FINORA BANK UAB ANNUAL REPORT 2023

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CONTENTS

INFORMATION ABOUT THE BANK

Accounting period covered by the financial statements

1 of January 2023 to 31 December 2023.

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 Ieva Dosinaitė Rein Ojavere**
Members of the Management Board	**Šarunas Ruzgys 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.

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 statement of financial position as at December 31, 2023, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and International financial reporting Standards, adopted by European Union.

Basis for Opinion

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

Key Audit Matters

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

Expected credit losses of loan receivables

Please refer to Paragraph "Impairment of financial asset" of Section 2 "Material accounting policies", Paragraph "Credit risk" of Section 5 "Risk management", and Note 3 "Loan receivables", on pages 33-36, 43-49 and 54, respectively.

As at 31 December 2023, expected credit losses for loans reported in the Bank's statement of financial position amounted to EUR 529 thousand (see Note 3).

The Bank's credit loss allowances for loans in the statement of profit or loss and other comprehensive income for the year ended 31 December 2023 amounted to EUR 285 thousand (Note 3).

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

Impairment allowances for performing exposures (amounts below EUR 100 thousand in Stage 1 and Stage 2 under the IFRS 9 hierarchy) (hereinafter together referred to as "collective impairment allowances") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions.

For non-performing exposures (Stage 3) and performing exposures (amounts above EUR 100 thousand in Stage 1 and Stage 2), the impairment assessment is based on the Bank's knowledge and understanding of each individual borrower's circumstances. Related loss allowances are determined on an individual basis by means of a discounted cash flows analysis.

Due to a significant increase in estimation uncertainty affected by the reasons stated above and the impact of the prolonged war in Ukraine on the economy, we considered the impairment of the loans granted to be a significant risk, therefore, we focused more attention on this area in our audit. Accordingly, we determined this area to be a key audit matter.

How the Matter Was Addressed in the Audit

Our audit procedures among others included the following:

- We obtained an understanding of the Bank's ECL methodology and assessed its compliance with the relevant requirements of IFRS 9. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of IFRS 9 requirements. Additionally, we challenged the Board on whether the level of the methodology's sophistication is appropriately based on our assessment of the entity-level and portfolio factors;
- We obtained an understanding of the retrospective review of the ECL estimates carried out by the Bank, and its response to the results of the review, and performed our own independent back-test.

- We made inquiries from the Bank's risk management and information technology (IT) personnel to gain understanding of IT applications used in the loan impairment process. Also, we assessed and tested the Bank's control environment for data security and access.
- We tested the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the monitoring of identification of events of default, as well as appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, and the overall ECL estimate.
- We assessed whether the definition of default and the staging criteria were applied consistently and in accordance with the relevant international financial reporting standards.
- We evaluated whether in the loan staging and ECL measurement the Bank appropriately considered the impact of the war in Ukraine.
- For collective impairment allowance we:
    - obtained the relevant forward-looking information and macroeconomic forecasts used in the Bank's ECL assessment. independently assessed the information by means of inspection of publicly available information and corroborating inquiries of the Board;
    - challenged the collective loss given default (LGD), exposure at default (EAD) and probability of default (PD) parameters used by the Bank, by reference to historical defaults, sector practices and realized losses on those defaults, and also considered any required adjustments to reflect expected changes in circumstances.
- For impairment allowances calculated individually, for a risk-based sample of loans:
    - We critically assessed the existence of any triggers for classification to Stage 3 as at 31 December 2023, by reference to the underlying documentation (loan files) and through discussion with the Board and taking into consideration business operations of the respective customers as well as market conditions and historical repayment pattern.
    - For the exposures with triggers for classification in Stage 3, challenging key assumptions applied in the Bank's estimates of future cash flows such as primarily collateral values (including related haircuts) and realization period by reference to our inspection of external valuation reports, the Bank's internal evidence and analyses and publicly available market transaction data.
- We evaluated the accuracy and completeness of the loan impairment and credit risk-related disclosures in the financial statements by reference to the requirements of applicable financial reporting standards.

Other Information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

In accordance with the decision made by shareholders on 30 March 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 2 years.

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

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

During the audit, in addition to the financial statements audit services, we provided financial statements translation services.

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
28 March, 2024

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

DECEMBER 31, 2023 ANNUAL REPORT

The analysis of the year 2023 financial statements and operating activities

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.

Economic outlook

Lithuanian economy avoided hard landing in 2023. GDP in Lithuania shrank by 0.2% in real terms during the previous year mostly due to contraction in retail trade and manufacturing. Although inflation slowed down considerably and at the end of 2023 consumption started to recover, retail trade turnover decreased by 1.6 per cent over the year. Moreover, high interest rates also limited consumers' spending as they increased savings. Manufacturing contracted by 4.7 per cent during 2023, mainly due to weak demand in the main trading partners' markets and a decrease in exports. On the other hand, investments and construction grew significantly and helped to offset the negative impact of decrease in consumption and manufacturing. Investments into fixed capital and infrastructure grew by 10.0 per cent over the year, driven by EU funded projects and investments into renewable energy and state defense. Growing investments also significantly affected construction volumes that grew by 13.1 per cent over the year.

Unlike in Lithuania, Estonian economy experienced a steep recession. Real GDP in Estonia contracted by 3.4 percent, led by slump in exports and manufacturing (respectively by 8.0 and 12.5 % over the year). Consumer spending also decreased by 1.8 per cent due to high interest rates, inflation and historically low consumer confidence.

Economic situation in 2024 will improve in Lithuania while Estonian GDP will marginally decrease further. State and private institutions forecast that GDP in Lithuania this year will increase by 2.1 per cent on average. It is expected that recovery in private consumption will be the main driver of recovery. Real income of households will increase as wage growth will remain strong while inflation will fall further to reach 1.5 per cent. Estonian economy will face headwinds from the main trading partners further as rapid wage growth in the recent years made the companies less competitive..

Strategic direction

The Bank's vision, mission and main values

Professionalism entails being methodical, objective, able to explain the behavior 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 a deep 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.

Finora Bank business model

We focus on sustainable value creation 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 it is planned to pursue with 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 themselves..

Activities and Financial performance overview

On September 9, 2022, Finora Bank obtained its banking license and began operating as a bank. In 2023, there was a strong emphasis on restructuring the bank's structure to ensure its growth. Additionally, preparations were made to obtain a branch license in Estonia. Finora

Bank UAB achieved the permission to open a branch in Estonia in November 2023, it was registered in January 2024, address Narva Road 5, Tallinn, Estonia, registry code 16905996.

Whilst preparing to become a bank, Finora continued to render financing services to customers. Total amount of newly issued financing was 40.9MEUR during 2023. The Bank's interest revenue increased 174% compared to 2022. Net interest income increased by 111% to 1 058 thousand EUR compared to last year. Net interest income improved largely from secured loans volumes. Subordinated loans and new deposits prompted higher interest expenses, which reached 682 thousand EUR or an increase of 546 thousand EUR from the previous year.

