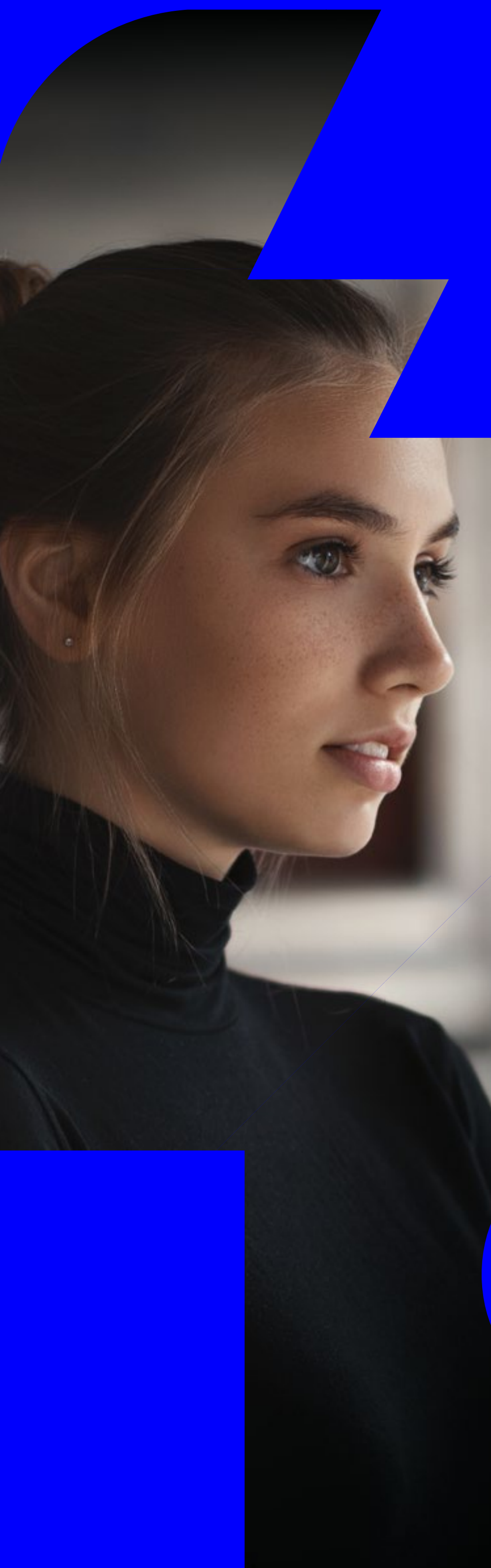

FINORA BANK UAB ANNUAL REPORT 2022

Building future together

finora bank

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INFORMATION ABOUT THE BANK

Accounting period covered by the annual report

1 of January 2022 to 31 December 2022.

Reporting company and its contact details

Name	**Finora Bank UAB**
Address	**Žalgirio g. 88, LT-09303 Vilnius**
Company's registration code	**305156796**
Licence	**Licence issued 29 April 2022, number 9**
Telephone	**+370 695 37797**
E-mail address	**info.lt@finorabank.eu**
Website address	**finorabank.eu**
Auditor	**Grant Thornton Baltic, UAB**
Members of the Supervisory Board	**Veikko Maripuu Vahur Kraft Matti Hyyrynen Ieva Dosinaitė Rein Ojavere**
Members of the Management Board	**Aurelijus Šveikauskas Laurynas Dailydė Darius Buzys Kristi Hõrrak Marek Piller**

Principal activity

Finora Bank UAB is a credit institution which holds the specialized banking license issued by the Bank of Lithuania.

Grant Thornton

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www.grantthornton.lt

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF FINORA BANK UAB

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements Finora Bank UAB (the Bank) which comprise the financial position statement as at December 31, 2022, and the statement of profit and loss and comprehensive income statement, 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, 2022, and its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and International financial reporting Standards, adopted by European Union.

Basis for Opinion

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

Key Audit Matters

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

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

Grant Thornton Baltic UAB
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Klaipėda | Taikos av. 52c / Agluonos str. 1-1403 | 91184 Klaipėda | Lithuania | T +370 46 411 248 | F +370 46 313 698 | E klaipeda@lt.gt.com

Expected credit losses on loan receivables

Refer to Significant accounting policies section Impairment of assets, Section "Risk management" sub-sections "Distribution by internal credit risk rating", "Company credit risk related to financial instruments" and "Collaterals and financial guarantees" and Note 2 "Loan receivables" on pages 32-34, 41-42, 43 and 47-48 respectively.

We focused on this area because application of the expected credit loss (ECL) model to loan impairment losses under IFRS 9 "Financial instruments" requires complex and subjective judgements over both the timing of recognition of impairment and the size of any such impairment.

The key features of the ECL model include classification of loans to three stages, assessment of credit risk parameters and application of forward-looking information.

The amount of impairment provision for the Bank's loans is based on the model calculations, taking into consideration the exposure at default, probability of default, changes in customer credit rating, other known risk factors impacting stage of each exposure, and sale of bad loans (loss given default), and the ECL adjustments by expected impact of future macroeconomic scenarios.

As at 31 December 2022, the expected credit losses on loans amounted to EUR 245 thousand in the Bank (refer to note 2).

Credit impairments charged to statement of profit and loss and other comprehensive income for the expected credit losses for the year ended 31 December 2022 amounted EUR 145 thousand for the Bank (refer to note 2).

How the Matter Was Addressed in the Audit

We assessed whether the Bank's accounting policies in relation to the ECL for loans to customers are in compliance with IFRS 9 by assessing each significant model component: exposure at default, probability of default and loss given default, definition of default and significant increase in credit risk, use of macroeconomic scenarios.

We assessed the design and operating effectiveness of the controls over relevant loan data and the ECL calculations. Those controls included controls over recording of loans data in the system, credit analysis and approval before issuing loans, including automatic rating assessment and calculation of overdue days.

We determined that we could rely on those controls for the purpose of our audit.

Further, we performed detailed testing over reliability of loan data, including contract dates, scoring rates for loans exposures, estimation of loss given default, overdue days and other inputs used in the ECL calculation as at 31 December 2022.

We also performed detailed testing over data flows to/from source systems and macroeconomic factors to the ECL model.

Finally, we reviewed the credit risk disclosures.

Other Information

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

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

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

In addition, our responsibility is to consider whether information included in the 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.

The persons responsible for management must supervise the preparation of the Bank's financial statements.

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 16 November 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 1 year.

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
24 March 2023

[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 31 DECEMBER 2022

The analysis of financial statements and operating activities of the year 2022

1. Review of the Bank situation, business and development, and analysis of financial performance

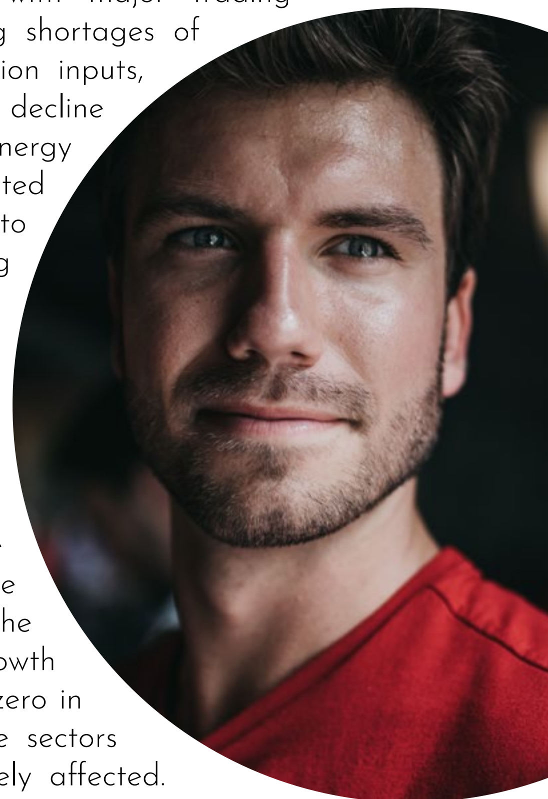
Finora Bank UAB (hereinafter referred to as "the Bank") is a credit institution in the form of a public limited liability company (UAB) domiciled in Lithuania. The financial statements of the Bank for the year ended 31 December 2022 comprised of Finora Bank.

Economic outlook

The Russian invasion of Ukraine slowed down economic growth in Lithuania. Yearly GDP growth is projected to stay under 2%. Quarterly growth turned negative in the fourth quarter at -1.7%. High inflation decreased consumer spending, which was not balanced out by rising wages. Since export to Russia was halted and export to some Eastern European countries limited, costs to businesses increased in the form of unsold goods.

In the near term, economic activity is set to continue to be impacted by economic and geopolitical uncertainty, the deteriorating financial situation of companies and weakening purchasing power of households. Only moderate quarterly growth is forecast for the entire 2023. Overall, growth is expected to reach 0.3% in 2023, down from the 0.5% growth forecast in autumn.

Following its peak in September 2022, headline HICP inflation has started declining on the back of plunging global oil prices and domestic efforts to curb the energy price increase for consumers, including the VAT rate cut on heat energy. Non-energy price inflation, by contrast, is still relatively high, possibly reflecting the lagging effects of costs that surged in the previous months. Nevertheless, following 18.9% inflation in 2022, the rate of price growth is projected to decrease to 8.7% in 2023 and 2.1% in 2024. Weaker activity both in the domestic economy and with major trading partners, easing shortages of various production inputs, and a gradual decline in global energy prices are expected to contribute to the declining dynamics of inflation.



The year 2022 was affected by the war in Ukraine, which will also continue to impact the years to come. The economic growth will be around zero in 2023 and some sectors will be negatively affected. However, we expect that the credit portfolio will be well diversified and the economy will be flexible, and credit risk will manifest through some individual counterparties.

Strategic direction

The Bank's vision, mission and main values

Professionalism entails being methodical, objective, able to explain the behaviour and outlook of the economy and businesses to best identify opportunities and threats. Professional means, to a degree, refined and supreme, yet certainly accessible and charismatic.

Being **street smart** means that profound professional expertise is complemented by a diverse background of hands-on experience. We have an empathy towards and an instrumental understanding of how business is done on the ground by the thousands of entrepreneurs who Finora seeks to serve, and this shows in our communication.

For and at Finora, **responsibility** entails taking responsibility for the cultivation of responsibility around us. We are committed to the society and economy around us achieving sustained, balanced fossil free growth (i.e., ecological responsibility) as well as promoting in-depth financial literacy both on the individual as well as the enterprise level (i.e., economic responsibility). Throughout our communication, we do not leave reasonable opportunities unused to offer respective inspiration, guidance, and advice.

The business model of Finora Bank

We focus on sustainable creation of value for our stakeholders and therefore aim for competitive return on invested capital and market leading cost efficiency with sound risk management and an excellent customer experience, in combination with a strong commitment to sustainability.

The main activity of the Bank has been the financing of small and medium sized enterprises (SME-s) and the aim is to proceed with the main focus on financing services of the business segment..

Determined service. Finora puts considerable effort into maintaining our culture of resourceful solution design and proactive troubleshooting on behalf and in the interests of our clients. Unlike our competitors, we do not merely offer a list of products – we solve our clients' problems.

Humble honesty. Finora's advisors always suggest what is, according to their best knowledge and expertise, the best solution for the client and the situation – even if it delivers a lower margin for Finora or informs the client of currently better alternatives elsewhere. The respect, gratitude and reputation earned through such service is valued above any short-term gains.

Speed. Finora works constantly to keep the service cycle as fast as possible. Short response times – saving our clients' time

and giving them freedom of decision-making in growing their businesses – are a goal in itself.

