FJORD BANK

SET OF ANNUAL FINANCIAL REPORTS

2022

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INFORMATION ABOUT THE BANK

Name:	AB "Fjord Bank"
Legal form:	Public Limited Liability Company
Registration No.:	304493038
VAT code:	LT100012244316
Address:	Rinktinės str. 5, LT-09234 Vilnius
Telephone:	+370 525 11181
Email:	info@fjordbank.lt
Website:	www.fjordbank.lt
Financial Year:	January 1st, 2022 - December 31st, 2022
License:	Specialized Bank License No 5 from 10th December 2019
Audit Company:	Grant Thornton Baltic UAB

Members of the Supervisory Board:

Olav Haugland, Chairman of the Supervisory Board
Peter Joakim Mandorsson
Tor Ove Berg-Eriksen
Martin Hagen
Sven Tore Kaasa

Members of the Management Board:

Veiko Kandla, Chairman of the Management Board
Danas Juzėnas

Grant Thornton

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AB "FJORD BANK"

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of AB "Fjord Bank" (the Bank), which comprise the statement of financial position as at December 31, 2022, and the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects of the financial position of the Company as at December 31, 2022, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

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

Expected credit losses on loans to customers

Refer to Significant accounting policies section Credit impairment, Note 1 Risk management section Calculation of the loan impairment and Note 9 Loans to customers to the financial statements on pages 21-22, 31-32 and 39 respectively.

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

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

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

As at 31 December 2022, the expected credit losses on loans amounted to EUR 176 thousand in the Bank (refer to note 9).

Credit impairments charged to statement of profit and loss and other comprehensive income for the expected credit losses for the year ended 31 December 2022 amounted EUR 88 thousand for the Bank (refer to note 9).

How the Matter Was Addressed in the Audit

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

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

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

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

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

Finally, we reviewed the credit risk disclosures.

Other Information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

In accordance with the decision made by shareholders on 30 March 2022 we have been chosen to carry out the audit of the Bank's 2022 year and 2023 year financial statements. Our appointment to carry out the audit of Bank's

financial statements in accordance with the decision made by shareholders has have been renewed every 2 years and the period of total uninterrupted term of appointment is 3 years.

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

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

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

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

Grant Thornton Baltic UAB
Audit firm certificate No. 001513

Certified auditor
Darius Gliaubicas[1]
Auditor's certificate No. 000594
9 March, 2023
Vilnius, the Republic of Lithuania

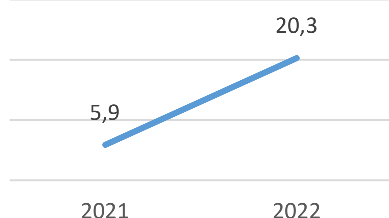
This is a free translation into English of the Statutory Auditor's report issued in Lithuanian language

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

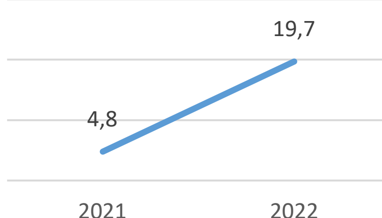
ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

Key financial indicators

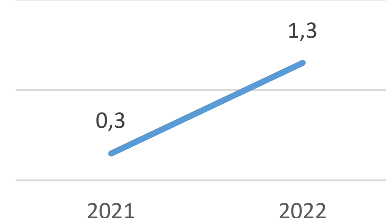
Loan portfolio
EUR 20.3 million
+247% year-on-year



Deposit portfolio
EUR 19.7 million
+314% year-on-year



Gross income
EUR 1.3 million
+362% year-on-year



In thousands EUR

Indicator	2022	2021	Change, thousands EUR 2022/2021	Change, % 2022/2021
Total Gross Income	1 308	283	1 025	362%
Total Income	666	152	514	338%
Net Result	(1 472)	(1 267)	(205)	16%
Total Assets	26 265	11 682	14 583	125%
Equity	5 039	6 511	(1 472)	-23%
Loan Portfolio	20 310	5 861	14 449	247%
Deposit Portfolio	19 715	4 758	14 957	314%

Ratio	2022	2021
ROA	-7.8%	-15.7%
ROE	-25.5%	-26.4%
Net Margin	7.6%	3.7%
Impairment to Loan Portfolio	0.9%	1.5%
Cost / Income Ratio	345%	1106%

Explanation of ratios:

ROA - Return on assets: Net result / total assets (average over the period)
ROE - Return on equity: Net result / total equity (average over the period)
Net margin: Net interest and fee income/income earning assets (average over the period)
Impairment losses to loan portfolio: Impairment losses on loans/loan portfolio
Total Gross Income: Total gross interest, fee, and other income
Total Income: Total net interest, fee, and other income
Cost/income ratio: Total operating expenses / total income

The analysis of the year 2022 financial statements and operating activities

AB "Fjord Bank" (hereinafter – the Bank) is a full-digital specialized consumer finance bank that aims to offer its customers fast, convenient, and competitively priced lending and saving opportunities. 2022 was our second full year of activities and we expected significant growth of both loan and deposit portfolios. Despite the new challenges in the macroeconomic environment and international security situation, this goal was completed.

The consumption shock after the war in Ukraine in February remained very short. From the Bank´s perspective, the influence was limited also because the Bank does not have any operations in such countries and no related retail exposures. Weakening consumer confidence and record-setting annual inflation rates did not halt the credit market or decrease the private sector´s lending appetite. Vice versa, households, experiencing constant price increases were not willing to postpone larger purchases like a new car or home renovation and made their decisions before seeing prices reaching new heights. Their courage was supported by a strong labor market, raising wages, and the government´s energy support measures. While inflation showed starting from the fourth quarter signs of a slowdown, the interest rate decisions from European Central Bank have added a burden to household budgets either directly through the cost of their housing loans or prices of goods and services. The full effect on the general economy and households will be visible during 2023.

However, the payment behavior has remained robust and major deterioration is also not expected. The raising interest rates are also influencing the Bank´s business - as for all market participants, the cost of deposit financing has significantly increased compared to the beginning of the year. As the consumer finance sector is in general working with fixed interest rates, the increases have been reflected in the lending rates at a slower pace and more careful manner. From a positive side, depositing is again an attractive investment opportunity for those who didn´t consider it during the era of negative interest rates.

In the middle of challenges from the external environment, we are satisfied to see that our second full year of operations brought us as planned a significant increase in business volumes. The total gross carrying amount loan portfolio amounted at the end of the year to EUR 20 486 thousand (EUR 5 948 thousand at the end of 2021), which represents a 247% growth. The Bank exceeded its annual sales targets by 12%. Similar growth was accompanied on the revenue side, as fee and interest income from the issued loans increased to EUR 887 thousand (EUR 174 thousand in 2021), which represents a 410% annual growth. Strong results were supported by the increase in volumes in all channels, including our website www.fjordbank.lt. Compared to 2021, the Bank invested significantly more in direct marketing activities and raising awareness.

To meet in a better way to customer´s needs and expectations, the maximum loan sum was increased to 20 000 EUR per customer with a maximum loan term of 7 years. Several improvements in the sales processes, automatization, and product pricing contributed to good sales results as well. While the customers' interest in larger purchases was already mentioned, the refinancing product showed significant growth as well, as lower and reasonably priced loan costs became more important for households.

The rapid growth of lending volumes was accompanied by strong credit quality. The ratio of non-performing loans amounted at the end of the year only to 0,05% (0,3% at the end of 2021) and the total overdue ratio was stable between 1-3%. In the middle of the year, the Bank concluded a forward flow debt sales agreement with an external debt collection partner. Although the sold volumes remained so far moderate, this adds another option to our credit administration toolbox and helps to mitigate the risks. The credit rule set and criteria for issuing new loans did not change significantly during the year.

To correspond to the increased financing needs and diversify the funding sources, the Bank expanded its deposit-taking operations to new markets, cooperating with a leading pan-European deposit platform Raisin GmbH. In January 2022 the Bank onboarded its first customers from Germany and in October from Spain. In both countries, the Bank operates on a cross-border basis, without a physical presence. The first year of operations has been successful, as nearly 2/3 of the Bank´s deposit portfolio origins from Germany now.

After a significant annual increase, the deposit portfolio reached EUR 19 715 thousand (EUR 4 758 thousand at the end of 2021), corresponding to an increase of 314%. While foreign deposit markets offered in the first half of the year lower financing costs compared to the domestic market, the rate difference is after the European Central Bank´s interest rate decisions almost non-existing. Competition in the retail deposit market is tighter and market participants´ decisions about interest rate increases became a regular routine.

The Bank´s foreign expansion activities were not only related to deposit markets - in the fourth quarter, the Bank started to offer consumer loans in the Estonian market. Our loans are available via the website www.fjordbank.ee and our partner channels, the characteristics of the loan products are rather similar to our Lithuanian business. While the monthly sales volumes are yet moderate and the Bank is focused on testing and improving the concept and processes, we expect a significant additional contribution to the Bank´s sales in the future. In Estonia, the Bank offers loans on a cross-border basis. Such freedom of providing services without establishing a branch is based on Article 39 of Directive 2013/36/EU of the European Parliament and of the Council. Following the notification to respective authorities, the right was received in March 2022.

For the administrative support of the operations, the Bank established in April 2022 a daughter company Fjord Support Services OÜ (reg nr 16479312, registered in the Business Register of Estonia). The purpose of the company is the administrative support of the Bank in the process of issuing and administering loans. As of the end of the year, the daughter company employs 3 people. The members of the Management Board of the daughter company are Mr. Danas Juzenas and Mr. Veiko Kandla. The Bank has no other subsidiaries or associated companies and does not have any branches. Detailed information is presented in the note regarding the established subsidiary (Note 10).

The Bank's assets increased to EUR 26 265 thousand compared to EUR 11 682 thousand at the beginning of the reporting period (125% growth). At the end of the year, the Bank had nearly 4500 customers from 4 countries. The Bank earned a net loss of EUR 1 472 thousand (EUR 1 267 thousand in 2021). The loss was planned and mostly related to the Bank´s current active growth and expansion phase. The most significant cost items were staff expenses, sales costs, and financing expenses.