Labor and other operating expenses in total increased by 2 221 thousand EUR and stood at 3 073 thousand EUR in 2023. Labor expenses increased due to expanded workforce. In terms of other operating expenses, considerable amounts were contributed to marketing campaigns, launch of new services, IT developments, recruitment etc.

The Bank's credit loss allowances amounted to 285 thousand EUR which is an increase of 140 thousand EUR from 2022, mainly in relation to increase of portfolio. Despite these factors, the Bank's credit quality remains strong thanks to low-risk appetite and high credit underwriting standards.

The structure of the loan portfolio shifted towards more loans with collateral. As a new product, the bank also started offering factoring claims, and its portfolio reached 2 279 thousand EUR by the end of 2023. In 2023, Finora Bank successfully increased its loan portfolio by over 13,5 million EUR, reaching over 20 million EUR by the end of the year.

The Bank started collecting deposits in the end of 2022 and deposits amounted to 18,3 million EUR at the end of 31 December 2023. The primary funding source for deposits has been RAISIN, but there is also the capability to attract domestic deposits.

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Key financial ratios

	2023	2022
Return on equity, %	-98,5	-19,2
Return on assets, %	-13,1	-5,0
Cost to income ratio	3,0	1,7
Loan to deposit ratio, %	108	213

Return on equity = net profit (loss) / average equity * 100

Return on assets = net profit (loss) / average total assets * 100

Cost to income ratio = operating expenses (labor expenses + operating expenses + depreciation) / net income * 100

Loan to deposit ratio = Net loan portfolio / Deposits

Average equity = (equity at the end of the reporting period + equity at the end of previous reporting period) / 2

Average assets = (assets at the end of the reporting period + assets at the end of previous reporting period) / 2

Net income = net interest income + net commission fees + other income

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 it shall be recognized in its business operations. The Bank faces several different risks. The main of them, considering the Bank's business model, are: Credit risk, AML risk, Concentration risk, Liquidity risk, Interest rate risk, Market risk and Operational risk. The Bank protects itself from all risks, including above mentioned, through a range of sophisticated risk assessments and control

mechanisms. Despite to the fact that the Bank already operates in a rapidly changing economy, the war in Ukraine, possible fluctuations of prices of energy, raw materials, high inflation and interest rates add additional uncertainty to the economic environment. Detailed information about key risks, 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. The Bank's capital adequacy ratios are calculated considering not only the riskiness of the loan portfolio but also assessing operational risk. The lead regulator's approach to the measurement of capital adequacy is primarily based on monitoring the relationship of the capital resources requirement to available capital resources. The lead regulator sets individual capital guidance (ICG) for each bank and banking group in excess of the minimum capital resources requirement of 8 percent. A key input to the ICG-setting process is the Group's individual capital adequacy assessment process.

Internal capital adequacy assessment process shall be performed every year to assess additional capital requirement if needed. Since the Bank started its activity in September, Y2022, the first internal capital adequacy assessment process was started in Y2023. Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities.

Prudential ratios

The Bank is in line with all prudential requirements as of 31.12.2023 and as of 31.12.2022.

31.12.2023 Ratio	Prudential requirement, %	Actual Data, %
CET1	4.5	12.31
TIER1	6	12.31
TOTAL CAPITAL RATIO	11.5	16.41
LEVERAGE RATIO	3	7.01
LCR	100	>100
NSFR	100	137.87
LARGE EXPOSURE	<25 % CET1	Complies

31.12.2022 Ratio	Prudential requirement, %	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

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 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 asset, which is restricted or prevented from liquidating, selling, transferring, or assigning due to legal, regulatory, contractual, or other limitations.

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 to 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 ends.

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 yet 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 make its utmost to contribute to this agenda.

Focus on customer value creation

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 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.

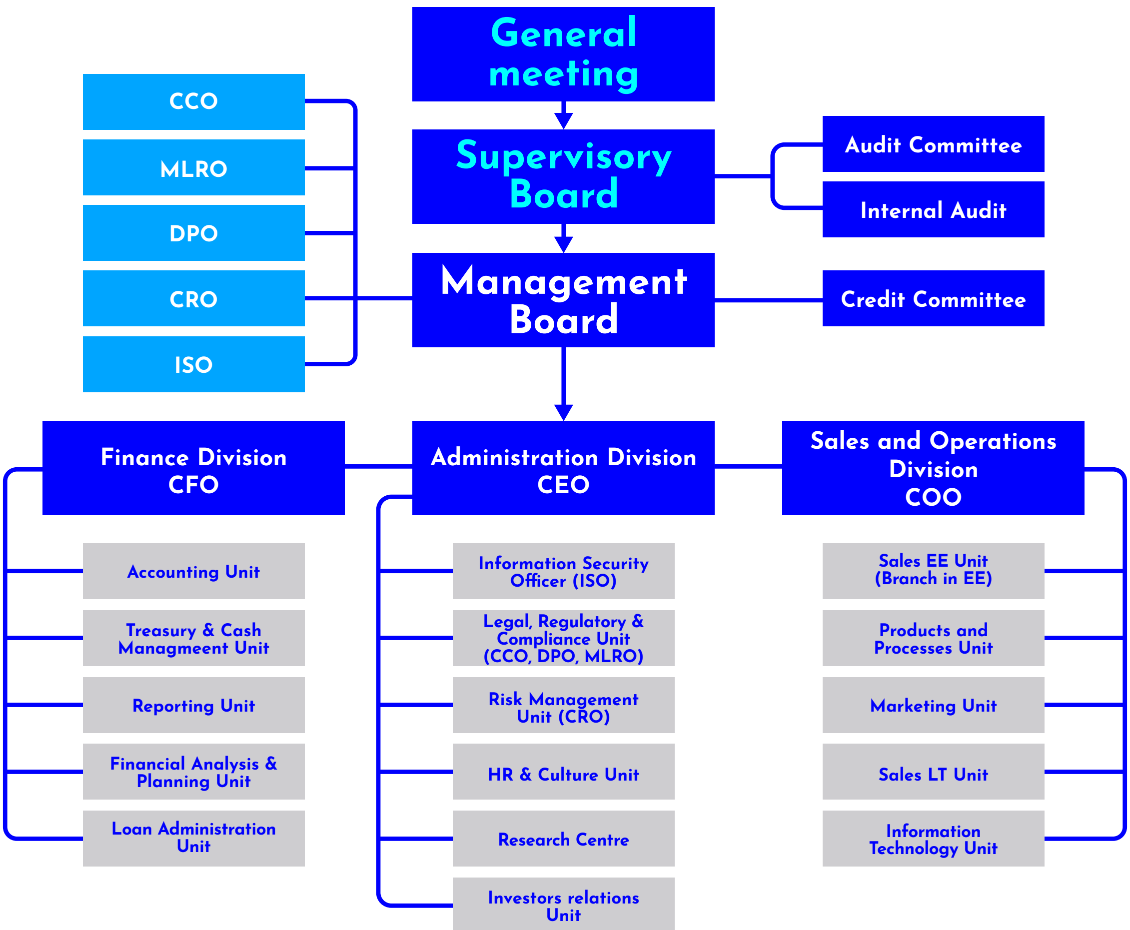
Focus on financial literacy

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

After the business strategy revision and shareholders' interest in striving for value and solid operational efficiency, the Bank is in the process of changing its organizational structure. Seeking to enhance and improve the organization's processes, team, product, service offering, and technology, the Bank aims to improve the effectiveness and stability of the organization's governance structure. The proposed organizational structure is provided below.

