the date when the Bank becomes a party to the instrument's contractual provisions, with the exception of financial assets measured at amortized cost, which are recognized on the settlement day and financial lease that is recognized on the asset delivery date. Financial assets are derecognized when the right to receive cash flows from a financial asset has expired or the Bank has transferred substantially all the risks and rewards of ownership to another party. When a financial asset is modified, there is an assessment needed whether the modification results in derecognition. A financial asset is considered modified where the contractual terms governing the cash flows are amended versus the original agreement, for example due to forbearance measures being applied, changes in market conditions, customer retention reasons or other factors unrelated to the credit deterioration of a borrower. Modified financial assets must be derecognized from the balance sheet and a new loan recognized where an agreement is cancelled and replaced with a new agreement on substantially different terms or where the terms of an existing agreement are substantially modified. Modifications due to financial difficulties, including forbearance measures, are not considered substantial on their own. Financial liabilities are derecognized when the obligation in the agreement has been discharged, cancelled or expired.

Classification and measurement

Financial assets are classified as measured at either amortized cost or fair value through profit or loss, based on the business model for managing the assets and the asset's contractual terms. The Bank does not have any financial assets classified as fair value through other comprehensive income (managed under a hold to collect and sell business model). The business model reflects how the Bank manages portfolios of financial assets in order to generate cash flows. The factors considered in determining the business model for a portfolio of financial assets include past experience on how the cash flows have been collected, how the financial assets' performance is evaluated and reported to management, how risks are assessed and managed and how compensation is linked to performance. The Bank assesses the contractual terms of financial assets to identify whether the contractual cash flows are solely payments of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement. Principal is defined as the fair value of a financial asset on initial recognition. Interest is defined as the compensation for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is not compliant with the solely payments of principal and interest criterion. Financial liabilities are classified as measured at either amortized cost or fair value through profit or loss.

Financial assets at amortized cost

Financial assets which are debt instruments are classified as measured at amortized cost if they are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows and if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortized cost are initially recognized at fair value including transaction costs that are directly attributable to the acquisition of financial assets and subsequently measured at amortized cost. Fair value is normally the amount advanced, including fees and commissions. The amortized cost is the amount at which the financial asset is measured at initial recognition minus repayments of principal, plus accrued interest, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any credit loss allowances (the terms 'credit loss allowances' and 'allowances' are hereinafter used interchangeably). Accounting policies regarding credit loss allowances are disclosed in paragraph Credit impairment.

Credit impairment

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.

According IFRS 9 credit loss allowances are grouped:

Stage 1: For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

Stage 2: In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses.

Stage 3: Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized.

Measurement of expected credit losses

The Bank allocates impairment for expected loss on financial assets measured at amortized cost.

The Bank recognizes provisions for impairment in accordance with IFRS 9 "Financial Instruments". The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Expected Credit Loss (ECL) Calculation - Input and Forecasting Methodologies

Expected Credit Loss (ECL) is calculated as 12 months or lifetime, depending on whether there is a significant increase in credit risk after initial recognition or whether an asset is considered as a credit loss. Expected Credit Loss is calculated by using the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) components.

- Probability of Default (PD): PD indicates the probability of default due to inability of the borrower to meet its debt obligations. It has been calculated for 12 months or lifetime depends on increase on borrower's credit risk.

- Loss Given Default (LGD): LGD is calculated in RiskCalc and the results are used as an input under ImpairmentStudio for the Bank. LGD model computes the expected loss based on the ultimate recovery version of LGD. The model predicts the present discounted value of the cash flows from the debt if the debt is held through the resolution process. LGD model utilizes the LGD estimates for both secured and unsecured loans from a quantitative model. The methodology divides the debt into an unsecured portion and a secured portion, adjusts them separately using unsecured LGD and secured LGD, respectively, then combines these for a final LGD as a weighted average of both portions.

  The model also provides a long-run LGD that can be used to compute recovery over the life of the loan and also considers the collateral valuations since recovery prospects are highly dependent on the collateral's quality.

LGD model estimates a typical, historical recovery on a given loan. Combined with a term structure of default probabilities, the model provides the expected loss of the loan.

- Exposure at Default (EAD): Specifies the amount of risk that the borrower should pay in case of default. The EAD calculation takes into account both Amortized Cost and Fair Value figures. The EAD modeled by ImpairmentStudio depends on the IFRS 9 classification and product type. The ImpairmentStudio cash flow engine generates a timeline of all future scheduled payments using detailed contract terms. The EAD is the sum of all future payments, both interest and principal, discounted to its value on the payment date.

Expected Credit Loss is calculated over the remaining maturity using the PD, LGD and EAD components. The Bank's Impairment Studio tool offers the discounted Cash Flow (DCF) calculation engine required to generate the IFRS 9 compliant allowance and utilizes multiple macroeconomic scenarios to produce weighted-average expected credit losses that facilitate scenario-based sensitivity analysis. The application calculates expected credit losses based on the data inputs provided. Overall, the application can be used to estimate expected credit losses and helps clients generate expected credit loss allowance and off-balance sheet reserve disclosure reports. It provides an expected credit loss calculation covering various asset classes and types of financial instruments using Moody's economic forecast scenarios or users' customized business-specific scenarios.

Expected Credit Loss (ECL) calculations are reviewed at least once a year, quarterly if significant changes in the macroeconomic environment are foreseen, and the Board of Directors decides on the scenario weights to be used each year in line with the Bank's economic expectations.