Overview of Activities and Financial performance

In April 2022, Finora received a specialised bank licence, therefore the main focus of activities and goals was transformation of the company into a banking model. Having established necessary procedures and processes, on 9 September 2022 Finora changed its statute and formally started to operate as a bank.

Whilst preparing to become a bank, Finora continued to render financing services to customers. The total amount of newly issued financing was 4.5M EUR during 2022. The Bank's interest revenue increased by 46% compared to 2021. Net interest income increased by 29% to 541 thousand EUR compared to last year. Net interest income improved largely from business loan volumes. Subordinated loans and new deposits prompted higher interest expenses, which reached 118 thousand EUR, an increase of 87 thousand EUR from the previous year.

Total expenses increased by 675 thousand EUR and stood at 909 thousand EUR in 2022. Half of increased expenses were a result of expanded workforce. Considerable amounts were also contributed to marketing campaigns and launch of new services.

The Bank's credit loss allowances amounted to 145 thousand EUR, which is an increase of 64 thousand EUR from 2021. Despite these factors, the Bank's credit quality remains strong thanks to low risk appetite and high credit underwriting standards.

The structure of loan portfolio shifted towards more loans with collateral, and a slight increase in leasing.

The Bank started collecting deposits in the end of 2022 and deposits amounted to 3.2 million EUR at the end of the period.

Key financial ratios

	2022	2021
Return on equity, %	(19.2)	5.5
Return on assets, %	(5.0)	2.4
Cost to income ratio	1.7	0.6
Loan to deposit ratio, %	213	N/A

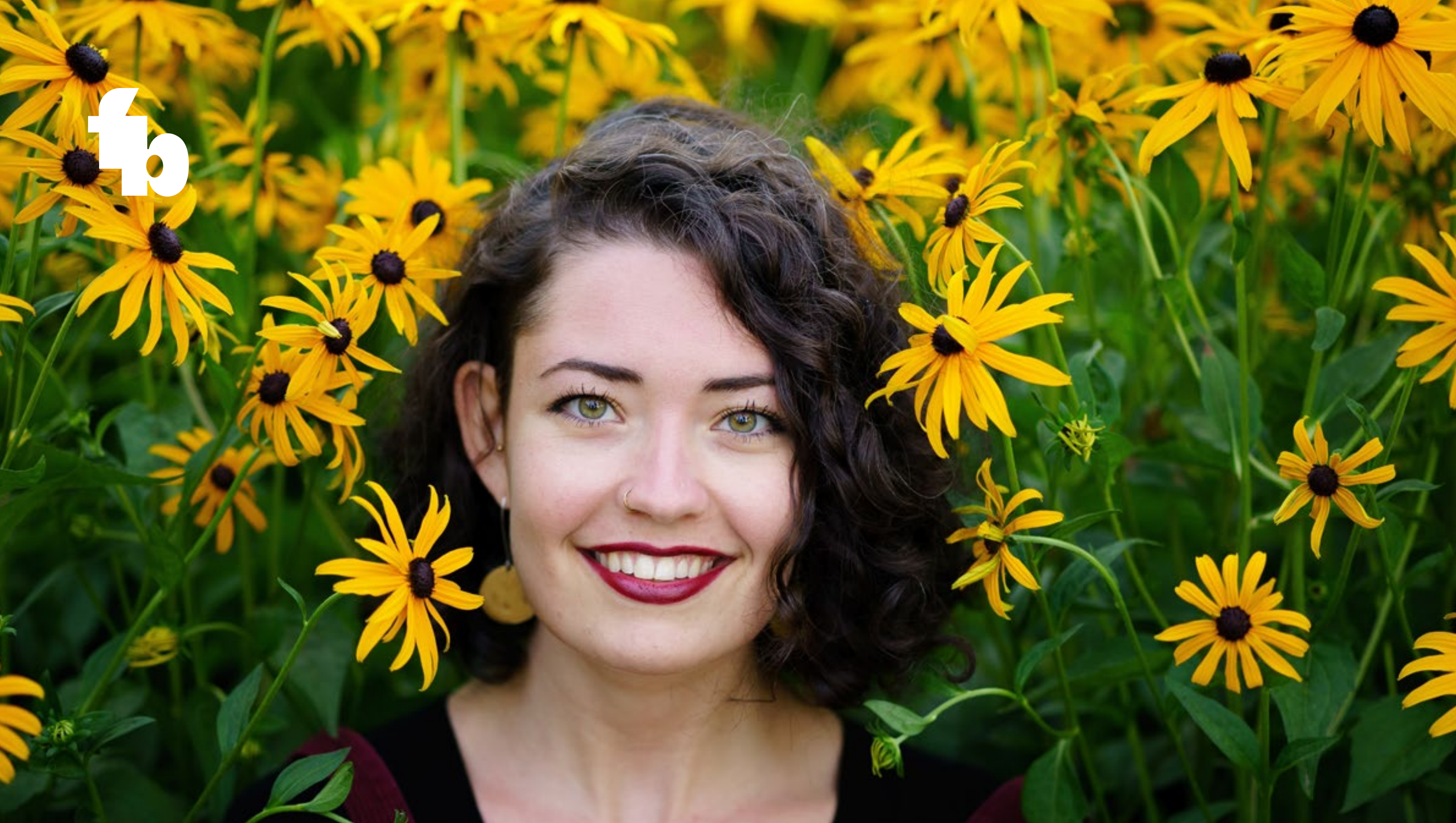
2. Risk management

Description of main types of risks and uncertainties

A risk in the Bank's activity is defined as an uncertain event or set of events that, if they occur, will have a potential negative outcome from the expected positive economic result and shall be recognized in its business operations. The Bank faces several different risks. The main ones, considering the Bank's business model, are: Credit risk, AML risk, Compliance risk and Operational risk. The Bank protects itself against all risks, including the ones listed above, through a variety of sophisticated risk assessments and control mechanisms. While the Bank already operates in a rapidly changing economy, the war in Ukraine, possible fluctuations in prices of energy and raw materials, and tension between large economies (China, USA, EU) add additional uncertainty to the economic environment. Detailed information about key risks and the activities to manage these risks is included in the Notes of Financial statements..

The assessment of the Bank's internal capital adequacy

The Bank's capital fully corresponds to the prudential requirements with significant buffer. The Bank's capital adequacy ratios are calculated



considering not only riskiness of loan portfolio, but assessing operational risk as well.

An internal process for assessing capital adequacy is carried out annually to assess the need for additional capital. Since the Bank has started its activity in September 2022, the first internal process for assessing capital adequacy will be started in Q1 of 2023.

Main aspects of the Bank's operational risk management strategies

Operational risk is defined as the risk of loss, business process disruption, negative reputational impact, resulting from inadequate or failed internal processes, people, and systems, or from external events.

The Bank mitigates operational risks by defining, documenting, and updating the relevant business processes, following strict rules for the assignment of duties and responsibilities, and developing and upgrading information and communication systems.

The main principles for organizing operational risk management are: 1) to follow the "four-eyes principle" and 2) to segregate the business-generating functions from the recording and monitoring functions.

Information on encumbered assets

The Bank does not have any assets which would be restricted or prevented from liquidation, sale, transfer or assignment due to legal, regulatory, contractual, or other limitations.

Prudential ratios

The Bank is in line with all prudential requirements as of 31.12.2022.

Ratio	Prudential require-ment, %	Actual Data, %
CET1	4.5	35.2
TIER1	6	35.2
TOTAL CAPITAL RATIO	8	53.0
LEVERAGE RATIO	3	19.5
LCR	100	>100
NSFR	100	140.9
LARGE EXPOSURE	<25 % CET1	complies

3. Plans and forecasts for the Bank

Finora Bank's scope of services is ever broader, and we consider it our responsibility to take part in critical, solution-oriented discussions regarding the economic environment. Yet in long-term proactive communication, we have picked key focus areas where our leadership of thought can have the most profound and productive impact.

We see the main points requiring our input in our home markets to be attitudes towards small and medium-sized enterprises, the practical execution of the shift towards an environmentally sustainable economy, the disregard for the potential of the creative industry, and the sharply uneven level of financial literacy. These are the issues Finora aims to solve through our core business. In our communication we consider it our mission to advocate for these groups, topics, and purposes.

Focus on small and medium enterprises

Thriving SMEs – and their founders and owners, the wide class of resourceful, largely self-made entrepreneurs – are the foundation of any innovative economy. A society with a vibrant sector of SMEs, especially newly founded ones, is an entrepreneurial, evolving and antifragile society. It is vital that both established and new entrepreneurs have good access to the resources they need. These are evergreen truths that still need retelling and reframing as economic cycles and generations change. The Bank's communication seeks to spearhead this.

Focus on environmental foundations

The shift away from a fossil fuel based and towards an ecologically sustainable economy is the greatest challenge of our time. Any endeavour of such scope and complexity carries the risk of terminal friction. By combining our professional expertise with dedicated tailored financing instruments, the Bank will do its utmost to contribute to this agenda.

Focus on creating value for customers

In most of the Bank's markets, the value and potential of a scalable, export-oriented creative industry is vastly underappreciated. While offering financial solutions for the creative entrepreneurs, Finora also strategically takes the strategic role of the sector's advocate and champion. A diverse and profitable creative industry is a necessary part of any sustainable, post-industrial economy, and Finora shares the responsibility of making this vision come to life.

Focus on financial literacy

Despite recent promising advances, financial literacy remains a weakness for most individuals as well as enterprises in most of Finora's markets. We consider financial literacy to be a cornerstone of personal freedom, a prerequisite for unfettered social agency, and a drastically underused source of market power for most entrepreneurs. Finora promotes and trains financial literacy to strengthen the civil society that allows for responsible growth and foster an even more robust culture of entrepreneurship in our markets, thus directly benefiting Finora's core business.

4. Organisational structure

General meeting of shareholders

Supervisory Board

Management Board

Audit committee

Internal Audit

Credit Committee

CFO

MLRO

CRO

DPO

CCO

CEO

Finance Unit

Risk Management Unit

Deputy CEO

Business Unit

Business Development

Sales and Marketing

CLO

Legal Unit

CTO

IT Unit

ISO

5. Overview of Bank committees

The Bank's management bodies are the Bank's General Meeting of Shareholders, the Bank's Supervisory Board, the Bank's Management Board, and the Bank's Head of Administration.

The Bank's management bodies deal with the issues entrusted to them by the Bank's Articles of Association, other internal documents, the Law on Companies, the Law on Financial Institutions of the Republic of Lithuania, the Law on Banks of the Republic of Lithuania, and other legislation. The decisions of the Bank's management bodies are binding for all managers and employees of the Bank.

Committees of the Bank

The Bank has established two committees – the Audit Committee and the Credit Committee.

The Audit Committee is established by the Supervisory Board to assist the fulfilment of the supervisory function of the Bank. The Audit Committee consists of three members.

The main functions of the Audit Committee, inter alia, are to:

- review and evaluate the Bank's Supervisory Board's instructions for Internal Audit on an annual basis;
- ensure that such instructions are appropriate, relevant and up-to-date;
- assist the Supervisory board in connection with the process for the appointment of the external auditor (audit firm).

The Credit Committee is established by the Management Board of the Bank to support the management of the credit risk as one of the key risks of the Bank.

The main functions of the Credit Committee, inter alia, are:

- establishment of the principal conditions of crediting activities of the Bank and adoption of decisions on granting of the credit products (loans, guarantees, leasing and factoring products);
- identifying key principles and processes for making decisions related to the lending activities of the Bank and its subsidiaries.