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 on 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.

Main functions of the Audit Committee, tier alia, are:

- on annual basis review and evaluate the Bank's Supervisory Board's instructions for Internal Audit;
- to 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 in the Bank.

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);
- identify the key principles and processes for making decisions related to the lending activities of the Bank and its subsidiaries.

Management board

- Šarūnas Ruzgys, CEO

- Kristi Hõrrak, CFO

- 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
- Ieva Dosinaite, Member of the Supervisory Board

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

Members of the management board

Management board members of Finora Bank UAB hold the following positions in addition to Finora Bank UAB

- Šarūnas Ruzgys, Head of Administration, Chairman of the Management Board of AS Finora Group, legal entity code 12324050, registered address Harjumaa, Tallinn, Narva road 5, 10117, Estonia, Chairman of the Management Board of Finora Factoring OÜ, legal entity code 14439107, registered address Harjumaa, Tallinn, Narva road 5, 10117, Estonia, Member of the Management Board of UAB Valstybės investicinis kapitalas, legal entity code 305611945, registered address Gedimino pr. 38, LT-01104 Vilnius.
- Kristi Hõrrak, Chief Financial Officer of Finora Bank UAB is Chairman of the Supervisory Board of Bankish AS, legal entity code 14251833, registered address Harjumaa, Tallinn, Narva road 5, 10117, Estonia.
- Marek Piller, Chief Technology Officer of Finora Bank UAB is member of the management board in Majaomanike Ühistu Tulbiala MTÜ, legal entitiy code 80086174, registered address Heki 1-36, 74001, Viimsi parish, Estonia and in Tenniseklubi "Infinity Tennis", legal entity code 80545564, registered address, Tulbiaia tee 16, 74001, Viimsi parish, Estonia. Marek Piller has employment contract with Bankish AS, legal entity code 14251833, registered address Harjumaa, Tallinn, Narva road 5, 10117, Estonia.

Members of the Supervisory Bard

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

- Veikko Maripuu is the Chairman of the Supervisory Board of AS Finora Group, entity code 12324050, registered address Narva road 5, 10117, Tallinn, Estonia
- Veikko Maripuu is the Member of the Supervisory Board of AS Bankish, entity code 14251833, registered address Narva road, 10117, Tallinn, Estonia; AS Ecoprint, legal entity code 11407147, registered address Savioja road 3, 60534, Vahi, Tartu, Estonia; Head Solutions Group OÜ, entity code 10407435, registered address Priisle road 10, 13914, Tallinn, Estonia

Other members of the Supervisory Board of Finora Bank UAB:

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

- Rein Ojavere is a CEO of OÜ Front Consulting, registry code 10812992, address Kotzebue 9-52, 10412, Tallinn, Estonia.
- Ieva Dosinaitė is Partner and Head of Head of Banking and Finance Practice in Law firm „Ellex Valiūnas ir partneriai" 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 of 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, comprising Compliance Officer, who verifies that the first line is operating in line its risk policies, procedures, and control, and is independent of the divisions whose activities they are responsible for monitoring and controlling. 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 December 31, 2023, the Bank's authorized capital was equal to EUR 4 600 000. The authorized capital is divided into 4 600 000 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, registration number 12324050, registered office address Narva mnt 5, 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 2023.

10. Employees

In 2023, the average number of employees was 35 starting from 30 at the beginning of the year to 40 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 Estonian local team operating for that in Estonia until the opening of Finora Bank branch in Estonia that should take place during 2024. With the opening of branch in Estonia all activities towards Estonian market will be performed directly through the branch.

12. Sustainability disclosure

ESG risks include those related to climate change impacts mitigation and adaptation, environmental management practices and duty of care, working and safety condition, respect for human rights, anti-bribery and corruption practices, and compliance to relevant laws and regulations. The amendments of Resolution No 149, September 25, 2008, of the Board of the Bank of Lithuania on Internal Control and Risk Assessment (Management) Organization came into force on 2023 July 1. The changes brought new requirements for the banks in ESG. 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 daily business decisions.

13. Remuneration policy

At Finora Bank, we adhere to a comprehensive remuneration policy that ensures equitable compensation practices while fostering a culture of stability and security for our valued employees. Our remuneration policy encompasses fixed remuneration as the primary component, designed to provide adequate compensation for employees' work-related responsibilities and achievements.

Fixed Remuneration

Fixed Remuneration forms a substantial portion of our total remuneration structure and is characterized by its stability and predictability. It is determined based on various factors including:

- Professional experience
- Level of responsibility within the Bank
- Educational background
- Rank
- Competencies and skills
- Relevant business operations
- Prevailing market remuneration rates

Review Process

The Fixed Remuneration undergoes periodic reviews to ensure alignment with market standards and internal equity. These reviews occur:

- Within the first year of employment after the trial period,
- Subsequently, at least once annually coinciding with employee performance evaluations.

It's important to note that a review of Fixed Remuneration does not obligate the Bank to increase the fixed compensation amount.

Key Features

Fixed Remuneration at Finora Bank is characterized by:

- Predetermined criteria: Based on predetermined factors, non-discretionary in nature, and aligned with individual professional experience and seniority.
- Transparency: The individual amount awarded to each staff member is transparently communicated.
- Permanence: Fixed Remuneration remains consistent over a specified period corresponding to the individual's role and organizational responsibilities.
- Non-revocability: The permanent amount is not subject to reduction, suspension, or cancellation by the Bank, except through collective bargaining or renegotiation in accordance with national wage-setting criteria.
- Absence of incentivization for risk assumption: Fixed Remuneration does not serve as an incentive for employees to undertake undue risks.
- Performance independence: Fixed Remuneration is not contingent upon individual performance metrics and remains unaffected by variations in employee performance.

Conclusion

In summary, our Fixed Remuneration policy at Finora Bank underscores our commitment to fair and transparent compensation practices. By providing stability and security to our employees, we aim to foster a conducive work environment where individuals can thrive and contribute towards the bank's success.

14. Events after the year end of 2023

In March 2024 share capital was increased by 800 thousand EUR.

There were no other significant events in the Bank after the year end of 2023.