Definition of default and credit-impaired assets

Default is an input to the PD, which affects both the identification of a significant increase in credit risk and the measurement of the expected credit losses. Financial assets classified as credit-impaired are included in Stage 3. The Bank's IFRS 9 definitions of default and credit-impaired assets are aligned to the Bank's regulatory definition of default, as this is what is used for risk management purposes. Default and credit-impairment are triggered when one of the following occurs: forbearance measures for the credit facility was applied more than one time within its lifetime, past due more than 90 days of any customer's financial instrument, legal bankruptcy or legal restructuring case is initiated against the customer, enforcement procedure is initiated, customer declared about its insolvency, other creditors arrested customer's asset and/or initiated enforcement procedure, under the distressed restructuring conditions if the diminished financial obligation is higher than 1% or there is an assessment that the borrower is unlikely to pay its obligations as agreed. When assessing whether a borrower is unlikely to pay its obligations, the Bank takes into account both qualitative and quantitative factors including but not limited to the overdue status or non-payment on other obligations of the same borrower, expected bankruptcy and breaches of financial covenants. The Bank has elected to rebut the presumption that instruments which are 90 days past due are in default or credit-impaired for instruments in the sovereign and financial institutions exposure classes only, due to that default is triggered based on manual decisions. An instrument is no longer considered to be in default or credit-impaired when it no longer meets any of the default criteria for at least three consecutive months. Where a loan is in default due to a non-performing forbearance measure having been applied, longer probation periods are applied.

Determining a significant increase in credit risk since initial recognition

If the credit risk of financial assets is determined to be significantly increasing, afore-mentioned assets are transferred to the stage 2. For stage 1 loans expected loss (provision) amounts are calculated for 1-year and for stage 2 loans expected loss (provision) is calculated for the remaining life of the loan.

If customers likeliness to pay is doubtful and forbearance discussions starts, to transfer customer to Stage2 one of the following criteria should be met:

- Forbearance measures for the credit facility was applied no more than one time within its lifetime
- Past due more than 30 days of any customer's financial instrument
- Suffered loss in two consecutive reporting periods (quarters) / except for the newly established companies (SPVs) which is in line with the projected cash flow. (While examining the loss status of the company, it is checked whether the company's activities include seasonality. In companies with seasonal effects, two consecutive periods in the seasons in which the operations continued are compared.)
- Negative equity for four consecutive reporting periods(quarters)
- Assigning the borrower to a higher credit risk category (rank) according to the assessment of a recognized credit rating agency or the bank's internal credit rating system. The following rules apply:
-
    - If the initial PD is equal to or higher than 3,71%*, then take the customer to Stage 2 if PD has increased more than 50%,
    - If the initial PD is less than 3,71%, then take the customer Stage 2 if the PD has increased more than %50 provided that the resulting PD is above 5,57%,
    - A decrease in the bank's internal credit quality rating of individually assessed lending positions, when the borrowers fulfill their obligations, compared to the one at the time of the initial recognition of the lending position (if the Rating has decreased more than 4 level and the initial Rating is equal to or worse than Baa1, A group ratings are excluded).

Definition of increase in the probability of default is the comparison between the probability of default on loan's opening date and probability of default on reporting date. If the loan's estimated probability of default on reporting date exceeds the threshold values determined above, it is considered to be worsening of the probability of default.

Expected lifetime

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 expected credit losses. 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.

Modifications

Where a loan is modified but is not derecognized, significant increases in credit risk continue to be assessed for impairment purposes as compared to the initial recognition credit risk. Modifications do not automatically lead to a decrease in credit risk and all quantitative and qualitative indicators will continue to be assessed. Further to this, a modification gain or loss is recognized in the Bank's statements of profit and loss and other comprehensive income within Credit recoveries/credit loss allowances, which represents the difference in the present value of the contractual cash flows, discounted at the original effective interest rate. Where a loan is modified and derecognized, the date of the modification is the initial recognition date of the new loan for credit impairment purposes, including the assessment of significant increases in credit risk. Where the new loan is considered to be credit-impaired on initial recognition, it is classified as a purchased or originated credit impaired asset and therefore lifetime expected credit losses are calculated until the loan is repaid or written-off.

Presentation of credit recoveries/credit loss allowances

For financial assets measured at amortized cost, credit loss allowances are presented in the balance sheet as a reduction of the gross carrying amount of the assets. For loan commitments and financial guarantee contracts, such provisions are presented as a liability within Provisions. Where a financial instrument includes both a loan and a loan commitment component, such as revolving credit facilities, the Bank recognizes the credit loss allowances separately for the loan and the loan commitment components. A write-off reduces the gross carrying amount of a financial asset. Credit impairment losses and write-offs are presented as Credit recoveries/credit loss allowances in Bank's statements of profit and loss and other comprehensive income. Write-offs are recognized when the amount of loss is ultimately determined and represent the amount before the utilization of any previous provisions. Any subsequent recoveries of write-offs or credit loss allowances are recognized as gains within Credit recoveries/credit loss allowances.

Financial Liabilities (IFRS 9)

The Bank's financial liabilities consist of those carried at amortized cost.

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 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.

Fixed assets (IAS 38, IAS 16)

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 in 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 Bank. Intangible assets are initially measured at cost and subsequently at cost less accumulated amortization and accumulated impairment. 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

Development costs are capitalized and recognized in the financial position when the Bank controls the resulting asset, it is likely that future economic benefits attributable to the assets will accrue to the Bank and the costs can be calculated in a reliable way. In other cases, development costs are expensed when they arise.

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 Bank 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 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 Bank 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.

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.

Share capital and reserves

Share capital is presented according to the Bank'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 (IAS 19)

The Bank 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.

Net interest income (IFRS 9)

Interest income on financial assets and interest expense on financial liabilities include interest payments received or paid, change in accrued interest and amortization of any difference between the initial amount and the maturity amount during the period, 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 asset or to the amortized cost of a financial liability, 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 generally calculated by applying the effective interest rate to the gross carrying amount, with two exceptions. Where financial assets measured at amortized 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 amortized cost, which is the gross carrying amount less credit loss allowances. 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 amortized cost are credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost until the financial asset is derecognized from the balance sheet. The credit-adjusted effective interest rate is calculated based on the amortized cost of the financial asset rather than the gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows. Interest expense is calculated by applying the effective interest rate to the financial liabilities.