Management board

- Aurelijus Šveikauskas, CEO

- Laurynas Dailyde, Deputy CEO

- Kristi Hõrrak, CFO

- Darius Buzys, CRO

- Marek Piller, CTO

Supervisory board

- Veikko Maripuu, Chairman of the Supervisory Board
- Vahur Kraft, Member of the Supervisory Board
- Rein Ojavere, Member of the Supervisory Board
- Matti Hyyrynen, Member of the Supervisory Board
- Ieva Dosinaite, Member of the Supervisory Board

6. Information on the positions held by Board and Supervisory Board members

Members of the management board

The following members of the management board of Finora Bank UAB only hold a managerial position and employment within Finora Bank UAB:

- Aurelijus Šveikauskas, Head of Administration;
- Laurynas Dailydė, Deputy Head of Administration;
- Darius Buzys, Chief Risk Officer.

Other management board members of Finora Bank UAB:

- Kristi Hõrrak, Chief Financial Officer of Finora Bank UAB is the Chairman of the Supervisory Board of Bankish AS, registry code 14251833, registered address Harjumaa, Tallinn, Tartu road 25, 10117, Estonia.
- Marek Piller, Chief Technology Officer of Finora Bank UAB is the member of the management board in Majaomanike Ühistu Tulbiala MTÜ, registry code 80086174, registered address Heki 1-36, 74001, Viimsi parish, Estonia, and in Tenniseklubi "Infinity Tennis", registry code 80545564, registered address, Tulbiaia tee 16, 74001, Viimsi parish, Estonia. Marek Piller has an employment contract with Bankish AS, registry code 14251833, registered address Harjumaa, Tallinn, Tartu road 25, 10117, Estonia.

Members of the Supervisory Bard

Head of Supervisory Board of Finora Bank UAB Veikko Maripuu is the member of the Management Board in OÜ Caron Capital, registry code 10865178, registered address: Tartu road 25, 10117, Tallinn, Estonia; Head Capital OÜ, registry code 14010999, registered address Tartu road 25, 10117, Tallinn, Estonia; Head Investments OÜ, registry code 14009401, registered address Tartu road 25, 10117, Tallinn, Estonia; Head Management Services OÜ, registry code 14026078, registered address Tartu road 25, 10117, Tallinn, Estonia; Nebbiolo Capital OÜ, registry code 11918037, registered address Tartu road 25, 10117, Tallinn, Estonia; Tartu Print Holding OÜ, registry code 11982733, registered address Tartu road 25, 10117, Tallinn, Estonia;

Veikko Maripuu is the Chairman of the Supervisory Board of AS Finora Group, registry code 12324050, registered address Tartu road 25-21, 10117, Tallinn, Estonia

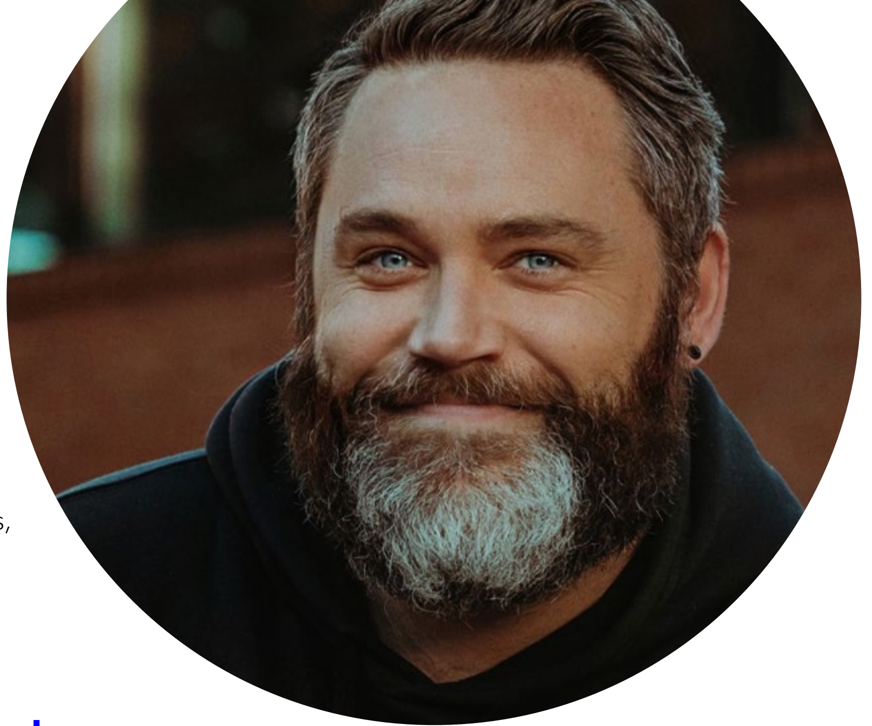
Veikko Maripuu is the Member of the Supervisory Board of AS Bankish, registry code 14251833, registered address Tartu road 25, 10117, Tallinn, Estonia; AS Ecoprint, registry code 11407147, registered address Savioja road 3, 60534, Vahi, Tartu, Estonia; Head Solutions Group OÜ, registry code 10407435, registered address Priisle road 10, 13914, Tallinn, Estonia

Other members of the Supervisory Board of Finora Bank UAB:

Vahur Kraft is the Chairman of the Management Board in PT Altum Llc, registry code 14839114, registered address: Jakobi 38-13,51005 Tartu, Estonia and Member of the Supervisory Board of AS Finora Group, registry code 12324050, registered address Tartu road 25-21, 10117, Tallinn, Estonia. Vahur Kraft is the Chief Executive Officer at Jõuvärk OÜ, registry code 14324692, registered address Valguse 18,11618, Tallinn, Estonia. Vahul Kraft is also the Chief Executive Officer and employed at PT Altum OÜ, registry code 14839114, registered address Jakobi 38-13, Tartu 51005, Estonia.

Matti Hyyrynen does not have other managerial positions in other entities.

Rein Ojavere is the Member of the Supervisory Board in AS Finora Group, registry code 12324050, registered address Tartu road 25, 10117, Tallinn, Estonia Kesklinna linnaosa, Tallinn, Estonia. Rein



Ojavere holds an employment contract as CFO in Scramble OÜ, registry code 14991448, address Pärnu road 22, 10141, Tallinn, Estonia.

Ieva Dosinaitė is Partner and Head of Finance Practice in Law firm Ellex Valiūnas, Jogailos st 9, Vilnius.

7. The goals, structure and organization of the internal control system

The Bank's comprehensive internal control framework comprises monitoring, reporting, and follow-up processes covering all business lines and internal units, outsourced activities and distribution channels, and management bodies. The Bank does not offer products which entail a material risk of contributing to unethical conduct, infringement on human or labour rights, corruption, or serious environmental harm.

The internal control framework aims to ensure effective and efficient operations, adequate risk management, compliance with external and internal requirements, as well as sound accounting procedures and reliable reporting of information.

The Bank's internal control framework is organised across three lines of defence. The first line consists of all business and supporting divisions, who are responsible for managing their risks according to our policies, procedures, and controls. The second line is a control function in the form of the Compliance Officer, who verifies that the first line is operating in line with its risk policies, procedures, and control, and is independent of the divisions whose activities they monitor and control. The Internal Auditor serves as the third line and provides independent assessments of the risk management and controls in the first and second lines.

The Compliance Officer identifies, assesses, controls, monitors, and reports on compliance risks, including compliance with our internal framework and all applicable laws and regulations.

The Risk division defines risk policies and the risk management framework, ensures that effective risk management processes are in place, and is involved in all material risk management decisions.

The Internal Auditor provides reliable, independent and objective assurance to the management bodies about the effectiveness of our governance, risk management and internal control processes.

8. Share capital and own shares

The Bank does not hold own shares and did not purchase or sell them during the accounting period. As of 31 December 2022, the Bank's authorized capital was equal to EUR 3 000 000. The authorized capital is divided into 3 000 000 ordinary registered shares with EUR 1 par value each. AS Finora Group, a company incorporated and operating under the laws of the Republic of Estonia, registry code 12324050, registered address Tartu mnt. 25, Tallinn 10117, the Republic of Estonia, is the sole shareholder of the Bank.

9. Information on research and development activities

The Bank did not carry out any research or development activities in 2022.

10. Employees

In 2022, the average number of employees was 10, starting from 3 at the beginning of the year to 30 people at the end of the year.

11. Information about the bank's branches and representative offices

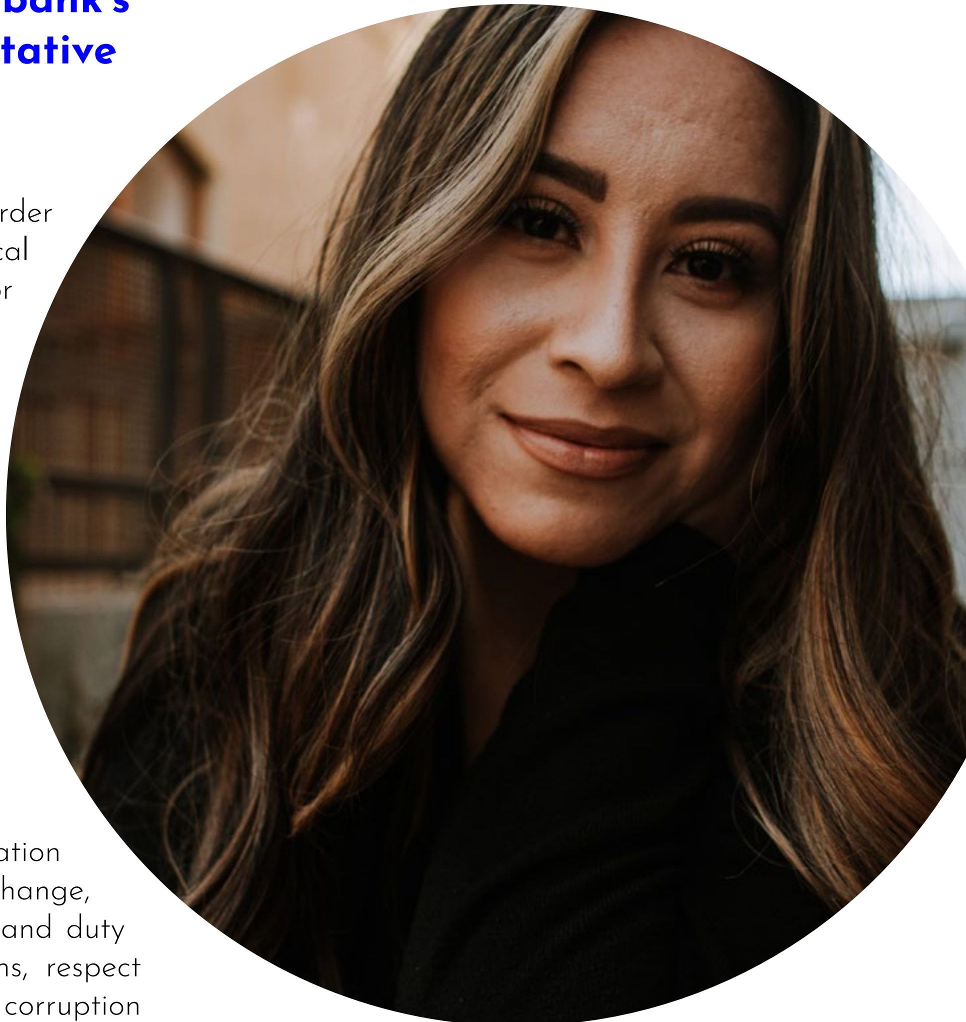
Finora Bank UAB performs cross-border services towards Estonia and has a local Estonian team operating in Estonia for that purpose until the opening of the Estonian branch of Finora Bank that should take place during 2023. With the opening of the branch in Estonia, all activities regarding the Estonian market will be performed directly through the branch.