STATEMENT OF FINANCIAL POSITION 31 DECEMBER 2023

in EUR	Note	31 Dec 2023	31 Dec 2022
Assets			
Cash in other commercial banks	1	1 739 041	3 056 833
Bonds	2	246 054	158 990
Loan receivables	3	20 427 197	6 904 387
Intangible assets	4	369 968	523 270
Tangible assets	5	34 865	23 052
Other assets	6	8 998	16 595
Prepaid expenses and accrued income	6	166 932	29 011
Total assets		**22 993 055**	**10 712 138**
Liabilities			
Deposits from public and accrued interests	9	18 844 743	3 248 719
Other loan liabilities	8	705 026	3 589 179
Payables to group companies	16	18 870	19 206
Other liabilities	7	347 550	244 022
Accrued expenses and prepaid income	7	110 526	80 705
Subordinated liabilities	10	1 010 000	1 010 000
Total liabilities		**21 036 715**	**8 191 831**
Equity			
Share capital	19	4 600 000	3 000 000
Other reserves	19	43 510	2 974
Retained earnings	20	(2 687 170)	(482 667)
Total equity		**1 956 340**	**2 520 307**
Total liabilities and equity		**22 993 055**	**10 712 138**

The notes on pages 21 to 64 are an integral part of the financial statements.

These financial statements were prepared on March 28th, 2024 by:

Šarunas Ruzgys CEO
/signed digitally/

Egle Martuseviciene Chief Accountant
/signed digitally/

STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME 31 DECEMBER 2023

in EUR	Note	2023	2022
Interest income at effective interest rate	11	1 739 886	635 707
Interest expense	12	(681 556)	(135 890)
Net interest income		**1 058 330**	**499 817**
Other income		144 458	56 475
Labour expenses	13	(1 786 986)	(562 766)
Other operating expenses	14	(1 286 155)	(289 170)
Amortisation and depreciation costs	4,5	(49 511)	(18 248)
Credit recoveries/(credit loss) allowances, net	3	(284 639)	(145 390)
Net profit (loss) for the financial year		**(2 204 503)**	**(459 282)**
Total comprehensive income (loss)		**(2 204 503)**	**(459 282)**

The notes on pages 21 to 64 are an integral part of the financial statements.

These financial statements were prepared on March 28th, 2024 by:

Šarunas Ruzgys CEO

/signed digitally/

Egle Martuseviciene Chief Accountant

/signed digitally/

STATEMENT OF CHANGES IN EQUITY 31 DECEMBER 2023

in EUR	Share capital	Other reserves	Retained earnings (loss)	Total
31 Dec 2021	**2 300 000**	**0**	**(23 385)**	**2 276 615**
Issuance 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 2022	**3 000 000**	**2 974**	**(482 667)**	**2 520 307**
Issuance of share capital	1 600 000	0	0	1 600 000
Share options	0	40 536	0	40 536
Net profit (loss) and comprehensive income (loss) for the financial year	0	0	(2 204 503)	(2 204 503)
31 Dec 2023	**4 600 000**	**43 510**	**(2 687 170)**	**1 956 340**

The notes on pages 21 to 64 are an integral part of the financial statements.

These financial statements were prepared on March 28th, 2024 by:

Šarunas Ruzgys CEO

/signed digitally/

Egle Martuseviciene Chief Accountant

/signed digitally/

STATEMENT OF CASH FLOWS 31 DECEMBER 2023

in EUR	Note	31 Dec 2023	31 Dec 2022
Cash flows from operating activities			
Net profit (loss)		(2 204 503)	(459 282)
Adjustments			
Depreciation and amortisation	4,5	49 511	18 248
Interest expenses		167 598	107 288
Interest revenue		(1 684 125)	(662 799)
Other non - monetary transactions	17	541 043	175 236
Total adjustments		**(3 130 476)**	**(821 309)**
Total change in receivables and prepayments related to operating activities	17	(13 937 774)	145 714
Total change in other liabilities, accrued expenses and prepaid income		70 854	143 769
Deposits from public received and accrued interest	9	15 596 024	3 238 719
Interest received		1 684 125	662 799
Interest paid		(20 250)	0
Total cash flows from operating activities		**262 503**	**3 369 692**
Cash flows from investing activities			
Purchase of tangible and intangible assets	4,5	(61 394)	(349 967)
Investments into bonds, net	2	(87 064)	(158 990)
Total cash flows from investing activities		**(148 458)**	**(508 957)**
Cash flows from financing activities			
Paid in Share capital	19	1 600 000	700 000
Paid financial debts	8	(2 884 489)	(1 554 217)
Subordinated loan received	10	0	1 000 000
Interest expenses		(147 348)	(97 288)
Other movements		0	3 001
Total cash flows from financing activities		**(1 431 837)**	**51 496**
Change in cash and cash equivalents		**(1 317 792)**	**2 912 231**
Cash and cash equivalents at beginning of period		**3 056 833**	**144 602**
Cash and cash equivalents at end of period		**1 739 041**	**3 056 833**

The notes on pages 21 to 64 are an integral part of the financial statements.

These financial statements were prepared on March 28th, 2024 by:

Šarunas Ruzgys CEO

/signed digitally/

Egle Martuseviciene Chief Accountant

/signed digitally/

EXPLANATORY NOTES TO FINANCIAL STATEMENTS 31 DECEMBER 2023

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 level of rounding is 1 EUR.

The sole shareholder of the company as for 31 December 2022 was AS Finora Group company code 12324050, Narva road 5, 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 4 600 000 as of 31 December 2023 which consisted of 4 600 000 ordinary registered shares with a nominal value of EUR 1 each.

Finora Bank UAB achieved the permission to open a branch in Estonia in November 2023, it was registered in January 2024, address Narva road 5, Tallinn, Estonia, registry code 16905996.

The company employed 40 employees as at 31st of December 2023 (31st of December 2022 : 20).

The company's management approved these financial statements for 2023 year at 20 of March 2024. The company's shareholders have the right to approve these financial statements or not to approve them and to require the management to prepare new financial statements.

2. Material 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 (IFRS(EU). The financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS(EU) 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 material accounting policies

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

Amendments effective for annual periods beginning on or after 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 fulfillment cash flows) that incorporates all of the available information about the fulfillment 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 bank does not have insurance contracts therefore it is not applicable for the Bank.

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 fulfillment cash flows; and selected transition reliefs and other minor amendments.

The bank does not have insurance contracts therefore it is not applicable for the Bank.

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; allow 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 bank does not have insurance contracts therefore it is not applicable for the Bank

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.

The bank has amended its financial statements and disclosed their material accounting policy information rather than their significant accounting policies

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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.

This amendment did not have impact on Banks financial statements.

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.

This amendment did not have impact on Banks financial statements.

Amendments effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU

In May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes'. This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's

(OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. Companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.

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

Amendments effective for annual periods beginning on or after 1 January 2024; not yet adopted by the EU.

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.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements

In response to concerns of the users of financial statements about inadequate or misleading disclosure of financing arrangements, in May 2023, the IASB issued amendments to IAS 7 and IFRS 7 to require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The amendments do not affect recognition or measurement principles but only disclosure requirements. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024.

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

Amendments effective for annual periods beginning on or after 1 January 2025; not yet adopted by the EU.

Amendments to IAS 21 Lack of Exchangeability

In August 2023, the IASB issued amendments to IAS 21 to help entities assess exchangeability between two currencies and determine the spot exchange rate, when exchangeability is lacking.