Another important milestone was related to the issue of subordinated bonds in the fourth quarter. While the capital markets have been stressed and raising new capital is complicated for any market participant, the Bank completed in December 2022 a non-public subordinated note issue, which was offered to selected investors. The investors subscribed notes in the aggregated amount of EUR 1 040 thousand. 10-year notes with an 11% coupon rate and quarterly interest payment will complement the Bank´s Tier 2 capital ratio. Detailed information is presented in the note regarding subordinated notes (Note 17).

During the year, the Bank was in line with all prudential requirements applicable to the Bank. The principles of risk management in the Bank are described in Note 1 of this report and a more detailed overview of the risks is included in the Risk Management and Capital Adequacy Report, available on the Bank's homepage. During the reporting period, the Bank of Lithuania did not apply any sanctions to the Bank.

The Bank´s average number of employees in 2022 increased to 15 (in 2021 - 12 employees). The increase concerned mainly strengthening customer service and risk management functions to correspond to the increased business volumes. By the end of 2022, the Bank and its daughter company employed altogether 20 employees.

The Bank has not carried out any activities classified as research & development.

Information about the activity plans

In 2023, the Bank plans to continue strengthening its positions and increase sales volumes in both lending markets. The Bank´s focus will remain on developing its consumer lending and deposit products, there are currently no plans to enter new business segments or new lending markets. The main attention of the administration will be on further improving the profitability of operations and ensuring continuous high quality of the loan portfolio. Both areas can be severely affected by the current developments in the external environment – inflation, European Central Bank´s interest rate decisions, consumer confidence, and the labor market. Therefore, the market risk (interest rate risk) and credit risk are the key risks that the Bank must mitigate and adapt to during the year.

The Bank aims to generate long-term value by fostering responsible financial behavior and practices, actively considering the social impact of its business operations, and contributing to a more sustainable future. To do so, the Bank is seeking to identify its role in minimizing the risks and positively contributing to the sustainable development of society. Due to the limited scope and nature of the business and the lack of trusted guidelines on how environmental impact could be quantified for retail consumer exposures, the Bank cannot define carbon emission generation or other measurable targets on its portfolio yet. This will be reviewed once new and reputable guidelines become available. However, in the area of Environmental, Social, and Governance responsible

development, the subjects of further development in the Bank are sustainable work practices, sustainable cooperation, maintaining responsible lending rules, social inclusiveness, and equal rights principles.

Information about the share capital

As of December 31, 2022, the Bank's share capital was equal to EUR 2 135 thousand. The share capital is divided into 53 385 thousand ordinary registered shares with EUR 0.04 par value each. All the issued shares provide equal rights for the shareholders.
Detailed information is presented in the note regarding the capital and share premium (Note 19). The Bank did not acquire and did not hold (or transfer) any of its shares.

Bodies of the Bank

The bodies of the Bank are the following: General Meeting of Shareholders, Supervisory Board, Management Board, and Head of Administration (Chief Executive Officer).

The General Meeting of Shareholders

The General Meeting of Shareholders is the highest body of the Bank that reviews and approves the annual accounts (including allocation of profit and distribution of dividends), decides on amending the Articles of Association, elects the members of the Supervisory Board, and decides other questions given by the laws and Articles of Association.

The Supervisory Board

The Supervisory Board carries out the function of supervision of the Bank´s activities. The Supervisory Board consists of 5 members. The main tasks of the Supervisory Board include electing and recalling the Members of the Management Board, monitoring the Bank's business activities and their compliance with the law, the Articles of Association and the decisions of its shareholders, supervising the activities of the Management Board, approve transactions between the Bank and members of the Management Board, the Bank's auditors or related persons, examine and approve the Bank's annual accounts before submitting to the General Meeting of Shareholders and other questions given by the laws and Articles of Association.

In October 2022 Mr. Svein Øvrebø resigned from the position of the Member of the Supervisory Board, being replaced by Mr. Peter Joakim Mandorsson. The Supervisory Board continues activities with the following members:

Mr. Olav Haugland is the Chairman of the Supervisory Board, holding 7.02% ownership in the Bank through Skalmen AS.

Mr. Olav Haugland is participating in the following companies' management bodies:

Position	Company name	Form of Company	Registration No.	Country
Board member	Greenbarge AS	Private limited liability company	997706536	Norway
Board member	Skalmen AS	Private limited liability company	914835518	Norway

Mr. Peter Joakim Mandorsson is a Member of the Supervisory Board, holding 4.45% ownership in the Bank through Mander Investments AB.

Mr. Peter Joakim Mandorsson is participating in the following companies' management bodies:

Position	Company name	Form of Company	Registration No.	Country
CEO	Hambedo AB	Private limited liability company	559048-2633	Sweden
CEO	Byax AB	Private limited liability company	559006-7343	Sweden
CEO	Mander Investments AB	Private limited liability company	556889-7283	Sweden

Mr. Sven Tore Kaasa is a Member of the Supervisory Board, holding 9.9% ownership in the Bank through Lenani AS.

Mr. Sven Tore Kaasa is participating in the following companies' management bodies:

Position	Company name	Form of Company	Registration No.	Country
Chairman	Lenani AS	Private limited liability company	996338452	Norway
Chairman	K&K Holding AS	Private limited liability company	921387032	Norway
Chairman	Røyken Næringspark Invest AS	Private limited liability company	921441320	Norway
Chairman	Medvind Eiendom AS	Private limited liability company	921441290	Norway
Chairman	Johan Follestadsvei 24 AS	Private limited liability company	917118817	Norway

Mr. Tor Ove Berg-Eriksen is a Member of the Supervisory Board, holding 9.9% ownership in the Bank through Stranden Invest AS.

Mr. Tor Ove Berg-Eriksen is participating in the following companies' management bodies:

Position	Company name	Form of Company	Registration No.	Country
CEO	Stranden Invest AS	Private limited liability company	977347343	Norway
Board Member	Croatian Development II AS	Private limited liability company	991608982	Norway

Mr. Martin Hagen is a Member of the Supervisory Board, holding 9.9% ownership in the Bank through First Partner Holding AS.

Mr. Martin Hagen is participating in the following companies' management bodies:

Position	Company name	Form of Company	Registration No.	Country
Board Member	Osloveien 37 AS	Private limited liability company	914430453	Norway
Board Member	ProDev AS	Private limited liability company	911915596	Norway
Board Member	Duo 2 AS	Private limited liability company	916119844	Norway
Board Member	First Partner Holding AS	Private limited liability company	989574302	Norway
Board Member	Gulliksbakken AS	Private limited liability company	913272129	Norway
Board Member	Sogsti Panorama AS	Private limited liability company	998843715	Norway
Board Member	Hagen Gårdene AS	Private limited liability company	985077118	Norway
Board Member	Credeva Securities AS	Private limited liability company	913908686	Norway
Board Member	Norselab AS	Private limited liability company	918392033	Norway

The Management Board

The Management Board is a collegial management body elected by the Supervisory Board of the Bank. The Management Board shall be elected for 3 years and consists of 3 members. The Management Board is responsible for, among other things, supervising the general and day-to-day management of the Bank´s business, ensuring proper organization of the business, preparing plans and budgets for the activities, ensuring that activities, accounts, and asset management are subject to adequate controls, representing the Bank's interests and bears the liability for the performance of financial services according to law.

In August 2022, the Chief Risk Officer Mr. Mindaugas Varnas resigned from the position of a member of the Management Board and left the Bank. In February 2023 the Supervisory Board elected the new Chief Risk Officer Mrs. Kristina Simonovič as the third member of the Management Board (subject to regulatory approval).

The current members of the Management Board are:

Mr. Veiko Kandla is the Chairman of the Management Board and Head of Administration (CEO), holding 0.23% ownership in the Bank as a private person. Mr. Veiko Kandla is the CEO of the private limited liability company Tailwind OÜ (registration No. 12929072, Estonia). Mr. Veiko Kandla is the Management Board member of a daughter company Fjord Support Services OÜ (reg nr 16479312, Estonia).

Mr. Danas Juzėnas is a Member of the Management Board and Deputy Head of Administration, holding no ownership in the Bank. Mr. Danas Juzėnas is the Management Board member of a daughter company Fjord Support Services OÜ (reg nr 16479312, Estonia).

The Head of Administration (Chief Executive Officer)

The Head of Administration (CEO) is a single-person management body of the Bank. The Head of Administration (CEO) is elected and dismissed from office by the Management Board. The Head of Administration (CEO) organizes daily activities of the Bank, leads and operates the business of the Bank, hires and dismisses employees, concludes and terminates employment contracts therewith, and performs other functions.

Mr. Veiko Kandla is appointed as the Head of Administration (CEO) of the Bank and **Mr. Danas Juzenas** as the Deputy Head of Administration of the Bank.

Committees of the Bank

The Bank has established three committees - the Audit Committee, the Credit Committee, and the Crisis Management Committee.

The Audit Committee is established by the Supervisory Board to assist in the fulfillment of the supervisory function of the Bank. The Audit Committee consists of three members. The current members of the Audit Committee are Mr. Olav Haugland (Chairman), Mr. Sven Tore Kaasa and Mr. Martin Hagen. Together with resigning from the position of member of the Supervisory Board, Mr. Svein Øvrebø resigned also from the position of a member of the Audit Committee. As of the moment, Mr. Martin Hagen has been appointed as the third member of the Audit Committee.

The Credit Committee is established by the Management Board of the Bank to support the management of credit risk as one of the key risks in the Bank. The Credit Committee is, among other issues, handling non-standard loan projects, assessing the necessity to amend and improve regulations regarding issuing, managing, and collecting loans, and proposing relevant changes.

The Crisis Management Committee is established by the Management Board of the Bank to strengthen the organization’s ability to restore financial and economic viability when the Bank falls into crisis or emergency. The composition of the Committee is organized in such a way as to make sure that specific business know-how related to safety, business continuity, or recovery from an emergency, internal and external communication expertise of the Bank are available.

Links and additional explanations about the data presented in the annual financial statements

Links and additional explanations are presented in the explanatory notes of the financial statements.

