GeneralFinancing bankas

ANNUAL REPORT 2023

UAB GF BANKAS

Financial statements prepared
in accordance with international
Financial Reporting Standards as
adopted by the European union for the
year 2023
presented together with the
independent auditor’s report
and bank’s annual report

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PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

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Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the shareholder of GF Bankas UAB

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of GF Bankas UAB (hereinafter "the Bank"), which comprise the statement of financial position as of 31 December 2023, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter – IFRS) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of 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 the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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.

Building a better working world

Key audit matter	How the matter was addressed in the audit
Assessment of expected credit losses for the loan portfolio	
The carrying amount of loans issued as at 31 December 2023 is EUR 121,299 thousand (EUR 109,550 thousand as at 31 December 2022) and comprises 74% of total assets of the Bank as at 31 December 2023 (84% - as at 31 December 2022). The accumulated expected credit losses of loans recognized in the Bank's statement of financial position as at 31 December 2023 are EUR 1,903 thousand (EUR 1,376 thousand as at 31 December 2022). The Bank uses the expected credit loss (ECL) model under IFRS 9 "Financial instruments" for the assessment of loan impairment. The basis of the Bank's impairment policy is presented in the accounting policies section in Notes 2.3 to the financial statements. Critical accounting estimates and judgments, disclosures of loans and the credit risk management are set out in Notes 2.11, 5 and 17 to the financial statements. We identified this area to be significant for the audit because measurement and recognition of impairment of loans reflected in the Bank's expected credit loss model are associated with significant judgment and estimates, as they require the management to exercise judgement and apply complex and subjective assumptions both about the timing and amounts of such impairment. Key areas of judgement and estimates include the identification of exposures with a significant increase in credit risk, assumptions used in the expected credit loss model such as expected future cash flows and forward-looking macroeconomic factors. Due to the above circumstances, we considered the assessment of loan impairment to be a key audit matter.	Our audit procedures included, among others, the following: We updated our understanding and tested the key controls over the loans issuance, recording, monitoring and loans impairment processes. We obtained and read the Bank's impairment policy that is based on IFRS 9. With the support of IFRS 9 specialists, we assessed the compliance of the policy with the requirements of IFRS 9 by assessing each significant model component: definitions of default and significant increase in credit risk, exposure at default, probability of default, loss given default and use of macroeconomic scenarios. As part of controls testing and substantive procedures, for a sample of loans we performed testing of loan portfolio by comparing inputs to internal and external data, including contract dates, risk levels for private persons based on client scoring and other inputs used in the ECL calculation as at 31 December 2023. Our analysis considered management's assumptions of the ECL adjustments and included testing of macroeconomic factors used by the management with supporting external information. We also performed analytical procedures, such as a comparison of loan loss impairment balances to industry levels, comparison to prior year, ECL and loans movements between stages. Moreover, as the loans issuance, recording, monitoring and ECL calculation processes are automated, we have tested the operating effectiveness of relevant IT general controls used. We also assessed the adequacy of the financial statements disclosures in Notes 2.3, 2.11, 5 and 17.

Building a better working world

Other information

Other information consists of the information included in the Bank's 2023 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

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

In connection to 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.

We also have to evaluate, if the financial information included in the Bank's Annual Report corresponds to the financial statements for the same financial year and if the Bank's Annual Report, was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- The financial information included in the Bank's Annual Report corresponds to the financial information included in the financial statements for the same year; and
- The Bank's Annual Report was 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 International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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, actions taken to eliminate threats or safeguards applied.

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

Appointment and approval of the auditor

In accordance with the decision made by Shareholder on 21 June 2023 we have been chosen to carry out the audit of Bank's financial statements. Our appointment to carry out the audit of the Bank's financial statements in accordance with the decision made by Shareholder has been renewed annually and the period of total uninterrupted engagement is 7 years.

Consistency with the audit report submitted to the audit committee

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

Non audit services

We confirm that to the best 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.

We have provided the services that are disclosed in Note 14 of the financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Jonas Akelis.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

20 March 2024

ANNUAL REPORT

CEO foreword

A year of development and growth

In 2023 GENERAL FINANCING BANKAS ("the Bank") remained on the growth and development path as more and more clients chose the Bank as their financial partner. In 2023 GENERAL FINANCING BANKAS passed third year of its banking activity growing deposits portfolio by 31% and loans portfolio by 11%. Such growth was caused by offering attractive rates for both deposits and consumer loans, as a result Bank's earnings before tax grew by 14%. At the same time Bank's capital and liquidity ratios remained at strong levels – capital adequacy at the end of 2023 was 16% and LCR – 248%.