An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. The amendments to IAS 21 do not provide detailed requirements on how to estimate the spot exchange rate. Instead, they set out a framework under which an entity can determine the spot exchange rate at the measurement date. When applying the new requirements, it is not permitted to restate comparative information. It is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings or to the reserve for cumulative translation differences.

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

Amendments with effective date to be determined; not yet adopted by the EU).

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. In 2015, the IASB decided to postpone the effective date of these amendments indefinitely.

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

IFRS 14, Regulatory Deferral Accounts

FRS 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.

Bank already presents IFRS financial statements and therefor is not eligible to apply the standard.

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.

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 costs on financial assets at fair value through profit or loss are recognized as an expense in the income statement. Financial assets without a significant financing component are measured on initial recognition at the transaction price.

Financial 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 financial instruments are classified in amortised cost measurement category. 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 income and other operating expenses. Foreign exchange gains and losses and credit losses are recognised in profit or loss.

Factoring

Factoring transactions are considered to be financing transactions where the Bank provides the financial resources to its selling partners through transfer of the rights to the receivables from these sales transactions. The Bank acquires the right to the receivables payable by the buyer subject to the purchase-sale agreement.

Factoring is the transfer (sale) of receivables where depending on the terms of the factoring contract the buyer either has the right to sell the receivable back to the seller during a prespecified term (recourse factoring) or there is no right of resale and all the risks and rewards associated with the receivable substantially transfer from the seller to the buyer (non-recourse factoring). The receivable of the Bank against the buyer is recognised as of the moment of factoring the purchase-sale agreement, i.e. as of acquiring the receivable.

A transaction is treated as financing (e.g. loan secured by the receivable) in case the Bank does not acquire all the risks and rewards associated with the receivable, and the receivable is recognised in the balance sheet until it has been collected or the recourse has expired. If there is no repurchase obligation and control over the receivable and the associated risks and rewards transfers from the customer to the Bank at the moment of transfer of the receivable, the transaction is recognised as acquisition of the receivable. Receivables acquired are initially recorded at fair value and subsequently measured at amortised cost.

Impairment of 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 exposure.

Rating of customers 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 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' ECL calculations are 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 could be with a significant increase in a credit risk when:

- 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.

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 time 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.

Upon initial recognition, the core banking system is measured at cost, which encompasses all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management, including costs of materials and services, employee benefits, and an appropriate portion of directly attributable overheads. Subsequent to initial recognition, the core banking system is carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is recognized in profit or loss on a straight-line basis over its estimated useful life, reflecting the pattern in which the asset's future economic benefits are consumed by the entity, typically ranging from three to ten years, based on our internal estimates of useful life and pattern of benefits.

Other acquired intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Financial liabilities

All financial liabilities of the Company are classified as "other financial liabilities at amortised cost".

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. Cost of acquisition of deposits is included into other operating expenses line in income statement.

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.

Leases

In accordance with IFRS 16 "Leases," our company is permitted to apply the short-term lease exception for leases with a term of less than one year. We apply this exception to the accounting of our leased premises, which have lease terms of less than one year. Consequently, these leases are not recognized in the balance sheet as right-of-use assets or liabilities. The expenses related to short-term leases are recognized in the income statement as they occur over the period, ensuring clarity and transparency in our financial reporting.

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

Net 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.

Net commission 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.

Fee expenses includes costs related to services for which the bank pays fees and commissions, such as advisory services, brokerage fees, and other service-related fees that are directly attributable to the delivery of services to customers. Fee expenses are recognized in the period in which the revenue related to these services flow to the bank and are measured based on the amount of consideration paid or payable for these 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.

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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., market forecasts. 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 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 23	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets at amortized cost					
Investments into bonds	246 054	0	0	246 054	246 054
Cash in bank	1 739 041	0	0	1 739 041	1 739 041
Loan receivables	0	0	20 427 197	20 427 197	20 427 197
Other receivables and prepayments	0	0	175 930	175 930	175 930
Total financial assets at amortized cost	**1 985 095**	**0**	**20 603 127**	**22 588 222**	**22 588 222**
Financial liabilities at amortized cost					
Deposits from public and accrued interest	0	0	18 844 743	18 844 743	18 844 743
Loan liabilities	0	0	705 026	705 026	705 026
Payables and prepayments	0	0	476 946	476 946	476 946
Subordinated loans	0	0	1 010 000	1 010 000	1 010 000
Total financial liabilities at amortized cost	**0**	**0**	**21 036 715**	**21 036 715**	**21 036 715**

in EUR 31 Dec 22	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets at amortized cost					
Investments into bonds	158 990	0	0	158 990	158 990
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	**3 215 823**	**0**	**6 949 993**	**10 165 816**	**10 165 816**
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**

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 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.

Bank´s loan portfolio mainly consists of loans granted to the legal entities. Considering to a fact Bank has started its activity in the end of Y2022, there were no forborne loans or taken-over collateral into Bank's ownership, as well as write offs during neither Y2022 nor Y2023.

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 2023	31 Dec 2022
Cash in bank	1 739 041	3 056 833
Investments into bonds	246 054	158 990
Loan receivables	20 427 197	6 904 387
Other receivables and prepayments	175 930	45 606
Total financial assets	**22 588 222**	**10 165 816**

Distribution by internal credit risk rating

The table below shows the credit quality of loans. The amounts of loan principal balance and debt are distributed by internal credit risk rating and stage.

in EUR 31 Dec 2023 Internal risk grade	PD,%	Stage 1	Stage 2	Stage 3	Total
Low	<0.56	2 070 200	0	0	2 070 200
Medium	>0.56-1.43	9 127 890	0	0	9 127 890
Increased	>1.43-3.7	4 104 117	0	0	4 104 117
High	>3.7-99.99	2 870 097	1 540 514	625 354	5 035 965
Default	100	0	0	89 025	89 025
Total		**18 172 304**	**1 540 514**	**714 379**	**20 427 197**

in EUR 31 Dec 2022 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**

Total capital requirement for credit risk at year end 2023 amounted to 1 035 thousand EUR, 2022 451 thousand EUR.

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, as well as exposure concentration to the same counterparty. 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 2023 29% of loans are to Estonian customers and 71% to Lithuanian customers. As at 31 December 2022 93% of loans were to Lithuanian customers and 7% to Estonian customers.