12. Sustainability disclosure

ESG risks include those related to mitigation and adaptation of impacts of climate change, environmental management practices and duty of care, working and safety conditions, respect for human rights, anti-bribery and corruption practices, and compliance with relevant laws and regulations. The Bank understands the impact of climate-related and environmental risks on the business environment in which the Bank operates, in the short, medium, and long term, and gradually implements ESG principles in order to be able to make informed strategic and everyday business decisions.

13. Events after the year end of 2022

There were no significant events in the Bank after the year end of 2022.



STATEMENT OF FINANCIAL POSITION 31 DECEMBER 2022

in EUR	Note	31 Dec 2022	31 Dec 2021
Assets			
Cash in other commercial banks	1	3 056 833	144 602
Loan receivables	2	6 904 387	7 180 403
Investments into bonds	3	158 990	0
Other receivables and prepayments	16	0	2 350
Intangible assets	4	523 270	212 266
Tangible assets	5	23 052	2 337
Other assets	6	45 606	57 687
Total assets		**10 712 138**	**7 599 645**
Liabilities			
Deposits from public and accrued interests	9	3 248 719	0
Other loan liabilities	8	3 589 179	4 818 095
Payables to group companies	16	19 206	354 507
Other liabilities	7	324 727	150 428
Subordinated liabilities	10	1 010 000	0
Total liabilities		**8 191 831**	**5 323 030**
Equity			
Share capital	18	3 000 000	2 300 000
Other reserves	18	2 974	0
Retained earnings		(23 385)	(144 674)
Net profit (loss) for the financial year		(459 282)	121 289
Total equity		2 520 307	2 276 615
Total liabilities and equity		**10 712 138**	**7 599 645**

The notes on pages 23 to 54 are an integral part of the financial statements.

These financial statements were prepared on 24 March 2023 by:

Aurelijus Sveikauskas CEO
/signed digitally/

Jolanta Zutautiene Chief Accountant
/signed digitally/

STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME 31 DECEMBER 2022

in EUR	Note	2022	2021
Interest income based on the effective interest rate	11	659 157	452 315
Interest expenses	12	(118 403)	(31 467)
Net interest income		**540 754**	**420 848**
Other income		56 475	28 360
Labour expenses	13	(562 766)	(151 882)
Amortisation and depreciation costs	4,5	(18 248)	(2 296)
Other operating expenses	14	(330 107)	(84 932)
Credit recoveries/credit loss allowances	2	(145 390)	(80 913)
Net profit (loss) for the financial year		**(459 282)**	**129 185**
Income tax	15	0	(7 896)
Net profit (loss) for the financial year		**(459 282)**	**121 289**
Total comprehensive income		**(459 282)**	**121 289**
Earnings per share		(0,17)	0,05

The notes on pages 23 to 54 are an integral part of the financial statements.

These financial statements were prepared on 24 March 2023 by:

Aurelijus Sveikauskas CEO

/signed digitally/

Jolanta Zutautiene Chief Accountant

/signed digitally/

STATEMENT OF CHANGES IN EQUITY 31 DECEMBER 2022

in EUR	Share capital	Other reserves	Retained earnings (loss)	Total
31 Dec 20	**2 300 000**	**0**	**(144 674)**	**2 155 326**
Net profit (loss) and comprehensive income (loss) for the financial year	0	0	121 289	121 289
31 Dec 21	**2 300 000**	**0**	**(23 385)**	**2 276 615**
Issue of share capital	700 000	0	0	700 000
Share options	0	2 974	0	2 974
Net profit (loss) and comprehensive income (loss) for the financial year	0	0	(459 282)	(459 282)
31 Dec 22	**3 000 000**	**2 974**	**(482 667)**	**2 520 307**

The notes on pages 23 to 54 are an integral part of the financial statements.

These financial statements were prepared on 24 March 2023 by:

Aurelijus Sveikauskas CEO

/signed digitally/

Jolanta Zutautiene Chief Accountant

/signed digitally/

STATEMENT OF CASH FLOWS 31 DECEMBER 2022

in EUR	Note	31 Dec 2022	31 Dec 2021
Cash flows from operating activities			
Net profit (loss)		(459 282)	121 289
Adjustments			
Depreciation and amortisation	4,5	18 248	2 296
Interest paid		107 288	31 467
Interest received		(662 799)	(470 315)
Other non - monetary transactions		175 236	144 945
Total adjustments		**(821 309)**	**170 318**
Total change in receivables and prepayments related to operating activities		145 714	(5 890 491)
Total change in payables and prepayments related to operating activities		143 769	43 318
Deposits from public received, net	9	3 238 719	0
Interest received		662 799	470 315
Total cash flows from operating activities		**3 369 719**	**(5 547 176)**
Cash flows from investing activities			
Purchase of tangible and intangible assets	4,5	(349 967)	(128 306)
Investments into bonds, net	3	(158 990)	0
Total cash flows from investing activities		**(508 957)**	**(128 306)**
Cash flows from financing activities			
Share capital increase	18	700 000	0
Increase / (decrease) in financial debts	8	(1 554 217)	4 957 169
Subordinated loan received	10	1 000 000	0
Interest paid		(97 288)	(16 034)
Other movements		2 974	0
Total cash flows from financing activities		**51 469**	**4 941 135**
Change in cash and cash equivalents		**2 912 231**	**(734 347)**
Cash and cash equivalents at beginning of period		**144 602**	**878 949**
Cash and cash equivalents at end of period		**3 056 833**	**144 602**

The notes on pages 23 to 54 are an integral part of the financial statements.

These financial statements were prepared on 24 March 2023 by:

Aurelijus Sveikauskas CEO
/signed digitally/

Jolanta Zutautiene Chief Accountant
/signed digitally/

EXPLANATORY NOTES TO FINANCIAL STATEMENTS 31 DECEMBER 2022

1. General information

Finora Bank UAB (hereinafter – the Bank or Company) is the joint stock company registered on 10th of May 2019 in the Republic of Lithuania. The Banks's registry code is 305156796. The Bank's registration address is Žalgirio g. 88, LT-09303, Vilnius, Lithuania.

The main activity of the Bank is financial services. In 2022 Bank of Lithuania granted to the Bank specialized banking license. Licence was issued 29 April 2022, licence number 9.

The financial year of the Bank coincides with the calendar year. Annual report is presented in EUR.

The sole shareholder of the company as for 31 December 2022 was AS Finora Group company code 12324050, Tartu road 25, Tallinn, Estonia. The Company had no investments in subsidiaries, associates.

The activities of the company are supervised by the Bank of Lithuania.

The authorized capital of the company was EUR 3 000 000 as of 31 December 2022 which consisted of 3 000 000 ordinary registered shares with a nominal value of EUR 1 each.

The company employed 30 employees as at 31st of December 2022 (31st of December 2021 : 3).

2. Significant accounting policies

Basis of preparation of financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of assumptions and estimates that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the reporting date, as well as the amounts of income and expenses recognized during the period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

An important area of estimates in preparing the report relates to the assessment of impairment losses for financial assets. The Company regularly monitors and analyses the impairment of loans and receivables. IFRS 9 Financial Instruments is used to measure the increase in credit risk. At each balance sheet date, the Company assesses whether credit risk has increased significantly since initial recognition, taking into account changes in the probability of default of the financial instrument over its useful life, applying significant risk measures used in the Company's risk management processes. Potential problems are identified immediately as loans are constantly monitored and analysed. Impairment losses are calculated separately for each type of loan, taking into account the expected future cash flows, including those arising from the realization of collateral. The Company uses estimates based on its experience to determine impairment losses, taking into account factors such as future economic conditions and consequent changes in the behaviour of borrowers, as well as the value of collateral that cannot be realized immediately. For more details see section for Significant management estimates and assumptions.

Summary of significant accounting policies

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

Amendments effective for annual periods beginning on or after 1 January 2022

Proceeds before intended use, Onerous contracts - cost of fulfilling a contract, Reference to the Conceptual Framework - narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 - amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant, or equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, must be recognised in profit or loss. An entity has to use IAS 2 to measure the cost of those items. Cost does not include depreciation of the asset being tested because it is not yet ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might

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therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The Bank does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments effective for annual periods beginning on or after 1 January 2021, deferred to 1 January 2023

IFRS 17, Insurance Contracts

IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

The management is assessing the impact of these amendments as they become effective from 2023.

Amendments effective for annual periods beginning on or after 1 January 2023

Amendments to IFRS 17 and an amendment to IFRS 4

The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- Effective date: The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- Expected recovery of insurance acquisition cash flows: An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- Contractual service margin attributable to investment services: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- Reinsurance contracts held – recovery of losses: When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss

recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- Other amendments: Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Amendments to IAS 8: Definition of Accounting Estimates

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Transition option to insurers applying IFRS 17 – Amendments to IFRS 17

The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS

17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and will result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17: accounting mismatches between insurance contract liabilities measured at current value and any related financial assets measured at amortised cost; and if an entity chooses to restate comparative information for IFRS 9, classification differences between financial assets derecognised in the comparative period (to which IFRS 9 will not apply) and other financial assets (to which IFRS 9 will apply). The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets. When initially applying IFRS 17, entities would, for the purpose of presenting comparative information, be permitted to apply a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. The transition option would be available, on an instrument-by-instrument basis; allowing an entity to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of IFRS 9; and require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how the entity expects that financial asset to be classified applying IFRS 9.

The management is assessing the impact of these amendments as they become effective from 2023.

Amendments that will become effective in next accounting period(s), but have not been adopted by EU yet.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback

The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

Classification of liabilities as current or non-current, deferral of effective date - Amendments to IAS 1

These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

IFRS 14, Regulatory Deferral Accounts

IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

The management is assessing the impact of these amendments when they will be adopted by EU and become effective.

Foreign currency translation

The functional and presentation currency of the Company is the Euro (EUR).

Transactions denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions or from the translation at fair value through profit or loss are recognized in profit or loss. Foreign currency translation differences on financial assets or liabilities at fair value through profit or loss are recognized as a change in the fair value of these items.

Cash in other commercial banks

Cash in other commercial banks comprise cash in commercial banks that are rated at least Baa to Aaa based on Moody´s credit ratings. In cash flow statements they are presented as Cash and cash equivalents.

Financial assets

Financial assets are classified as measured at either amortised 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).

Business model evaluation

The Bank sets its business model at a level that best reflects how it manages groups of financial assets in order to achieve its business goals. The Bank's business model is not evaluated according to individual instruments, and at a higher level, i.e. at the aggregate portfolio level and is based on factors such as:

a) how the results of the business management model are evaluated and the financial assets held according to it, how they are reported to management;

(b) risks affecting the performance of the business model (and the financial assets held under that business model), in particular how those risks are managed; and

c) how the business managers are remunerated (for example, what is the remuneration based on - the fair value of the assets under management or the collected contractual cash flows);

(d) the expected frequency, value and timing of sales are also important aspects of valuation.

The assessment of the business management model is based on reasonably likely scenarios without regard to "worst case" or "stress case" scenarios. If cash flows after initial recognition are realized differently than the Bank's initial expectations, the Bank does not change the classification of the remaining financial assets in that business model, but takes such information into account when evaluating newly granted or newly acquired financial assets.

SPPI (solely payments of principal and interest) test

In the second stage of its grouping, the Bank evaluates the contractual terms of the financial assets to determine whether they meet the SPPI test. For a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, the cash flows arising from the financial asset must be solely payments of principal and interest (SPPI) on the outstanding principal amount. This assessment is called the SPPI test and is carried out for each financial instrument.

The principal amount is the fair value of the financial asset at the time of initial recognition. Interest is a reward for the time value of money, the credit risk associated with the outstanding principal amount over a period of time, and other principal lending risks and costs, as well as a profit margin.

For contractual terms that assume greater than de minimis risk or that result in contractual cash flows unrelated to interest payments on principal and outstanding principal, the financial asset must be measured at fair value through profit or loss.