Significant events in the Bank since the end of the last reporting period

Considering that the term of the Management Board ends in February 2023, the Supervisory Board of the Bank adopted a decision to elect Veiko Kandla and Danas Juzenas to serve as Members of the Management Board for a new 3-year period. The Supervisory Board also elected Kristina Simonovič as the third Member of the Management Board (subject to regulatory approval).

There were no other subsequent material subsequent events after the statement of financial position date that would have a corrective effect on the Bank’s financial statements for the Year 2022, including the impact of the COVID-19 pandemic and the war in Ukraine.

Veiko Kandla
CEO

March 9, 2023

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 2022

Article	Notes no.	2022	2021
ASSETS			
Cash and cash equivalents	**8**	3 638	3 972
Loans to customers	**9**	20 310	5 861
Investment in subsidiary	**10**	24	-
Intangible assets	**11**	1 020	918
Tangible assets	**12, 13**	183	217
Deferred tax assets	**14**	1 060	684
Other assets	**15**	30	30
Total assets:		**26 265**	**11 682**
LIABILITIES			
Deposits from customers	**16**	19 715	4 758
Subordinated liabilities	**17**	1 028	-
Other liabilities	**18**	483	413
Total liabilities:		**21 226**	**5 171**
EQUITY			
Capital	**19**	2 135	2 135
Share premium	**19**	7 562	7 562
Retained earnings (loss)	**19**	(4 658)	(3 186)
Total Equity:		**5 039**	**6 511**
Total liabilities and equity:		**26 265**	**11 682**

The accompanying notes on pages 18-47 are an integral part of these financial statements.

The financial statements were approved on March 9th, 2023 by:

Veiko Kandla
CEO
/signed digitally/

Asta Guleckienė
Chief Accountant
/signed digitally/

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2022

Article	Notes no.	2022	2021
Interest income	**2**	323	100
Interest expense	**2**	(213)	(63)
Net interest income (expenses)		**110**	**37**
Fee income	**3**	564	73
Net fee and commission income (expenses)		**564**	**73**
The net result from financial assets	**4**	(39)	-
Other income	**5**	31	42
OPERATING PROFIT (LOSS)		**666**	**152**
Personnel expenses	**6**	(938)	(669)
Administration expenses	**7**	(1 063)	(716)
Depreciation and amortization	**11-13**	(428)	(302)
PROFIT (LOSS) BEFORE IMPAIRMENT LOSSES AND SUBSIDIARY RESULT		**(1 763)**	**(1 535)**
Impairment losses on loans	**9**	(89)	(86)
Subsidiary results accounted through the equity method	**10**	4	-
PROFIT (LOSS) BEFORE TAXES		**(1 848)**	**(1 621)**
Tax expense	**14**	376	354
NET PROFIT (LOSS)		**(1 472)**	**(1 267)**
TOTAL COMPREHENSIVE INCOME (EXPENSES)		**(1 472)**	**(1 267)**
Profit (loss) per share attributed to the shareholders		(0,03)	(0,02)

The accompanying notes on pages 18-47 are an integral part of these financial statements.

The financial statements were approved on March 9th, 2023 by:

Veiko Kandla
CEO
/signed digitally/

Asta Guleckienė
Chief Accountant
/signed digitally/

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2022

Article	Notes no.	Share capital	Share premium	Unregistered capital	Retained earnings (losses)	Total Equity
Balance as of December 31, 2020		**1 184**	**3 068**	**769**	**(1 919)**	**3 102**
Profit (loss) for the year					(1 267)	(1 267)
Share capital increase	**19**	951	4 494	(769)		4 676
Balance as of December 31, 2021		**2 135**	**7 562**	**-**	**(3 186)**	**6 511**
Profit (loss) for the year					(1 472)	(1 472)
Balance as of December 31, 2022		**2 135**	**7 562**	**-**	**(4 658)**	**5 039**

The accompanying notes on pages 18-47 are an integral part of these financial statements.

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Veiko Kandla
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Asta Guleckienė
Chief Accountant
/signed digitally/

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

Article	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit (loss)	(1 472)	(1 267)
Adjustments:		
Depreciation and amortization	428	302
Decrease (increase) in deferred tax expense	(376)	(354)
Impairment loss on loans	89	86
Other adjustments	439	(8)
Changes in:		
Decrease (increase) in other short-term assets	-	(4)
Decrease (increase) in right-of-use asset	(42)	3
Decrease (increase) in loans to customers	(14 872)	(5 861)
Increase (decrease) in deposits from customers	14 820	3 704
Increase (decrease) in other liabilities	110	45
Net cash flow from operating activities	**(876)**	**(3 354)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of tangible fixed assets	(5)	(1)
Acquisition of intangible fixed assets	(450)	(323)
Investment in subsidiary	(20)	-
Net cash flows from investing activities	**(475)**	**(324)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net income from rent activities	(5)	(6)
Issue of shares	-	5 000
Issue of shares cost	-	(324)
Issue of subordinated notes	1 040	-
Issue of subordinated notes cost	(18)	-
Net cash flows from financing activities	**1 017**	**4 670**
Net increase in cash and cash equivalents	**(334)**	**992**
Cash and cash equivalents at the beginning of the year	**3 972**	**2 980**
Cash and cash equivalents at the end of the year	**3 638**	**3 972**

The accompanying notes on pages 18-47 are an integral part of these financial statements.

The financial statements were approved on March 9th, 2023 by:

Veiko Kandla
CEO
/signed digitally/

Asta Guleckienė
Chief Accountant
/signed digitally/

EXPLANATORY NOTES FOR THE YEAR ENDED DECEMBER 31, 2022

I. GENERAL PART

The Bank was registered as a public company in the Enterprise Register of the Republic of Lithuania on March 28th, 2017 and its business code is 304493038. The Bank is registered and operates at Rinktinės str. 5, Vilnius. The Bank was granted a specialized bank license by the European Central Bank on December 10th, 2019. The relevant changes of the Article of Association were registered in the Register of Legal Entities on 15th April 2020. The Bank launched its services in the second half of 2020 and started more active operations from the beginning of 2021. The Bank is offering unsecured consumer loans and fixed-term deposits through digital channels for private persons.

The Bank's management is fully convinced of stable and balanced performance going forward and based on that prepared these financial statements based ongoing concern basis assumptions. The Bank does not hold any own shares.

The Bank established in April 2022 a daughter company Fjord Support Services OÜ (reg nr 16479312, registered in the Business Register of Estonia). The purpose of the company is the administrative support of the Bank in the process of issuing and administering loans on the Estonian market. The Bank has no other subsidiaries or associated companies and does not have any branches. Detailed information about the established subsidiary and consolidation matter is presented in note No. 10.

In 2022, the average number of employees was 15, and in 2021 - 12 employees.

II. ACCOUNTING POLICY

Basis of accounting

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

The Management Board approved the financial statements on March 9th, 2023. The financial statements are prepared following a going concern assumption. The financial statements are prepared on a historical cost basis except the financial instruments which are accounted on amortized cost basis (as described further).

The consolidated financial statements were not prepared as the subsidiary is insignificant to the group (more information in the Consolidated financial statements principles and Note 10 accordingly).

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

Functional currency and foreign currency transaction

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

Consolidated financial statements (IFRS 3, IFRS 10)

Subsidiaries are all entities over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and could affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are deconsolidated from the date that control ceases. Intergroup receivables and liabilities, transactions and unrealized gains and losses on transactions between Group companies are eliminated upon consolidation.

The equity method is used in accounting for investments in subsidiaries in the separate Bank's financial statement. Initial investment value is recognized at cost and subsequently adjusted for post-acquisition changes in the Bank's share of the net assets of the subsidiary. The entity part of the profit or loss is included in the value of an investment in a subsidiary and the Bank's profit (loss) statement.

According to IFRS, the separate primary financial statements of the Bank as the parent of the consolidation group shall be disclosed in the notes to the annual report. The Bank's primary financial statements are prepared using the same accounting principles as those that have been used for preparing the consolidated annual report except for the investments in subsidiaries that in the separate report are accounted for in the equity method.

The consolidated financial statements may be not prepared if that entity is insignificant to the group. From the point of view of a group of companies, a subsidiary is considered insignificant if its assets at the end of the financial year do not exceed 5 percent of the parent company's assets and its net sales during the year do not exceed 5 percent of the parent's net sales during the same period.

Under local law, the Bank is required to disclose certain information about the Financial Group. In preparing the financial statements of the Financial Group, the Bank's subsidiaries not included in the Financial Group are not consolidated under 10 IFRS and are presented in the consolidated balance sheet of the Financial Group as investments in subsidiaries accounted for at equity method, as in the Bank's Statement of financial position. Such presentation is consistent with the financial statements provided by the Bank for supervisory purposes, concluded under Regulation (EU) No 182/2011 of the European Parliament and the Council 575/2013 (CRR). Bank was not involved in the Financial Group.

Significant accounting policies

Intangible assets (IAS 38)

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

- Software 5 years
- Specialized bank license 5 years
- Other intangible assets 4 years

The described accounting principles apply to the accounting for additional acquisitions of intangible assets already in use. In the event of an additional increase in the value of the intangible assets used, the intangible assets are amortized on a straight-line basis over their estimated useful lives.

The created intangible asset is recognized at cost and recorded in the separate intangible asset account until the asset is used. When intangible assets are started to be used in the operations, the accounting of intangible assets is the same as the accounting principles of an acquired intangible asset.

Capitalized software development costs include payroll expenses and other expenses directly related to development. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Tangible assets (IAS 16)

Long-term tangible assets are those assets whose useful life is more than one year and whose cost exceeds EUR 500. Tangible assets are held at historical cost less accumulated depreciation and any impairment in value whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The cost includes all expenses for purchasing, manufacturing, taxes, and other direct costs to otherwise bring the goods to their current location and condition. Asset maintenance costs are charged to the income statement when they are incurred.

Depreciation and amortization are calculated using the straight-line method of depreciation based on the estimated useful life of the asset. Useful lives, residual values, and depreciation methods are reassessed and changed when necessary in connection with each closing day.