Along with many improvements Bank did during the year it also introduced a new product – savings account which allows clients to save money, earn interest and access money at any time without any restrictions. From the very beginning savings account portfolio continues growing from both new and existing clients opening and saving money in their accounts. At the same time consumer loans clients were borrowing higher amounts for longer terms showing their growing trust in GENERAL FINANCING BANKAS.

GENERAL FINANCING BANKAS responsibilities extend beyond the balance sheet so in 2023 it continued building commitment to societal well-being. During last year Bank made monetary donations to "Rimantas Kaukenas foundation", "SOS children's villages in Lithuania", "Support kids from the street" NGOs to cover the needs of children from socially vulnerable families. As well provided scholarships for 40 women in need at "WoW University".

GENERAL FINANCING BANKAS is looking forward to building the trust of more clients who want to save money or choose it as their consumer loan provider. The Bank will keep its focus on providing high quality services and introducing new solutions to the market, this to be ensured by skilled employees and trustworthy partners.

Justinas Muleika
CEO GENERAL FINANCING BANKAS

Economic environment

2023 – the year of fight with inflation

2023 was again a challenging year both for global and local economies. The fight with the high inflation dominated the economic agenda of the European Central Bank, but for most consumers high inflation combined with the high borrowing rates meant the erosion of the purchasing power (12months EURIBOR in the second part of the year exceeded 4% and only in the last month started to show some signs of potential change in the trend).
The raise of rates by ECB and increased competition in the deposit market drove up the deposit rates in the Lithuanian market. Although the EURIBOR growth in general was financially favorable to the banking sector, the Bank is not operating in the variable rate market segments, therefore, raising deposit interest rates on one hand and fixed rates for consumer loans with limited potential for pricing adjustment on the other, created additional challenges.
Although the inflation in Lithuania left the double-digit territory, still in 2023 the average annual inflation was 8.7%. Another factor, important for the Bank in terms of growth opportunities is the level of employment which usually follows the GDP trend. Fortunately, during 2023 the Bank of Lithuania projects only moderate unemployment increase in 2023.
Responding to growing expectations of its stakeholders, the Bank paid a lot of attention to ESG-related matters. Public concern over climate change and growing social inequality the Bank turned into ESG management policy, The Policy set up ESG –related KPIs and KRIs, which should help the Bank going its way towards sustainably, social integrity and transparent governance.

Expected economic environment tendencies in 2024

The expectations for economic environment improvement in 2024 are moderate. Decreasing interest rates and significant drop of inflation rate should have positive impact on consumer confidence and therefore private expenditure is likely to start growing again after the decline in 2023. Although the projections of main economic indicators by the Bank of Lithuania signify more favourable environment for the Bank compared to 2023, the geopolitical uncertainties related to upcoming elections in major world democracies (European Parliament, US Presidential election) and ongoing conflicts in Ukraine, Middle East, Taiwan related tensions might have the impact on the economic outlook in case of unpredicted escalations.

Business overview by channel

Partner’s network

In 2023, the Bank continued activities with the focus on profitable and sustainable partnership. In 2023, the number of active business partners has decreased by 9% but the overall partner’s network coverage remained wide across Lithuania.

In 2023, the Bank’s stayed with the limited presence in the e-commerce as the segment lacked attractiveness from the pricing/profitability perspective. The Bank stayed focused with it’s strategic partners, especially in the markets of car dealers and loan intermediaries.

Although the number of active partners has decreased, the total loan issuance in the partners’ network in 2023 was only 3.7% lower than in 2022. Out of the top 10 largest partners in 2023, the majority were engaged in selling cars and providing financial intermediation services. Moreover, the Bank remained strong in the Medical lease market.

In 2023, the Bank issued 4.1 MEUR worth of loans via lending platforms (Lenders and Altero).

Own customer service network

In 2023, the Bank maintained a competitive pricing of consumer loans in the private channel network which allowed to remain one of the market leaders among institutions specialized in consumer lending.
New loans issued in own sales channels accounted for the largest part of the total Bank's new loans. In 2023 the Bank provided services in 13 physical branches across Lithuania, telemarketing division (via the phone) and via e-loan channel.

