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AB "MANO BANKAS"

INDEPENDENT AUDITOR'S REPORT, ANNUAL MANAGEMENT REPORT AND FINANCIAL STATEMENTS

31 December 2021

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CONTENTS OF FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Mano bankas AB:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mano bankas AB (hereafter – „the Bank"), which comprise the statement of financial position as at 31 December 2021, the income statement, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the requirements of the Law on Audit of the Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the Financial Statements of the Republic of Lithuania 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 judgment, 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. Each audit matter and our respective response are described below.

Key Audit Matter	**How the matter was addressed in our audit**
Valuation of loans and receivables (see notes 11 and 25 to the financial statements)	
The Bank's impairment allowances for loans and receivables (hereinafter – loans), which as at 31 December 2021 amounted to EUR 50,352 thousand after impairment, are calculated by classifying the Bank's loans and receivables according to their homogenous groups and levels of risk. The Bank's loans and receivables are allocated to 3 risk levels, with the 1st risk level being the lowest and the 3rd risk level being the highest. Impairment allowances for loans are calculated based on expected losses, historical information and economic indicators. Expected credit losses are determined based on the value of collateral and debtor's credit rating.	We conducted these audit procedures: We have identified loan approval process and tested controls and their effectiveness: regarding loan risk monitoring, including client rating estimation and risk level allocation, identification of loss events, timely collateral revaluation. We have selected higher risk loans (including individually significant loans, loans that were issued to the sectors most affected by the COVID-19 pandemic, loss-bearing loans, or loans that were assigned risk level 3 for other reasons) for testing risk assessment and impairment allowance calculation.

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Company code 302692397, VAT payer code LT100006552313, registered in the Register of Legal Entities of the Republic of Lithuania, bank account No LT952140030002659714, Luminor Bank AS

Individual impairment is mostly related to significant loans or loans with a higher risk level. Calculation of allowances is related to estimations and decision making, including assessment of collateral value and other assumptions. In our opinion, these estimates and assumptions made by the Bank (interest rate, risk group, rating assignment, value of the collateral and its realization period) regarding the expected losses of loan group loans and individual loans for which cash flows for loan repayment are calculated have a significant effect on the value of the Bank's receivables and loans. Based on these reasons, we believe that this area is a key audit matter.	We have tested the selected loan sample, arranged discussions with the responsible the Bank's officers and identified whether the loan is assigned to the appropriate risk level (i.e. whether the assumptions made while evaluating loss events, discount rate and the value of collateral are reasonable) and if estimated credit losses are calculated appropriately. We have tested valuations of the collateralized assets which is the main factor in calculating loan impairment and identified whether the methods and assumptions used in valuations were appropriate and logical, whether the market conditions between the date of valuation and 31 December 2021 did not change significantly and whether there is a need to update the valuation. We have reviewed the methodology for impairment allowance calculations and tested whether selected sample of loan impairment calculations was made in accordance with the Bank's methodology. We have also tested whether historic and prospective information used in the valuation model is appropriate. We have reviewed the considerations and assessments made by the Bank in assessing the credit risk associated with the potential impact of COVID-19. We have evaluated the sufficiency and appropriateness of disclosures related to loans and receivables in the financial statements of the Bank.

Other information

The other information comprises the information included in the Bank's annual report, 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 the 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 Financial Reporting by Undertakings of the Republic of Lithuania.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 auditors' 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

By the decision of the Shareholders meeting on 27 July 2020 we were elected for the first time to audit the financial statements of the Bank. The total uninterrupted term of appointment is 2 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the audit report for the financial statements presented to the Bank and its Audit Committee.

We confirm that to the best of our knowledge and belief, we have not provided any prohibited non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of the audit we have not provided services other than the audit of the financial statements.

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

Auditor Romanas Skrebnevskis
Auditor’s certificate No. 000471

ROSK Consulting UAB
Audit company’s certificate No. 001514

Vilnius, Lithuania
30 March 2022

ANNUAL MANAGEMENT REPORT

1. The reporting period covered by the Annual Report

01-01-2021 – 31-12-2021

2. AB „Mano bankas“ contact details

Company name: AB „Mano bankas“

Legal form: Joint stock company

Legal address: S. Moniuškos st. 27, LT-08115, Vilnius

Legal entity code: 112043081

Telephone: +370 5 2409389 E-mail address hello@mano.bank

Website address: www.mano.bank

3. Objective overview of the Bank's status, activities and development, analysis of financial and non-financial performance, information related to environmental and personnel issues

In 2021 AB „Mano bankas“ carried out steady and profitable activity.

As at 31 December 2021 the Bank's assets amounted to EUR 109,475 thousand. In comparison to 2020, the Bank's assets increased by 39 percent during the reporting period.

As at 31 December 2021, the shareholders equity of the Bank was EUR 8,843 thousand (EUR 7,645 thousand as at 31 December 2020). With the intention to strengthen its equity, the Bank has signed a subordinated loan agreement, which increased the Bank's capital by EUR 500 thousand.

As at 31 December 2021 the Bank's loan portfolio amounted to EUR 50,352 thousand and has increased by 23 percent during 2021.

As at 31 December 2021 the Bank's deposits amounted to EUR 99,549 thousand and have increased by 41 percent during 2021.

In 2021 the Bank generated a net profit of EUR 1,197 thousand, which is 2.3 times the amount compared to 2020.

In 2021, the Bank complied with all prudential requirements.

In the second half of 2021 the Bank signed an agreement with the European Investment Fund (EIF) for EUR 50 million loan portfolio guarantees. This agreement allowed the Bank to significantly increase its loan portfolio at the end of the year.

In 2021 the Bank received a permission from the Bank of Lithuania and started providing a deposit collection service in the Federal Republic of Germany. This allowed the Bank to attract the resources needed to grow its lending business and at the same time reduce its average funding costs.

In 2021 the Bank successfully migrated data and started using a new banking core system. This change enabled the Bank to offer its customers more self-service capabilities and new products. The migration also enabled the Bank itself to increase efficiency both in customer service and in internal and external reporting.

In 2021 the Bank fully compensated for the negative impact of its CO_2 on the environment and became the first CO_2-neutral bank in Eastern Europe (CO2logic Individual Transaction Certificate No. 21/355).

At the end of the reporting period the Bank's main profitability ratios were: return on assets (ROA) – 1.3 percent (0.80 percent in 2020), return on equity (ROE) – 14.5 percent (6.96 percent in 2020).

4. Data on acquisition of own shares

AB „Mano bankas“ does not have own shares and did not acquire or dispose them during the reporting period.

5. Information about the Bank's branches and representatives

AB „Mano bankas“ does not have branches or representative offices. The Bank's headquarters, where services to clients are provided, is located on S. Moniuškos st. 27, LT-08115, Vilnius. At the Bank's headquarters services are provided to both private and corporate clients.

6. Material events after the end of financial year

The war that began in Ukraine in February 2022 did not have a significant impact on the Bank's results and ability to continue as a going concern. The Bank's management, together with the Crisis Management Committee, constantly monitors the Bank's activities, forecasts possible changes in the situation, plans and implements measures to manage increased risks or uncertainties.

When assessing credit risk changes related to this military conflict, the Bank has identified customers who may face difficulties in repayment of their loans due to extended international sanctions that affect the supply chains of raw materials and commodities. The total amount of these loan liabilities is less than EUR 500 thousand and all these loans are collateralized, therefore the Bank does not anticipate significant losses due to the possible insolvency of these customers. At the beginning of the military conflict the Bank did not have and now does not have any assets in Russia, Belarus and Ukraine.

When managing liquidity risk the Bank constantly monitors cash inflows and outflows and has not identified any significant impact on the funding structure and the outgoing cash flow.

In order to enforce the international sanctions, the Bank restricted payments to / from Russia and Belarus and suspended operations on a correspondent nostro account with one of the Russian banks. Payments in these directions and through above mentioned nostro account composed only a small share of Bank's payment transactions, therefore the restrictions will not have a significant impact on the Bank's income.

In a response to increased cyber threats, the Bank has implemented additional information security measures, as well as strengthened the physical protection of assets and data.

7. Bank's business planning & forecasting

The main goal of the Bank in 2022 is to increase the asset and capital base and to grow revenue and profitability. To achieve this, the Bank has assessed these main areas of focus:

• Expansion of financing business. The Bank has years of experience in small and medium enterprises as well as private clients financing business. This experience translates to the Bank having a broad circle of current and potential customers, being aware of clients' needs and being able to take correct risk management decisions. In addition to that, the Bank is expanding its range of financing products, making investments into product marketing and is in cooperation with institutions that grant guarantees for loans (e.g., Invega, EIF).

• Expansion of payment transactions business. In 2022 the Bank will continue expanding its payments infrastructure by introducing new payment currencies, channels, automating processes and adding other developments. Expansion of payment transaction business will be done in line with strict money laundering and terrorist funding prevention guidelines, which will be enforced by consistently increasing competencies of the Bank's employees, improving internal processes and installation of modern monitoring tools for payment transactions.

• Improving business efficiency. Business efficiency will be improved by increasing revenues through financing activity (interest income), developing payment transactions (commission income), introducing new streams of revenue, optimising pricing (particularly for daily banking products), activation of clients (sales of additional services and promoting currently used ones). At the same time a strict control will be ensured over the Bank's operating expenses by improving operational planning and reporting, implementing effective and modern work methods, and rationally assessing priorities for investments into different projects.

8. Information about research and development activity

AB „Mano bankas“ did not carry out research and development activity.

9. Description of the main risk types and their management

Risk is integral to the Bank's activity. Risk management is a continuous process designed to ensure that all risks that the Bank is exposed to are identified and understood, their potential effects are anticipated and measures are undertaken to reduce their potential adverse effects.

Risk in the Bank is managed through continuous identification, assessment and control processes that depend on the risk limits and other controls. This risk management process is very important for the Bank's continuous profitability and every employee is responsible for risk management in his respective function.

The main risks that the Bank faces are divided into several categories: credit, liquidity, market, operational, capital, and other risks. The Bank's risk management appetite is defined by the risk management policy and risk limit system which is approved by the Supervisory Board of the Bank.

Detailed information about the main risks that the Bank faces and compliance with the Bank of Lithuania and European Central Bank prudential requirements is provided in the note 25 of these financial statements.