The following amortization and depreciation useful life (years) are applied in the Bank for the respective asset category:
Office equipment:

- Computers 3 years
- Furniture, Office equipment 6 years
- Other property and equipment 4 years

Gains and losses on disposals of tangible assets are determined by reference to their carrying amount and are charged to the income statement. If the economic benefits increase for the Bank due to costs or if the useful life of the asset increases or if there are significant renewals of assets, then costs are capitalized and added to tangible assets and depreciated over the remaining useful life period of the improved asset.

Financial instruments (IFRS 9)

The Bank recognizes financial assets and liabilities in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. When financial assets and liabilities are recognized initially, they are measured at fair value. Transaction costs that are directly related to purchasing or issuance of the financial assets (except financial assets and financial liabilities which are recognized at fair value through profit or loss) when initially recognized are added or subtracted from financial assets' or financial liabilities' fair value. Transaction costs that are directly attributed to financial assets or financial liabilities at fair value are immediately recognized through profit or loss.

Financial assets

Financial assets measured at amortized cost are initially recognized at fair value plus any directly attributable transaction costs. Financial instruments measured at fair value through profit or loss are initially recognized at fair value, with transaction costs recognized in profit or loss as they occur. Subsequent measurement is fair value with gains and losses recognized in the income statement.

Investments in financial assets, which are not designated at fair value through profit or loss, are measured at amortized cost if both of the following conditions are met: the assets are held within a business model whose objective is to hold the asset and collect the contractual cash flows and the contractual cash flows represent solely payment of principal and interest.

Instruments with contractual cash flows that are only payments of interest and principal on given dates and that are held in a business model to receiving contractual cash flows and sales shall be measured at fair value with changes through other comprehensive income, with interest income, currency translation effects, and any impairments presented in the ordinary income statement. Changes recognized through other comprehensive income should be reclassified to profit or loss when the assets are sold or otherwise disposed of.

All other financial assets are initially recognized at fair value and subsequent measurement is fair value with gains and losses recognized in the income statement.

Financial assets are only reclassified when there is a significant change in the business model for those assets. Such changes are expected to be very infrequent.

The effective interest rate method

The effective interest method is a method for calculating amortized cost and interest allocation over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life or till the repricing date of financial assets or financial liability to the gross carrying amount of financial assets or the amortized cost of financial liability. The method does not consider expected credit losses and includes all fees paid or received, transaction costs, and other premiums or discounts that are an integral part of the effective interest rate, such as origination fees.

When the Bank revises the estimates of future cash flows, the carrying amount of the financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes in value are recognized in the income statement.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Credit impairment

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

The measurement of the provision for expected losses under the general model depends on whether the credit risk has increased significantly since initial recognition. IFRS 9 provides the ECL model with a three-stage approach based on changes in credit risk. Upon initial recognition and when the credit risk has not increased significantly after initial recognition, a provision shall be made for 12-month expected losses, and the financial asset is recognized as Stage 1. Twelve-month expected losses are the losses expected to occur during the instrument's lifetime, but that can be linked to events occurring in the next 12 months. Stage 2 includes financial assets for which the credit risk has increased significantly since initial recognition, but there is no objective evidence of a loss. Stage 3 (in default) of the model includes assets for which the credit risk has increased significantly since initial recognition, and there has been objective evidence of a loss event on the balance sheet date. Similar to Stage 2 the provision for expected losses for Stage 3 is calculated on lifetime expected credit losses with PD is equal to 100%. From 180 days overdue the provision for expected losses are constantly increasing to cover all defaulted exposure before the write-off.

The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial assets. ECL is calculated having in mind the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months or over the remaining lifetime of the obligation. EAD is expressed by an assessment of the amounts the Bank expects to be owed at the time of default. The LGD represents an expectation of the extent of loss on a defaulted exposure. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD, and LGD. The assumptions underlying the ECL calculation are monitored and reviewed on a quarterly basis.

The bank calculates the impairment of financial instruments according to the IFRS 9 standard, based on the expected credit loss (ECL) model. Regardless of the quantitative indicator, a significant increase in credit risk is triggered if the following backstop indicators occur: payments are past due >30 days and/or financial assets are forborne (where due to the customer's financial difficulties the contractual terms of the loans have been revised and concessions are given). Defaults are defined as overdrawn amounts of more than 90 days or a situation in which objective evidence exists that indicates a customer will default as a result of a weakening of the debtor's creditworthiness. Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default. To assess the macroeconomic impact the Bank has developed a model which incorporates developments of the future economic environment in the expected credit loss calculation. The impact of different economic variables (incl. GDP change and unemployment rate) on portfolio PD was implemented using regression analysis.

Financial liabilities

All financial liabilities are recognized at amortized costs valued at fair value, except financial liabilities valued at fair value through profit or loss with gains and losses recognized in the income statement.

Financial liabilities (including loans and receivables) recognized at amortized cost are initially valued at fair value with the addition of direct transaction costs. In periods after the initial measurement, the liabilities are valued at amortized cost based on the effective interest rate method.

Financial liabilities are valued at fair value through profit as follows: financial liabilities are treated as liabilities, where fair value changes are recognized through profit or loss; financial liabilities, which occur if the transfer of the financial assets does not comply with the derecognition criteria and if the further control method is applied; financial guarantee contracts; provided loans which apply lower than market interest rates and uncertain remuneration during the business merger.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled 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 recognized in the income statement.

Cash and cash equivalents

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

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

Share capital and reserves

Share capital is presented according to the Bank's Articles of Association. Consideration received for the shares sold in an excess of their par value is shown as a share premium. Paid-in capital where the price of issued shares exceeds that of the nominal value is recognized as a share premium. Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

The reserves are made from the distribution of fiscal year net profit decided by the shareholder meeting, following the Republic of Lithuania's act of law as well as the Bank's Articles of Association.

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

Employee benefits

The Bank does not have any defined benefits, employee incentive plans, or compensation through share-based incentive programs. Short-term benefits for employees are recognized as current operating costs for the period during which the employees provided the services.

Revenues

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

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

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

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

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

Expenses

Expenses are recognized in accounting in accordance with the principles of accrual and comparison. Interest expense is recognized using the effective interest method. Fees and commissions are recognized when the service is provided.

In those cases, when the costs incurred cannot be directly attributed to the specific income and they will not bring income during future periods, they are expensed as incurred. Administrative expenses include personnel expenses, office rent, telephone and communication expenses as well as other expenses such as amortization and depreciation.

Financial activity expenses include asset management fees, interests for debt as well as administration expenses related to receivables. The interest expenses are recognized by using the effective interest rate method.

Leases (IFRS 16)

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

Finance lease

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

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

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

Operating lease

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included in other administrative and operating expenses.

The overall discounts granted by the lessor are recognized as a reduction in lease expenses on a straight-line basis over the lease term.

TAXES

Income tax

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax expenses are calculated based on the information available as of the date of preparation of the financial statements. According to the Law on Corporate Income Tax of the Republic of Lithuania, the current income tax rate is 15% on taxable income since January 1st, 2010.

Tax losses can be carried forward for an indefinite period, except for the losses incurred as a result of the disposal of securities and (or) derivative instruments. Such carrying forward is disrupted if the Bank changes its activities due to which these losses were incurred except when the Bank does not continue its activities due to reasons which do not depend on the Bank itself.

The losses can be used to reduce the taxable income earned during the reporting year by a maximum of 70%.

Deferred income tax

Deferred tax assets have been recognized in the statement of financial position to the extent the management believes they will be realized in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realized, this part of the deferred tax asset is not recognized in the financial statements. Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements.

Deferred tax assets are tested on each closing period and recognized to the extent it is likely on each closing day that they can be utilized. As a result, a previously unrecognized deferred tax asset is recognized when it is considered likely that a sufficient surplus will be available in the future. If it is not probable that future taxable profit will be available against which the temporary differences can be utilized, then deferred tax assets are reduced accordingly.

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

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset only if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities.

Income tax and deferred income tax for the reporting period

Income tax and deferred income tax are charged or credited to profit or loss, except when they relate to items not recognized in profit or loss (either in the statement of profit or loss and other comprehensive income or directly in equity).

Contingent liabilities

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

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

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

Subsequent events

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

Related parties

Parties are considered to be related if at least one of the conditions is met:
a. The person or its relative is treated as related to the Bank if the person:
   i. Has control or joint control of the Bank
   ii. Can exercise a significant influence over the Bank
   iii. Is the member of the management personnel of the Bank or a parent of the Bank
b. An entity is related to the Bank if any of the following conditions are met:
   i. An entity and the Bank are members of the same group (i.e. each parent, subsidiary, and fellow subsidiary is related to each other)
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member)
   iii. Both entities are joint ventures of the same third party
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity
   v. An entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank. If the Company is itself such a plan, the sponsoring employers are also related to the Bank
   vi. An entity is controlled or jointly controlled by a person identified in (a)
   vii. A person identified in (a), (i) has a significant influence over an entity or is a member of the key management personnel of an entity (or of a parent of an entity).

Offsetting

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

The use of assessments and decisions in the financial statements

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

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

The cash flow statement was prepared based on an indirect method.

Significant accounting estimates

According to the IFRS, many of the financial indicators in the report are based on accounting-related management estimates, which have an impact on the value of the assets and liabilities presented in the financial statements and on the income and expenses. Although these estimates are based on the best knowledge of the management and conclusions from ongoing events, the actual result may not coincide with them in the end and may differ significantly from these estimates. The management consistently reviews such decisions and estimates, including the ones that influence the fair value of financial instruments, and other deferred assets.

The measurement of the expected credit loss allowance for loans measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and customer behavior. The inputs, assumptions, and estimation techniques used in measuring expected credit loss are described in detail in the part "Accounting policy". Several significant judgments are also required in applying the accounting requirements of the determining criteria for the significant increase in credit risk, choosing appropriate assumptions for the measurement of expected credit loss, and establishing the number and relative weightings of forward-looking scenarios.

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

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations that are relevant to its operations and effective for accounting periods beginning on 1 January 2022.