Financial assets are recognized when the entity becomes a party to the contractual obligations of the financial instrument and are measured at fair value on initial recognition. Transaction costs are recognized at fair value on initial recognition, except for financial assets that are carried at fair value through profit or loss. The transaction costs of such assets are included in profit or loss immediately.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Transaction taxes on financial assets at fair value through profit or loss are recognized as an expense

in the income statement. Trade receivables without a significant financing component are measured on initial recognition at the transaction price.

Debt instruments

Subsequent measurement of debt instruments depends on the Bank's business model for managing financial assets and on the cash flow characteristics of the asset. All the Bank's debt instruments are classified in amortised cost measurement category. Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in financial income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other operating income/ expenses. Foreign exchange gains and losses and credit losses are recognised in profit or loss.

Tangible assets

Tangible assets are assets used for provision of services or administrative purposes over a period of more than one year.

Recognition and measurement

Items of property, plant, and equipment are carried at cost less accumulated depreciation and any impairment losses. The cost includes the purchase price and other costs directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. The cost of self-constructed assets includes the cost of materials, direct labour, an appropriate proportion of production overheads, and borrowing costs related to the acquisition, construction or production of qualifying assets. Where an item of property, plant, and equipment consists of significant parts that have different useful lives, the parts are accounted for as separate items of property, plant, and equipment and are assigned depreciation rates that correspond to their useful lives.

Subsequent costs

Parts of some items of property, plant, and equipment require replacement or renovation at certain intervals. Such costs are recognised in the carrying amount of an item of property, plant, and equipment when it is probable that future economic benefits associated with the parts of the item will flow to the Bank and the cost of the part of the item can be measured reliably. The carrying amount of any part that is replaced is derecognised. Under the recognition principle provided in the previous paragraph, the costs of the day-to-day servicing of an item are not recognised in the carrying amount of the item. Instead, such costs are expensed as incurred.

Depreciation

Depreciation is recognised as an expense on a straight-line basis over the estimated useful life of an item of property, plant, and equipment and its identifiable components. Land and construction in progress are not depreciated. Estimated useful lives, residual values and depreciation methods are reviewed annually. The effect of the changes is reflected in the reporting period and in subsequent periods.

Useful life by non-current asset groups (years):

- Computers and computer systems 3-5 years,

- Other property, plant, and equipment 4-6 years.

Intangible assets

Intangible assets (other than goodwill) are amortised on a straight-line basis over their estimated useful lives. Intangible assets are tested for impairment whenever there is any indication of impairment similarly to items of property, plant, and equipment.

Intangible assets comprise licences and software. Acquired licences are recognised at cost. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire the software and prepare it for use. Other acquired intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Impairment of assets

Financial assets

Impairment of financial assets is assessed in accordance with the requirements of IFRS 9 "Financial Instruments". Impairment claims are based on the expected credit loss method. The main principle of the expected credit loss model is to show a trend of deterioration or improvement in the credit quality of financial instruments. The expected credit loss model is applied to all financial assets carried at amortized cost, lease receivables and loan commitments. Expected credit losses (ECL) on financial assets carried at amortized cost and lease receivables are recognized in the expected credit loss accounts and form an integral part of the carrying amount of those assets in the statement of financial position. ECL reduces the total carrying amount of the asset. Expected credit losses on loan commitments and financial guarantees are presented as provisions, i. y. liabilities in the statement of financial position. The expected credit loss model includes a three-step approach, taking into account changes in credit risk.

Stage 1. Applies to all loans (positions) for which no significant increase in credit risk has been observed since initial recognition.

Stage 2. If there is a significant increase in credit risk.

Stage 3. Credit losses for the validity period apply. In the case of defaults, there are objective indications that they are impaired, such as delays in payment of 90 days or more, termination of the contract or other signs of insolvency (bankruptcy and liquidation, reorganization proceedings, death of the customer, etc.).

The calculation of expected credit losses (ECLs) is performed by two different approaches. For material exposures and exposures in the stage 3 individual ECL assesment is being done, for others exposures collectively one.

When collectively assessed method applied, PD is used as weighted average PD of the Bank's exposures portfolio for the reporting date and LGD is used as the last available statistical exposure weighted average LGD (%) – corporates: SME, Lithuania.

ECLs are calculated according to the formula:

PD x LGD x EAD = ECL

Where:

PD - probability of default - means the probability that a debtor will default on its financial obligation;

LGD - loss given default - means the proportion of losses that the Bank would incur in the event of a debtor's insolvency;

EAD - exposure at default - means the expected exposure amount in the event of default.

Loan losses over a 12-month period are losses that occur during the 12-month period after the reporting date, and life-long loan losses include losses that occur during the remaining term of the loan.

Estimated loan losses are discounted at the effective interest rate on the loan separately or by type of loan.

Rating of debtors and relationship with PD and rating of other credit positions

Before any loan is approved, the rating and PD of the Customer is being assessed. The rating consists of a systematic evaluation of the creditworthiness by the analysis of risk drivers for the respective Customer. The purpose of the creditworthiness assessment is to evaluate the possibilities for the Customer to perform the financial obligations assumed throughout the entire term of the agreement along with the other financial obligations already in place.

The Bank's assessment about a Customer is based on sufficient and reliable information. The Bank assess all objectively implied significant factors, considering the information and documents provided by the Customer and available to the Bank from official registers and/or information systems used for creditworthiness assessment, as well as other information available to the Bank that may affect the creditworthiness of the Customer, in particular credit history, potential changes (increase and decrease) in income. The Bank classifies Customer's credit risk in the following risk classes – from low risk to defaulted.

Estimation of expected credit losses - PD estimation, LGD estimation, EAD estimation

The Bank complies with impairment requirements as stated in IFRS 9 "Financial Instruments". The impairment requirements apply to financial assets measured at amortized cost and Fair Value through Other Comprehensive Income, irrevocable loan commitments and financial guarantee contracts. Calculation of provisions for expected credit losses (ECL) takes due account of existing factors and forward-looking information that may have effect on the recovery of the remaining cash flows:

- initial recognition (and Stage 1) a loss allowance (provisions) is made for ECL resulting from default events that are possible within the next 12 months (12-month ECL) or the maturity period (for loans with the maturity period shorter than 12 months);
- in the event of a significant increase in a credit risk (Stage 2) an allowance (provisions) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL);
- for credit-impaired exposures (Stage 3) the Bank continues to recognize the lifetime ECL.

For calculation of ECL the standard IFRS 9 based approach using PD, LGD, EAD is being applied. The lifetime ECL is estimated based on the probability-weighted present value of the difference between the contractual cash flows that are due under the contract and the cash flows that the Bank expects to receive. The Bank uses "going concern" vs. "gone concern" scenario to estimate the cash flows it is expected to collect. If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that significant increase in a credit risk is no longer met, the Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date. The assessment of a credit risk and the estimation of ECL are designed to be unbiased and probability-weighted and incorporates all available information relevant to the assessment, including information about past events, current

conditions and reasonable and supportable forecasts of economic conditions at the reporting date. ECL is being discounted to the reporting date, not to the expected default or some other date, using the effective interest rate determined at initial recognition or an approximation thereof. If a financial instrument has a variable interest rate, expected credit losses is being discounted using the current effective interest rate. The loan book is assessed for impairment on at least a quarterly basis. Credit impairment losses are reported as a deduction from the carrying value of the loan and recognized in the profit and loss. The Bank recognizes in profit or loss, as an impairment gain or loss, the amount of ECL (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with the Bank's regulation and IFRS 9. The Bank uses an individual approach to its customers: when exposure of the customer or exposures related to the group of connected customers exceeds material benchmark and when exposure is being accounted in Stage 3. Loans os impaired on an individual basis, based on their delinquency status, general economic situation of the customer/counterparty within the framework of current macroeconomic environment and anticipated future conditions. If exposure faces with material increase of credit risk, the allowance (provisions) exposure is being recalculated immediately, not waiting quarterly risk assessment. The Bank's models track impairment events on an ongoing basis. Impairment events include violation of the loan agreement, start of bankruptcy proceedings and other financial difficulties of the customer that have not materialized in missed payments yet. The Bank uses collectively assessed method to its customers which all exposures are not material and accounted in Stage 1 and Stage 2. For collectively assessed method PD is being used as weighted average PD of the Banks exposures portfolio for the reporting date, LGD is being used as the last available statistical exposure weighted average LGD (%) – corporates: SME, Lithuania (https://www.eba.europa.eu/risk-analysis-and-data/risk-dashboard). For the purposes of measuring ECL, the estimate of expected cash shortfalls also reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognized separately by the Bank. The estimate of expected cash shortfalls on a collateralized financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable. Consequently, any cash flows that are expected from the realization of the collateral beyond the contractual maturity of the contract is being included in this analysis. Any collateral obtained as a result of foreclosure is not recognized as an asset that is separate from the collateralized financial instrument unless it meets the relevant recognition criteria for an asset.

Determination of significant increase in credit risk; loss events

The Bank considers that performing exposures are with a significant increase in a credit risk when they satisfy any of the following criteria:

- Exposures which are more than 30 days but not exceed 90 days past due;
- Probability of default (PD) has increased more than some benchmark in percentage points (pp) from the moment of loan origination;
- Same instrument is being forborne one time, e. g. there was forbearance measures applied;
- Decreasing sales turnover more than some benchmark;
- Diminishing EBITDA more than some benchmark;
- Suffered loss;
- Negative equity;
- Any other qualitative or quantitative criteria that shows deterioration of the customers business – financial status.

Reversal of impairment

If the cause of the impairment disappears, the previously recognized impairment loss is reversed. Impairment losses are reversed and the value of the asset is increased to the maximum carrying amount that would have been determined had the asset not been written down, including interim depreciation. The reversal of an impairment loss is recognized in the income statement on the same line as the previous impairment loss. Impairment of goodwill is not reversed. If the fair value of a debt instrument classified as available for sale increases and the increase may be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, and the reversal is recognized in profit or loss.

Financial liabilities

All financial liabilities of the Company are classified as "other financial liabilities at amortised cost". Financial liabilities are classified as current when they are due to be settled within 12 months after the balance sheet date unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Liabilities with due dates longer than one year from the date of the statement of financial position are disclosed in the statement of financial position as non-current liabilities.

Deposits

Deposits from customers are initially recorded on their settlement date at their fair value less transaction costs and are subsequently measured at amortised cost using effective interest method in the statement of financial position line Deposits from public and accrued interests. Accrued interest liabilities are included in the same line. Interest expense is recognised in the statement of profit or loss line Interest expense on the accrual basis.

Loans and borrowings

Loans and borrowings and similar subordinated loans are initially recognised at fair value less direct transaction costs. Subsequently, loans are recognised at amortised cost using the effective interest rate.

Trade payables

Trade payables are initially recognised at fair value less direct transaction costs and they are subsequently measured at amortised cost using the effective interest rate.

Income tax and deferred tax

Income tax comprises current and deferred income tax. Income tax for the reporting period is calculated based on the taxable results for that period. Deferred income tax arises from temporary differences between the tax bases of assets and liabilities and their carrying amounts. Current income tax and deferred income tax are generally recognized in the income statement. However, income taxes relating to items that are recognized in other comprehensive income are recognized in other comprehensive income. Deferred income tax assets are recognized in the statement of financial position to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilized.

Deferred tax assets are recognized in the statement of financial position to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. If it is probable that part of the deferred income tax will not be realized, this part of the deferred tax is not recognized in the financial statements.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Contingent liabilities

Significant commitments and other obligations which may transform into a liability subject to the occurrence of certain future events are disclosed in the notes to the financial statements as contingent liabilities.