10. Information about employment relations of key management personnel

Member of management	Managing function	Main workplace	Work title	Other workplaces, where managerial positions are held	Work title
Pijus Ralys	Supervisory Board	-	-	-	-
Kęstutis Olšauskas	Supervisory Board	-	-	Association „Lietuvos kreditas“	Head of the Board
Rytis Laurinavičius	Supervisory Board	UAB „Omnisend“	Director	-	-
Gintas Pošiūnas	Supervisory Board	UAB „Pošiūno klinika“	Director for medicine	-	-
Vytautas Jonas Lapienis	Board	AB „Mano bankas“	Deputy head of administration	Association „Lietuvos kreditas“ UAB „Subačiaus namai“	Board member Director
Vytautas Olšauskas	Board	AB „Mano bankas“	Deputy head of administration	UAB „Vilniaus kapitalas“ UAB „Croudpear“	Director Director
Aurimas Putna	Board	AB „Mano bankas“	Head of credit derpartment		
Povilas Sadaunykas	Head of administration	AB „Mano bankas“	Head of administration		

30 March 2022

Chief Executive Officer Povilas Sadaunykas

(All amounts in EUR thousand unless otherwise stated)

INCOME STATEMENT

	Notes	31 December 2021	Year ended 31 December 2020
Interest income		3,857	3,086
Other similar income		363	74
Interest and other similar expenses		(926)	(777)
Net interest income	1	**3,294**	**2,383**
Service fee and commission income		2,016	647
Service fee and commission expense		(64)	(82)
Net service fee and commission income	2	**1,952**	**565**
Net result on debt securities trading	3	(97)	116
Net result on currency exchange transactions		63	-
Net result on operations from non-financial assets		(7)	(95)
Other income	4	28	32
Salaries and related expenses		(2,299)	(1,365)
Depreciation and amortisation		(140)	(114)
Other operating expenses	5	(1,329)	(843)
Profit before impairment		**1,465**	**679**
Provisions	21	(27)	(21)
Impairment of loans and other financial assets	6	(39)	(57)
Fair value change of investment property	15	-	(13)
Other impairment losses	6		-
Operating profit		**1,399**	**588**
Income tax expense	7	(202)	(74)
Net profit		**1,197**	**514**
Attributable to:			
The Bank shareholders		1,197	514
Non-controlling interest		-	-
Basic earnings per share (Eur per share), attributable to the Bank shareholders	8	7,09	3.04
Diluted earnings per share (Eur per share), attributable to the Bank shareholders	8	7,09	3.04

Chief Executive Officer Povilas Sadaunykas

Chief Financial Officer Renata Grumbinienė

30 March 2022

The accompanying notes on pages 16-44 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME

		Year ended	
	Notes	***31 December 2021***	***31 December 2020***
Net profit		1,197	514
Other comprehensive income (loss):		-	-
Other comprehensive income items that are or may be reclassified to profit or loss			
Fair value revaluation reserve charged directly to equity		-	-
Fair value revaluation reserve charged to statement of profit (loss)		-	-
Deferred income tax related to revaluation		-	-
Other comprehensive income items that may not be reclassified to profit or loss			
Fair value change of financial liabilities, measured at fair value through profit (loss), attributable directly to the liability's credit risk		-	-
Other comprehensive income (loss), net of deferred taxes		-	-
Total comprehensive income		**1,197**	**514**
Attributable to:			
The Bank shareholders		1,197	514
Non-controlling interest		-	-

Chief Executive Officer	Povilas Sadaunykas
Chief Financial Officer	Renata Grumbinienė

30 March 2022

The accompanying notes on pages 16-44 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	9	7	15
Debt securities measured at fair value through profit (loss)	10	1,488	714
Cash balances at banks	9	38,913	21,079
Loans to customers	11	50,352	40,831
Debt securities measured at amortised cost	12	14,716	11,503
Intangible assets	13	204	192
Tangible assets	14	3,160	1,736
Investment property	15	324	1,508
Deferred income tax	7	10	-
Other assets	16	1,154	949
Total assets		**109,475**	**78,527**
LIABILITIES			
Due to customers	17	99,549	70,413
Subordinated liabilities	22	501	-
Current income tax liability		168	67
Contractual commitments	18	11	20
Deferred tax liability	7	-	25
Provisions	21	61	21
Other liabilities	19	342	336
Total liabilities		**100,632**	**70,882**
EQUITY			
Share capital	20	4,726	4,726
Other reserves		-	-
Reserve capital		2,920	2,102
Retained earnings		1,197	817
Non-controlling interest		-	-
Total equity		**8,843**	**7,645**
Total liabilities and equity		**109,475**	**78,527**

Chief Executive Officer — Povilas Sadaunykas

Chief Financial Officer — Renata Grumbinienė

30 March 2022

The accompanying notes on pages 16-44 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

	Notes	*Share capital*	*Emission differences*	*Reserve capital*	*Fair value revaluation reserve*	*Legal reserve*	*Retained earnings*	*Total*
	Attributable to the Bank's shareholders							
Balance as of 1 January 2020		4,726		2,026			379	7,131
Transfers to reserves				76			(76)	-
Total comprehensive income:							514	514
Net profit							514	514
Other comprehensive income							-	-
Balance as of 31 December 2020		4,726		2,102			817	7,645
Transfers to reserves				818			(817)	1
Total comprehensive income:							1197	1,197
Net profit							1,197	1,197
Other comprehensive income								-
Balance as of 31 December 2021		4,726		2,920			1,197	8,843

Chief Executive Officer Povilas Sadaunykas

Chief Financial Officer Renata Grumbinienė

30 March 2022

The accompanying notes on pages 16-44 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CASH FLOW STATEMENT

	Notes	31 December 2021	Year ended 31 December 2020
Cash flows from operating activities			
Interest income received		4,394	3,115
Interest expense paid		(798)	(749)
Service fee and commission income		2,016	648
Service fee and commission expense		(64)	(82)
Other income		96	166
Other expenses		-	(113)
Cash flows from recovered loans		31	32
Salaries and related expenses		(2,342)	(1,365)
Other operating expenses		(1,516)	(818)
Income tax paid		(136)	(64)
Cash flows from operating activities before changes in operating assets and liabilities		**1,681**	**770**
Changes in operating assets and liabilities			
Changes in loans to customers		(9,567)	(12,192)
Changes in due to customers		29,136	28,171
Net change		19,569	15,979
Net cash flows from operating activities		**21,250**	**16,749**
Investing activities			
Acquisitions of tangible and intangible assets		(1,521)	(27)
Proceeds from sale of tangible, intangible and investment property		-	-
Acquisitions of debt securities		(8,032)	(16,799)
Proceeds from redemption or disposal of debt securities		3,915	14,267
Proceeds from disposal of investment property		1,715	829
Acquisitions of investment property		-	(54)
Net cash flows from investing activities		**(3,923)**	**(1,784)**
Financing activities			
Contributions to share capital		-	-
Dividends paid		-	-
Subordinated amounts received		500	-
Subordinated amounts paid		-	-
Net cash flows from financing activities		**500**	**-**
Net increase (decrease) in cash and cash equivalents		**17,827**	**14,965**
Cash and cash equivalents at 1 January	9	21,093	6,128
Cash and cash equivalents at 31 December	9	38,920	21,093

Chief Executive Officer Povilas Sadaunykas

Chief Financial Officer Renata Grumbinienė

30 March 2022

The accompanying notes on pages 16-44 are an integral part of these financial statements.

GENERAL INFORMATION

AB „Mano bankas“ (hereinafter referred to as the Bank) was registered as a joint stock company in the register of legal entities on 2 January 2019 after reorganisation of credit union “Mano Unija”, which was operating since 30 May 1996.

AB “Mano bankas” is acting in accordance with a specialised bank license granted by the European Central Bank on 15 October 2018, which allows the Bank to collect deposits and other refundable funds from non-professional market participants and to lend those funds by assuming the related risk and responsibility as well as to provide other financial services as described in the Banking law of Republic of Lithuania and Articles of the Bank. The Bank collects deposits, provides loans, carries out payment transactions, invests into debt securities, trades them and carries out other operations.

Bank headquarters are located on S.Moniuškos st. 27, LT-08115.

On 31 December 2021 the Bank had 64 employees (44 as of 31 December 2010).

These financial statements were approved and signed by the management on 30 March 2022.

In accordance with Republic of Lithuania Law on Companies the financial statements have to be approved by the shareholder meeting. The shareholders have a right not to approve the financial statements and request the management to prepare new ones.

The shareholder structure of the Bank is described in Note 20 Shareholder’s equity.

ACCOUNTING PRINCIPLES

These are the main accounting principles that were used while preparing the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The financial statements have been prepared on the historical cost basis except for financial assets measured at fair value through profit (loss), and investment property, measured at fair value.

The amounts in these financial statements are prepared in the national currency, the euro (EUR), which is the Bank's functional currency.

These financial statements have been prepared on a going concern basis, with the assumption that the Bank in the foreseeable future will be able to continue its activity.

Use of estimates and judgements in the preparation of the financial statements

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. Estimates are prepared based on the available information to the management and current market situation, however factual outcome might differ.

Below are presented key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment losses on loans and receivables

The Bank regularly reviews loans and receivables to assess impairment. The Bank uses experienced judgment to estimate the amount of impairment loss in cases when a borrower is in financial difficulties and historical data relating to similar borrowers is available. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables when scheduling its future cash flows. The Bank uses experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred. For further information see Note 6 and Note 25.

Fair value of investment property

In order to determine the fair value of investment property the Bank uses valuation reports prepared by external valuators and internal the Bank's valuators. On 31 December 2021 and 2020 the value of investment property was determined by the Bank's internal valuator, who is a certified real estate, mobile assets and business valuator.
Comparative method was the main type of valuation method used in preparation of the financial statements, meaning that the fair value of objects is determined based on the available market information of transactions that involve similar assets, adjusting for minor differences between them. The accuracy of calculated value significantly depends on the level of comparability of the assets, transactions carried out and market changes. Therefore, the fair value of investment property is assigned to the 3rd level in the fair value hierarchy.
Changes in fair value of investment property are accounted for in the income statement.

Deferred tax asset

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Future events may occur which may cause changes in the assumptions used in the estimations. The effect of any changes in estimates will be recorded in the financial statements when they'll be determined.

Application of new and revised International Financial Reporting Standards (IFRSs)

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union (further – EU) are effective for the current period:

- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (effective for annual periods beginning on or after 1 January 2021)
- Amendment to IFRS 16 Leases Covid 19 - Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020);
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after 1 January 2021).

The application of these standards, amendments and interpretations did not have a significant effect on the Bank's financial statements.

Standards, amendments and interpretations to existing standards issued by IASB, adopted by EU, but not yet effective:

At the date of authorisation of these financial statements, the Bank has not early adopted the following new and revised IFRS standards, amendments and interpretations that have been issued but are not yet effective:

- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020 (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 16 Leases: Covid 19 - Related Rent Concessions beyond 30 June 2021 (effective for annual periods beginning on or after 1 April 2021);
- IFRS 17 Insurance Contracts; including Amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023).

The management of the Bank does not expect that the adoption of these standards, amendments and interpretations listed above will have a material impact on the financial statements of the Bank in future periods.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been endorsed by EU

IFRSs currently endorsed by EU are not significantly different from the standards, endorsed by IASB, except the standards, amendments and interpretations that were not endorsed by EU (the effective dates are applicable to IFRS to full extent). These standards, amendments and interpretations are listed below:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023).