Standards and amendments that have been approved but are not yet effective and have not been applied in advance

New standards, amendments and interpretations that do not become effective for the reporting period beginning on 1st January 2023 and which were not previously adopted in preparing these financial statements are set out below:

Insurance Contracts, including Amendments to IFRS 17; Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4); Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendment to IFRS 17) (effective from 1 January 2023)

After concerns raised by stakeholders, in June 2020 the IASB issued 'Amendments to IFRS 17. The amendments aim to address these concerns and help entities to more easily transition and implement the Standard.

The amendments are effective in European Union for annual reporting periods beginning on or after 1 January 2023. The Management of the Bank has assessed that these amendments will not have an impact on the Bank's financial statements.

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1). (effective from 1 January 2023)

The amendments clarify the guidance in IAS 1 by clarifying that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period; stating that management's expectations around whether they will defer settlement or not does not impact the classification of the liability;

adding guidance about lending conditions and how these can impact classification; including requirements for liabilities that can be settled using an entity's own instruments.

The amendments were initially effective from accounting periods beginning on or after 1 January 2022. However, as a result of the COVID-19 pandemic, the IASB decided to give entities more time to implement any classification changes that may result from the above amendments. As such in July 2020 changed the effective date of the amendments and they are now effective from 1 January 2023. The amendments should be applied retrospectively, with entities being allowed to apply them to an earlier period, as long as they disclose that they have done so. These amendments will not have an impact on the Bank's financial statements.

Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) (effective from 1 January 2023)

In specific circumstances, entities are exempt from recognizing deferred tax when they recognize assets or liabilities for the first time. There had been some diversity in practice as to whether the exemption applied to transactions such as leases and decommissioning obligations. These are transactions where entities recognize both an asset and a liability. The amendments require an entity to recognize deferred tax on certain transactions (eg leases and decommissioning liabilities) that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

The amendments clarify that the initial recognition exemption set out in IAS 12 'Income Taxes' does not apply and entities are required to recognize deferred tax on these transactions. The amendments aim to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The management of the Bank is currently assessing the impact of these amendments on the Bank's financial statements.

Amendments to IFRS 17 and IFRS 4: The deferral of effective dates for IFRS 17 and IFRS 9 for insurers (published 25 June 2020, effective from 1 January 2021, but not before approval by the EU)

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, making financial performance easier to explain and easing the transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time.
The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.
The management has assessed that these amendments will not have any impact on the Bank's financial statements.

IFRS 17: Insurance Contracts (published 18 May 2017, effective from 1 January 2023, but not before approval by the EU)

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis

for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.
This IFRS will not have any impact on the financial position or performance of the Bank as insurance services are not provided.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021, effective from 1 January 2023, but not before approval by the EU)

The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The Amendments have not yet been endorsed by the EU. The management of the Bank has not yet evaluated the impact of the implementation of these amendments.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021, effective from 1 January 2023, but not before approval by the EU)

The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.
The amendments become effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted and applying to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The Amendments have not yet been endorsed by the EU. The management of the Bank has not yet evaluated the impact of the implementation of these amendments.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current (issued on 23 January 2020 and 15 July 2020 respectively, effective from 1 January 2023, but not before approval by the EU)

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

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021, effective from 1 January 2023, but not before approval by the EU)

The Amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments provide guidance on the application of materiality judgments to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgments about accounting policy disclosures. The Amendments have not yet been endorsed by the EU. The management of the Bank has not yet evaluated the impact of the implementation of these amendments.

The Bank plans to adopt the above-mentioned standards and amendments from the effective date if they are confirmed/endorsed by the EU.

III. NOTES

Note 1 Risk management

The Bank defines risk as the possibility of a negative deviation from an expected financial outcome and a negative impact on the Bank. One consequence of risk-taking is the occurrence of losses, which can be broken into expected and unexpected losses. The Bank shall make appropriate efforts to minimize expected losses by ensuring sound internal practices, good internal controls as well as insurance policies.

The most important types of risk the Bank is exposed to are credit risk, liquidity risk, market risk, interest risk in the banking book, and operational risk. This Note includes information about the impact of the risks on the Bank, its objectives, policy, and processes related to risk assessment and management, also information about capital management. The quantitative disclosures are presented in other Notes to the set of annual financial reports.

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

The Bank's risk management is built on the concept of Three Lines of Role: the First Line of Role – refers to all risk management activities carried out by the business operations and its support functions; the Second Line of Role – refers to the Risk Management Function and Compliance Functions which are governed by and report to the CEO, and the Third Line of Role – refers to the Internal Audit Function which is governed by and reports to the Supervisory Board.

When identifying and measuring or assessing risks, the Bank develops appropriate methodologies, including both forward-looking and backward-looking tools. The framework includes the assessment of the actual risk profile against the Bank's risk appetite, as well as the identification and assessment of potential and stressed risk exposures under a range of assumed adverse circumstances against the Bank's risk capacity. The Bank's risk management framework covers both essential and unavoidable risks.

A more detailed overview of the risks is included in the Risk Management and Capital Adequacy Report, available on the Bank's homepage www.fjordbank.lt.

Credit risk

Credit risk means the risk for the Bank to incur losses due to the customers' failure to fulfill their financial obligations towards the Bank. The Bank is using several measures designed to continuously ensure that transactions are made with reliable customers and that the transaction amounts do not exceed the approved credit risk limit. The Bank does not grant any guarantees in respect of the obligations of other parties.

The largest credit risk is represented by the carrying value of each unit of financial assets in the statement of the financial position. As a result, the Bank's management believes that the maximum risk is equal to the amounts receivable less the recognized impairment loss as of the statement of the financial position date.

Items	2022	2021
Cash balance at the central bank	2 966	2 008
Cash balance at commercial banks	672	1 963
Loans to customers	19 333	5 553

Loans to customers

The core business of the Bank is to provide unsecured consumer credits for private persons residing in Lithuania and Estonia. In assessing the customer's credit quality behavior, the Bank is assessing previous payment history, income, obligations, and other relevant factors.

Allocation of the loan receivables from customers is presented in the following table. The loan receivables not include an acquisition costs which are accounted according IFRS 9 requirements but not related to the credit risk (Note 9).

As of December 31, 2022:

Distribution of loans by overdue days	Gross carrying amount	Expected Credit Losses (ECL)			Net loans	Impairment coverage, %
		Stage 1	Stage 2	Stage 3		
Not overdue	19 093	(155)	-	(5)	18 933	0.8%
0-30 days	291	(4)	-	-	287	1.4%
31-90 days	119	-	(7)	-	112	5.9%
more than 90 days	6	-	-	(5)	1	83.3%
Total loans to customers	**19 509**	**(159)**	**(7)**	**(10)**	**19 333**	**0.9%**

As of December 31, 2021:

Distribution of loans by overdue days	Gross carrying amount	Expected Credit Losses (ECL)			Net loans	Impairment coverage, %
		Stage 1	Stage 2	Stage 3		
Not overdue	5 567	(72)	-	-	5 495	1.3%
0-30 days	44	(1)	-	-	43	2.3%
31-90 days	11	-	(1)	-	10	9.1%
More than 90 days	19	-	-	(14)	5	73.7%
Total loans to customers	**5 641**	**(73)**	**(1)**	**(14)**	**5 553**	**1.6%**

Calculation of the loan impairment

The measurement of the provision for expected losses under the general model depends on whether the credit risk has increased significantly since initial recognition. The expected credit losses model has a three-stage approach based on changes in credit risk. Upon initial recognition and when the credit risk has not increased significantly after initial recognition, a provision shall be made for 12-month expected losses, and the financial asset is recognized as Stage 1. Twelve-month expected losses are the losses expected to occur during the instrument's lifetime, but that can be linked to events occurring in the next 12 months. Stage 2 includes financial assets for which the credit risk has increased significantly since initial recognition, but there is no objective evidence of a loss. Stage 3 (in default) of the model includes assets for which the credit risk has increased significantly since initial recognition, and there has been objective evidence of a loss event on the balance sheet date. Similar to Stage 2 the provision for expected losses for Stage 3 is calculated on lifetime expected credit losses with PD equal to 100%. From 180 days overdue the provision for expected losses is constantly increasing to cover all defaulted exposure before the write-off.

At the end of each reporting date, a significant increase in the credit risk is assumed to occur 30 days past due from the initial recognition of the loan or when significant loss events are identified. The loan at default is considered when a loan is past due 90 days and more or the borrower meets unlikely-to-pay criteria including the significant difficulty of the borrower, bankruptcy, deceased, court proceeding, and other unlikely-to-pay criteria.

The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial assets. ECL is calculated having in mind the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months or over the remaining lifetime of the obligation. EAD is expressed by an assessment of the amounts the Bank expects to be owed at the time of default. The LGD represents an expectation of the extent of loss on a defaulted exposure. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD, and LGD. The assumptions underlying the ECL calculation are monitored and reviewed on a quarterly basis.

The PD used in the ECL model are splited in the grades and on average were as follows: A grade (low credit risk) 0.5%, B grade 1.5%, C grade 4% and D grade 10.6%. The average estimated LGD used in scenarios was 45% for the Lithuanian market and 75% for the Estonian market (higher due to the start of operations in this market).

The bank calculates the impairment of financial instruments according to the IFRS 9 standard, based on the expected credit loss (ECL) model. Regardless of the quantitative indicator, a significant increase in credit risk is triggered if the following backstop indicators occur: payments are past due >30 days and/or financial assets are forborne (where due to the customer's financial difficulties the contractual terms of the loans have been revised and concessions are given). Defaults are defined as overdrawn amounts of more than 90 days or a situation in which objective evidence exists that indicates a customer will default as a result of a weakening of the debtor's creditworthiness. Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default. To assess the macroeconomic impact the Bank has developed a model which incorporates developments of the future economic environment in the expected credit loss calculation. The impact of different economic variables (incl. GDP change and unemployment rate) on portfolio PD was implemented using regression analysis.

For the macro environment estimation, the Bank uses three scenarios with forward-looking information: baseline scenario (most probable and relevant), upside scenario, and downside scenario.