New loans issued in 2023 via Bank's own network reached 36.2 MEUR or 68.5% of total new sales.

Additional revenues products

In 2023 credit instalment insurance in own customer service network provided by ADB „Compensa Vienna Insurance Group" became an additional value-adding product reaching 22% penetration. In 2023, 1,616 customers have been insured.

Future plans

In 2024 the Bank's strategic outlook will remain firmly grounded on the continuation of the proven approaches that have served well the Bank and the customers in the previous years. In order to maintain the market share in the consumer lending business the Bank will remain focused on internal efficiencies recognizing that in the (potentially) decreasing interest rate environment loan pricing will continue being very competitive and the profitability growth will remain dependent on the ability to provide superior customer service and meet customers' expectations in various sales channels.

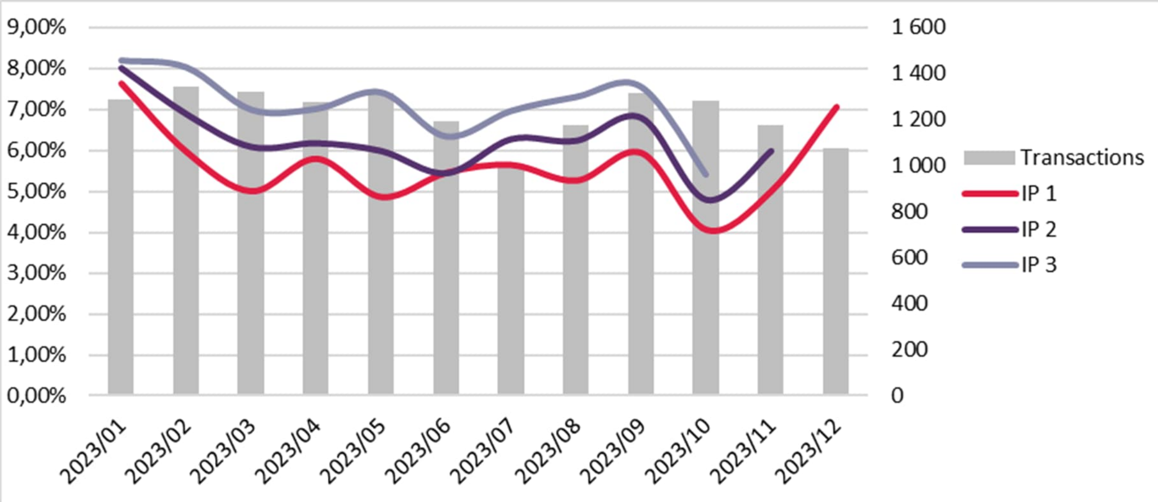
Although overall economic outlook for 2024 is moderately positive, existing high interest rates for public deposits will maintain the pressure on the interest margins. Even with the analysts' expectations of ECB to decrease interest rates in 2024 the competition in the deposit market may delay the drop of deposit rates. Private consumption picking up rather slowly dictates the need to find innovative solutions in all processes of the value chain. Thus, the Bank will continue improving internal processes to achieve higher level of process automation and developing solutions to improving customers' user experience.

In the area of public deposits, the Bank will aim to maintain it's position being among the most attractive choices for local depositors. Reliance on stable deposit funding let the Bank pass the added value towards it's customers in the form of competitive pricing of consumer loans.