The management of the Bank does not expect that the adoption of these standards, amendments and interpretations listed above will have a material impact on the financial statements of the Bank in future periods.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate of European Central Bank prevailing at the date of the statement of financial position. Gains and losses resulting from the translation of items of the statement of financial position are recognised in the profit or loss. Non-monetary items carried are translated using the exchange rate at the date of the transaction.
Transactions in foreign currencies are translated to EUR at the spot exchange rate prevailing at the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than EUR are recognised in the profit or loss.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a currently enforceable legal right to set off the amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Revenue and expense recognition

Interest income and expense from debt instruments, stated at amortised cost or fair value through other comprehensive income, are recognised in income statement on accrual basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. In calculation of the effective interest rate the Bank evaluates cash flows based on the contract terms (i.e. possibility of advance payment), but does not evaluate future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Other fees and commission revenue, including account servicing fees are recognised on accrual basis as the related services are performed.

Interest income from financial assets is calculated using effective interest rate based on the book value of the asset, except for credit impaired assets (stage 3 financial assets), for which interest income is calculated using effective interest rate based on the gross carrying amount (book value less impairment losses) and for purchased or originated credit impaired assets, for which interest income is calculated using credit risk adjusted effective interest rate based on their amortised cost.

Service fee and commission revenue include account servicing fees, transaction fees, cash operations fees and fees for other services related to loan administration. These revenues are recognised on accrual basis as these services are provided. Revenues are typically the reward expected to be received for the services provided. Revenues are distributed for each service provided based on whether the service is provided at a point in time or over a certain period. Bank recognises contractual revenues for services not yet provided as accrued revenues and contractual commitments based on received advance payments, when the services are yet to be provided, as deferred revenues. Commission expenses are dependent on individual agreements and are directly related to agreements that generate revenues accounted under service fee and commission income line in the income statement.

The Bank also generates revenues through disposal of its own tangible assets and investment property as well as through lease of such assets. These revenues are only accounted upon transfer of the asset to the client and in cases of rental income – upon completion of contractual obligations. All expenses related to disposal are accounted for as incurred as typically related assets are disposed within 12 months of their acquisition.

Taxes

Income tax

In accordance with the Law on Corporate Income Tax of the Republic of Lithuania, the current income tax rate is 15 percent on taxable income. Expenses related with taxation charges and included in these financial statements are based on calculations made by the management in accordance with Lithuanian tax legislation.

Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax laws that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred tax assets have been recognised in the statement of financial position to the extent the management believes they will be realised in the foreseeable future, based on taxable profit forecasts.

Other taxes

Real estate annual tax rate is up to 1 percent on the tax value of property and equipment and foreclosed assets. The Bank is also obliged to pay land and land rent taxes, make payments to guarantee fund and social security contributions. These taxes are included in other expenses in the income statement.

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising funds that have maturity date up to three months from the date of placement, including cash and current accounts with the Bank of Lithuania, short-term bonds receivables from other banks and financial institutions.

Financial assets

Financial assets are classified into 3 categories:

- Financial assets that are subsequently measured at fair value through profit (loss) (the Bank has debt securities that are included in the trading book),
- Financial assets that are subsequently measured at fair value through other comprehensive income (the Bank does not have assets under this category),
- Financial assets that are subsequently measured at amortised cost.

At initial recognition financial assets are measured at fair value, plus, in the case of investments not at fair value through profit (loss), directly attributable incremental transaction costs. Subsequent measurement is based on the cash flow properties and business operating model of the asset.

Financial assets measured at fair value through profit (loss)

Trading book assets (trading portfolio) includes debt securities that were purchased for generation of profit from short-term fluctuations in price or dealer's margin.

At initial recognition debt securities measured at fair value through profit (loss) are recognised at fair value based on the transaction price. Subsequent fair value measurement is based on available market prices or internally determined prices based on discounted cash flow method, if market prices are not representative enough. Realised profit and loss from debt securities operations is recognised in the income statement. Interest income collected is included in the fair value of these securities. Received dividends are recorded under dividend revenue. These assets are derecognised when the contractual right to receive cash flows expires or when the Bank has transferred substantially all the risks and rewards of the asset.

All purchases and disposals of debt securities, measured at fair value through profit (loss), that have to be disposed based on regulatory institutions or risk conventions determined timeframes, are recognised at the factual settlement date (upon the factual payment for purchased or disposed asset). All other purchases and disposals are considered to be forward deals until the payment date.

Financial assets measured at fair value through other comprehensive income

Debt securities that are held for the purpose of collecting contractual cash flows and selling them, when the cash flows are solely payments of principal and interest on the principal amount outstanding and which at initial recognition cannot be measured at fair value through profit (loss) are measured at fair value through other comprehensive income. A revaluation gain or loss is recognised in other comprehensive income, except for impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised through profit (loss). Upon derecognition of these assets the cumulative fair value revaluation gain or loss previously recognised in other comprehensive income is reclassified from equity to profit (loss) and is recorded as revenue from debt securities operations. For debt securities the interest revenue is recognized in profit (loss) calculated by the effective interest rate method.

The Bank did not have such securities during the reporting period.

Financial assets measured at amortised cost

Financial assets, measured at amortised cost, consist of non-derivative financial assets, that are designed to be held and to collect contractual cashflows except for: a) assets, that are measured at fair value through profit (loss) due to intent of disposing them in the near future or to correct accounting inaccuracies; b) assets, that were initially measured at fair value through other comprehensive income; c) assets, whose owner, for reasons other than deterioration of credit quality, might not recover the majority of investment. Impairment loss is recognised as the amount decreasing the carrying amount of the asset and is recorded in the profit (loss) statement under impairment losses.

Impairment of financial assets

Financial assets, that are measured at amortized cost or fair value through other comprehensive income as well as positions arising from crediting commitments and other financial guarantees are valuated based on the Expected Credit Loss (ECL) valuation model. At the end of each reporting period, the Bank recognises the calculated amount of these impairment losses. ECL depicts unbiased probability based amount that is calculated based on a range of potential outcomes, time value of money and reliable information (that can be obtained with reasonable effort and expense) at the reporting date about past events, current conditions and future economic forecasts.

Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial asset to determine whether there are any indications of impairment and the asset's carrying amount might not be recovered. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the greater of assets value in use and its fair value less cost to sell. For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets. Impairment testing can be performed for individual assets if value in use or fair value less cost to sell can be determined reliably. Impaired non-financial assets are reviewed at the end of each reporting period for potential impairment loss reversal.

Investment property

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Bank are classified as investment properties. Investment property comprise residential and commercial buildings and land plots with undetermined future use.

Investment property is recognised only if it is probable that future economic benefits and expenses related to the property can be reasonably evaluated. This usually happens at the moment of risk transfer.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise.

When there is a change in use, investment property is transferred to tangible assets (if used for own purposes) or to inventories (if it has been decided to sell the asset). Fair value of the asset, determined at the moment of derecognition, is deemed cost for subsequent accounting.

Intangible assets

Intangible assets are stated at cost less any accumulated amortization. Intangible assets are amortised on a straight-line basis over their useful lives as described in Note 13. Amortisation is recognised in profit (loss) and costs associated with maintenance are recorded as an expense when incurred.

Tangible assets

Tangible assets are measured at cost less accumulated depreciation. Depreciation is recognised in profit (loss) on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

Depreciated items are periodically reviewed for impairment if events or conditions arise that indicate potential losses. Carrying value of asset is reduced to recoverable amount if the carrying amount is higher. Recoverable amount is higher of fair value less costs to sell and value in use.

Result from disposal of tangible assets is estimated based on its carrying value and is included in the income statement.

At the end of each reporting period the Bank reviews residual values and useful lives of tangible assets and revises them if necessary. The costs of servicing and maintenance are recognised in the profit (loss) as incurred. Significant improvements of tangible assets are capitalized and depreciated during remaining useful life of the asset. Borrowing costs that can be directly attributed to tangible assets that are being prepared for use, are capitalized. Useful lives of tangible assets are disclosed in Note 14.

Leased assets are continued to be depreciated over their useful lives at the same depreciation rate. Lease income is recognised in directly proportional method during lease period.

Lease

The Bank recognizes right-of-use asset and a corresponding lease liability in the balance sheet at inception of the contract, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. These short-term and / or low-value lease payments are recognized as an operating expense on a straight-line basis over the term of the lease.

Lease liabilities are recognized in the balance sheet as other liabilities and are initially measured at the present value of lease payments that are not paid at the commencement date. Subsequently, the lease liability is increased by the interest accrued and reduced by the lease payments.

Lease (cont'd)

The right-of-use assets are presented within Tangible assets and initially are measured at cost which comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. Subsequently, right-to-used assets are depreciated over the lease term, starting from the date the lease is commenced. The carrying amount of the right-of-use assets is adjusted for impairment.

Depreciation and interest expense on right-to-used assets are recognized in the income statement.

Financial liabilities

Financial liabilities are measured at amortised cost. Financial liabilities mainly include customers deposits. Financial liabilities are initially recognised at fair value and are subsequently measured at amortised cost. Difference between received amount and purchase price is recognised over term of liability in the statement of profit (loss) based on effective interest rate.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires.
Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

Dividends

Dividends are recognised on the same period when they are declared.

Employee benefits

Short-term employee benefits

Short-term employee benefits are recognised as a current expense in the period when employees render services. These include salaries and wages, social security contributions, bonuses, paid holidays and other benefits.

Severance pay

Severance pay is paid to employees upon termination of employment before the standard pension leave term or upon employees wish to willingly leave in return for this payment. Bank records severance expenses when such legal obligation arises. If severance pay is due after 12 months after the date of financial position, it is discounted to net present value. Severance pay is recorded in the income statement under employee related expenses and under other liabilities in the statement of financial position.
There are no significant long-term employee benefits.

The Bank's liabilities to pension aged employees (which consists of 2 months average employee salary) are immaterial, thus pension reserve was not formed as at 31 December 2021 and 2020.

Fair value of financial assets and liabilities

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.
For financial instruments traded in active financial markets the fair value is determined by reference to quoted market prices. Bid prices are used for assets and ask prices are used for liabilities. In the absence of an active market the fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics.
Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(All amounts in EUR thousand unless otherwise stated)

Fair value of financial assets and liabilities (cont'd)

In the table below are presented the carrying amounts and fair values of the financial instruments, which are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2021		31 December 2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	38 920	38 920	21 094	21 094
Debt securities	16 204	16 147	11 503	11 546
Loans to customers	50 352	56 211	40 831	49 896
Other assets	36	36	47	47
Total financial assets	**105 512**	**111 314**	**73 475**	**82 583**
Financial liabilities				
Due to customers	99 549	99 957	70 413	70 838
Subordinated liabilities	501	659	-	-
Other liabilities	521	521	201	201
Total financial liabilities	**100 571**	**101 137**	**70 748**	**71 209**

The following describes the methodologies and assumptions used to determine the fair value for those financial instruments:

Cash. Represents cash on hand for which the carrying amount is its fair value.