		2022			2021	
At 31 December	**Upside**	**Baseline**	**Downside**	**Upside**	**Baseline**	**Downside**
Scenario probability weighting	15%	60%	25%	15%	60%	25%

The expected credit loss model's necessary parameters as the probability of default, loss given default, and exposure at default for the calculation of allowances are based on the historical data from risk-scoring service providers and the management estimations. Allowances for loans to customers are calculated on an individual level depending on the probability of default.

The Bank has adopted a strategy for debt collection activities and concluded the forward-flow debt sales agreement (more info in Note 4).

Liquidity reserves

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents. The Bank's cash balances are held with the central bank and commercial bank counterparties and the management estimates such exposures as at low credit risk. The unrated counterparties include commercial banks – a subsidiary of the Scandinavian bank that has assigned a credit rating to the parent bank but the credit rating is missing for the subsidiary bank. The following table discloses the Bank's cash balance exposures by credit ratings:

Items	2022	2021
Cash balance at the central bank	2 966	2 008
Cash balance at commercial no rated banks but with assigned credit rating to the parent banks	282	953
Cash balance at the commercial bank with P – 2 rating for short-term funding by Moody's Investors Service	390	1 011
Total	**3 638**	**3 972**

Due to the cash balances being payable on demand, no allowance of the cash balances from the central bank and credit institutions has been recognized in the statement of financial position. The Bank didn't hold collateral and other credit enhancements against certain of its credit exposures and has no collateral arrangements relating to derivatives, repurchase, and reverse repurchase agreements.

Liquidity risk

The liquidity risk means the risk that the Bank is unable to meet its financial obligations in time or the risk to incur losses due to a sudden decrease in financial resources (e.g. financial crises may result in a delay of incoming payments). For liquidity risk management, the Bank's policy is to maintain sufficient cash and cash equivalents enabling the Bank to fulfill its obligations under ordinary or complex conditions without incurring unacceptable loss or risk to the Bank's reputation. The following table discloses the Bank's largest liquidity risk exposures irrespective of the security measures according to the contractual flow:

As of December 31, 2022		**Contractual cash flows**					
Items	**Total**	Upon request	Till 3 months	3-12 months	1-5 years	Over 5 years	Not distributed
Assets							
Cash and cash equivalents	3 638	3 638	-	-	-	-	-
Loans to customers	19 498	-	1 208	3 321	12 911	2 042	16
Right of use asset	172	-	21	64	87	-	-
Other receivables	30	-	24	6	-	-	-
Balance as of December 31, 2022	**23 339**	**3 638**	**1 253**	**3 391**	**12 999**	**2 042**	**16**
Liabilities							
Deposits from customers	19 740	31	1 602	11 724	6 383	-	-
Subordinated notes	1 046	-	6	-	-	1 040	-
Rent liabilities	162	-	21	63	78		-
Payables to service providers	196	-	196	-	-		-
Other current liabilities	125	61	49	16	-		-
Balance as of December 31, 2022	**21 269**	**91**	**1 874**	**11 802**	**6 461**	**1 040**	**-**

As of December 31, 2021		**Contractual cash flows**					
Items	**Total**	Upon request	Till 3 months	3-12 months	1-5 years	Over 5 years	Not distributed
Assets							
Cash and cash equivalents	3 972	3 972	-	-	-	-	-
Loans to customers	5 641	-	333	903	3 806	580	19
Right of use assets	133	-	10	31	92	-	-
Other receivables	30	-	25	5	1	-	-
Balance as of December 31, 2021	**9 776**	**3 972**	**368**	**939**	**3 898**	**580**	**19**
Liabilities							
Deposits from customers	4 758	**-**	6	2 963	1 789	**-**	**-**
Rent liabilities	196	-	16	49	130	-	-
Payables to service providers	112	-	112	-	-	-	-
Other current liabilities	104	52	52	-	-	-	-
Balance as of December 31, 2021	**5 170**	**52**	**186**	**3 012**	**1 919**	**-**	**-**

Banks must hold sufficient liquid assets to be able to cover net cash outflows under gravely stressed conditions within 30 days. The value of the liquidity coverage ratio (LCR) must not be below 100 percent, i.e., a credit institution's reserves of liquid assets must not be lower than net cash outflows over 30 calendar days under gravely stressed conditions.

The net stable funding ratio is a liquidity standard requiring banks to hold enough stable funding to cover the duration of their long-term assets. The value of the net stable funding ratio (NSFR) must not be below 100 percent, i.e., the ratio ensures banks do not undertake excessive maturity transformation, which is the practice of using short-term funding to meet long-term liabilities.
The following table discloses the Bank's prudential liquidity requirements structure:

Items	2022	2021
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA)	2 929	2 008
Total net cash outflow	132	60
LCR (%)	2211%	3361%
Net Stable Funding Ratio		
Total available stable funding	23 087	9 584
Total required stable funding	15 739	4 894
NSFR (%)	147%	196%

A more detailed overview of the liquidity requirements is included in the Risk Management and Capital Adequacy Report, available on the Bank's homepage www.fjordbank.lt.

Market risk

Market risk is the risk that the Bank's results or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The purpose of market risk management is to manage the open risk exposures to maximize the return. The Bank was involved in the management of the interest rate risk only, as through the financial year no investments into equity price-related financial instruments were done and all monetary assets and liabilities were held in Euros.

Interest rate risk

The Bank did not have any derivatives with the purpose of managing interest rate risk. The Bank's interest rate gap position is related to the interest rates on a banking book portfolio.

As of 31 December 2022, a 2 percentage point increase in market interest rates would decrease the Bank's equity evaluated by the economical value method by EUR 342 thousand (a decrease of EUR 180 thousand was calculated as for the previous year) and the annual profit evaluated by the net interest income method would increase by EUR 3 thousand (an increase by EUR 67 thousand was calculated as for the previous year). A 2 percentage point decrease in market interest rates would increase the Bank's equity evaluated by the economic value method by EUR 376 thousand (an increase of EUR 203 thousand was calculated as for the previous year) and would decrease the annual profit evaluated by the net interest income method by EUR 3 thousand (a decrease of EUR 67 thousand was calculated as for the previous year).

Foreign exchange risk

The Bank's risk management policy includes the requirement to match the cash flows from the highly probable future transactions in each foreign currency. The Bank did not use any financial instruments or derivatives to manage the foreign exchange risk.

The Bank's financial assets and financial liabilities were as follows:

	2022		2021	
	Assets	**Liabilities**	**Assets**	**Liabilities**
EUR	23 967	21 127	9 852	5 066
Other currencies	0	-	0	-
Total:	**23 967**	**21 127**	**9 852**	**5 066**

The assets reflect receivables from the financial assets and liabilities include liabilities to depositors, bondholders and other payables to the service providers.

Regulatory capital

The Bank must comply with prudential regulatory requirements and ensure the Bank's ability to comply with the capital adequacy requirements and ensure the ability to maintain the optimal capital level to ensure the investment portfolio growth and protect against possible risks.

The following table discloses the Bank's regulatory capital structure:

Items	2022	2021
Equity as reported in the Balance sheet	5 039	6 512
Regulatory adjustments	2 080	1 602
Intangible assets	1 020	918
Deferred tax assets	1 060	684
Common Equity Tier 1 capital	2 959	4 910
Tier 1 capital	2 959	4 910
Tier 2 capital	1 040	-
Total regulatory capital	**3 999**	**4 910**
Risk exposure amount:		
Credit risk according to the standardized approach	15 640	5 037
Operational risk according to the basic indicator approach	776	254
Total risk exposure amount	**16 416**	**5 291**
Total capital ratio (%)	**24,4%**	**92,8%**

The Bank must satisfy the own funds' requirements including a Common Equity Tier 1 capital ratio of 4.5 percent, a Tier 1 capital ratio of 6 percent, and a total capital ratio of 8 percent. In addition to the capital requirement, to which the ratio of 8 percent is further applied, banks must meet additional capital buffers requirements, such as a capital conservation buffer of 2.5 percent and the institution's special countercyclical capital buffer requirement. At the report preparation date, according to the Bank of Lithuania decision, a special countercyclical capital buffer requirement of 0 percent is applied.

The capital planning process is an interlinked process to make sure the Bank fulfills its strategic, operational, and financial objectives. A sound risk culture contributes to maintaining a proper capital structure and supports the Bank's business plans.

The Bank satisfied all own funds and additional capital buffer requirements. A more detailed overview of the own funds and additional capital buffer requirements is included in the Risk Management and Capital Adequacy Report, available on the Bank's homepage www.fjordbank.lt.

Leverage

The leverage ratio measures the Bank's core capital relative to its total assets. The ratio looks specifically at Tier 1 capital to judge how leveraged the Bank is based on its assets. The 3% leverage ratio requirement became binding for banks in the mid of the Year 2021. As of December 31, 2022, the Bank's leverage ratio was 12.2%, and as of December 31, 2021, 48.7%.

The large exposure requirement

It's required that exposure (loans granted, also any asset or off-balance-sheet asset) to a client or a group of connected clients cannot exceed 25% of the Bank´s Tier 1 capital, or EUR 150 million, whichever the higher, provided that the sum of exposure values. An exposure to a client or a group of connected clients shall be considered a large exposure where the value of the exposure is equal to or exceeds 10 % of its Tier 1 capital.

The Bank complied with the large exposure requirement. As of 31st December 2022, the loans granted by the Bank to one customer or a group of related customers did not exceed 1% of the Bank's Tier 1 capital, while other bank asset positions (funds in commercial banks) amounted to 13% of the Bank's Tier 1 capital. As of 31st December 2021, the loans granted by the Bank to one customer or a group of related customers did not exceed 1% of the Bank's Tier 1 capital, while other bank asset positions (funds in commercial banks) amounted to 21% of the Bank's Tier 1 capital.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or external events. Within the Bank, operational risk management focuses on risks arising from the people, systems, and processes through which the Bank operates. It also includes other classes of risk, such as fraud, legal risks, and physical or environmental risks.

In addition to calculating the capital requirement for operational risk based on the standard method, it will be assessed whether the Bank's use of outsourcing requires additional Pillars 2 requirements. The Bank uses the base method to calculate the minimum required capital needed for operational risk. The calculation of the operational risk is part of the ICAAP process as well. The risk appetite, risk tolerance, and early warning limit for operational risk are implemented accordingly.