Commission fees is a part of the EIR, when calculating interest income and expenses and included in calculation of carrying value of the related assets and liabilities. Therefore, deferred expenses related to issued loans are classified into loans caption in the statement of the financial position and deferred expenses related to accepted deposits are accounted in deposit liabilities caption in the statement of financial position accordingly. After presentation and measurement of commission expenses are corrected in the statement of financial position, commissions related to loans decrease interest income, while commissions related to deposits increase deposit related interest expenses in the statement of profit (loss) and other comprehensive income.

Net commission income (IFRS 15)

Revenue from contracts with customers consists primarily of service-related fees and is reported as Commission income. Revenue is recognized when a performance obligation is satisfied, which is when control of the service is transferred to the customer. The total consideration received is allocated to each performance obligation, depending on whether they are satisfied either over time or at a point in time. Where fees are variable, i.e. performance-based fees, revenue is recognized when it is highly probable that a significant reversal in the amount will not occur. Payment commissions are recognized when the services are provided, at a point in time. Fees related to service plans are recognized over the period of time when the services are provided. Lending fees that are not an integral part of the effective interest rate are recognized as commission income. Lending fees are recognized over time and at a point in time, depending on when the performance obligation is satisfied. Expenses for bought service directly attributable to generating commission income for service provided are reported as commission expense.

Expenses (IAS 37)

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.

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 (IFRS 16)

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 Bank 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 Bank’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 Bank calculates depreciation; in addition, the Bank 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 Bank, 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 (IAS 12)

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.

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 Bank changes its activities due to which these losses were incurred except when the Bank does not continue its activities due to reasons which do not depend on the Bank 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 (IAS 12)

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 Bank 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 (IAS 37)

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 Bank‘s accounting registers for the last five years before the reporting period, and also can calculate and apply additional taxes and sanctions for the Bank. The management of the Bank has no any information about the events and conditions which can result in significant additional tax expenses or liabilities for the Bank.

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 (IAS 10)

Events after the reporting date that provide additional information about the Bank'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.

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Related parties (IAS 24)

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 Bank if the person:
i. Has control or jointly control of the Bank
ii. Can exercise a significant influence over the Bank
iii. Is the member of the management personnel of the company or of a parent of the Bank
b. An entity is related to the Bank if any of the following conditions are met:
i. An entity and the Bank 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 Bank or an entity related to the Bank. If the Bank is itself such a plan, the sponsoring employers are also related to the Bank
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)

Reclassification

In order to improve the accuracy of the figures presented in the financial statements, the 2022 figures have been reclassified to certain items in the profit or loss and other comprehensive income statement. The Supervisory Board renumeration expenses and health insurance expenses of employees have been considered as a part of staff expenses. This reclassification did not affect the Bank's net comprehensive income statement for the Year 2022. Information on how the reclassified figures have been presented is given in the table below:

Profit or loss and other comprehensive income statement	2022 value before the reclassification	Reclassification value	2022 value after the reclassification
Staff expenses	(2 966)	(242)	(3 208)
Administrative expenses	(2 326)	242	(2 084)
Total	**(5 292)**	**-**	**(5 292)**

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

III. NOTES TO THE FINANCIAL STATEMENTS

Note 1 Net interest income

Items	Financial year	Previous financial year
Interest income at effective interest rate	**4 783**	**1 833**
Interest income from loans	2 439	1 399
Interest income from banks	2 215	182
Interest income from securities	2	-
Correction of effective interest rate		
Loans origination fees	86	11
Other	41	241
Interest expenses	**(1 415)**	**(461)**
Interest expense for term deposits	(1 276)	(294)
Interest expense for IFRS 16	(5)	(11)
Correction of effective interest rate		
Transaction costs	(134)	(75)
Other	-	(81)
Total	**3 368**	**1 372**

Note 2 Net commission income

Items	Financial year	Previous financial year
Commission income	**5 932**	**5 277**
Account maintenance fees	4 692	4 340
Payment services fees	1 156	843
Other	84	94
Commission expenses	**(90)**	**(95)**
Account administration costs	(51)	(58)
Payment services costs	(38)	(36)
Other	(1)	(1)
Total	**5 842**	**5 182**

Note 3 Other income (loss)

Items	Financial year	Previous financial year
Income from the sale of assets	5	6
Other	96	9
Total	**101**	**15**

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Note 4 Net currency exchange gain (loss)

Items	Financial year	Previous financial year
Foreign currency revaluation net gain	100	154
Foreign currency revaluation net loss	(112)	(119)
Net currency exchange gain (loss)	**(12)**	**35**

Note 5 Net gain (loss) on derivatives at fair value

Items	Financial year	Previous financial year
Realized income (loss) from forward foreign exchange transactions	(8)	(46)
Unrealized income (loss) from forward foreign exchange transactions	12	11
Net gain (loss) on derivatives at fair value	**4**	**(35)**

Note 6 Staff expenses

Items	Financial year	Previous financial year
Payroll expenses	3 556	3 046
Bonus expenses	400	-
Social security contribution expenses	69	65
Other expenses	157	97
Staff expenses	**4 182**	**3 208**

Note 7 Administrative expenses

Items	Financial year	Previous financial year
IT expenses	700	442
Legal and consultancy expenses	371	307
Non-deductible VAT expenses	359	290
Advertising and public relation expenses	211	149
Business trip expenses	165	172
Representation expenses	120	24
Solidarity tax expenses	105	-
Expenses related to the premises	93	65
Telecommunication expenses	68	58
Training expenses	39	36
Employees search and recruitment expenses	29	16
Memberships expenses	25	29
Financial statements audit expenses	22	24
Insurance expenses	10	10
Bank of Lithuania fine	-	175
Other expenses	420	287
Administrative expenses	**2 737**	**2 084**

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Note 8 Cash and cash equivalents

Items	Financial year	Previous financial year
Cash at Central Bank	29 184	41 094
Money market placements (deposits) maturity date 2nd January 2024 at central bank	77 026	40 004
Cash at other banks	1 175	4 591
Cash at Lithuanian banks	199	2 243
Expected credit losses (-)	(4)	(35)
TOTAL:	**107 580**	**87 897**