Balances with the Central Bank. The carrying amount equals to the fair value as these are current accounts at the Bank of Lithuania.

Debt securities. Their fair value was calculated based on market quotations.

Amounts due from and to credit institutions. For assets maturing within three months, the carrying amount approximates the fair value due to the relatively short-term maturity of these financial instruments.

Loans to customers. The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Other assets include advances paid and other debts of partners with maturity less than 3 months, therefore their carrying amount approximates the fair value due to the relatively short maturity of these assets.

Amounts due to customers. For balances maturing within three months the carrying amount approximates the fair value due to the relatively short maturity of these financial instruments. For longer term fixed interest-bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity and credit quality.

Subordinated liabilities: The fair value of subordinated liabilities was determined by discounting cash flows using market interest rates of loans at the end of the year.

Other liabilities include accounts receivables and tax liabilities with maturity of less than 3 months, therefore their carrying amount approximates the fair value due to the relatively short maturity of these liabilities.

The following table shows an analysis of the financial instruments recorded at fair value by the level of the fair value hierarchy:

31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities measured at fair value through profit (loss)	1,488	-	-	1,488
Total financial assets	**1,488**	**-**	**-**	**1,488**

31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities measured at fair value through profit (loss)	714	-	-	714
Total financial assets	**714**	**-**	**-**	**714**

The following table sets out the financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy.

31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	38,920	-	-	38,920
Debt securities	14,716	-	-	14,716
Loans to customers	-	50,352	-	50,352
Other assets	-	-	36	36
Total financial assets	**53,636**	**50,352**	**36**	**104,024**
Financial liabilities				
Due to customers	-	99,549	-	99,549
Subordinated liabilities	-	501	-	501
Other liabilities	-	-	521	521
Total financial liabilities	-	**100,050**	**521**	**100,571**

(All amounts in EUR thousand unless otherwise stated)

ACCOUNTING PRINCIPLES (cont'd)

31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	21,094	-	-	21,094
Debt securities	11,503	-	-	11,503
Loans to customers	-	40,831	-	40,831
Other assets	-	-	47	47
Total financial assets	**32,597**	**40,831**	**47**	**73 475**
Financial liabilities				
Due to customers	-	70,413		70,413
Subordinated liabilities	-	-	-	-
Other liabilities	-		371	371
Total financial liabilities	**-**	**70,413**	**371**	**70,748**

Financial guarantees

Guarantees represent irrevocable assurances that the Bank will make payments in the event when a customer cannot meet its obligations to the third parties. Bank issues guarantees for its clients to ensure a proper fulfilment of their obligations.

Financial guarantees are initially recognised in the financial statements at fair value. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and amount recorded at initial recognition less recorded revenues under IFRS 15.

SEGMENT INFORMATION

Operating segments are reported in accordance with the information analysed by the Board of the Bank, which is responsible for allocating resources to the reportable segments and assesses its performance.

The Bank has three main business segments:

- Traditional banking operations and lending – includes traditional banking operations such as issuing loans and providing banking services to private and corporate customers;
- Transaction services – includes transaction services to other market participants;
- Other activities – includes other banking operations not included in traditional banking operations and transaction segments such as operations with investment property.

The key indicator for reporting to the management of the Bank is the pre-tax profit (loss), which consists of net interest income, net commission income, loan impairment changes, net result on operations on investment property, operating expenses, amortization and depreciation costs, and other net income.

The Bank's long term assets (except for small part of the financial assets) are located in Lithuania. The Bank has not earned income in other countries.

(All amounts in EUR thousand unless otherwise stated)

NOTE 1 NET INTEREST INCOME

	Year ended	
	31 December 2021	31 December 2020
Interest income on loans to customers	3,857	3,081
Interest income on liabilities to customers	286	-
Other similar income	77	74
Interest income on debt securities measured at amortized cost	-	5
Total interest income	**4,220**	**3,160**
Interest expense on liabilities of customers	(735)	(688)
Interest expense on funds held in banks	(125)	(47)
Deposit insurance expense	(49)	(42)
Interest expense on debt securities measured at amortized cost	(16)	-
Interest expense on subordinated liabilities	(1)	-
Total interest and similar expense	**926**	**(777)**
Net interest income	**3,294**	**2,383**

NOTE 2 NET SERVICE FEE AND COMMISSION INCOME

	Year ended	
	31 December 2021	31 December 2020
Service fee and commission income		
Payment services	1,292	206
Administration of bank accounts	542	301
Loan administration services	165	134
Cash operations	17	6
Total service fee and commission income	**2,016**	**647**
Service fee and commission expense:		
Loan administration services	(14)	(59)
Payment services	(35)	(14)
Cash collection services	(9)	(3)
Other service fee and commission expense	(6)	(6)
Total service fee and commission expense	**(64)**	**(82)**
Net service fee and commission income	**1,952**	**565**

(All amounts in EUR thousand unless otherwise stated)

NOTE 3 NET RESULT ON DEBT SECURITIES TRADING

	31 December 2021	31 December 2020
Trading book debt securities:		
Realised profit from debt securities	(12)	8
Unrealised profit (loss) from debt securities	(43)	10
Net result on trading book debt securities	**(55)**	**18**
Banking book debt securities:		
Realised profit from debt securities measured at amortised cost	(42)	98
Net result on banking book debt securities	**(42)**	**98**
Total	**(97)**	**116**

NOTE 4 OTHER INCOME

	Year ended	
	31 December 2021	31 December 2020
Rent income	28	30
Other income	-	2
Total	28	32

NOTE 5 OTHER OPERATING EXPENSES

	Year ended	
	31 December 2021	31 December 2020
Payments for service providers	765	491
Legal and consulting expenses	162	55
Office maintenance expenses	66	14
Marketing and advertising expenses	66	38
Transportation expenses	59	37
Recruitment and training expenses	42	11
Asset maintenance expenses	31	69
Operational taxes	21	9
Insurance expenses	19	13
Business trip expenses	16	3
Communication expenses	15	18
Supervision fees	11	10
Debt collection expenses	5	15
Other expenses	51	60
Total	**1,329**	**843**

(All amounts in EUR thousand unless otherwise stated)

NOTE 6 IMPAIRMENT LOSSES

	Year ended 31 December 2021	Year ended 31 December 2020
Impairment loss on loans:		
Impairment losses calculated during the year	(65)	(89)
Recovery of loans previously written-off	26	32
Net impairment of loans and other financial assets	(39)	(57)

NOTE 7 INCOME TAX

	Year ended 31 December 2021	Year ended 31 December 2020
Current year income tax	(237)	(92)
Deferred taxes	35	18
Total	**(202)**	**(74)**

The income tax expense, applicable to the result of the current year, can be reconciled with the income tax expenses calculated using statutory income tax rate for the pre-tax income as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Profit before tax	1,434	588
Profit tax calculated at 15% tax rate	215	88
Non-taxable income	(13)	(17)
Non-deductible expenses	35	21
Income tax expenses	**237**	**92**

Deferred tax asset and liability:

	Net balance at 1 January	Recognised in profit (loss)	Balance at 31 December 2021		
			Net amount	Deferred tax asset	Deferred tax liability
Impairment of investment property	(46)	27	(19)	-	(19)
Accrued expenses	18	4	22	22	-
Provisions	3	4	7	7	-
Total	**(25)**	**35**	**10**	**29**	**(19)**

	Net balance at 1 January	Recognised in profit (loss)	Balance at 31 December 2020		
			Net amount	Deferred tax asset	Deferred tax liability
Impairment of investment property	(55)	9	(46)	-	(46)
Accrued expenses	12	6	18	18	-
Provisions	-	3	3	3	-
Total	**(43)**	**18**	**(25)**	**21**	**(46)**

(All amounts in EUR thousand unless otherwise stated)

NOTE 8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share are calculated by dividing the net profit by the weighted average number of the ordinary shares outstanding during the period.

The weighted average number of the ordinary shares outstanding was 168,783 as at 31 December 2021 and 2020 and has not changed during 2020 and 2021.

	Year ended	
	31 December 2021	31 December 2020
Profit for the from continuous operations year attributable to shareholders	1 197	514
Profit from discontinued operations attributable to shareholders	-	-
Profit attributable to shareholders	***1 197***	***514***
Weighted average number of the ordinary shares outstanding during the period	168,783	168,783
Basic earnings per share (eur)	**7,09**	**3,04**
Basic earnings per share (eur) from continuous operations	7,09	3,04
Basic earnings per share (eur) from discontinued operations	-	-

NOTE 9 CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash on hand	7	15
Current accounts with other credit institutions	1,526	398
Current accounts with the Bank of Lithuania	37,387	20,681
Total	**38,920**	**21,094**

As at 31 December 2021 and 2020 cash and cash equivalents were not pledged.

NOTE 10 DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT (LOSS)

	31 December 2021	31 December 2020
Trading book debt securities:		
Republic of Lithuania government bonds	1,488	714
Total	**1,488**	**714**
Debt securities based on term of redemption		
Short-term (less than 1 year)	47	-
Long-term (more than 1 year)	1,441	714
Total	**1,488**	**714**

Debt securities measured at fair value through profit (loss) were not pledged as at 31 December 2021 and 2020.

NOTE 11 LOANS TO PUBLIC

	31 December 2021	31 December 2020
Loans to customers, gross amount	50,800	41,405
Loan impairment	(448)	(574)
Loans to customers, net amount	50,352	40,831

(All amounts in EUR thousand unless otherwise stated)

NOTE 11 LOANS TO PUBLIC (CONT'D)

Movement of loans in gross value is presented in the table:

	Stage 1	Stage 2	Stage 3	Total
Gross amount as at 31 December 2020	**35,163**	**2,671**	**3,571**	**41,405**
Transfers between stages:				
From stage 1 to stage 2	(3,696)	4,663	-	967
From stage 1 to stage 3	(205)		163	(42)
From stage 2 to stage 1	327	(358)		(31)
From stage 2 to stage 3		(191)	167	(24)
From stage 3 to stage 1	-	-	-	-
From stage 3 to stage 2	-	599	(692)	(93)
New loans or increase in loan amount	25,414	2,802	-	28,216
Derecognised loans (except for write-offs)	(16,774)	(1,088)	(1,558)	(19,420)
Loans written-off during the period	-	-	(178)	(178)
Gross amount as at 31 December 2021	**40,229**	**9,098**	**1,473**	**50,800**

The movement in impairment of loans during 2021 is presented in the table:

	Balance as at 31 December 2020	Increase due to new loans granted	Change due to derecognition	Change due to change in credit risk	Loan write-offs	Balance as at 31 December 2021
Impairment of performing loans with no significant increase in credit risk (stage 1)	(210)	(119)	13	97	-	(219)
Impairment of performing loans with significant increase in credit risk (stage 2)	(24)	(61)	15	(42)	-	(112)
Impairment of defaulted loans (stage 3)	*(340)*	-	26	19	178	(117)
Total amount of impairment	*(574)*	(180)	54	74	178	(448)

NOTE 12 DEBT SECURITIES MEASURED AT AMORTISED COST

	31 December 2021	31 December 2020
Debt securities measured at amortised cost:		
Republic of Lithuania government bonds	14,716	9,660
Republic of Estonia government bonds	-	1,543
Republic of Bulgaria government bonds	-	300
Total	**14,716**	**11,503**
Debt securities based on term of redemption		
Short-term (less than 1 year)	1,502	-
Long-term (more than 1 year)	13,214	11,503
Total	**14,716**	**11,503**

Debt securities measured at amortised cost were not pledged as at 31 December 2021 and 2020.