By industry sectors as at 31 December 2023:

in EUR 31 Dec 2023	Gross carrying amount	Accumulated impairment	Amortized cost
Construction	4 229 000	-212 000	4 017 000
Wholesale and retail trade	3 753 000	-118 000	3 635 000
Transport and storage	3 209 000	-48 000	3 161 000
Manufacturing	2 843 000	-42 000	2 801 000
Administrative and support service activities	1 462 000	-49 000	1 413 000
Real estate activities	1 165 000	-13 000	1 152 000
Mining and quarrying	771 000	-3 000	768 000
Professional, scientific and technical activities	729 000	-16 000	713 000
Households	559 121	-3 924	555 197
Arts, entertainment and recreation	493 000	-10 000	483 000
Financial and insurance activities	394 000	0	394 000
Financial institutions	382 000	-2 000	380 000
Agriculture, forestry and fishing	253 000	-3 000	250 000
Accommodation and food service activities	233 000	-5 000	228 000
Human health services and social work activities	214 000	-1 000	213 000
Information and communication	165 000	-2 000	163 000
Other services	97 000	-1 000	96 000
Education	5 000	0	5 000
LOAN RECEIVABLES TOTAL	**20 956 121**	**-528 924**	**20 427 197**

in EUR 31 Dec 2022	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
LOAN RECEIVABLES	**7 149 184**	**-244 797**	**6 904 387**

in EUR Bank 2023	Stage 1			Stage 2			Stage 3			Total
	Gross carrying amount	Accumu-lated impair-ment	Net	Gross carrying amount	Accumu-lated impair-ment	Net	Gross carrying amount	Accumu-lated impair-ment	Net	
Construction	3 610 000	-23 000	3 587 000	322 000	-17 000	305 000	297 000	-172 000	125 000	**4 017 000**
Wholesale and retail trade	3 347 000	-19 000	3 328 000	305 000	-3 000	302 000	101 000	-96 000	5 000	**3 635 000**
Transport and storage	2 493 000	-16 000	2 477 000	606 000	-3 000	603 000	110 000	-29 000	81 000	**3 161 000**
Manufacturing	2 691 000	-16 000	2 675 000	24 000	-2 000	22 000	128 000	-24 000	104 000	**2 801 000**
Administrative and support service activities	1 407 000	-5 000	1 402 000	9 000	0	9 000	46 000	-44 000	2 000	**1 413 000**
Real estate activities	1 122 000	-1 000	1 121 000	30 000	0	30 000	13 000	-12 000	1 000	**1 152 000**
Mining and quarrying	771 000	-3 000	768 000	0	0	0	0	0	0	**768 000**
Professional, scientific and technical activities	715 000	-2 000	713 000	0	0	0	14 000	-14 000	0	**713 000**
Households	468 121	0	468 121	30 000	0	30 000	61 000	-3 924	57 076	**555 197**
Arts, entertainment and recreation	396 000	-9 000	387 000	97 000	-1 000	96 000	0	0	0	**483 000**
Financial and insurance activities	394 000	0	394 000	0	0	0	0	0	0	**394 000**
Financial institutions	382 000	-2 000	380 000	0	0	0	0	0	0	**380 000**
Agriculture, forestry, fishing	235 000	-3 000	232 000	18 000	0	18 000	0	0	0	**250 000**
Accommodation and food service activities	223 000	-1 000	222 000	5 000	0	5 000	5 000	-4 000	1 000	**228 000**
Human health services and social work activities	214 000	-1 000	213 000	0	0	0	0	0	0	**213 000**
Information and communication	165 000	-2 000	163 000	0	0	0	0	0	0	**163 000**
Other services	97 000	-1 000	96 000	0	0	0	0	0	0	**96 000**
Education	5 000	0	5 000	0	0	0	0	0	0	**5 000**
TOTAL	**18 735 121**	**-104 000**	**18 631 121**	**1 446 000**	**-26 000**	**1 420 000**	**775 000**	**-398 924**	**376 076**	**20 427 197**

**Stage 1 - Instruments without significant increase in credit risk since initial recognition*

**Sage 2 - Instruments with significant increase in credit risk since initial recognition but not credit-impaired*

**Stage 3 - Credit-impaired instruments*

in EUR Bank 2022	Stage 1			Stage 2			Stage 3			Total
	Gross carrying amount	Accumulated impairment	Net	Gross carrying amount	Accumulated impairment	Net	Gross carrying amount	Accumulated impairment	Net	
Wholesale and retail trade	1 943 000	-10 000	1 933 000	108 000	-1 000	107 000	214 000	-76 000	138 000	**2 178 000**
Transport and storage	1 248 000	-12 000	1 236 000	42 000	0	42 000	30 000	-15 000	15 000	**1 293 000**
Construction	1 061 000	-10 000	1 051 000	107 000	-1 000	106 000	116 000	-61 000	55 000	**1 212 000**
Manufacturing	725 000	-3 000	722 000	7 000	0	7 000	58 000	-9 000	49 000	**778 000**
Human health services and social work activities	316 000	-1 000	315 000	0	0	0	0	0	0	**315 000**
Administrative and support service activities	204 000	-2 000	202 000	40 000	0	40 000	50 000	-12 000	38 000	**280 000**
Professional, scientific and technical activities	262 000	-5 000	257 000	0	0	0	25 000	-17 000	8 000	**265 000**
Accommodation and food service activities	173 000	0	173 000	0	0	0	5 000	-5 000	0	**173 000**
Other services	107 184	-796	106 388	23 000	0	23 000	0	0	0	**129 388**
Information and communication	121 000	-1 000	120 000	0	0	0	0	0	0	**120 000**
Real estate activities	76 000	-1 000	75 000	0	0	0	13 000	-1 000	12 000	**87 000**
Agriculture, forestry and fishing	66 000	-1000	65 000	0	0	0	0	0	0	**65 000**
Arts, entertainment and recreation	9 000	0	9 000	0	0	0	0	0	-1	**8 999**
TOTAL	**6 311 184**	**-46 796**	**6 264 388**	**327 000**	**-2 000**	**325 000**	**511 000**	**-196 000**	**314 999**	**6 904 387**

**Stage 1 - Instruments without significant increase in credit risk since initial recognition*

**Sage 2 - Instruments with significant increase in credit risk since initial recognition but not credit-impaired*

**Stage 3 - Credit-impaired instruments*

Company credit risk related to products groups:

in EUR	31 Dec 2023	Stage 1	Stage 2	Stage 3
Business loan with collateral	**13 991 491**	13 006 219	824 047	161 225
Expected credit losses	**(51 184)**	(38 299)	(4 387)	(8 498)
Leasing for business	**3 050 554**	2 801 220	209 906	39 428
Expected credit losses	**(18 061)**	(15 527)	(1 702)	(832)
Microloan for business	**1 571 593**	968 406	159 338	443 849
Expected credit losses	**(396 687)**	(20 545)	(4 415)	(371 727)
Factoring	**2 342 483**	1 960 299	256 629	125 555
Expected credit losses	**(62 993)**	(29 906)	(16 119)	(16 968)
Total book value of loans	**20 956 122**	**18 736 144**	**1 449 921**	**770 057**
Total expected credit losses	**(528 925)**	**(104 277)**	**(26 622)**	**(398 025)**
Total loans at amortized costs	**20 427 197**	**18 631 867**	**1 423 298**	**378 032**

in EUR	31 Dec 2022	Stage 1	Stage 2	Stage 3
Business loan with collateral	**2 540 209**	2 114 194	0	426 015
Expected credit losses	**(13 014)**	(7 023)	0	(5 991)
Leasing for business	**1 321 143**	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**