Note 9 Bonds at amortized costs

Items	Financial year	Previous financial year
Acquisition costs	426	-
Accrued interest	1	-
Expected credit losses (-)	(12)	-
TOTAL:	**415**	**-**

Issuer	Issuer residency	Issue date	Maturity date	Interest rate	Coupon redemption frequency
Modus Grupe	Lithuania	04/12/2023	04/12/2025	Euribor6M + %7	6 months

Note 10 Loans to customers

Items	Financial year	Previous financial year
Loans to small and medium companies	27 617	18 511
Loans to corporates	6 694	2 909
Loans to financial institutions	2 408	2 408
Accrued interest	134	46
Deferred loan origination fees	(192)	(50)
Credit recoveries loss allowances (expected credit losses)	(736)	(98)
TOTAL:	**35 925**	**23 726**

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

31-12-2023

Distribution of loans by overdue days	Gross loans	Expected credit loss			Deferred revenue	Amortized cost of loans	Impairment coverage, %
		Stage 1	Stage 2	Stage 3			
Not overdue	35 099	(152)	(3)	-	(192)	34 752	0,4
0-30 days	-	-	-	-	-	-	-
31-89 days	1 507	-	-	(549)	-	958	36,4
90 days and more	247	-	-	(32)	-	215	13,0
Total loans to customers	**36 853**	**(152)**	**(3)**	**(581)**	**(192)**	**35 925**	**2,0**

31-12-2022

Distribution of loans by overdue days	Gross loans	Expected credit loss			Deferred revenue	Amortized cost of loans	Impairment coverage, %
		Stage 1	Stage 2	Stage 3			
Not overdue	23 833	(77)	-	-	(50)	23 706	0,4
0-30 days	20	-	-	-	-	20	-
31-89 days	21	-	-	(21)	-	-	-
90 days and more	-	-	-	-	-	-	-
Total loans to customers	**23 874**	**(77)**	**-**	**(21)**	**(50)**	**23 726**	**0,4**

Movements in the expected credit losses for loan losses are as follows:

	Financial year	Previous financial year
Opening Balance	**98**	**93**
Additions	705	112
Collections	(47)	(68)
Write-offs	(20)	(39)
Closing Balance	**736**	**98**

Note 11 Derivatives

Items	Financial year	Previous financial year
Currency related contracts	**12**	**5**
Forward contracts*	12	5
TOTAL:	**12**	**5**

*The notional amount of the forward contract for 2023 is 400 thousand Eur (2022: 400 thousand Eur).

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Note 12 Intangible assets

Items	Financial year
Balance on December 31, 2022	**1 616**
a) Non-current intangible assets acquisition cost	
At December 31, 2022	2 777
Changes during the financial year:	
- Acquisition of assets	893
December 31, 2023	**3 670**
b) Amortization	
At December 31, 2022	(1 161)
Changes during the financial year:	
- Depreciation during the financial year	(564)
December 31, 2023	**(1 725)**
c) Balance at December 31, 2023 (a) - (b)	**1 945**

Note 13 Tangible assets

Items	Computer equipment	Other equipment	Total
Balance at December 31, 2022	**37**	**-**	**37**
a) Non-current tangible assets acquisition cost			
At December 31, 2022	151	2	153
Changes during the financial year:			
- Acquisition of assets	12	3	15
December 31, 2023	**163**	**5**	**168**
b) Amortization			
At December 31, 2022	**(114)**	**(2)**	**(116)**
Changes during the financial year:			
- Depreciation during the financial year	(24)	-	(24)
December 31, 2023	**(138)**	**(2)**	**(140)**
c) Balance at December 31, 2023 (a) - (b)	**25**	**3**	**28**

Note 14 Right of use assets and lease liabilities

The value of the right to use assets is determined based on 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. The discount rate used to depend on the term of the lease is 5 percent.

Right of use asset	Balance on January 1, 2023	Additions / Increase	Depreciation	Balance on December 31, 2023
Premises*	188	-	(138)	50
Total	**188**	**-**	**(138)**	**50**

*includes deposit payment amounting to 39 thousand Eur

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Lease liabilities	Balance on January 1, 2023	Additions / Increase	Payments	Balance on December 31, 2023
Premises	143	-	(143)	-
Total	**143**	**-**	**(143)**	**-**

Right of use asset	Balance on January 1, 2022	Additions / Increase	Depreciation	Balance on December 31, 2022
Premises*	315	-	(127)	188
Total	**315**	**-**	**(127)**	**188**

*includes deposit payment amounting to 39 thousand Eur

Lease liabilities	Balance on January 1, 2022	Additions / Increase	Payments	Balance on December 31, 2022
Premises	289	-	(146)	143
Total	**289**	**-**	**(146)**	**143**

Note 15 Deferred tax asset

Items	Financial year	Previous financial year
Accrued tax loses	736	826
Right of use asset	(21)	(19)
Expected credit losses (Stage 1 & 2)	11	9
Differences between the useful lives of intangible fixed assets and financial and tax accounting	9	(247)
Lease liability	20	22
Other	-	12
Total	**755**	**603**

Note 16 Other assets

Items	Financial year	Previous financial year
Prepaid expenses	462	351
Collateral given (Given to credit card issuer companies)	282	282
Other assets	50	51
Total	**794**	**684**

Note 17 Deposits from financial institutions

Items	Financial year	Previous financial year
Demand deposits	75 063	60 309
Total	**75 063**	**60 309**

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Note 18 Deposits from public

Items	Financial year	Previous financial year
Term deposits	48 890	32 171
Demand deposits	9 105	9 101
Accrued interest	767	193
Transaction costs	(63)	(55)
TOTAL:	**58 699**	**41 410**

*Average rate of interest on time deposits in 2023 year was 3.83% (2022 – 1.64%).