(All amounts in EUR thousand unless otherwise stated)

NOTE 12 DEBT SECURITIES MEASURED AT AMORTISED COST (cont'd)

Distribution of the Bank's debt securities based on different stages and their respective impairment is presented in the table:

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Republic of Lithuania government bonds, gross amount	14 716	-	-	14 716
Less: impairment losses	-	-	-	-
Republic of Lithuania government bonds, net amount	14 716	-	-	14 716
Total, gross amount	14 716	-	-	14 716
Less: impairment losses	-	-	-	-
Total, net amount	14 716	-	-	14 716

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Republic of Lithuania government bonds, gross amount	9 660	-	-	9 660
Less: impairment losses	-	-	-	-
Republic of Lithuania government bonds, net amount	9 660	-	-	9 660
Republic of Estonia government bonds, gross amount	1 543	-	-	1 543
Less: impairment losses	-	-	-	-
Republic of Estonia government bonds, net amount	1 543	-	-	1 543
Republic of Bulgaria government bonds, gross amount	300	-	-	300
Less: impairment losses	-	-	-	-
Republic of Bulgaria government bonds, net amount	300	-	-	300
Total, gross amount	11 503	-	-	11 503

NOTE 13 INTANGIBLE ASSETS

Software and licenses

1 January 2020	
Acquisition cost	313
Accumulated amortisation	(98)
Net book value	**215**
Year ended 31 December 2020:	
Net book value as at 1 January	215
Amortisation charge	(23)
Net book value as at December 31	**192**
31 December 2020:	
Acquisition cost	313
Accumulated amortisation	(121)
Net book value	**192**
Year ended 31 December 2021:	
Net book value as at 1 January	192
Additions	45
Disposals and write-offs	(95)
Amortisation charge	(31)
Amortisation write-off	93
Net book value as at December 31	**204**
31 December 2021:	
Acquisition cost	263
Accumulated amortisation	(59)
Net book value	**204**
Useful life (years)	3-7

(All amounts in EUR thousand unless otherwise stated)

NOTE 14 TANGIBLE ASSETS

	Land and buildings	Vehicles	Office and other equipment	Right of use assets	Total
***1 January 2020*:**					
Acquisition cost	1,727	116	159	-	2,002
Accumulated depreciation	(73)	(58)	(70)	-	(201)
Net book value	**1,654**	**58**	**89**	**-**	**1,801**
***Year ended 31 December 2020*:**					
Net book value as at 1 January	**1,654**	**58**	**89**	**-**	**1,801**
Additions	-	-	26	-	26
Disposals and write-offs	-	-	(18)	-	(18)
Depreciation charge	(38)	(19)	(34)	-	(91)
Depreciation of disposed and written-off assets	-	-	18	-	18
Net book value as at 31 December	**1,616**	**39**	**81**	**-**	**1,736**
***31 December 2020*:**					
Acquisition cost	1,727	116	167	-	2,010
Accumulated depreciation	(111)	(77)	(86)	-	(274)
Net book value	**1,616**	**39**	**81**	**-**	**1,736**
***Year ended 31 December 2021*:**					
Net book value as at 1 January	**1,616**	**39**	**81**	**-**	**1,736**
Additions	1,404	42	51	42	1,539
Disposals and write-offs	-	(30)	(16)	-	(46)
Depreciation charge	(54)	(17)	(38)	(1)	(110)
Depreciation of disposed and written-off assets	-	27	14	-	41
Net book value as at 31 December	**2966**	**61**	**92**	**41**	**3,160**
***31 December 2021*:**					
Acquisition cost	3,131	128	202	42	3,503
Accumulated depreciation	(165)	(67)	(110)	(1)	(343)
Net book value	**2,966**	**61**	**92**	**41**	**3,160**
Useful life (years)	40	6	3-6	5	3-40

The Bank has rented part of its buildings as an operating lease (24.9 percent of total premises) as at 31 December 2021 (4,6 percent as at 31 December 2020).
The Bank did not have pledged tangible assets as at 31 December 2021 and 2020.

Minimal future lease payments from operating lease agreements are presented in the table below:

31 December 2021			31 December 2020		
Within 1 year	*1-5 years*	*After 5 years*	*Within 1 year*	*1-5 years*	*After 5 years*
21	-	-	11	-	-

NOTE 15 INVESTMENT PROPERTY

	31 December 2021	31 December 2020
Balance at the beginning of the year	**1,508**	**2,988**
Additions	-	219
Disposals	(1,184)	(833)
Fair value change	-	(13)
Transfers to other assets	-	(853)
Balance at the end of the year	**324**	**1,508**

Expenses related to the maintenance of investment property are recorded in the income statement under other operating expenses. In 2021 these expenses amounted to EUR 10 thousand (2020 – EUR 35 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTE 16 OTHER ASSETS

	31 December 2021	31 December 2020
Assets held for sale	181	853
Deferred expenses	84	49
Prepayments	20	28
Other assets	16	19
Total	**301**	**949**

NOTE 17 DUE TO CUSTOMERS

	31 December 2021	31 December 2020
Current accounts:		
Financial corporate clients	19,757	16,902
Private corporate clients	20,901	9,253
Private clients	4,416	4,332
Total current accounts	**45,074**	**30,487**
Term deposits:		
Financial corporate clients	3,519	301
Private corporate clients	861	787
Private clients	49,435	38,788
Total term deposits	**53,815**	**39,876**
Customer funds in transitional accounts	**660**	**50**
Total	**99,549**	**70,413**
Due to customers, based on maturity		
Current (within 1 year)	59,099	42,379
Non-current (over 1 year)	40,450	28,034
Total	**99,549**	**70,413**

NOTE 18 CONTRACTUAL COMMITMENTS

Contractual commitments as at 31 December 2020:	**20**
Received advance payments	948
Completed contractual commitments	(957)
Contractual commitments as at 31 December 2021:	**11**

The Bank's contractual commitments originate from sale-purchase agreements of investment property and from the improvement of purchased real estate.

NOTE 19 OTHER LIABILITIES

	31 December 2021	31 December 2020
Other liabilities:		
Payable for services	172	206
Vacation reserve	143	120
Deferred revenue	-	10
Other liabilities	27	-
Total other liabilities	**342**	**336**
Other liabilities based on settlement term:		
Current (within 1 year)	342	336
Non-current (over 1 year)	-	-
Total other liabilities	**342**	**336**

(All amounts in EUR thousand unless otherwise stated)

NOTE 20 SHAREHOLDER'S EQUITY

Share capital

As at 31 December 2021 and 2020 the Bank's share capital was EUR 4,725,924 and consisted of 168,783 ordinary shares with the par value of EUR 28 each.

As at 31 December 2021 and 2020 all Bank shares are fully paid. Each share is entitled to equal voting rights, dividends and participation in distribution of residual assets in the even of a winding-up. The Bank's shares are not publicly listed.

As at 31 December 2021 the Bank had 3,493 shareholders (31 December 2020 – 3,626 shareholders).

10 shareholders of the Bank (UAB "Mano unijos kapitalas", Vytautas Jonas Lapienis, Skaistė Lapienė, Juozas Lapienis, Vytautas Olšauskas, Kęstutis Olšauskas, Tomas Kudirka, Pijus Ralys, UAB „Vilniaus kapitalas“, UAB „Gintarinė energija“) had signed a shareholders agreements and together composed a shareholders group which together owned 69.80 percent of the Bank shares as at 31 December 2021 (31 December 2020 – 64.95 percent).

The Bank did not acquire or dispose any of its shares during 2021 and did not own its own shares as at 31 December 2021 and 2020.

Reserve capital

The Bank's reserve capital is formed from the Bank's profit and purpose of it is to guarantee the financial stability of the Bank. Shareholders can decide to use the reserve capital to cover losses.

Legal reserve

In accordance with Republic of Lithuania law on banks, annual transfers of not less than 5 percent of net profit are compulsory. Shareholders can decide to use the reserve to cover the Bank's operating losses.

NOTE 21 OFF-BALANCE SHEET ITEMS AND CONTINGENCIES

Tax inspections

Tax Administrator has not carried out a comprehensive tax inspection in the Company. The Tax Administrator may at any time examine the books, records and tax declarations of the current and last 3 years, and in certain cases of the current ant last 5 or 10 years and calculate additional taxes and fines. The Bank's management is not aware of any circumstances that might give rise to a potential material liability in this regard.

Legal disputes

The Bank is a defendant in a Vilnius regional court civil case No. e2-3250-567/2021 against a claim for reversal of writs of execution and repayment of interest and penalties. The amount of claim is EUR 80 thousand.
The Bank has formed a provision of EUR 48 thousand to cover potential claims based on it's best estimate.

Guarantees and letters of credit:

	31 December 2021	31 December 2020
Issued financial guarantees	3	1,023
Loan commitments	10,484	5,285
Provisions for irrevocable loan commitments	**(13)**	**-**
Total	**10,474**	**6,308**
Cash held as guarantee assurance	(3)	(1,007)
Net guarantees and loan commitments	**10,471**	**5,301**

The Bank has several vehicles under operating lease and use agreements. As at 31 December 2021 the Bank had 3 vehicles under such agreements (31 December 2020 – 5). The term of the concluded lease agreements are 1-5 years with an option to extend term. In 2021 operating lease expenses amounted to EUR 23 thousand (2020 – EUR 10 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTE 22 RELATED PARTY TRANSACTIONS

During 2021 and 2020 a certain number of transactions within the normal course of business occurred with related parties. These transactions include purchase of tangible assets, payments, loans and deposits.