Collaterals and financial guarantees:

in EUR 31 Dec 2023	Loans collateralized by immovable property: Residential immovable property	Loans collateralized by immovable property: Commercial immovable property	Other collatera-lised loans	Financial guarantees received
Loans and advances	**3 704 000**	**2 953 000**	**10 374 000**	**1 907 000**
of which: Non-performing	0	14 000	45 000	165 000
of which: Non-financial corporations	3 704 000	2 657 000	10 143 000	1 907 000
of which: Small and Medium-sized Enterprises	3 704 000	2 657 000	10 143 000	1 907 000
of which: Households	0	296 000	231 000	0

in EUR 31 Dec 2022	Loans collateralized by immovable property: Residential immovable property	Loans collateralized by 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

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 23	within 12 months	1-5 years	over 5 years
Financial assets				
Cash	1 739 041	1 739 041	0	0
Investments into bonds	246 054	246 054	0	0
Loan receivables	20 427 197	5 758 114	13 364 955	1 304 128
Other receivables and prepayments	175 930	175 930	0	0
Total financial assets	**22 588 222**	**7 919 139**	**13 364 955**	**1 304 128**
Financial liabilities				
Deposits from public and accrued interest	18 844 743	9 048 191	9 796 553	0
Other loan liabilities	705 026	522 442	182 584	0
Subordinated loan	1 010 000	10 000	0	1 000 000
Payables to group companies	18 870	18 870	0	0
Payables and prepayments	458 076	458 076	0	0
Total financial liabilities	**21 036 715**	**10 057 579**	**9 979 137**	**1 000 000**
Duration gap of financial assets and financial liabilities	**1 551 507**	**-2 138 440**	**3 385 818**	**304 128**

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)**

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.

Sensitivity analyses

As at 31 December 2023 every 100 bps increase in interest rates will increase Banks interest income by 38 thousand EUR within the first 12 months. An equivalent interest rate decrease will reduce interest income by 38 thousand EUR. As at 31 December 2022 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.

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.

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.

6. Notes to the financial statements

NOTE 1. Cash in other commercial banks, in EUR

	31 Dec 2023	31 Dec 2022
Cash in other commercial banks	519 041	3 056 833
Cash in Central Bank	1 220 000	0
TOTAL	**1 739 041**	**3 056 833**

The bank held a mandatory minimum reserve in Central Bank as of 31 December 2023 in the amount of 70 000 EUR. As of 31 December 2022 the bank did not have to hold mandatory minimum reserve in Central Bank. This obligation arises when the Bank has 10 million EUR in deposits with maturity of 2 years.

NOTE 2. Investments into bonds, in EUR

31 Dec 2023	Purchase date	Maturity date	Purchase price	Quantity	Balance at start	Expected credit losses	Amortized costs
Lithuanian Government Bonds, 0,7%	28 Dec 2022 / 30 May 2023	23 August 2024	97.33	2 540	247 222	(1 168)	246 054
TOTAL					**247 222**	**(1 168)**	**246 054**

The amount of accrued interest at the end of 2023 year was 3 793 EUR.

31 Dec 2022	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
TOTAL					**159 646**	**(656)**	**158 990**

NOTE 3. Loan receivables, in EUR

	31 Dec 23	Allocation by remaining maturity		
		within 12 months	1-5 years	over 5 years
Business loan with collateral	**13 991 491**	2 527 748	10 219 580	1 244 164
Expected credit losses	**(51 184)**	(5 507)	(44 289)	(1 388)
Leasing for business	**3 050 554**	112 901	2 876 301	61 352
Expected credit losses	**(18 061)**	(1 038)	(17 023)	0
Microloan for business	**1 571 593**	1 299 907	271 686	0
Expected credit losses	**(396 687)**	(393 556)	(3 131)	0
Factoring	**2 342 483**	2 279 785	62 698	0
Expected credit losses	**(62 993)**	(62 126)	(868)	0
Total loans at amortized costs	**20 427 197**	**5 758 115**	**13 364 955**	**1 304 128**

	31 Dec 22	Allocation by remaining maturity		
		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**

Credit recoveries / Credit loss	2023	2022
Balance at the beginning of the reporting period	244 797	100 064
Credit recoveries/(credit loss) allowances, net *	284 128	144 734
Balance of allowance at the end of the reporting period	528 925	244 797

*In 2023 income statement the amount of loan allowance during the reporting period is 284 639 EUR as it includes allowance of bonds in the amount of 511 EUR. In this note only allowance related to loans is presented.

*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 is presented.

Note 4. Intangible assets, in EUR

	The cost of license	Software	Total
31 Dec 2021			
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	370 974	170 101	541 075
Accumulated amortization	(9 274)	(8 530)	(17 805)
Carrying amount 31 Dec 2022	**361 700**	**161 570**	**523 270**
During 2023			
Additions	0	38 435	38 435
Written-off	0	(153 372)	(153 372)
Amortization	(37 099)	(1 266)	(38 365)
Cost	370 974	55 164	426 138
Accumulated amortization	(46 373)	(9 797)	(56 170)
Carrying amount 31 Dec 2023	**324 601**	**45 367**	**369 968**

NOTE 5. Tangible assets, in EUR

	Computers and IT systems	Other equipment	Total
31 Dec 2021			
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)
31 Dec 2022			
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**
During 2023			
Additions and improvements	19 602	3 357	22 959
Depreciation	(8 648)	(2 497)	(11 145)
31 Dec 2023			
Cost	38 970	11 669	50 639
Accumulated depreciation	(11 980)	(3 793)	(15 774)
Carrying amount 31 Dec 2023	**26 990**	**7 876**	**34 865**

NOTE 6. Other assets, prepaid expenses and accrued income, in EUR

	31 Dec 2023	31 Dec 2022
Other assets	8 998	16 595
Prepaid expenses and accrued income	166 932	29 011
Total	**175 930**	**45 606**

Other assets line included prepaid expenses and accrued income amounts in 2022 in Statement of Financial Position. These amounts are shown in separate lines in 2023.

NOTE 7. Other liabilities, accrued expenses and prepaid income, in EUR

	31 Dec 2023	31 Dec 2022
Other liabilities		
Payables to employees	109 871	76 305
Trade payables and advances received	82 150	84 398
Vacation reserve	58 496	25 822
Tax liabilities	97 033	57 497
Other liabilities total	**347 550**	**244 022**
Accrued expenses and prepaid income		
Prepaid service fees received	87 649	62 917
Accrued expenses	22 877	17 788
Accrued expenses and prepaid income total	**110 526**	**80 705**

Other liabilities line included accrued expenses and prepaid income amounts in 2022 in Statement of Financial Position. These amounts are shown in separate lines in 2023.