Note 19 Other liabilities

Items	Financial year	Previous financial year
Accrued bonuses	400	-
Accrued expenses	238	86
VAT payable	117	47
CIT payable	63	97
Accrued vacation reserve	43	79
Solidarity tax	32	-
Other*	700	1 612
Total	**1 593**	**1 921**

*Other includes payment transactions that have not been recognized to customer accounts according to ongoing AML controls.

Note 20 Capital

Share capital
As of December 31, 2023, the Bank's share capital was equal to 15 300 thousand EUR (as of December 31, 2022 – 15 300 thousand EUR). The share capital is divided into 15 300 thousand ordinary registered shares with EUR 1 par value each.

All shares as of December 31, 2023 and December 31, 2022 are fully paid-up. The Bank does not have any other types of shares except the ordinary shares as referred to above.

Mandatory reserve
As of December 31, 2023, the Bank 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.

Profit distribution project

No.	Items	
1	Retained earnings (loss) at the beginning of the financial year	(4 418)
2	Current financial year net profit (loss)	1 091
3	Profit (loss) for distribution (1+2)	(3 327)
4	Profit (loss) transfer to the compulsory reserve or emergency (reserve) capital	-
5	Profit (loss) transfer to the reserve	-
6	Retain profit (loss) at the end of the financial year (3-4-5)	(3 327)

Note 21 Financial risk management

The Bank defines risk as a potential negative impact on the value of the Bank that may arise from current internal processes or from internal and external future events. The concept of risk combines the probability of an event occurring with the impact that event would have on profit and loss, equity, and the value of the Bank. The company shall make appropriate efforts to minimize expected losses through ensuring sound Enterprise Risk Framework and internal controls.

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

The Supervisory Board of the Bank has the overall responsibility for ensuring that risks associated with the Bank's operations and strategy are satisfactorily managed and controlled. The Policy on Enterprise Risk Management contains the Bank's Risk Strategy, including fundamental principles that shall apply for the Bank on Risk Management, and provides guidance on their implementation. Furthermore, it defines and communicates the Bank's Risk Strategy and Risk Appetite, provides a complete and overarching description of how the Bank manages risks and how roles and responsibilities are allocated in the Risk Management process as well as to define the foundation of a sound Risk Culture and Risk Awareness. The risk management framework and the risk management systems are revised on a regular basis to reflect the developments in the market conditions and the operations of the Bank.

Credit risk

Credit risk means the risk that a counterparty fails to meet its obligations to the Bank and the risk that the pledged collateral does not cover the claims. The Bank uses several measures designed to continuously ensure that transactions are executed with reliable customers and the transaction amounts do not exceed the approved credit risk limit. The Bank does not grant any guarantees in respect of the 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 Bank'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.

Loans to the clients

The following tables present loans to the public and credit institutions at amortized cost by industry sectors, also representing the concentration of loans on which credit risk is managed.

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

31-12-2023	**Stage 1**			**Stage 2**			**Stage 3**			**Total**
Distribution of loans by sector/industry	**Gross Carrying Amount**	**Expected credit loss**	**Net**	**Gross Carrying Amount**	**Expected credit loss**	**Net**	**Gross Carrying Amount**	**Expected credit loss**	**Net**	**Amortised costs**
Real estate activities	9 068	(57)	9 011	-	-	-	-	-	-	**9 011**
Wholesale and retail trade	5 846	(17)	5 829	1 302	(3)	1 299	-	-	-	**7 128**
Transport and storage	5 022	(21)	5 001	-	-	-	1 507	(549)	958	**5 959**
Manufacturing	4 064	(12)	4 052	-	-	-	-	-	-	**4 052**
Financial institutions	2 415	(28)	2 387	-	-	-	-	-	-	**2 387**
Agriculture, forestry, and fishing	2 014	(5)	2 009	-	-	-	247	(32)	215	**2 224**
Administrative and support service act.	1 837	(7)	1 830	-	-	-	-	-	-	**1 830**
Construction	780	(1)	779	-	-	-	-	-	-	**779**
Human health services and social work activities	411	-	411	-	-	-	-	-	-	**411**
Professional, scientific, and technical act.	163	-	163	-	-	-	-	-	-	**163**
Arts, entertainment, and recreation	1 985	(4)	1 981							**1 981**
TOTAL	**33 605**	**(152)**	**33 453**	**1 302**	**(3)**	**1 299**	**1 754**	**(581)**	**1 173**	**35 925**

31-12-2022	**Stage 1**			**Stage 2**			**Stage 3**			**Total**
Distribution of loans by sector/industry	**Gross Carrying Amount**	**Expected credit loss**	**Net**	**Gross Carrying Amount**	**Expected credit loss**	**Net**	**Gross Carrying Amount**	**Expected credit loss**	**Net**	**Amortised costs**
Transport and storage	6 882	(33)	6 849	-	-	-	-	-	-	**6 849**
Real estate activities	5 565	(17)	5 548	-	-	-	-	-	-	**5 548**
Wholesale and retail trade	3 402	(6)	3 396	-	-	-	21	(21)	-	**3 396**
Financial institutions	2 417	(7)	2 410	-	-	-	-	-	-	**2 410**
Agriculture, forestry, and fishing	2 239	(3)	2 236	-	-	-	-	-	-	**2 236**
Manufacturing	1 821	(8)	1 813	20	-	20	-	-	-	**1 833**
Administrative and support service act.	471	(3)	467	-	-	-	-	-	-	**467**
Construction	450	-	450	-	-	-	-	-	-	**450**
Human health services and social work activities	342	-	342	-	-	-	-	-	-	**342**
Professional, scientific, and technical act.	194	-	194	-	-	-	-	-	-	**194**
TOTAL	**23 783**	**(77)**	**23 706**	**20**	**-**	**20**	**21**	**(21)**	**-**	**23 726**

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Maximum credit risk exposure

The following tables present the Bank's maximum credit risk exposure before taking account of any collateral held. For financial assets recognized on the statement of financial position, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that would have to be paid if the guarantees were called upon. For loan commitments and other credit–related commitments, it is generally the full amount of the committed facilities.