ESG risk

The Bank developed an action plan for the Year 2022 which is planned to be incorporated into the Bank's risk management and internal control risk framework for the management of Environmental, Social, and Governance (ESG) risks. It should be noted that the Bank has a very narrow product line consisting of loans and deposits for private individuals only and this circumstance impacts the Bank´s options for ESG risk management. The Bank may not be able to have the same variety of options as financial market participants with a much wider specter of products.

The Bank aims to generate long-term value by fostering responsible financial behavior and practices, actively considering the social impact of its business operations, and contributing to a more sustainable future. To do so, the Bank is seeking to identify its role in minimizing the risks and positively contributing to the sustainable development of society. Due to the limited scope and nature of the business and the lack of trusted guidelines on how environmental impact could be quantified for retail consumer exposures, the Bank cannot define carbon emission generation or other measurable targets on its portfolio yet. This will be reviewed once new and reputable guidelines become available. However, in the area of Environmental, Social, and Governance, the subjects of further development in the Bank are sustainable work practices, sustainable cooperation, maintaining responsible lending rules, social inclusiveness, and equal rights principles.

Note 2 Net interest income (expenses)

Items	2022	2021
Interest income calculated using the effective interest method		
Loans to households	713	167
Adjustment on effective interest method	(390)	(67)
Total interest income:	**323**	**100**
Interest expenses calculated using the effective interest method		
Deposits received	(170)	(42)
Adjustment on effective interest method	(27)	-
Other interest expenses:		
Lease liability	(5)	(6)
Interest expense on assets	(5)	(15)
Interest expense on subordinated liabilities	(6)	-
Total interest expense:	**(213)**	**(63)**
Net interest income (expense)	**110**	**37**

The interest expense on assets represents the interest expenses that were charged on the cash balances according to the negative interest rate environment. An interest rate level for a such charge is set by ECB for deposit facility operations.

Note 3 Fee income

Items	2022	2021
Fee income		
Loans to households	564	73
Total:	**564**	**73**

The fee income on loans to households is related to the administration fee paid for the loan maintenance.

Note 4 The net result from financial assets

Items	2022	2021
Gains (loss) of the sales of financial assets	(39)	-
Total:	**(39)**	**-**

During the year, the Bank concluded one-off and forward-flow debt sales agreements. The one-off agreement was related to the non-performing loans and according to such agreement, the Bank sold all non-performing loans portfolio to the debt management company. According to the forward-flow agreement the Bank sells loans that are more than 75 days overdue with no obligation to repurchase (except for fraud or death of the customer). The difference between pre-transaction and post-transaction loan carrying amount is recognized in the income statement and the total amount of the loan is derecognized from the statement of financial position.

Note 5 Other income

Items	2022	2021
Income from the sub-rent of the right-of-use asset	31	40
Other income	-	2
Total:	**31**	**42**

Note 6 Personnel expenses

Items	2022	2021
Salary and related paid taxes	873	624
Bonuses	46	31
Vacation accruals	16	13
Other personnel-related expenses	3	1
Total:	**938**	**669**

Note 7 Administration expenses

Items	2022	2021
Marketing and public relations expenses	294	201
IT and communication expenses	244	179
Registers and maintenance expenses	193	109
Consultation expenses	162	142
Office rent and maintenance expenses	29	12
Business trips expenses	26	11
Tax expenses	24	16
Insurance expenses	18	13
Legal services	16	1
Financial audit expenses	14	14
Other expenses	43	18
Total:	**1 063**	**716**

Note 8 Cash and cash equivalents

Items	2022	2021
Cash balances in the central bank	2 966	2 008
Cash balances in commercial banks	672	1 964
Total:	**3 638**	**3 972**

The Bank is under the regime of the mandatory 1% reserve from deposits keeping the funds in the Bank of Lithuania. The mandatory reserve regime is active for the Bank from the end of December 2022 and the amount for the first period was EUR 37 thousand.

Note 9 Loans to customers

Items	2022	2021
Loans to households	19 419	5 607
Acquisition costs	977	307
Accrued interest	90	34
Loan impairment	(176)	(88)
Total:	**20 310**	**5 861**

The following table shows the geographical distribution of loan balance and the loan loss allowance. The cross-border operations in Estonia started in September of the year 2022.

Items	2022			2021
	Lithuania	Estonia	Total	Lithuania
Loans to households	19 211	208	19 419	5 607
Acquisition costs	967	10	977	307
Accrued interest	89	1	90	34
Loan impairment	(164)	(12)	(176)	(88)
Total:	**20 103**	**207**	**20 310**	**5 861**
Share in portfolio, %	**99%**	**1%**	**100%**	**100%**

The following table shows reconciliations from the opening to the closing balance of the loan loss allowance. The basis for determining transfers due to changes in credit risk is set out in the Bank´s Accounting Policy.

Items	2022	2021
Balance as of 1st January	**88**	**2**
Increases due to origination	194	81
Decrease due to derecognition	(83)	(12)
Changes due to changes in credit risk	32	18
Changes due to an update in the institution's methodology for estimation	(55)	(1)
Balance as of 31st December	**176**	**88**

The change in methodology for estimation reflects the impact of the Bank's estimates on expected credit losses due to macroeconomic forecasts, which the Bank reviews regularly based on estimates by competent authorities. Also, taking into account the signed forward flow agreement on the loan sales, the Bank reviewed the size of Loss Given Default in the ECL model.

Note 10 Investment in subsidiary

In the Year 2022, the Bank started to offer loans on a cross-border basis in Estonia. For the administrative support of the operations, the Bank established in April 2022 a daughter company Fjord Support Services OÜ (reg nr 16479312, registered in the Business Register of Estonia). The purpose of the company is the administrative support of the Bank in the process of issuing and administering loans.

Investment is accounted for using the equity method.

Items	2022	2021
Investment in subsidiary	20	-
Subsidiary result accounted through the equity method	4	-
Total:	**24**	**-**

The Bank prepared the transfer pricing documentation which articulate and develop the principles, methods and rules that would serve as guidelines in determining the pricing policy of controlled intra-group financing services transactions between AB Fjord Bank and its subsidiary.

Below the financial information on the subsidiary and its impact on the consolidated report is presented. The Bank´s management decided not to consolidate the subsidiary's financial information in respect of the Year 2022 financial information due to an insignificant impact on the group's consolidated results. There is no impact on the consolidated result as the subsidiary result is included in Bank's results through an equity method.

STATEMENT OF FINANCIAL POSITION

Article	Individual Bank's statement	Individual Subsidiary's statement	Consolidation impact	Consolidated Group statement
ASSETS				
Cash and cash equivalents	3 638	27	-	3 665
Loans to customers	20 310	-	-	20 310
Investment in subsidiary	24	-	(24)	-
Intangible assets	1 020	-	-	1 020
Tangible assets	183	-	-	183
Deferred tax assets	1 060	-	-	1 060
Other assets	30	18	(14)	34
Total assets:	**26 265**	**45**	**(38)**	**26 272**
LIABILITIES				
Deposits from customers	19 715	-	-	19 715
Subordinated liabilities	1 028	-	-	1 028
Other liabilities	483	21	(14)	490
Total liabilities:	**21 226**	**21**	**(14)**	**21 233**
EQUITY				
Capital	2 135	20	(20)	2 135
Share premium	7 562	-	-	7 562
Retained earnings (loss)	(4 658)	4	(4)	(4 658)
Total Equity:	**5 039**	**24**	**(24)**	**5 039**
Total liabilities and equity:	**26 265**	**45**	**(38)**	**26 272**

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Article	Individual Bank's statement	Individual Subsidiary's statement	Consolidation impact	Consolidated Group statement
Net interest income (expenses)	**110**	**-**	**-**	**110**
Net fee and commission income (expenses)	**564**	**-**	**-**	**564**
The net result from financial assets	(39)	-	-	(39)
Other income	31	92	(92)	31
OPERATING PROFIT (LOSS)	**666**	**92**	**(92)**	**666**
Personnel expenses	(938)	(72)	76	(934)
Administration expenses	(1 063)	(16)	16	(1 063)
Depreciation and amortization	(428)	-	-	(428)
PROFIT (LOSS) BEFORE IMPAIRMENT LOSSES AND SUBSIDIARY RESULT	**(1 763)**	**4**	**-**	**(1 759)**
Impairment losses on loans	(89)	-	-	(89)
Subsidiary results accounted through the equity method	4	-	(4)	-
PROFIT (LOSS) BEFORE TAXES	**(1 848)**	**4**	**(4)**	**(1 848)**
Tax expense	376	-	-	376
NET PROFIT (LOSS)	**(1 472)**	**4**	**(4)**	**(1 472)**
TOTAL COMPREHENSIVE INCOME (EXPENSES)	**(1 472)**	**4**	**(4)**	**(1 472)**
Profit (loss) per share attributed to the shareholders	(0,03)			(0,03)

Detailed information on the transactions between Bank and the subsidiary is presented in Note 21.

Note 11 Intangible assets

Items	Built-up Banking IT platform	Specialized Banking license	Other intangible assets	Total
The acquisition cost				
December 31, 2020	**860**	**68**	**13**	**941**
Acquisition of assets	323	-	-	323
December 31, 2021	**1 183**	**68**	**13**	**1 264**
Acquisition of assets	450	-	-	450
December 31, 2022	**1 633**	**68**	**13**	**1 714**
Amortization				
December 31, 2020	**(99)**	**(14)**	**(3)**	**(116)**
Amortization during the financial year	(214)	(14)	(3)	(231)
December 31, 2021	**(313)**	**(27)**	**(6)**	**(346)**
Amortization during the financial year	(331)	(14)	(3)	(348)
December 31, 2022	**(644)**	**(41)**	**(9)**	**(694)**
Balance as of December 31, 2021	**870**	**41**	**7**	**918**
Balance as of December 31, 2022	**989**	**27**	**4**	**1 020**

All the capitalized intangible developed assets were introduced into life and are under amortization.