Balances of loans, off-balance sheet commitments and deposits with related parties as well as their average interest rates are presented in the table below:

	Balance of deposits, year-end		*Average annual interest rate, percentage*	
	2021	**2020**	**2021**	**2020**
Supervisory Board and Board members	331	1 702	0,00-1,42	0.00-1,32
Shareholders	769	757	0,00-1,42	0,00-3,00
Other related parties	475	675	0,00-2,12	0.00
Total	**1 575**	**3 134**		

	Loan balance, year-end		*Average annual interest rate, percentage*		*Credit commitments*		*Value of collateral, year-end*		*Impairment losses*	
	2021 m.	**2020 m.**	**2021 m.**	**2020 m.**	**2021 m.**	**2020 m.**	**2021 m.**	**2020 m.**	**2021 m.**	**2020 m.**
Supervisory Board and Board members	196	205	5,00	5,00	-	-	269	269	-	-
Shareholders	55	124	7,00	7,00	-	-	217	340	-	-
Other related parties	30	-	4,15-7,00	-	114		30	-		
Total	**281**	**329**			**114**	**-**	**516**	**609**	**-**	**-**
In relation with share capital, percentage	3,66	4,74								

On December 2021 the Bank signed a subordinated loan agreement with one of the Bank's shareholders holding a qualified share of Bank's capital. According to the contract the Bank received EUR 500 thousand subordinated loan for a period of 8 years. 8% annual interest rate is agreed for this subordinated loan. As at 31 December 2021 liabilities under this subordinated loan amounted to EUR 501 thousand (as at 31 December 2020, the Bank had no subordinated liabilities received from related parties). The repayment of the subordinated loan is not secured by any collateral.

In 2021 the bank purchased real estate from a related party, the transaction amounted to EUR 711 thousand. The acquired real estate is used in the Bank's activities - the Bank's headquarters are located there.

Compensation of key management personnel

During 2021 salaries and other short-term benefits to the members of the Bank board and Chief Executive Officer amounted to EUR 382 thousand (2020 – EUR 225 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTE 23 SEGMENT INFORMATION

	31 December 2021				31 December 2020			
	Traditional banking	*Transaction services*	*Other activities*	Total	*Traditional banking*	*Transaction services*	*Other activities*	Total
Interest and other similar income	3,857	285	78	**4,220**	3,155	-	5	**3 160**
Interest and other similar expense	(730)	-	(196)	**(926)**	(729)	-	(48)	**(777)**
Net interest income	3,127	285	(118)	**3,294**	2,426	-	(43)	**2,383**
Service fee and commission income	165	1 292	559	**2,016**	135	508	4	**647**
Service fee and commission expense	(14)	(35)	(15)	**(64)**	(11)	(13)	(58)	**(82)**
Net service fee and commission income	151	1 257	544	**1,952**	124	495	(54)	**565**
Net result on debt securities trading	(97)	-	-	**(97)**	116	-	-	**116**
Net result on operations from non-financial assets	-	63	-	**63**	-	-	(95)	**(95)**
Other income	-	-	(7)	**(7)**	-	-	31	**31**
Salaries and related expenses	(1,429)	(556)	(314)	**(2,299)**	(878)	(214)	(273)	**(1,365)**
Depreciation and amortisation	(84)	(32)	(24)	**(140)**	(57)	(24)	(32)	**(113)**
Other operating expenses	(800)	(307)	(222)	**(1,329)**	(327)	(297)	(219)	**(843)**
Profit before impairment	868	647	(50)	**1,465**	1,404	(40)	(685)	**679**
Provisions	-	-	(27)	**(27)**	-	-	(21)	**(21)**
Impairment of loans and other financial assets	(39)	-	-	**(39)**	(57)	-	-	**(57)**
Fair value change of investment property	-	-	-	**-**	-	-	(13)	**(13)**
Other impairment losses	-	-	-	**-**	-	-	-	**-**
Operating profit	**829**	**647**	**(77)**	**1,399**	**1,347**	**(40)**	**(719)**	**588**
Income tax expense	(122)	(95)	15	**(202)**	(198)	11	113	**(74)**
Net profit	**707**	**552**	**(62)**	**1,197**	**1,149**	**(29)**	**(606)**	**514**

NOTE 24 EVENTS AFTER THE REPORTING DATE

The war that began in Ukraine in February 2022 did not have a significant impact on the Bank's results and ability to continue as a going concern. The Bank's management, together with the Crisis Management Committee, constantly monitors the Bank's activities, forecasts possible changes in the situation, plans and implements measures to manage increased risks or uncertainties. More information on the management of the risks posed by the war in Ukraine is provided in Chapter 6 of the Annual Management Report.

NOTE 25 FINANCIAL RISK MANAGEMENT

Risk is integral to the Bank’s activity. Risk management is a continuous process designed to ensure that all risks that the Bank is exposed to are identified and understood, their potential effects are anticipated and measures are undertaken to reduce their potential adverse effects.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.
The Bank is exposed to credit risk, liquidity risk and market risk, it is also subject to operating risk.

Risk management structure

The Bank's risk management structure is based on a three-level control form:

- 1st line of defence – participants of the business process, who undertake the risk and have the ability to ensure that the undertaken risk is acceptable.
- 2nd line of defence – risk management, compliance and control function participants, who are responsible for setting risk management guidelines, risk assessment and application of risk management instruments.
- 3rd line of defence – internal audit members, responsible for testing and evaluating effectiveness of organization management, risk management and internal controls.

Supervisory Board
The Supervisory Board has the responsibility for monitoring the overall risk process within the Bank and ensures an effective internal control system.

Audit Committee
Audit Committee reports to the Supervisory Board and has the responsibility to monitor and evaluate efficiency of the Bank's internal risk and control procedures and assesses the work of internal audit division.

Board
The Board is responsible for the overall risk management approach and supervises its implementation. The Board also supervises other Bank departments in terms of risk management.

Risk Department
The Risk Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank.

Compliance Department
Compliance Department ensures that the Bank's activity is in compliance with the European Union and the Republic of Lithuania laws and other legislation, creates and develops compliance risk management processes.

Finance Department
Finance Department is responsible for overall risk management related to the Bank's liquidity and ensures that appropriate procedures and measures are taken to manage liquidity risk.

Internal audit division
Evaluation of the Bank's internal control systems, risk management and compliance are performed by the Internal Bank audit division.

Other departments
Other Bank departments act as a 1st line of defence in their respective functions by ensuring that the risk taken is within the Bank's risk limits.

Risk measurement and reporting systems

The Bank applies credit risk management measures, which could relevantly be divided into two types:

1) Measures that help to avoid taking unwarrantably high risk.

Measures that help to avoid decisions to grant unwarrantably high risk include: multi-stage decision-making and its approval system, risk allocation among structural levels – limit establishment, security measures for credit repayment (collateral). Multi stage decision making and approval system has an aim to ensure that loans issuance/credit granting would not be in hands of one authorised person. Based on the type of transaction, the approval has to be confirmed with a direct supervisor, the Bank's Loans committee, Board or Supervisory Board. There are certain limits to authorized persons that do not require a second approval – it is lower risk, standardised contracts that are issued based on clearly defined guidelines (collection of deposits, issuing consumer loans). An integral part of the Bank's risk management system – system of risk limits and indicators, which includes all risks that the Bank faces. This system has two goals: first – constricting risk appetite, second – ensuring appropriate division of risk evaluation between the Bank's administration, Board and Supervisory Board.

2) Measures ensuring an effective monitoring of undertaken risks.

The undertaken risk has to be controlled in order to maintain it at a satisfactory level. That is achieved by obtaining and analysing information in a timely manner, constantly monitoring risk related transactions and external conditions. Receiving timely, comprehensive and reliable data in a timely manner and basing decisions on it, is one of the key instruments in risk management.

(All amounts in EUR thousand unless otherwise stated)

This allows the Bank to evaluate the factual risk and estimate it's possible changes in the best possible way. The Bank's main safety and reliability principle is related to monitoring and administrating risk related transactions. Appropriate administration of these transactions involves timely update of counterparties information, adding this information into the Bank's system and preparing related documents and their changes. Monitoring external conditions is also an integral part of the Bank's risk management system. Business related information is reviewed and analysed to determine and control external risks.

Risk management measures are integral to periodical reporting process, which is designed to inform the Bank's management and responsible departments in a timely manner about risk environment and to escalate questions in need to the higher Bank structures.

Credit risk

Credit risk in the Bank arises from lending (granting loans) and investing (debt securities) activity as well as from off-balance commitments (letters of credit).

The Bank has an established credit risk management system that is consistently developed and includes crediting policy, monitoring credit risk limits, other credit risk management tools, credit risk management internal controls and internal audit.

The Supervisory Board of the Bank has approved the highest level credit risk limit system. The Board of the Bank has approved credit risk policy and procedures in which credit risk management principles are determined, appropriate credit risk level and structure are defined and credit risk management tools and their interaction are described. Such way ensures a unified credit risk acceptance principles, that are in line with the Bank's crediting activity and complexity as well as legal requirements.

The Bank only accepts risk in those areas that are familiar to it and where the Bank has sufficient positive experience, in order to avoid unnecessary large risk that might impact the shareholder's equity, but at the same time to ensure sufficient profitability, that would allow the Bank to have a steady market share and improve shareholder's value considering the ever-growing competition. The Bank applies principles of safety, conservatism and awareness when taking on additional credit risk.

The Bank's crediting policy is mainly focused on small and medium size clients with the main goal to ensure better financing conditions and adequate support, while considering capabilities of the Bank.

New branches of business or products are only included in the Banks activity after proper risk assessment. All crediting instruments and processes are regulated and documented in accordance with risk assessment and internal control requirements.

Credit risk management of the Bank is organised in a way to avoid personnel or structural departments interest conflicts. The Bank has applied a principle that profitability should not be achieved through overly high levels of credit risk.

<u>Maximum exposure to credit risk without taking into account any collateral and other credit enhancement</u>

The table below shows the maximum exposure to credit risk. The maximum exposure is shown in net value, before the effect of collateral agreements.

	31 December 2021	31 December 2020
Cash and cash equivalents:	**38,913**	**21,079**
Balances held in other banks	1 526	398
Balances with the Bank of Lithuania	37,387	20,681
Loans to customers:	**50,352**	**40,831**
Loans to private individuals	12,052	12,815
Loans to corporate clients	38,300	28,016
Debt instruments measured at fair value through profit (loss):	**1,488**	**714**
Debt instruments measured at fair value through profit (loss)	1,488	714
Debt securities measured at amortised cost:	**14,716**	**11,503**
Debt securities measured at amortised cost	14,716	11,503
Other assets	**36**	**47**
Other financial assets	36	47
Off-balance sheet items bearing credit risk		
Issued financial guarantees	10,487	6.308
Outstanding letters of credit	3	1,023
31 December	10,484	5,285
Total	**115,992**	**80,482**

(All amounts in EUR thousand unless otherwise stated)

The table above discloses credit risk positions based on the worst scenario on 31 December 2021 and 31 December 2020 without taking into account the value of collateral and other credit risk mitigating measures. Value of the assets is disclosed at net, same as in the statement of financial position.

The amounts reflected in the table for guarantees and letters of credit represent the possible maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted. Commitments to issue loans do not necessarily reflect the future cash flow requirements as these commitments might expire or be terminated before any pay-out occurs.