	Financial year	**Previous financial year**
Assets		
Cash and cash equivalents	107 580	87 897
Investment securities	415	-
Loans to customers by type of collateral	35 925	23 726
Real Estate Residential	3 161	2 274
Real Estate Commercial	21 138	10 851
Movable property	3 911	2 713
Other collateral	3 358	2 147
Unsecured	4 357	5 741
Derivatives	12	5
Trade and other receivables	136	222
Contingent liabilities and commitments		
Guarantees	-	-
Commitments	3 633	2 123
Maximum credit risk exposure	**147 701**	**113 973**

Distribution by internal credit risk rating

The tables below show the credit quality of financial instruments that are subject to the IFRS 9 impairment requirements. The gross carrying amounts are distributed by internal credit risk rating and stage.

Internal credit risk rating (Moody's)	**PD**	**Financial year**			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
Aaa	< 0,02 %	-	-	-	**-**
Aa1 - Aa3	0,02 % - 0,09 %	-	-	-	**-**
A1 - A3	0,09 % - 0,27 %	-	-	-	**-**
Baa1 -Baa3	0,27 % - 1,1 %	160	-	-	**160**
Ba1 - Ba3	1,1 % - 3,7 %	19 701	1 038	-	**20 739**
B1 - B3	3,7 % - 8,5 %	13 744	264	-	**14 008**
Caa/C	100%	-	-	1 754	**1 754**
Total		**33 605**	**1 302**	**1 754**	**36 661**

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Internal credit risk rating (Moody's)	**PD**	**Previous financial year**			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
Aaa	< 0,02 %	-	-	-	**-**
Aa1 - Aa3	0,02 % - 0,09 %	-	-	-	**-**
A1 - A3	0,09 % - 0,27 %	4	-	-	**4**
Baa1 -Baa3	0,27 % - 1,1 %	1 056	-	-	**1 056**
Ba1 - Ba3	1,1 % - 3,7 %	16 315	20	-	**16 335**
B1 - B3	3,7 % - 8,5 %	6 408	-	-	**6 408**
Caa/C	100%	-	-	21	**21**
Total		**23 783**	**20**	**21**	**23 824**

Reconciliations of gross carrying amount and credit loss allowances

The table below provides a reconciliation of the gross carrying amount and credit loss allowances for loans to the public at amortized cost where the line Increase/Decrease in volume refers to loan contractual amount increase, increase in overdraft and loan amortization, decrease in overdraft. New financial assets present newly originated loan contracts and purchased loans, whereas the line Derecognized financial assets present fully repaid loans or write-offs. These movements impact ECL changes which are also presented separately, namely, for derecognized and new financial assets and for changes in risk factors (EAD, PD, LGD) which are directly impacted by loan contractual amount increase, increase in overdraft and loan amortization, decrease in overdraft.

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

	Financial year			Previous financial year		
	Non credit-impaired		Credit-impaired	Non credit-impaired		Credit-impaired
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Gross carrying amount						
Opening Balance	**23 783**	**20**	**21**	**29 773**	**-**	**-**
Increases due to origination	16 523	1 282	1 733	6 123	20	60
Derecognised financial assets	(4 623)			(7 666)		
Increase/ Decrease in volume	(2 038)		-	(4 447)		-
Non-performing loan sales	-	-	(40)	-	-	(39)
Closing Balance	**33 645**	**1 302**	**1 714**	**23 783**	**20**	**21**
Credit loss allowances	**77**	**-**	**-**	**93**	**-**	**-**
Increases due to origination and acquisition	63	3	529	19	-	60
Derecognised financial assets	(37)			(5)		
Changes on risk factors (EAD, PD, LGD)	48			(30)		
Stage transfers	1	-	32	-	-	-
from stage 1 to stage 2	1	-	-	-	-	-
from stage 1 to stage 3	-	-	32	-	-	-
from stage 2 to stage 1	-	-	-	-	-	-
from stage 2 to stage 3	-	-	-	-	-	-
from stage 3 to stage 1	-	-	-	-	-	-
from stage 3 to stage 2	-	-	-	-	-	-
Other*	-	-	(20)	-	-	(39)
Closing Balance	**146**	**3**	**581**	**77**	**-**	**21**
Opening Balance	**23 706**	**20**	**-**	**29 680**	**-**	**-**
Closing Balance	**33 453**	**1 299**	**1 173**	**23 706**	**20**	**-**

*includes write-offs / NPL Sales

Forborne loans

Forborne loans refer to loans where the contractual terms have been changed due to the customer's financial difficulties. The purpose of the forbearance measure is to enable the borrower to make full payments again or to avoid foreclosure, or when this is not considered possible, to maximize the repayment of outstanding loans. Changes in contractual terms include various forms of concessions such as amortization suspensions, reductions in interest rates to below market rates, forgiveness of all or part of the loan, or issuance of new loans to pay overdue amounts. Depending on when the forbearance measures are taken and the severity of the financial difficulties of the borrower, the forborne loan could either be treated as a performing forborne loan or a non-performing forborne loan. There is not any forborne loans of the Bank as of 31 December 2023.

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Liquidity risk

The liquidity risk means the risk of not being able to meet payment obligations when they fall due without incurring considerable additional costs for obtaining funds or losses due to asset urgent sale. For liquidity risk management, the Bank's aims at maintaining a strong liquidity buffer and sufficient counter balancing capacity to enable the Bank to fulfil its obligations under ordinary or complex conditions without incurring unacceptable loss or risk to the Bank's reputation.