Share capital

The amount of the authorized capital is equal to the sum of the nominal values of all the company's subscribed shares. Only the nominal value of shares is recorded in the authorized capital account. Share capital is recorded in the statement of financial position at its subscribed value.

Capital reserve

According to the laws of the Republic of Lithuania, the statutory reserve is a mandatory reserve. At least 5 per cent of the net profit must be transferred to the statutory reserve each year until the statutory reserve reaches 10 per cent of the share capital. In order to transfer the part of net profit to statutory reserve, the retained earnings must be in total positive. This reserve cannot be distributed and can only be used to cover accumulated losses.

Income recognition

Interest income

The Company's principal income is interest income from lending activities.

Interest income and interest expense are recognized in the income statement for financial assets and liabilities carried at amortized cost using the effective interest method.

The effective interest method is a method of calculating the total carrying amount of a financial asset or the amortized cost of a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future payments or receipts through the expected life of the financial instrument to the carrying amount of the financial instrument. In calculating future payments, all cash flows are estimated on the basis of the terms of the contract (for example, prepayments).

The calculation of the effective interest rate includes taxes that are an integral part of the effective interest rate. However, future credit losses are not considered.

If a financial asset subsequently shows signs of impairment, interest income is recognized by applying the effective interest rate to the adjusted acquisition cost, i.e. the gross residual value is reduced. If a financial asset shows signs of impairment on initial recognition, expected credit losses are included in the estimated cash flows to calculate the adjusted effective interest rate that is subsequently applied to the recognition of interest income.

Contract fee income

Commission income includes sales revenue from contracts with customers. This does not apply to rental income and financial instruments or other contractual obligations that are within the scope of IFRS 9 Financial Instruments. Fees that are considered in calculating the effective interest rate of a financial instrument carried at amortized cost, such as loan fees, are allocated over the expected life of the instrument using the effective interest method and are recognized in 'Net interest income'. Revenue from fees and commissions is recognized based on the manner in which the services are provided to customers and the amount that reflects the consideration that the enterprise expects to receive for those services. Fee and commission income is recognized on a straight-line basis over the term of the contract if the customer receives and uses the company's services at that time. Other tax revenue is recognized when the Company has settled its obligation. The fee received or receivable reflects the transaction price for specific service obligation services.

Related parties

In preparing the financial statements, the following entities have been considered related parties:

- owners that have significant impact and the entities related to them;
- members of the management board and legal entities controlled by them;
- close relatives of the persons mentioned above, and the entities related to them.

Share-Based Payments

The parent company of the Bank, Finora Group AS has established a share-based payment option program, under which the Group issues options to employees to buy shares of Finora Group AS in return for their services. The fair value of options issued is recognized as an expense over the term of the option program as an increase in the labour costs and an increase in equity (other reserves). The total cost is determined by the fair value of the options at the time the options are issued. The fair value of the options is found based on actual transactions with the shares. At the end of each reporting period, the Group assesses how many options are likely to be exercisable. Changes compared to initial estimates are recognized in the statement of profit or loss and with a correspondent adjustment to equity. When the options are exercised, Finora Group AS will issue new shares. According to the terms and conditions of the share options, there are no social tax expenses when exercising options after 3 years.

Events after the reporting period

The financial statements of the reporting period include material circumstances affecting the assessment of assets and liabilities that became evident between the balance sheet date and the date of preparing the financial statements but that are related to transactions in the reporting period or previous periods.

The financial statements of the Bank are prepared in accordance with the principles of consistency and comparability, which means that the same accounting policies and presentation methods are continuously applied. Any changes in the accounting policies or presentation methods are only made upon the adoption or amendment of new IFRS standards or interpretations or if the new accounting policy or presentation method provides a more objective overview of the financial position, financial results, and cash flows of the company.

3. Significant management estimates and assumptions

Consistent with IFRS, management makes estimates and assumptions which affect the amounts reported in the financial statements. Although the estimates are based on management's best knowledge and judgement, actual outcomes may differ from these estimates. Management's estimates have been applied in the valuation of loans (please see Risk Management section) and the determination of the useful lives of tangible and intangible assets and impairment (Notes 4,5).

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Changes in management's estimates are recognised prospectively. The most significant estimates and assumptions are related to IFRS 9, namely the criteria for a significant increase in credit risk (SICR), the calculation of probability of default (PD) and loss given default (LGD), the business model and solely payments of principal and interest (SPPI) assessment for the classification of financial assets. Please see more information in the 'Risk management' section. When calculating expected credit losses (ECLs) there are a number of key concepts that require a high level of judgement. Estimation of ECLs is, by nature, uncertain and the accuracy of the estimates depend on many factors, e.g., macroeconomic forecasts and involves complex modelling and judgements. The assessment of SICR is a concept under IFRS 9 and requires significant judgement. At the end of each reporting period the Bank performs an assessment of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument, using key risk indicators that are used in the Bank's existing risk management processes.

Another area requiring significant judgement is the incorporation of forward-looking information and macroeconomic scenarios. IFRS 9 requires an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Bank uses internally developed macroeconomic forecasts as the basis for the forward-looking information in the ECL measurement. Bank uses both models and judgements based on the input of experts to determine ECLs. The objective of making judgements based on the input of experts is to incorporate the estimated impact of factors not captured in the modelled ECL. The degree of judgement that is required to estimate ECLs depends on the outcome of the calculations, materiality, and the availability of detailed information. The models, assessments and assumptions are regularly reviewed by the risk organisation.

Useful lives of tangible and intangible assets is determined based on the actual period of using the asset as estimated by the management. Management reviews the useful lives of tangible and intangible assets on yearly basis at minimum. For further details refer to Note and accounting principles for tangible and intangible assets.

At each balance sheet date, the Bank's management board assesses critically whether there is any indication that an asset may be impaired. If any such indication exists, an impairment test is performed. If an impairment test cannot be performed in respect of an individual asset because the cash flows generated by the given asset cannot be distinguished from the remaining cash flows of the company, the impairment test is performed in respect of the cash-generating unit to which the asset belongs. An impairment test is performed to determine the recoverable amount of an asset, which is the higher of the two indicators – fair value of an asset (less costs to sell) and its value in use. For estimating an asset's value in

use, a realistic estimate is prepared for the cash flows to be derived from the use of the asset in subsequent periods and the present value of these cash flows is calculated. The budgets or forecasts approved by the management for subsequent periods (generally no longer than five years) are used as the basis for the cash flow estimate. The cash flows of the periods beyond those covered by the budgets and forecasts approved by the management are estimated by applying realistic growth rates to current budgets or estimates.

4. Fair value disclosure

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The value of short-term liquid financial instruments, such as cash and cash equivalents, and receivables with a maximum maturity of one month are deemed equal to their carrying amount in the balance sheet. The value of trade and other payables with credit risk adjustment is also approximately equal to their carrying amount.

On the basis of the general principles, financial assets are broken down into three levels:

Level 1 – quoted prices in an active and liquid market.

Level 2 – valuation based on market observables (values and interest levels of arm's length transactions);

Level 3 – other methods (e.g. discounted cash flow method) with estimations as input.

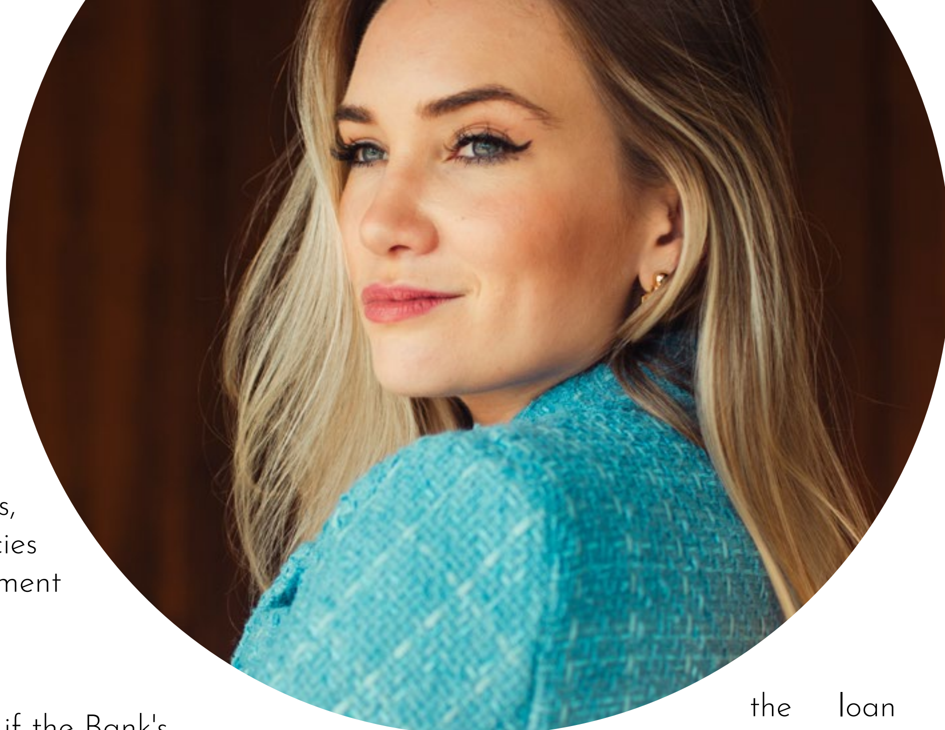
Amortizised cost at the fair value of financial assets and liabilities has been determined in accordance with Level 3 principles, where the inputs to the assets or liabilities are not based on observable market data; except for cash and cash equivalents, the fair value of which has been determined in accordance with Level 1 principles. The fair value of financial investments carried at fair value has been determined in accordance with Level 3 principles - based on the values of similar transactions.

in EUR 31 Dec 22	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets at fair value					
Investments into bonds	158 990	0	0	158 990	158 990
Total financial assets at fair value	**158 990**	**0**	**0**	**158 990**	**158 990**
Financial assets at amortized cost					
Cash in bank	3 056 833	0	0	3 056 833	3 056 833
Loan receivables	0	0	6 904 387	6 904 387	6 904 387
Other receivables and prepayments	0	0	45 606	45 606	45 606
Total financial assets at amortized cost	**3 056 833**	**0**	**6 949 993**	**10 006 826**	**10 006 826**
Financial liabilities at amortized cost					
Deposits from public and accrued interest	0	0	3 248 719	3 248 719	3 248 719
Loan liabilities	0	0	3 589 179	3 589 179	3 589 179
Payables and prepayments	0	0	343 933	343 933	343 933
Subordinated loans	0	0	1 010 000	1 010 000	1 010 000
Total financial liabilities at amortized cost	**0**	**0**	**8 191 831**	**8 191 831**	**8 191 831**

in EUR 31 Dec 21	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets at amortized cost					
Cash in bank	144 602	0	0	144 602	144 602
Loan receivables	0	0	7 180 403	7 180 403	7 180 403
Other receivables and prepayments	0	0	60 037	60 037	60 037
Total financial assets at amortized cost	**144 602**	**0**	**7 240 440**	**7 385 042**	**7 385 042**
Financial liabilities at amortized cost					
Loan liabilities	0	0	4 818 095	4 818 095	4 818 095
Payables and prepayments	0	0	504 935	504 935	504 935
Total financial liabilities at amortized cost	**0**	**0**	**5 323 030**	**5 323 030**	**5 323 030**

For the term structure of financial assets and financial liabilities, please refer to the 'Risk management' section.

5. Risk management



The Bank faces with various risks. There is being provided information about each of the Bank's major risks, risk assessment objectives, policies and risk assessment and management processes.

Credit risk

Credit risk is the risk of financial loss if the Bank's customers fail to meet their contractual obligations to the Bank. Credit risk arises primarily from loans to customers, including outstanding loans, leasing, factoring and guarantees issued. Credit risk is one of the most important risks, so management thoroughly assesses exposures that are subject to credit risk. The Bank aims to maintain a well-diversified portfolio of loans, factoring, leasing and guarantees with acceptable risk.