Debt securities of the Bank are disclosed based on geographical segments in the table below:

	31 December 2021	31 December 2020
Republic of Lithuania government	16,204	10,374
Republic of Estonia government	-	1,543
Republic of Bulgaria government	-	300
Total	**16,204**	**12,217**

Collateral and other credit enhancements

The Bank has set guidelines that define acceptable type of collaterals for credits. The Bank issues loans that are collateralised by real estate assets, pledges of mobile assets or rights to other assets, guarantees and other types of collateral. The Bank has a goal that overall part of loans that are collateralised by real estate assets would not exceed 30 percent of the total loan portfolio (excluding consumer loans).

All assets pledged to the bank, except for products, materials and goods for sale have to be evaluated based on internal policies of the Bank. The Bank has employees that are certified valuators with sufficient experience to review the quality of external valuation reports and to perform periodic revision of collateral values.

Asset values are determined for the purpose of being pledged. New real estate items and land plots can be pledged at their sale price as described in a sale-purchase agreement. Legal rights are assigned a symbolic value of EUR 1 if a supporting valuation of such rights is not provided to the Bank. When determining value of collateral, a lower of market value and purchase price is selected to comply with responsible lending requirements. The values of guarantees and sureties are determined in accordance with the terms of the guarantee and suretyship agreements. The value of the guarantee depends on guarantee rate (or intensity). In case of portfolio guarantees, the bank also takes into account the maximum amount of guarantee calculated for the total loan portfolio.

In cases when the amount of loan granted is above EUR 150 thousand and the value of collateral, valuated by independent external valuators exceeds EUR 150 thousand, a review of provided valuation report is performed and a final conclusion about the asset value is provided by the Bank’s valuator or a different independent valuator that is under a contract with the Bank. Reviews of external valuation reports are also performed for other reasons as stated in the Bank’s internal policies.
All collaterals are periodically revaluated based on the type of collateral, basis of valuation and credit stage. For loans that are in default, a repeated valuation of collateral has to be performed not later than 120 days after the loans is determined to be in default.

In 2021 the Bank has signed an agreement with European Investment Fund (EIF), under which loans granted to small and medium entities can be covered under European Investment Fund (EIF) guarantee, which has been designed to mitigate the effects of COVID-19 pandemic and to help with liquidity of small and medium enterprises. As at 31 December 2021 the Bank has issued loans in an outstanding amount of EUR 9,637 thousand that were collateralised by this guarantee and the total value of the guarantee provided was EUR 6,746 thousand.

Main types of collateral based on the fair value at the latest day of valuation are presented in the table:

	31 December 2021			*31 December 2020*		
	Corporate clients	Private clients	Total	Corporate clients	Private clients	Total
Received guarantees	10,738	26	**10,764**	4,053	61	**4,114**
Real estate assets	24,929	19,172	**44,101**	30,760	17,755	**48,515**
Mobile assets	6,967	47	**7,014**	5,939	26	**5,965**
Vehicles	149	-	**149**	243	41	**284**
Land	21,632	4,392	**26,024**	11,467	5,306	**16,773**
Other	28,146	38	**28,184**	16,987	190	**17,177**
Total	**92,561**	**23,675**	**116,236**	**69,449**	**23,379**	**92,828**

Bank manages, limits and controls credit risk concentration by imposing certain limits: maximal share of loan portfolio to a particular sector, maximal loan amount to the related parties, maximal loan amounts to the management of the Bank, minimal number of different sectors in the loan portfolio, maximal share of large credits in the loans portfolio.

(All amounts in EUR thousand unless otherwise stated)

The Bank does not face a geographical concentration risk.

An industry sector split of the Bank's financial assets before thanking into account collateral is presented below:

	31 December 2021	*31 December 2020*
Corporate clients	38,300	28,016
Real estate operations	19,194	12,907
Trading	7,704	2,313
Construction	984	1,538
Hospitality industry	811	390
Manufacturing	1,656	2,033
Services	4,401	4,095
Agriculture	62	370
Transportation	1,046	1,828
Financial services	2,442	2,542
Private clients	**12,052**	**12,815**
Real estate mortgages	5,768	5,932
Consumer loans	2,895	2,684
Other loans	3,389	4,199
Total	**50,352**	**40,831**

Credit quality

The Bank manages credit risk of financial assets based on internal risk management system as described below:

Expected credit losses and impairment
Impairment model (expected credit losses model) is applied for financial assets stated at amortised cost. These assets are segregated into 3 stages depending on the change in credit risk since initial recognition. Same method is used to calculate expected credit losses for off-balance sheet items.
Loans are divided into three stages based on changes in credit risk since initial recognition:

- Stage 1: all performing loans without significant changes in credit risk since initial recognition (no loss events have been recorded).
- Stage 2: loans with significant increase in credit risk since initial recognition, however the debtor is still meeting his obligations. Significant increase in credit risk is defined as decrease in debtors internal Bank rating, delays in contractual payments over 30 days, modification of loan due to debtor's financial situation and in other cases.
- Stage 3: all defaulted loans. It is considered that the loan is in default if contractual payments are delayed for over 90 days, the client has the lowest internal Bank rating, there has been a forced loan modification, other party is going bankrupt or is being restructured and in other cases.

Provisions are estimated for each position as follows:

- Stage 1 (no significant increase in credit risk since initial recognition): provision is calculated as a sum of 12 month expected credit losses (ECL).
- Stage 2 (significant increase in credit risk since initial recognition): provision is calculated as a sum of life time ECL.
- Stage 3 (default): provision is calculated as a sum of life time ECL.

Historic loan portfolio data of the Bank is used when determining probabilities of default. The Bank uses stage transfer matrixes based on the client type. LGD coefficients are assigned for each position based on the value of collateral and discounting them at certain rate and over certain period. Discounting norm and period are determined based on historical Bank data on debt collection process. For consumer loans, LGD is determined at a group level based on historical debt collection information.

In the probability of default estimation, the Bank includes prospective information. The Bank uses different economic development scenarios that are assigned to particular financial asset. The impact of such scenarios has been determined using statistical regressive analysis and expert valuation. This prospective information has been included for the first time, while preparing the estimate, in 2020 in order to account for increasing credit risk due to COVID-19 pandemic.

Gross loan balance is reduced through impairment account. Impairment losses are included in the statement of profit (loss). All financial instruments are reviewed after initial recognition to determine whether there has been a significant increase in credit risk. At least every 2 years a detailed client risk profile assessment is performed for individual persons, and at least once every quarter such procedure is performed for corporate clients. The Bank performs assessment of indicators that determine change in credit risk every month and revises previously determined impairment.

(All amounts in EUR thousand unless otherwise stated)

Breakdown of impairment for financial instruments by stages:

	31 December 2021		31 December 2020	
	Gross amount	*Impairment*	*Gross amount*	*Impairment*
Stage 1				
Debt securities	14,716	-	11,503	-
Loans and receivables	40,229	(219)	35,163	(211)
Stage 2				
Loans and receivables	9,098	(112)	2,671	(23)
Stage 3				
Loans and receivables	1,473	(117)	3,571	(340)
Total	**65,516**	**(448)**	**52,908**	**(574)**

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they fall due. The goal of liquidity risk management policy is to ensure, that all risk related to liquidity are known, evaluated and constantly monitored and managed.

The Bank controls current, short-term and long-term liquidity through various measures – daily control of cash balances, analysing future cash flows, preparing liquidity gap analysis, debt securities, etc.
The Bank has set liquidity risk limits to monitor and assess liquidity risk: term deposits structure limit, maximal amount of term deposits with maturity date within 30 days share in the total pool of term deposits, dependence on the largest depositors.

From the beginning of 2015, the mandatory requirements of compliance with liquidity coverage ratio came into force according to Regulation (EU) No 575/2013 of the European Parliament and of the Council. The liquidity coverage ratio (LCR) refers to highly liquid assets held by the Bank in order to meet short-term obligations. The Bank is required to hold an amount of highly-liquid assets, such as cash treasury bonds and other liquid financial instruments, equal to or greater than net cash outflow over a 30-day period, i.e. liquidity coverage ratio cannot be lower than 100 percent. Net stable funding ratio (NSFR) represents the Bank's ability to ensure, that illiquid assets of the Bank would be financed with minimal stable illiquid funds. The net stable funding ratio can not be lower than 100 percent, which means, that the amount of Bank's consistent funds must not be lower than the requirements of consistent funding required for one year period.

Liquidity coverage ratios of the Bank are as follows:

	31 December 2021	*31 December 2020*
Liquid assets	52,847	32,634
Short-terms (up to 30 days) obligations	27,295	21,651
Liquidity coverage ratio (LCR), percentage	**193,61**	**150.73**

The Bank's net stable funding ratios are as follows:

	31 December 2021	*31 December 2020*
Consistent funds	76,549	57,473
Consistent funding required	42,732	36,169
Net stable funding ratio (NSFR), percentage	**179,14**	**158,90**

(All amounts in EUR thousand unless otherwise stated)

The following tables provide an analysis of financial assets and liabilities based on contractual undiscounted repayment obligations:

	31 December 2021							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Without maturity*	*Total*
Assets:								
Cash and cash equivalents	38,920	-	-	-	-	-	-	38,920
Debt securities	-	-	1,550	-	6,644	8,010	-	16,204
Loans to customers	-	1,458	1,073	15,815	17,438	13,610	958	50,352
Other assets	-	-	-	-	-	-	3,999	3,999
Total assets	38,920	1,458	2,623	15,815	24,082	21,620	4,957	109,475
Liabilities:								
Due to customers	45,773	2,387	7,272	13,655	19,540	10,922	-	99,549
Subordinated loans	-	-	-	-	-	501	-	501
Other liabilities	1	136	216	213	2	-	14	582
Total liabilities	45,774	2,523	7,488	13,868	19,542	11,423	14	100,632
Credit commitments	-	1,688	-	-	-	-	8,446	10,134
Net position	(6,854)	(2,753)	(4,865)	(1,947)	(4,540)	(10,196)	(3,503)	(1,292)
Net gap	**(6,854)**	**(9,607)**	**(14,472)**	**(12,525)**	**(7,985)**	**2,211**	**(1,292)**	

	31 December 2020							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Without maturity*	*Total*
Assets:								
Cash and cash equivalents	21,094	-	-	-	-	-	-	21,094
Debt securities	-	-	-	-	3,618	8,599	-	12,217
Loans to customers	-	385	819	10,339	13,030	14,812	1,446	40,831
Other assets	-						4,385	4,385
Total assets	21,094	385	819	10,339	16,648	23,411	5,831	78,527
Liabilities:								
Due to customers	30 536	1,751	4,105	18,702	12,837	2,482	-	70,413
Other liabilities	-	469	-	-	-	-	-	469
Total liabilities	30 536	2,220	4,105	18,702	12,837	2,482	-	70,882
Credit commitments	-	-	-	-	-	-	5,285	5,285
Net position	(9,442)	(7,120)	(3,286)	(8,363)	3,811	20,929	5,831	2,360
Net gap	(9,442)	(16,562)	(19,848)	(28,211)	(24,400)	(3,471)	2,360	

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. The Bank considers these types of market risk:

- Interest rate risk – risk, that the Bank will incur losses due to changes in interest rates;
- Foreign exchange rates – risk, that the Bank will incur losses due to changes in foreign currency exchange rate while having open foreign currency positions;
- Debt securities risk – risk, that the Bank will incur losses due value changes from open positions in debt securities (including dividend risk);
- Equity risk – risk, that the Bank will incur losses due to price changes in open market traded positions.