The following table discloses the Bank's main items used in the calculation of Liquidity Coverage Ratio of December 31, 2023:

	Amount/market value	**Applicable weight**	**Value**
Liquidity Buffer	**28 109**		**28 109**
Withdrawable central bank reserves	28 109	1,0	28 109
Retail deposits	**49 153**		**4 865**
deposits exempted from the calculation of outflows	44 293	0,00	-
deposits where the payout has been agreed within the following 30 days	4 865	1,00	4 865
Other retail deposits	-	0,10	-
Operational deposits	**18 913**		**4 579**
maintained for clearing, custody, cash management or other comparable services in the context of an established operational relationship	18 913		4 579
covered by Deposit Guarantee Scheme	744	0,05	37
not covered by Deposit Guarantee Scheme	18 169	0,25	4 542
Excess operational deposits	**43 913**		**40 203**
deposits by financial customers	38 086	1,00	38 086
deposits by other customers	5 827		2 117
covered by Deposit Guarantee Scheme	1 069	0,20	214
not covered by Deposit Guarantee Scheme	4 758	0,40	1 903
Non-operational deposits	**22 109**		**22 107**
correspondent banking and provisions of prime brokerage deposits	21 475	1,00	21 475
deposits by financial customers	630	1,00	630
deposits by other customers	4		2
covered by Deposit Guarantee Scheme	-	0,20	-
not covered by Deposit Guarantee Scheme	4	0,40	2
Committed facilities	**3 633**		**363**
credit facilities	3 633		363
to non-financial customers other than retail customers	3 633	0,10	363
to credit institutions	-	0,40	-
Other liabilities			
liabilities resulting from operating expenses	1 878	0,00	-
Total Outflows			**72 117**
Inflows Subject to 75% Cap			79 369
Reduction for Inflows Subject to 75% Cap			54 088
NET LIQUIDITY OUTFLOW			**18 029**
LIQUIDITY COVERAGE RATIO (%)			**155,9%**

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Interest rate risk

As per the December 31, 2023 financial figures, the company has calculated parallel shocks +/- 200 bps on the Economic value of equity (EVE) and Net Interest Income in EUR. The results did not indicate a significant interest rate sensitivity. Thus, the Bank did not have any derivatives with the purpose of managing interest rate risk.

Net interest income 12 months	Change	Financial year	Previous financial year
Increased interest rates	+1 % point	143	65
Decreased interest rates	-1 % point	(143)	(65)

Time buckets in EVE calculation as per the Interest Rate Risk Report dated 2023-12-31

	Demand	Overnight	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 months to 1 year	from 1 year to 2 years	from 2 years to 3 years	from 3 years to 4 years	from 4 years to 5 years	from 5 years to 7 years	>7 years
Total Assets	30 648	97 528	1 000	2 851	4 066	6 751	43	-	-	991	739	-
Total Liabilities	88 067	-	5 365	10 198	29 778	4 279	478	-	-	-	-	-
Total Gap	**(57 422)**	**97 528**	**(4 365)**	**(7 347)**	**(25 712)**	**2 472**	**(435)**	**-**	**-**	**991**	**739**	**-**

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

	Financial year					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Cash and cash equivalents	77 026	-	-	-	30 554	107 580
Investment securities	-	415	-	-	-	415
Loans to customers*	23 320	9 786	1 795	-	1 024	35 925
Derivatives	-	-	-	-	12	12
Intangible assets	-	-	-	-	1 945	1 945
Tangible assets	-	-	-	-	28	28
Right of use assets	-	-	-	-	50	50
Deferred tax asset	-	-	-	-	755	755
Trade and other receivables	-	-	-	-	136	136
Other assets	-	-	-	-	794	794
Total Assets	**100 346**	**10 201**	**1 795**	**-**	**35 298**	**147 640**
Deposits from financial institutions	21 475	-	-	-	53 588	75 063
Deposits from public	1 391	23 773	24 494	-	9 041	58 699
Lease liabilities	-	-	-	-	-	-
Trade and other payables	-	-	-	-	312	312
Other liabilities	-	-	-	-	1 593	1 593
Total Liabilities	**22 866**	**23 773**	**24 494**	**-**	**64 534**	**135 667**
Net Repricing Gap as of financial year	**77 480**	**(13 572)**	**(22 699)**	**-**	**(29 236)**	**11 973**
Off-balance sheet derivative instruments net notional position	**400**	**-**	**-**	**-**	**-**	**400**

*Total impairments and non-performing loans are presented "No maturity" column.

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

	Previous financial year					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Cash and cash equivalents	40 004	-	-	-	47 893	87 897
Loans to customers*	11	15 794	7 002	996	(77)	23 726
Intangible assets	-	-	-	-	5	5
Tangible assets	-	-	-	-	1 616	1 616
Right of use assets	-	-	-	-	37	37
Deferred tax asset	-	-	-	-	188	188
Trade and other receivables	-	-	-	-	603	603
Other assets	-	-	-	-	222	222
Total Assets	-	-	-	-	684	684
	40 015	**15 794**	**7 002**	**996**	**51 171**	**114 978**
Deposits from financial institutions						
Deposits from public	5 639	-	-	-	54 670	60 309
Derivatives	376	22 033	9 959	-	9 042	41 410
Lease liabilities	-	-	-	-	143	143
Trade and other payables	-	-	-	-	313	313
Other liabilities	-	-	-	-	1 921	1 921
Total Liabilities	**6 015**	**22 033**	**9 959**	**-**	**66 089**	**104 096**
Net Repricing Gap as of financial year	**34 000**	**(6 239)**	**(2 957)**	**996**	**(14 918)**	**10 882**
Off-balance sheet derivative instruments net notional position	**400**	**-**	**-**	**-**	**-**	**400**

*Total impairments and non performing loans are presented "No maturity" column.

IBOR Reform

The International Accounting Standards Board (IASB) has introduced changes to the Interbank Offered Rate (IBOR) methodology which may impact the bank's financial instruments in the future.

The bank has carefully reviewed the potential impact of the IBOR reform on its operations and financial statements. At present, the bank has not identified any material impact on its financial statements resulting from the reform.