The purpose of credit risk management is to limit the impact of credit risk on the Bank's income to an acceptable level and to try to optimize the risk-return ratio. This maximizes risk-adjusted profitability while maintaining acceptable credit risk parameters. The credit risk management process consists of the initial identification of a particular risk, risk assessment, risk management and subsequent monitoring and reporting.

The determination of credit risk is based on the sources of this risk, i.e. variuos loans, leasing and real estate loans, each of which has its own level of risk and the factors influencing it, which are linked and quantified at this stage.

Credit risk assessment includes the assessment of solvency and willingness to pay for a loan or other financial product, collateral and loan terms. In the assessment, customers are divided into different risk categories from low to high to defaulted.

The principles of lending, decision-making and loan analysis, as well as the overall quality of the loan process, are important in credit risk management. The Bank uses loan customer rating model in making credit decisions for selected customers. The Bank manages the credit risk of the entire loan portfolio and individual loans. Credit risk management also takes into account the relationship between this risk and other significant risks.

Maximum credit risk exposure

The following table presents the Bank´s maximum credit risk exposure before taking account of any collateral held. For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount.

in EUR	31 Dec 2021	31 Dec 2022
Cash in bank	144 602	3 056 833
Investments into bonds	0	158 990
Loan receivables	7 180 403	6 904 387
Other receivables and prepayments	60 037	45 606
Total financial assets	**7 385 042**	**10 165 816**

Distribution by internal credit risk rating

The table below shows the credit quality of financial instruments. The amounts are distributed by internal credit risk rating and stage.

in EUR					
Internal risk grade	**PD,%**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Low	<0.56	298 993	0	0	298 992
Medium	>0.56-1.43	3 490 238	44 987	0	3 535 226
Increased	>1.43-3.7	2 157 873	62 896	0	2 220 769
High	>3.7-99.99	319 871	215 663	313 866	849 400
Default	100	0	0	0	0
Total		**6 266 975**	**323 546**	**313 866**	**6 904 387**

The data for 31 December 2021 is not presented as the Company was not a bank then.

Concentration risk

Concentration risk is defined as an increase in the level of risk of exposures to counterparties in the same economic sector or to counterparties located in the same geographical area. The Bank assesses and manages concentration risk by setting limits and monitoring the current situation.

Breakdown of loans geographically and by industry sectors

Geographically: As at 31 December 2022 93% of loans are to Lithuanian customers and 7% to Estonian customers.

By industry sectors as at 31 December 2022:

in EUR	Gross carrying amount	Accumulated impairment	Amortized cost
Wholesale and retail trade	2 265 000	(87 000)	2 178 000
Transport and storage	1 320 000	(27 000)	1 293 000
Construction	1 284 000	(72 000)	1 212 000
Manufacturing	790 000	(12 000)	778 000
Human health services and social work activities	316 000	(1 000)	315 000
Administrative and support service activities	294 000	(14 000)	280 000
Professional, scientific and technical activities	287 000	(22 000)	265 000
Accommodation and food service activities	178 000	(5 000)	173 000
Information and communication	121 000	(1 000)	120 000
Real estate activities	89 000	(2 000)	87 000
Agriculture, forestry and fishing	66 000	(1 000)	65 000
Arts, entertainment and recreation	9 000	(1)	8 999
Other	130 184	(796)	129 388
LOANS AND ADVANCES	**7 149 184**	**(244 797)**	**6 904 387**

The data for 31 December 2021 is not presented as the Company was not a bank then.

Company credit risk related to financial instruments:

in EUR	31 Dec 2022	Stage 1	Stage 2	Stage 3
Business loan with collateral	**2 540 210**	2 114 194	0	426 015
Expected credit losses	**(13 014)**	(7 023)	0	(5 991)
Leasing for business	**1 321 142**	1 031 516	62 165	227 462
Expected credit losses	**(18 070)**	(4 677)	(554)	(12 839)
Microloan for business	**3 287 832**	2 353 352	218 775	715 705
Expected credit losses	**(213 713)**	(20 272)	(1 826)	(191 615)
Total book value of loans	**7 149 184**	**5 499 062**	**280 940**	**1 369 182**
Total expected credit losses	**(244 797)**	**(31 972)**	**(2 380)**	**(210 445)**
Total loans at amortized costs	**6 904 387**	**5 467 090**	**278 560**	**1 158 737**

in EUR	31 Dec 2021	Stage 1	Stage 2	Stage 3
Business loan with collateral	**1 685 089**	1 685 089	0	0
Expected credit losses	**(12 309)**	(12 309)	0	0
Leasing for business	**761 228**	732 502	8 834	19 892
Expected credit losses	**(10 857)**	(5 301)	(65)	(5 491)
Microloan for business	**4 834 150**	4 593 586	114 329	126 235
Expected credit losses	**(76 898)**	(33 364)	(841)	(42 693)
Total book value of loans	**7 280 467**	**7 011 177**	**123 163**	**146 127**
Total expected credit losses	**(100 064)**	**(50 974)**	**(906)**	**(48 184)**
Total loans at amortized costs	**7 180 403**	**6 960 203**	**122 257**	**97 943**

Collaterals and financial guarantees:

in EUR	Loans collateralized by immovable property			
31 Dec 2022	Residential immovable property	Commercial immovable property	Other collatera-lised loans	Financial guarantees received
Loans and advances	**688 000**	**1 434 000**	**1 092 000**	**3 521 000**
of which: non-performing	106 000	0	0	206 000
of which: Non-financial corporations	688 000	1 434 000	1 047 000	3 521 000
of which: Small and Medium-sized Enterprises	688 000	1 434 000	1 047 000	3 521 000
of which: Households	0	0	45 000	0

The data for 31 December 2021 is not presented as the Company was not a bank then.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its future obligations in a timely or complete manner. Important liquidity risk sub-risks are payment risk and funding risk. Payment risk is the risk that the Bank will not be able to meet its obligations in a timely manner without incurring significant costs. Financing risk is the risk that the Bank will not be able to raise sufficient resources without affecting its day-to-day operations or financial condition. The overall objective of liquidity risk management is to ensure that the Bank has sufficient cash and liquid assets to meet its financial obligations on time and to increase its loan portfolio. In managing liquidity risk, the Bank monitors that there is always sufficient liquidity reserves to cover loans and other contingent liabilities.

Maturity breakdown of financial assets and liabilities (undiscounted cash flows):

in EUR	31 Dec 22	within 12 months	1-5 years	over 5 years
Financial assets				
Cash	3 056 833	3 056 833	0	0
Investments into bonds	158 990	158 990	0	0
Loan receivables	6 904 387	4 256 186	2 648 201	0
Other receivables and prepayments	45 606	45 606	0	0
Total financial assets	**10 165 816**	**7 517 615**	**2 648 201**	**0**
Financial liabilities				
Deposits from public and accrued interest	3 248 719	699 281	2 549 438	0
Other loan liabilities	3 589 179	10 179	3 579 000	0
Subordinated loan	1 010 000	10 000	0	1 000 000
Payables to group companies	19 206	19 206	0	0
Payables and prepayments	324 727	324 727	0	0
Total financial liabilities	**8 191 831**	**1 063 393**	**6 128 438**	**0**
Duration gap of financial assets and financial liabilities	**1 973 985**	**6 454 222**	**(3 480 237)**	**(1 000 000)**

in EUR	31 Dec 21	within 12 months	1-5 years	over 5 years
Financial assets				
Cash	144 602	144 602	0	0
Loan receivables	7 180 403	4 046 342	3 134 061	0
Receivables from group companies	2 350	2 350	0	0
Other receivables and prepayments	57 687	57 687	0	0
Total financial assets	**7 385 042**	**4 250 981**	**3 134 061**	**0**
Financial liabilities				
Other loan liabilities	4 818 095	10 927	0	4 807 168
Payables and prepayments	43 078	43 078	0	0
Total financial liabilities	**5 315 133**	**157 965**	**350 000**	**4 807 168**
Duration gap of financial assets and financial liabilities	**2 069 909**	**4 093 016**	**2 784 061**	**(4 807 168)**

Interest rate risk

Interest rate risk is the mismatch between assets and liabilities due to changes in interest rates, as well as the probability that the current value of financial instruments will change in a negative direction due to current changes. The purpose of monitoring and managing interest rate risk is to assess the profitability of the Bank's interest-enhancing products, to forecast future profits and to avoid a significant decrease in profitability due to changes in interest rates. Loans granted by the Bank have a fixed or variable interest rate, and financial liabilities are usually with a fixed interest rate, for long-term period variable interest rate for loan usually is being applied and based on EURIBOR, for short term period fixed interest rate could be applied. The Bank's management analyzes the market situation and avoids a possible pricing situation for loan products, where an increase in interest expenses would have a decisive impact on the financial results.

Operational risk

Operational risk is the potential loss resulting from the failure or inefficiency of people, processes or information systems. These risks include reputational and legal risks, but not strategic and business risks, which are assessed separately. Legal risk is the risk that an obligated party will default on its obligations. Reputation risk is a negative public focus on the Bank and its business, regardless of its reality, which reduces the customer base, reduces revenue and increases legal costs.

To reduce operational risk, the Bank defines and documents all important business processes, defining tasks and responsibilities in accordance with strict rules, and continuously improving information systems.

Prevention of money laundering

Anti Money laundering and terrorist financing risk

Anti money laundering and counter terrorist financing (AML/CTF) risk is the risk that the Bank's products will be used for money laundering or terrorist financing, which may include reputational or compliance risks. Reputational risk is the risk that actual or suspected involvement in money laundering or terrorist financing will

have a material effect on the Bank's financial performance, which will also give rise to compliance risk. Compliance risk is the risk that the Bank will not be able to comply with the rules established for the prevention of money laundering and terrorist financing. To prevent this, the Bank's management monitors the compliance of economic activities, customers profiles with the established rules and the adequacy of internal procedures and control systems. The Bank's business model is also based on principles that mitigate this risk.

Market risk

Market risk is the risk of losses caused by adverse movements in market prices, including the market prices of foreign currencies, interest rates, and securities. Market risk arises from items accounted for on and off the statement of financial position and can arise from both banking and trading book positions. The purpose of market risk management in the Bank is to correctly identify and quantify market risk and ensure that risk-conscious decisions are taken on market risk. Although market risks are, as a rule, material for companies operating in the field of credit, the Bank has assessed the share of this risk currently as low because it has no assets and liabilities directly exposed to market risks. The Bank only operates in euros, does not have securities and interest are fixed. The exposure to market risk is constantly in focus and valued.

Sensitivity analyses

Every 100 bps increase in interest rates will increase Banks interest income by 70 thousand EUR within the first 12 months. An equivalent interest rate decrease will reduce interest income by 70 thousand EUR.

6. Notes to the financial statements

NOTE 1. Cash in other commercial banks, in EUR

	31 Dec 2022	31 Dec 2021
Cash in other commercial banks	3 056 833	144 602
TOTAL	**3 056 833**	**144 602**

The bank did not have to hold mandatory minimum reserve in Central Bank as at 31 December 2022. This obligation rises when the Bank has 10 million EUR in deposits with maturity of 2 years.