The Bank also faces risk related to real estate market prices in administering loans in default and owning assets collected from collateral. The Bank faces a risk of incurring losses due to low asset liquidity or decrease in market prices that might impair the Bank's ability to realise such assets.

In 2021 and 2020 the Bank did not face risk related to foreign exchange rates, debt securities and equity as it did not conclude activity that would be subject to the mentioned risks.

In order to monitor and evaluate market risk, the Bank has imposed market risk limits: minimal average interest rate in loan portfolio, maximal average interest rate in term deposit portfolio, maximal economic value change of equity in different short and long-term interest change scenarios. Trading activity limits are expressed through comparable portfolios which are designed to define trading activity goals and limits that have to be complied with when conducting such activity.

(All amounts in EUR thousand unless otherwise stated)

Interest rate risk

Interest rate risk – risk, that the Bank will incur losses due to changes in interest rates. Interest rate is common within the Bank and is integral source of the Bank's profitability. However, interest rate risk that is too high might adversely impact Bank's profitability if it affects interest sensitive revenues and expenses too much.
Bank's interest risk management system includes the following elements: appropriate supervision from the Supervisory Board, Board, head of administration, head of finance and head of risk management department, adequate risk management procedures, risk assessment, monitoring and control functions, effective internal controls and internal audit.
The goals of interest rate risk monitoring are to ensure a unified understanding of interest rate risk, adequate identification of risk factors and understanding of their consequences, appropriate application of preventive and corrective measures. Interest rate risk management is an integral part of the Bank's risk management system and is based on three-line defence system, risk indicators and limits.
The table below includes the Bank's assets and liabilities at carrying amounts, classified by the earlier of contractual re-pricing or maturity dates.

	31 December 2021						
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets:							
Cash and cash equivalents	38,920	-	-	-	-	-	38,920
Debt securities	-	47	1,502	-	6,776	7,878	16,204
Loans to customers	6,131	10,045	19,496	8,689	4,199	1,792	50,352
Other assets	-	-	-	130	505	3,364	3,999
Sensitive assets to interest rate fluctuations	45,051	10,092	20,998	8,689	10,975	9,670	105,476
Non-sensitive assets to interest rate fluctuations	-	-	-	130	505	3,364	3,999
Liabilities:							
Due to customers	48,238	7,150	3,105	10,595	19,541	11,421	100,050
Other liabilities	354	-	-	61	-	-	415
Sensitive liabilities to interest rate fluctuations	48,238	7,150	3,105	10,595	19,541	11,421	100,050
Non-sensitive liabilities and equity to interest rate fluctuations	354	-	-	61	-	-	415
Interest sensitivity gap	(3,187)	2,942	17,893	(1,906)	(8,566)	(1,751)	5,426

	31 December 2020						
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets:							
Cash and cash equivalents	21,094	-	-	-	-	-	21,094
Debt securities	-	-	-	-	3,618	8,599	12,218
Loans to customers	7,941	7,766	14,475	6,557	2,270	1,822	40,831
Other assets		47		49	2,361	1,928	4,385
Sensitive assets to interest rate fluctuations	29,035	7,766	14,475	6,557	5,888	10,422	74,143
Non-sensitive assets to interest rate fluctuations	-	47	-	49	2,361	1,928	4,385
Liabilities:							
Due to customers	32,332	4,034	4,710	14,022	12,783	2,483	70,363
Other liabilities	50	254	-	205	-	-	508
Sensitive liabilities to interest rate fluctuations	32,332	4,034	4,710	14,022	12,783	2,483	70,363
Non-sensitive liabilities and equity to interest rate fluctuations	50	254	-	205	-	-	508
Interest sensitivity gap	(3,297)	3,732	9,766	(7,465)	(6,895)	7,939	3,780

Table below summarises effect of interest rate risk on the Bank's net interest income as at 31 December 2021 and 31 December 2020:

	Change in interest rate	*Effect to net interest income*	
		31 December 2021	*31 December 2020*
Eur	+ 1 percent	104	43
Eur	- 1 percent	(104)	(43)

Operational risk

Operational risk – risk, that the Bank will incur losses due to lack of or failure to act on appropriate internal control processes, personnel mistakes and (or) illegal actions, IT systems failures or from impact of external events. Operational risk, contrary to other types of risk (Credit, market, liquidity) is not undertaken voluntarily in order to gain from it. It occurs naturally from Bank's activities.

Principles to manage the Bank's operational risk: appropriately identify and assess operational risk; prevent bigger operational risk events and losses through effective internal control; appropriately organize and supervise internal control environment by consistently reviewing the control methods; focus time and funds to determine key sources of operational risk and to manage them in all Bank activities.

The Bank has implemented the following operational risk management methods – the Bank's operational risk events registering system, operational risk indicator and their limit monitoring system, multi-level management reporting system. Reputational risk is managed through operational risk management system – events recorded in the operational risk management system that pose signs of reputational risk are included in the OR events register, where they are monitored, analysed and evaluated.

IT risk

The Bank allocates significant attention and resources to manage IT risk. The Bank has IT security risk management policy and other internal procedures for user right and workspace management as well as rules for replacing IT systems and technology. The Bank has same requirements for monitoring analysing and correcting IT risk events as for other operating risks (see above). In 2021 the Bank has moved to a new banking software system, increased the number of IT personnel (including employing IT security specialists) and invested into other modern work tools.

Compliance risk

Compliance risk is such risk, that the Bank will not meet the legal requirements of regulating acts of law, European Banking Authority and Bank of Lithuania guidelines and requirements. Compliance functions in the Bank are determined based on the size and complexity of activity, operations and their risk level as well as potential sanctions for non-compliance. Compliance officers carry out risk evaluation through risk-based approach and periodically inform the Bank's management about identified risk and measures to mitigate them. In 2021 the compliance function was particularly focused in money laundering and terrorist funding prevention area. Significant emphasis was also put on personal data protection, managing externally purchased services and implementing new IRT and security risk management requirements.

Stress testing

Besides regularly performing risk assessment and measuring capital adequacy, the Bank also performs testing at the most unfavourable conditions (stress testing) that is part of the Banks internal capital (ICAAP) and liquidity (ILAAP) adequacy assessment process. Testing includes different types of risks, identified during self-assessment. The Bank assesses whether the capital basis would be enough to cover potential losses due to deteriorated financial position. According to the requirements of the Bank of Lithuania, stress testing is performed annually. If there is a need to better understand individual risk factors, separate risk ad hoc testing is performed.

Capital management

The Bank's capital is calculated and distributed across risks based on European Union Capital Requirements Directive and Regulation (ES) No 575/2013 (CRDIV / CRR). Primary objectives of the Bank's capital management:

1) To ensure that the Bank complies with externally imposed capital requirements and internal capital adequacy goals;;
2) To ensure the Bank's ability to continue as a going concern, maximise value for shareholders and third parties;
3) Promote Bank's business development through strong capital basis.

The Bank provides quarterly capital adequacy reporting to regulatory institution, based on CRR/CRD IV requirements. Banks have to meet the following equity requirements:

- 4.5 percent Tier 1 own capital ratio. This is the ratio between the Bank's 1st level own capital and risk-weighted assets, including off-balance sheet liabilities.
- 6 percent Tier 1 capital ratio. This is the ratio between the Bank's 1st level capital and risk-weighted assets, including off-balance sheet liabilities.
- 8 percent general capital adequacy ratio. This is the ratio between the Bank's eligible capital and risk-weighted assets, including off-balance sheet liabilities.

(All amounts in EUR thousand unless otherwise stated)

Besides the minimal capital requirements, banks have to comply with the following additional reserve capital requirements:

- 2.5 percent reserve capital requirement. Purpose of this requirement is to oblige all EU banks to accumulate additional reserves to cover unexpected losses.
- Countercyclical buffer capital requirement. Member countries of the EU can at their own discretion set a specific countercyclical buffer capital requirement for a particular institution or group of institutions and in such way control unsustainable growth and to prevent the banking sector and economy from a possible credit boom. As at 31 December 2018 this requirement was set at 0.5 percent in Lithuania. On 30 June 2019 the countercyclical buffer capital requirement was adjusted to 1 percent. As of 1 April 2020 the requirement has been reduced to 0 percent.
- Other entities reserve requirement – not applicable for the Bank.

Based on the Bank's Supervisory Review and Evaluation Process (SREP) conducted in 2020, on 28 January 2021, the Board of the Bank of Lithuania has established additional capital requirement of 2.1 percent of generally evaluated risk amount. After adjusting for the requirement, the Bank has to meet the following capital requirements:

- 5.7 percent Tier 1 own capital ratio requirement;
- 7.6 percent Tier 1 capital requirement;
- 10.1 percent general capital adequacy requirement.

In 2020 the Bank only had tier 1 capital. In December 2021 the Bank signed a subordinated loan agreement in amount of EUR 500 thousand. The loan was granted for 8 year term by the shareholder of the Bank. This loan is included in the Bank's tier 2 capital.

The balance of risk weighted assets is calculated based on standardized method using risk weight coefficients that are assigned based on the type of asset, type of counterparty, type of collateral and guarantees that are considered appropriate to reduce the risk. Similarly, with some adjustments, the Bank evaluates off-balance sheet items. Capital requirement to cover operational risk is calculated using the Basic indicator method.

The capital structure of the Bank and key figures for the years ended 31 December are provided in the table.

	31 December 2021	31 December 2020
Common equity Tier 1 capital		
Paid up capital	4,726	4,726
Retained earnings	-	303
Reserve capital	2,920	2,102
(-) Intangible assets	(204)	(192)
(-) Insufficient coverage for non-performing exposures	(27)	-
(-) Other deductions	(230)	
TIER 1 CAPITAL	7,185	6,939
TIER 2 CAPITAL	500	-
TOTAL OWN FUNDS	7,685	6,939
Own funds requirement		
Risk-weighted exposure amounts for credit risk	43,786	42,872
Trading book debt securities	-	-
Operational risk, calculated using the Basic indicator method	4,751	4,178
Total risk exposure amount	48,537	47,050
Common equity Tier 1 capital ratio	14,80	14.75
Tier 1 capital ratio	14,80	14.75
Total capital adequacy ratio	15,83	14.75

Unaudited profit for the reporting period is not included in the tier 1 capital. If it was included the capital adequacy ratio would increase to 18,77 percent as at 31 December 2021.

During the year ended 31 December 2021 and 31 December 2020, the Bank has complied with prudential risk requirements.

Chief Executive Officer Povilas Sadaunykas

Chief Financial Officer Renata Grumbinienė

30 March 2022