The bank has been closely monitoring the IBOR reform and will continue to assess the impact of the IBOR reform on an ongoing basis and will provide additional disclosures in its financial statements as necessary to ensure that kept informed of any material impacts.

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Market risk

Market risk is the risk to value, earnings or capital arising from the movements of risk factors in financial markets. The purpose of market risk management is to minimize market risk.

Currency risk

Currency risk is the risk to value, earnings or capital arising from movements of currencies and volatilities or correlations. The currency risk arising from banking operations is managed using financial derivatives, namely foreign exchange forwards.

The Bank's monetary assets and monetary liabilities in different currencies on December 31, 2023 and 2022 were as follows:

	Financial year					
	USD	**GBP**	**TRY**	**Other**	**EUR**	**Total**
Cash and cash equivalents	109	-	-	-	107 471	107 580
Investment securities	-	-	-	-	415	415
Loans to customers	-	-	-	-	35 925	35 925
Intangible assets	-	-	-	-	1 945	1 945
Tangible assets	-	-	-	-	28	28
Right of use assets	-	-	-	-	50	50
Deferred tax asset	-	-	-	-	755	755
Trade and other receivables	-	-	-	-	136	136
Other assets	282	-	-	-	524	806
Total Assets	**391**	**-**	**-**	**-**	**147 249**	**147 640**
Deposits from financial institutions	8	7	-	-	75 048	75 063
Deposits from public	-	-	-	-	58 699	58 699
Lease liabilities	-	-	-	-	-	-
Trade and other payables	-	-	-	-	312	312
Other liabilities	-	-	-	-	1 593	1 593
Total Equity	-	-	-	-	11 973	11 973
Total Equity and Liabilities	**8**	**7**	**-**	**-**	**147 625**	**147 640**
Net balance sheet position	**383**	**(7)**	**-**	**-**	**(376)**	**-**
Net off-balance sheet position	**(400)**	**-**	**-**	**-**	**400**	**-**

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

	Previous financial year					
	USD	**GBP**	**TRY**	**Other**	**EUR**	**Total**
Cash and cash equivalents	109	35	3	-	87 750	87 897
Loans to customers	-	-	-	-	23 726	23 726
Intangible assets	-	-	-	-	1 616	1 616
Tangible assets	-	-	-	-	37	37
Right of use assets	-	-	-	-	188	188
Deferred tax asset	-	-	-	-	603	603
Trade and other receivables	-	-	-	-	222	222
Other assets	282	-	-	-	407	689
Total Assets	**391**	**35**	**3**	**-**	**114 549**	**114 978**
Deposits from financial institutions	17	37	-	-	60 255	60 309
Deposits from public	-	-	-	-	41 410	41 410
Lease liabilities	-	-	-	-	143	143
Trade and other payables	-	-	-	-	313	313
Other liabilities	-	-	-	-	1 921	1 921
Total Equity	-	-	-	-	10 882	10 882
Total Equity and Liabilities	**17**	**37**	**-**	**-**	**114 924**	**114 978**
Net balance sheet position	**374**	**(2)**	**3**	**-**	**(375)**	**-**
Net off-balance sheet position	**(400)**	**-**	**-**	**-**	**400**	**-**

ESG Risk

The Bank has finalized its ESG risk management framework in 2023 to serve for the regulatory requirements that will be valid for 2024, and continuously improves its practices in line with the release of new European regulation in the ESG domain. The Bank will include ESG disclosures in its 2024 Pillar 3 disclosure report.

Note 22 Prudential requirements

Capital adequacy

The Bank must comply with the prudential regulatory capital requirements determined by the Bank of Lithuania, including capital adequacy ratio.

In addition, the Bank has the following:

- Ensuring the Bank’s ability to comply with the capital adequacy requirements
- Ensuring the ability to maintain an optimal capital level in order to ensure the growth of the investment portfolio and to protect against potential risks

(Amounts expressed in thousands amount of EUR, unless otherwise stated)

Information on compliance with all prudential requirements of the Bank

The Bank has complied with all prudential requirements as of December 31, 2023:

CET1 Capital ratio - 4,5%	17,60%
T1 Capital ratio - 6%	17,60%
Total capital ratio - 8%	17,60%
Capital conservation buffer - 2,5%	1 318
Institution specific countercyclical capital buffer - 0,74%	390
Leverage ratio - shall be more than 3%	6,30%
Liquidity requirement - liquidity coverage ratio shall not be less than 100%	155,90%
Liquidity requirement - net stable funding ratio shall not be less than 100%	220,70%
Large exposure requirement for non-institutions- shall not exceed 25% of bank' s T1 capital	21,60%
Large exposure requirement for institutions- shall not exceed 100% of bank' s T1 capital	10,70%

Note 23 Transactions with related parties

The Bank'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 Bank, and this relation enables one of the parties to exercise control or significant influence upon the other party in making financial or operating decisions.

2022-12-31

Related parties name	Acquisitions from related parties during 2023	Liabilities 2023-12-31	Income from related parties during 2023	Operating expense to related parties during 2023
Shareholder	-	-	-	-
Associated companies	-	69	145	78
Total	**-**	**69**	**145**	**78**

2022-12-31

Related parties name	Acquisitions from related parties during 2022	Liabilities 2022-12-31	Income from related parties during 2022	Receivable 2022-12-31
Shareholder	-	-	-	-
Associated companies	-	5 355	176	48
Total	**-**	**3 317**	**102**	**-**

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

Items	Financial year	Previous financial year
Amounts paid to Companies management and related parties:		
- Amounts related to employment relationships (Management Board)	661	642
- Allowance for work at the Supervisory Board	454	389
- Free of charge granted assets or services	-	-
- Other significant amounts	-	-

Note 23 Subsequent events

As of January 23, 2024, Akce Holding Malta Ltd. has sold all its' shares to EUROPEAN MERCHANT BANK HOLDINGS, UAB.

These financial statements were signed on 19 April 2024.

Sarp Demiray
CEO

Signed electronically

Onder Ozcan
CFO

Signed electronically