NOTE 8. Other loan liabilities, in EUR

	31 Dec 2023	31 Dec 2022
Loan received (INVEGA)	702 700	3 579 000
Accrued interests	2 326	10 179
Total	**705 026**	**3 589 179**

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 2023 and 2022, all deposits were term-deposits and from private individuals. Customer deposits are all in euros and received through the Raisin platform from Germany. The average interest rate was 3,55% (in 2022: 3,5%). The distribution of customer deposits by residual term is as follows:

Term	2023	2022
1 year	8 662 856	696 996
2 years	6 389 670	2 145 278
3 years	1 611 480	404 160
4 years	218 602	0
5 years	1 576 801	0
Transaction costs	(88 056)	0
Accrued interest	473 390	2 285
Total	**18 844 743**	**3 248 719**

NOTE 10. Subordinated liabilities, in EUR

In 2022, subordinated loans were received in the total amount of 1 million euros (2023: 0 euros). The balance of subordinated loan obligations as of 31 December 2023 and 31 December 2022 was 1 million euros, the interest rate is 12% and the maturity date is seven years from each contract date, in 2029 (see also table below). 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 Bank of Lithuania.

	31 Dec 2023	31 Dec 2022
Subordinated loans	1 000 000	1 000 000

	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**
Interest calculated for 2023	120 000
Interest paid during 2023	120 000
Accrued interest on subordinated loans as at 31 Dec 2023	**10 000**

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

	2023	2022
Interest income by country		
Lithuania	1 063 863	635 233
Estonia	676 023	474
Interest income total	**1 739 886**	**635 707**

	2023	2022
Interest income by product		
Interests for collateralized loans	843 167	147 615
Interest for factoring	344 740	0
Interests for business leasing	315 542	79 769
Interests for microloan for business	211 684	408 323
Interest for guarantees	24 753	0
Interest income total	**1 739 886**	**635 707**

In 2022 brokerage fees expenses related to acquisition of loans and deposits were shown in other operating expenses line in Statement of Profit and Loss and Other Comprehensive Income. In 2023 interest income was decreased by brokerage fee on acquisition of loans expenses and interest expenses were decreased by brokerage fee on acquisition of deposits expenses. The impact of this reclassification on interest income and expenses of 2022 is shown in table below, the reclassification does not affect total result of 2022 year:

	2022 before reclassification	Reclassified amounts	2022 after reclassification
Interest income at effective interest rate	659 157	-23 450	635 707
Interest expenses	-118 403	-17 487	-135 890
Net interest income	**540 754**	**-40 937**	**499 817**
Other operating expenses	-330 107	40 937	-289 170

NOTE 12. Interest expenses, in EUR

	2023	2022
Interests for deposits	491 356	2 285
Interests for subordinated loans	120 000	62 320
Interests for other loans	19 495	53 798
Effective interest rate correction	50 705	17 487
Total interest expenses	**681 556**	**135 890**

NOTE 13. Labour costs, in EUR

	2023	2022
Salary costs		
Fixed part		
Management	145 025	79 636
Other staff	1 191 040	352 363
Variable part		
Management	4 000	4 299
Other staff	22 003	7 147
Management remuneration	196 347	70 529
Vacation reserve	32 675	13 063
Social security costs	155 360	32 755
Options	40 536	2 974
Total	**1 786 986**	**562 766**

NOTE 14. Other operating expenses, in EUR

	2023	2022
IT services costs	482 201	57 946
Advertising and marketing costs	210 884	72 482
Office expenses	100 501	63 406
Banking account fees	33 756	25 494
Recruitment fees	55 190	17 298
Accounting services and financial statements audit costs	19 965	15 246
Legal costs	80 187	8 525
Other costs	303 471	28 773
Total	**1 286 155**	**289 170**

NOTE 15. Deferred tax assets, in EUR

	2023	2022
Accumulated tax losses for previous years	68 898	0
Accumulated tax losses for current year	310 821	64 892
Holiday reserve and employees options	14 855	4 006
Total deferred tax assets	**394 574**	**68 898**
Less: Deferred tax assets after valuation	(394 574)	(68 898)
Total net deferred tax assets	**0**	**0**

Bank does not recognize deferred tax assets because it is not expected to use it during nearest periods.

NOTE 16. Related parties

Finora Group AS, 100% parent company:

	Amounts receivable	Loans granted	Amounts payable	Received loans	Services rendered	Services purchased
31 Dec 2023	**0**	**0**	**18 870**	**0**	**1 979**	**113 896**
31 Dec 2022	**0**	**0**	**19 206**	**0**	**0**	**0**

	Interest and fee income	Interest expenses
2023	**0**	**0**
2022	**500**	**7 624**

Other related parties:

	Amounts receivable	Loans granted	Amounts payable	Received loans	Services rendered	Services purchased
31 Dec 2023	**48 743**	**0**	**0**	**0**	**0**	**279 422**
31 Dec 2022	**0**	**0**	**22 725**	**0**	**0**	**0**

	Interest and fee income	Interest expenses
2023	**0**	**0**
2022	**0**	**0**

Members of the governing bodies received management and governing body fees in the amount of 196 thousand EUR (gross plus other taxes) in 2023.

In 2022, 17 100 share options of AS Finora Group (parent company) 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).(both recorded only in the accounts of parent company).

During 2023 6 450 options were cancelled in relation of people leaving the company and 2 200 new options were issued in relation of people joining the company. As at 31.12.2023 total of 12 850 options are active for Finora Bank key managers (7 600 options) and employees (5 250). In additional options issued to shareholders of Finora Group (11 500 options) are still active.

For subordinated loans see the Note 10.

NOTE 17. Cash flow statement explanation, in EUR

Other non-monetary transactions	31 Dec 2023	31 Dec 2022
Change in expected credit loss provisions	284 640	144 733
Change in accrued expenses and prepaid income	29 821	17 787
Change in employees options	40 536	0
Change in vacation accrual	32 674	12 716
Intangible assets written-off	153 372	0
Total	**541 043**	**175 236**

Total change in receivables and prepayments related to operating activities	31 Dec 2023	31 Dec 2022
Change in loan and related parties receivable	-13 653 134	290 447
Change in expected credit loss provisions	-284 640	-144 733
Total	**-13 937 774**	**145 714**

NOTE 18. Contingent liabilities

	31 Dec 2023	31 Dec 2022
Contractual obligation to pay loans	0	214 000
Guarantees	941 819	0
Unused factoring limit	7 547 617	0
Total	**8 489 436**	**214 000**

NOTE 19. Share capital and other reserves

31 Dec 2023	Number of shares	Nominal value	Amount
Ordinary shares	4 600 000	1	4 600 000
Total	**4 600 000**	**1**	**4 600 000**
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**

The share capital increase in 2023 and 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 2023 amounted to 43 510 (31 December 2022 2 794) euros. Related expenses in statement of profit and loss in 2023 were 40 536 (2022 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 2023:

Date of issue	Expiry date	Share price	Number of options
December 2022	December 2025	32,6	10 650
June 2023	June 2026	57	2 200
Total			**12 850**

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 20. Proposal of the board for distribution of profit (loss)

	in EUR
Previous financial year retained earnings (loss) in the end of the year	**(482 667)**
Net profit (loss) of the reporting year	(2 204 503)
Distributable profit (loss)	(2 687 170)
Transfers from/to reserves	0
Distributable profit (loss)	**(2 687 170)**
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	**(2 687 170)**

These financial statements were prepared on March 28th, 2024.

Šarunas Ruzgys, CEO

/signed digitally/

Egle Martuseviciene, Chief Accountant

/signed digitally/

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