NOTE 2. Loan receivables, in EUR

		Allocation by remaining maturity		
	31 Dec 22	within 12 months	1-5 years	over 5 years
Business loan with collateral	**2 540 210**	1 155 341	1 384 869	0
Expected credit losses	**(13 014)**	(13 014)	0	0
Leasing for business	**1 321 142**	416 565	904 577	0
Expected credit losses	**(18 070)**	(18 070)	0	0
Microloan for business	**3 287 832**	2 929 077	358 755	0
Expected credit losses	**(213 713)**	(213 713)	0	0
Total loans at amortized costs	**6 904 387**	**4 256 186**	**2 648 201**	**0**

		Allocation by remaining maturity		
	31 Dec 21	within 12 months	1-5 years	over 5 years
Business loan with collateral	**1 685 089**	657 430	1 027 659	0
Expected credit losses	**(12 309)**	(12 309)	0	0
Leasing for business	**761 228**	209 929	551 299	0
Expected credit losses	**(10 857)**	(10 857)	0	0
Microloan for company	**4 834 150**	3 279 047	1 555 103	0
Expected credit losses	**(76 898)**	(76 898)	0	0
Total loans at amortized costs	**7 180 403**	**4 046 342**	**3 134 061**	**0**

Loan allowances	2022	2021
Balance at the beginning of the reporting period	100 064	19 151
Loss allowances during the reporting period*	144 734	80 913
Balance of allowance at the end of the reporting period	244 797	100 064

*In 2022 income statement the amount of loan allowance during the reporting period is 145 390 EUR as it includes allowance of bonds in the amount of 656 EUR. In this note only allowance related to loans are presented.

NOTE 3. Investments into bonds, in EUR

	Purchase date	Maturity date	Purchase price	Quantity	Balance at start	Expected credit losses	Amortized costs
Latvian Government Bonds, 0,25%	24 Oct 2022	12 May 2023	992,54	10	9 925	(40)	9 885
Lithuanian Government Bonds, 0,7%	28 Dec 2022	23 August 2024	97,22	1 540	149 721	(616)	149 105
					159 646	**(656)**	**158 990**

Note 4. Intangible assets, in EUR

	The cost of license	Software	Total
Cost	81 616	5 388	87 004
Accumulated amortization	0	(1 697)	(1 697)
Carrying amount 31 Dec 2020	**81 616**	**3 691**	**85 307**
During 2021			
Additions	128 306	0	128 306
Amortization	0	(1 347)	(1 347)
Cost	209 922	5 388	215 310
Accumulated amortization	0	(3 044)	(3 044)
Carrying amount 31 Dec 2021	**209 922**	**2 344**	**212 266**
During 2022			
Additions	161 052	164 713	325 765
Amortization	(9 274)	(5 486)	(14 761)
Cost	370 973	170 101	541 075
Accumulated amortization	(9 274)	(8 530)	(17 805)
Carrying amount 31 Dec 2022	**361 699**	**161 570**	**523 270**

NOTE 5. Tangible assets, in EUR

	Computers and IT systems	Other equipment	Total
Cost	2 218	1 260	3 478
Accumulated depreciation	0	(193)	(193)
Carrying amount 31 Dec 2020	**2 218**	**1 067**	**3 285**
During 2021			
Depreciation	(738)	(210)	(948)
Cost	2 218	1 260	3 478
Accumulated depreciation	(738)	(403)	(1 141)
Carrying amount 31 Dec 2021	**1 480**	**857**	**2 337**
During 2022			
Additions and improvements	17 150	7 052	24 202
Depreciation	(2 594)	(893)	(3 487)
Cost	19 368	8 312	27 680
Accumulated depreciation	(3 332)	(1 296)	(4 629)
Carrying amount 31 Dec 2022	**16 036**	**7 016**	**23 052**

NOTE 6. Other assets, in EUR

	31 Dec 2022	31 Dec 2021
Accrued income and deferred charges	29 011	54 144
Advance payments	16 595	3 543
Total other assets	**45 606**	**57 687**

NOTE 7. Other liabilities, in EUR

	31 Dec 2022	31 Dec 2021
Trade payables and advances received	84 398	42 280
Prepaid service fees received	62 917	58 662
Payables to employees	76 305	14 986
Vacation reserve	25 822	13 106
Tax liabilities	57 498	14 029
Accrued expenses	17 787	7 365
Total	**324 727**	**150 428**

NOTE 8. Other loan liabilities, in EUR

	31 Dec 2022	31 Dec 2021
Loan received (INVEGA)	3 579 000	4 807 168
Accrued interests	10 179	10 927
Total	**3 589 179**	**4 818 095**

Future receivables from loan contracts, that were financed from credit facility were granted by „Investicijų ir Verslo Garantijos" UAB under the implementation of the incentive financial instrument "ALTERNATYVA", and specifically dedicated bank account are pledged to „Investicijų ir Verslo Garantijos" UAB. Loan repayment term is 31 December 2027, interest rate is 1%. Loan is in EUR. The internal interest rate does not differ significantly from the contractual interest rate. The loan is secured both by the bank account of the Bank linked to the loan and by loans granted under this measure.

NOTE 9. Deposits from public and accrued interests, in EUR

The Bank started obtaining deposits in December 2022. As of 31 December 2022, all deposits were term-deposits and from private individuals. The nominal interest rates of most deposits from customers equal their effective interest rates as no other significant fees have been paid. Customer deposits are all in euros and received through the Raisin platform from Germany. The average interest rate was 3,27%. The distribution of customer deposits by term is as follows:

Term	31 Dec 2022	31 Dec 2021
1 year	699 281	0
2 years	2 145 278	0
3 years	404 160	0
Total	**3 248 719**	**0**

NOTE 10. Subordinated loans, in EUR

In summer 2022, subordinated loans were received in the total amount of 1 million euros. The balance of subordinated loan obligations as of 31 December 2022 was 1 million euros, the interest rate is 12% and the maturity date is in seven years, in June 2029. The subordinated loans were issued in euros. All subordinated loans were paid in in cash, there were no non-cash movements.

The Bank has raised subordinated loan to increase long-term capital. In the case of default of the Bank, the subordinated loan is repayable after all other debts have been settled, but before debts to shareholders are paid. Subordinated loan is part of Tier 2 capital and approved by Regulator.

Interest expenses on subordinated loans for reporting period and accrued interest liabilities as at the end of reporting period is disclosed in the table below. Interest liabilities are accounted in the statement of financial position using the effective interest rate. The nominal interest rate of subordinated loans equal their effective interest rates as no other fees have been paid. Interest is paid monthly.

	Sum
Accrued interest on subordinated loans as at 01 Jan 2022	**0**
Interest calculated for 2022	62 320
Interest paid during 2022	52 320
Accrued interest on subordinated loans as at 31 Dec 2022	**10 000**

NOTE 11. Interest income based on the effective interest rate, in EUR

	2022	2021
Interest income by country		
Lithuania	658 183	436 738
Estonia	974	15 577
Interest income total	**659 157**	**452 315**

	2022	2021
Interest income by product		
Interests for business loans	383 292	275 400
Interests for collateralized loans	181 470	135 243
Interests for business leasing	94 395	41 672
Interest income total	**659 157**	**452 315**

NOTE 12. Interest expenses, in EUR

	2022	2021
Interests for subordinated loans	62 320	0
Interests for other loans	53 798	31 467
Interests for deposits	2 285	0
Total interest expenses	**118 403**	**31 467**

NOTE 13. Labour costs, in EUR

	2022	2021
Salary costs	443 445	142 198
Management remuneration	70 529	0
Vacation reserve	13 063	6 618
Social security costs	32 755	3 066
Options	2 974	0
Total	**562 766**	**151 882**

NOTE 14. Other operating expenses, in EUR

	2022	2021
Advertising and marketing costs	72 482	15 294
Office expenses	63 406	9 642
IT services costs	57 946	24 773
Banking account fees	25 494	0
Recruitment fees	17 298	0
Accounting services and audit costs	15 246	6 600
Legal costs	8 525	1 295
Other costs	69 710	27 328
Total	**330 107**	**84 932**

NOTE 15. Deferred tax assets, in EUR

The tax on Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2022	2021
Profit (loss) before tax	(459 282)	129 185
Tax calculated at a tax rate of 15%		19 378
Income not subject for tax	-	(4 254)
Expenses not deductible for tax purposes	-	11 195
Influence of previous year's operating loss deduction	-	(18 423)
Income tax expenses	**-**	**7 896**

Standard income tax rate in Lithuania is 15 per cent. Starting from 1 January 2020, additional 5 per cent income tax rate is applied for credit institutions in Lithuania. For Finora Bank it was not applied in 2021 as the Company was not a bank yet. It will apply when the bank earns profit now as the Company is the bank.

Calculation of Deferred tax asssets:

	2022	2021
Accumulated tax losses	64 892	596
Holiday reserve	4 006	1 966
Total deferred tax assets	**68 898**	**2 596**
Less: Deferred tax assets after valuation	(68 898)	(2 596)
Total net deferred tax assets	**0**	**0**

NOTE 16. Related parties

Finora Group AS, 100% parent company

	Amounts receivable	Loans granted	Amounts payable	Received loans
31 Dec 2022	**0**	**0**	**19 206**	**0**
31 Dec 2021	**2 350**	**0**	**0**	**354 507**
	Interest and fee income	**Interest expenses**		
2022	**500**	**7 624**		

Members of the governing bodies received management and governing body fees in the amount of 40 thousand EUR (gross plus other taxes) in 2022.

In 2022, 17 100 share options were issued to members of the management board (9 600 options) and key managers and employees (7 500 options) of the Bank. In 2022, the related stock options were not exercised nor cancelled. In addition 11 500 options were issued from parent company to the shareholders of Finora Group AS from whom one is also a member of the Supervisory board of the Bank (8 000 options) and other is a member of the audit committee (3 500 options) (both recorded only in the accounts of parent company).

For subordinated loans see the Note 10.

NOTE 17. Contingent liabilities

	31 Dec 2022	31 Dec 2021
Contractual obligation to pay loans	214 000	200 000

NOTE 18. Share capital and other reserves

31 Dec 2022	Number of shares	Nominal value	Amount
Ordinary shares	3 000 000	1	3 000 000
Total	**3 000 000**	**1**	**3 000 000**
31 Dec 2021	**Number of shares**	**Nominal value**	**Amount**
Ordinary shares	2 300 000	1	2 300 000
Total	**2 300 000**	**1**	**2 300 000**

The share capital increase in 2022 was fully paid in cash. The company has not acquired and does not own any own shares.

Since 2022 The bank´s parent company Finora Group AS is granting share options to members of management board, managers, and key employees. Vesting period of the options is 3 years and issue of shares will be decided on the Annual General Meeting of Shareholders or Meeting of the Shareholders close to the vesting date.

Reserve of options granted as of 31 December 2022 amounted to 2 794 euros. Related expenses in statement of profit and loss in 2022 were also 2 794 euros. The fair value of options is calculated with Black-Scholes model, which uses the share price of the Group, volatility and risk-free interest rate as inputs. Employees do not have the possibility to take the specified amount in cash in lieu of the share options. Share options cannot be exchanged, sold, pledged or encumbered. Share options can be inherited. The contract of share options will expire if employee is leaving the company before vesting period, but the Supervisory Board can decide otherwise.

Options outstanding as of 31 December 2022:

Date of issue	Expiry date	Share price	Number of options
December 2022	December 2025	32.6	17 100

NOTE 19. Proposal of the board for distribution of profit (loss)

	in EUR
Previous financial year retained earnings (loss) in the end of the year	**(23 385)**
Net profit (loss) of the reporting year	(459 282)
Distributable profit (loss)	(482 667)
Transfers from/to reserves	0
Distributable profit (loss)	**(482 667)**
Profit distribution:	
- Part of profit allocated to compulsory reserve	0
- Part of profit allocated for dividends payment	0
Retained earnings (loss) for the financial year carried forward to the next financial year	**(482 667)**

These financial statements were signed and approved on 24 March 2023.

Aurelijus Sveikauskas CEO

/signed digitally/

Jolanta Zutautiene Chief Accountant

/signed digitally/

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