Note 12 The Right of use of assets

Items	The Bank's part	Rented part	Total
Right of use of assets balance			
Balance as of December 31, 2020	**119**	**146**	**265**
Modification	(1)	(1)	(2)
Depreciation	(26)	(42)	(68)
Balance as of December 31, 2021	**92**	**103**	**195**
Modification	112	(70)	42
Depreciation	(45)	(32)	(77)
Balance as of December 31, 2022	**159**	**-**	**159**

The Bank adopted IFRS 16 and recognized the right to use the asset in an item of property, plant, and equipment. The value of the right to use an asset is determined based on the discounted lease payments (liabilities) over the lease term set by the rent agreement. The long-term office lease agreement is signed for 5 years. The depreciation period of these assets corresponds to the lease term of the asset. The discount rate used is 2.71%.

From September 2022, the Bank is renting all office space and the sub-rent agreement (for the part of the office space which was subleased for the same period) was terminated.

Note 13 Tangible assets

Items	Equipment	Furniture	Rent of office prepayment	Total
Acquisition cost				
December 31, 2020	**9**	**10**	**13**	**32**
Acquisition of assets	1	-	-	1
December 31, 2021	**10**	**10**	**13**	**33**
Acquisition of assets	-	5	-	5
December 31, 2022	**10**	**15**	**13**	**38**
Depreciation				
December 31, 2020	**(4)**	**(2)**	-	**(6)**
Depreciation	(2)	(2)	-	(4)
December 31, 2021	**(6)**	**(4)**	-	**(10)**
Depreciation	(2)	(2)	-	(4)
December 31, 2022	**(8)**	**(6)**	-	**(14)**
Balance as of December 31, 2021	**4**	**6**	**13**	**23**
Balance as of December 31, 2022	**2**	**9**	**13**	**24**

Note 14 Deferred tax assets

Items	2022	2021
Profit (loss) before taxes	**(1 848)**	**(1 621)**
Non-tax deductible expenses	75	24
Total amount of expenses reducing profit	(731)	(642)
Total taxable profit (loss)	**(2 504)**	**(2 239)**
Rate	*15 %*	*15 %*
Deferred tax from taxable losses	376	336
Deferred tax from vacation accruals related to social contribution taxes and bonuses	-	2
Deferred tax from other temporary differences	-	15
Total deferred tax assets	**376**	**354**
Deferred tax assets at the beginning of the reporting year	684	330
Deferred tax assets at the end of the reporting year	1 060	684

Note 15 Other assets

Items	2022	2021
Deferred expenses	24	23
Prepayments	6	7
Total:	**30**	**30**

Note 16 Deposits from customers

Items	2022	2021
Households' term deposits	19 587	4 716
Accrued interest	153	42
Acquisition costs	(25)	-
Total:	**19 715**	**4 758**

Household's term deposits by clients' residency:

Items	2022				2021
	Lithuania	Germany	Spain	Total	Lithuania
Households' term deposits	5 704	13 475	383	19 562	4 716
Accrued interest	73	79	1	153	42
Acquisition costs	-	(24)	(1)	(25)	-
Total:	**5 777**	**13 554**	**384**	**19 715**	**4 758**
Share in portfolio, %	**29%**	**69%**	**2%**	**100%**	**100%**

Note 17 Subordinated liabilities

Items	2022	2021
Subordinated notes	1 040	-
Accrued interest	6	-
Acquisition costs	(18)	
Total:	**1 028**	**-**

According to the General Terms and Conditions for the Issuance of Tier 2 Subordinated Notes up to EUR 3 million with a maturity of up to 10 years, confirmed by the General Meeting of Shareholders, the Bank issued in December the 1st tranche of the subordinated notes.

Detailed information about Subordinated Notes:

Subordinated Notes	Nominal Price	Amount	Interest rate	Issue date	Maturity date
LT0000407124	EUR 10,000	1 040	11%	12/12/2022	12/12/2032

The issued Subordinated Notes were included in the Bank´s Tier 2 capital. The Bank is obliged to pay quarterly perpetual interest payments. On the prior approval of the Financial Supervision Authority, the Bank has a right to redeem the debt notes after five years from the date of issue.

The issued Subordinated Notes are recorded in the balance sheet at amortized cost by using the effective interest rate method. In addition to interest rate, the effective interest rate mainly reflects acquisition costs, recognized as a change in the nominal value of the debt securities and charged to interest expense over a term of notes.

Note 18 Other liabilities

Items	2022	2021
Office rent liabilities	162	196
Liabilities to service providers	171	108
Holiday pay accruals	61	52
Accrued expenses	38	52
Payable taxes	25	5
Payable to subsidiary	14	-
Other payables	12	-
Total:	**483**	**413**

Note 19 Capital and share premium

Items	Share units	Share capital	Share premium
Balance as of December 31, 2020	**29 599**	**1 184**	**3 068**
Share par value (nominal)		0,04	
Share premium (the difference between the share issue price and nominal value)			0,20
Share issue registered on January 4th, 2021	3 252	130	639
Share issue registered on September 22nd, 2021	20 534	821	4 179
Share issue cost			(324)
Balance as of December 31, 2021	**53 385**	**2 135**	**7 562**
Balance as of December 31, 2022	**53 385**	**2 135**	**7 562**

All shares are fully paid up. The Bank has no other type of shares than ordinary registered shares.

In 2020, additional 3 252 shares were issued and paid for EUR 769 thousand. This share issue was finalized by registering new Articles of Association of the Bank in the State Enterprise Center of Registers on January 4, 2021. Following this registration Bank's share capital increased by EUR 130 thousand, and due to the paid issue sum of EUR 769, a share premium of EUR 639 thousand was accounted for.

In 2021, additional 20 534 shares were issued and paid for EUR 5 000 thousand The share issue was finalized by registering a new version of the Bank´s Articles of Association in the State Enterprise Center of Registers on September 22, 2021. Following this registration Bank's share capital increased by EUR 821 thousand and due to the paid issue sum of EUR 5 000 thousand, a share premium of EUR 4 179 thousand was accounted for.

The Bank's shareholders were as follows (with an indication of shareholders with more than 5% ownership):

Shareholder	as of December 31, 2022		as of December 31, 2021	
	No of shares	Ownership, %	No of shares	Ownership, %
Stranden Invest AS	5 285	9.90%	5 285	9.90%
First Partner Holding 4 AS	5 285	9.90%	5 285	9.90%
Lenani AS	5 285	9.90%	5 285	9.90%
Skalmen AS	3 747	7.02%	3 747	7.02%
New Vence Invest AS	3 632	6.80%	3 632	6.80%
Opera Financial Technologies Limited	3 252	6.09%	3 252	6.09%
Hema Group AS	2 695	5.05%	3 045	5.70%
Other legal persons	17 251	32.32%	16 274	30.49%
Other private persons	6 953	13.02%	7 580	14.20%
Total:	**53 385**	**100%**	**53 385**	**100%**
Legal persons	46 432	86.98%	45 805	85.80%
Private persons	6 953	13.02%	7 580	14.20%
Total:	**53 385**	**100%**	**53 385**	**100%**

Mandatory reserve

As of December 31, 2022, the Bank did not have reserves that are compulsory under Lithuanian legislation. According to the Law on Companies of the Republic of Lithuania, the mandatory reserve is compulsory under the Lithuanian regulatory legislation. Annual transfers of 5% of the net result are required until the reserve reaches 10% of share capital. The mandatory reserve cannot be used for payment of dividends and it is established to cover future losses only. A part of the mandatory reserve that exceeds the 10% threshold of share capital can be re-distributed when the annual profit of the next year is distributed. The management of the Bank is planning to start transferring funds to the mandatory reserve as soon as it starts operating profitably.

Profit (loss) available for distribution

Note no.	Items	Value
1	Retained earnings (loss) at the beginning of the financial year	**(3 186)**
2	Current financial year net profit (loss)	(1 472)
3	Profit (loss) for distribution (1+2)	(4 658)
4	Profit (loss) transfer to the compulsory reserve or emergency (reserve) capital	-
5	Profit (loss) transfer to the reserve	-
6	Retain profit (loss) at the end of the financial year (3-4-5)	**(4 658)**

Note 20 Contingencies

According to current laws, the Tax Inspectorate at any time could check the Bank's accounting registers for the last five years as well as can calculate and apply additional taxes, fines, and sanctions for the Bank. The management of the Bank has no information about the events and conditions which can result in potentially significant additional tax expenses or liabilities for the Bank.

Note 21 Transactions with related parties

The Bank's related parties are considered to be its shareholders, employees, members of the Management and Supervisory Boards, their close family members, or entities that they directly or indirectly, through one or several intermediaries control or are controlled by, or are managed jointly with the Bank, and this relation enable one of the parties to exercise control or significant influence upon the other party in making financial or operating decisions. The following shows transactions with the Bank's shareholders or other related parties:

Related parties name	Total	Receivables
Sales from a related party during 2022	41	-
Sales from Shareholders during 2021	49	-

Related parties name	Total	Liabilities
Acquisitions from related parties during 2022		
Shareholders	1 046	1 046
Subsidiary	92	14
Other related parties	647	44
Acquisitions from related parties during 2021		
Shareholders	503	46
Subsidiary	-	-
Other related parties	-	-

The acquisition from shareholders in the Year 2022 presents an amount of Tier 2 Subordinated Notes. Detailed information is presented in note No. 17.

Financial relations with the Bank's Management Board: the paid salary (including taxes) in the Year 2022 amounted to EUR 300 thousand (in the Year 2021 – EUR 289 thousand).

Note 22 Subsequent events

Considering that the term of the Management Board ends in February 2023, the Supervisory Board of the Bank adopted a decision to elect Veiko Kandla and Danas Juzenas to serve as Members of the Management Board for a new 3-year period. The Supervisory Board also elected Kristina Simonovič as the third Member of the Management Board (subject to regulatory approval).

There were no other material subsequent events that would have a corrective effect on the Bank's financial statements for the Year 2022, including the impact of the COVID-19 pandemic and the war in Ukraine.

These financial statements were signed and approved on March 9th, 2023.

Veiko Kandla
CEO
/signed digitally/

Asta Guleckienė
Chief Accountant
/signed digitally/

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