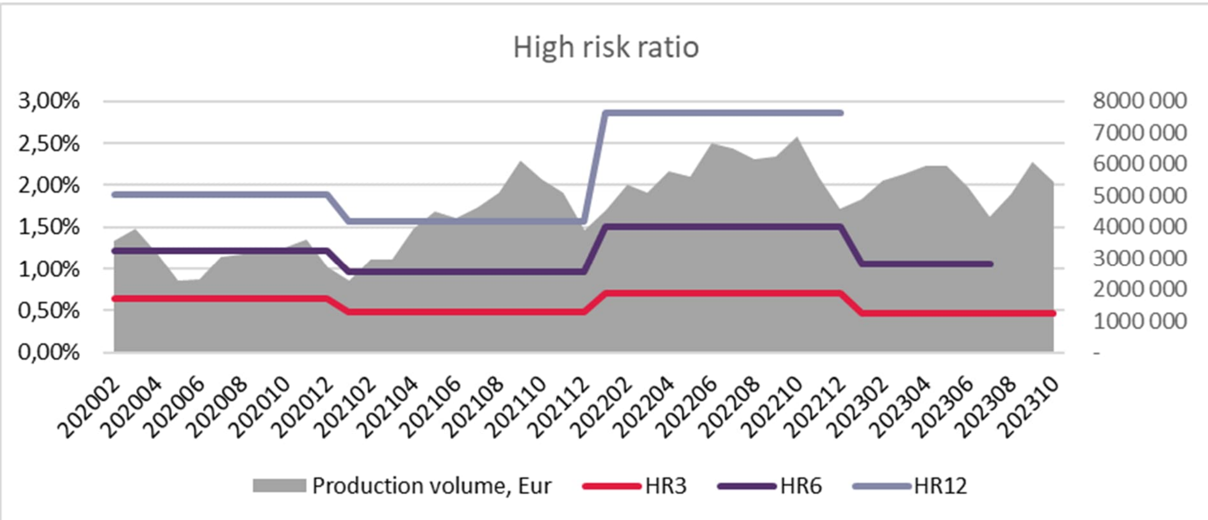
Risk management results for 2023

Credit Risk

In 2023, the Lithuanian economy remained stagnant but managed to avoid contraction, thanks to the rapid expansion of investment, particularly in the construction of civil engineering structures. Although the unemployment rate increased in the first quarter, it remained moderate for the rest of the year, reaching 6.2% in the third quarter of 2023. Yearly inflation decreased, with a rate of only 1.2% in December 2023. Average salaries continued to rise, leading to an increase in the real earnings of employees.
However, the increased EURIBOR rate has, in some cases, doubled mortgage payments for certain individuals. As a result, while risk outcomes for new loans were not significantly affected, the number of Bank's clients opting for the "payment holiday option" increased more than threefold.
The graph below illustrates the Bank's internal early indicators of insolvency levels after the first, second, and third payments (IP1 / IP2 / IP3, respectively). Short-term risk indicators remained stable for most of the year and were better than the previous year's figures.



In assessing long-term risk, the Bank uses indicators HR3 / HR6 / HR12, which estimate the share of overdue loans (>90 days) in the portfolio over the last 3, 6 and 12 months, respectively.
At the beginning of 2023, the Bank successfully managed the growth of these indicators, resulting in lower HR3 and HR6 compared to the previous year. Although HR12 was at high level, which indicates that clients struggled with payments after 1 year of issuing the loans, with the decrease in HR3 and HR6, it is anticipated that this indicator will also reduce in the coming year.



A recovery in household consumption expenditure and it's continued growth are anticipated in 2024. The labour market situation is expected to remain stable in the medium term, with expected wage growth and low level of unemployment. As energy prices stabilize, inflation is projected to converge towards 2.5%. The Bank's should maintain risk indicators at a stable low level by adopting more stringent measures if the situation requires so. The Bank has all the instruments including daily monitoring of quality of the portfolio through automated reports. which enables taking decisions on risk mitigation actions as quickly as possible.

FINANCIAL RISK MANAGEMENT

During 2023 the Bank had solid liquidity situation (On December 31 LCR was 248%, NSFR – 140%), Liquidity buffer is kept in high quality liquid assets (HQLA) – either cash in Central Bank or Government bonds. On Dec 31, 2023 the Bank had 3.5M worth (at nominal value) of Lithuanian Government bonds. The investment in bonds is made for the purpose of liquidity management.

The Bank does not have any foreign currency exposures, therefore there in no foreign currency exchange risk in the Bank books.

In 2023 the Bank did not use any hedge instruments in managing its risks. Interest rate risk (IRR) is managed by adjusting deposit portfolio maturities using deposit pricing.

ANTI-CORRUPTION EFFORTS AND ANTI MONEY LAUNDERING (AML)

The Bank is striving to enforce high ethical standards in terms of fighting the corruption, avoiding conflicts of interest, promoting the values of equality, respect, professionalism. Those values are reflected in the Ethics policy of the Bank.

The Bank also prioritizes its efforts to fight the financial crime. The business model of the Bank (type of activities, customer segments, geography) means relatively low risk of exposure to financial crime. The Bank only provides financial services in the Republic of Lithuania, establishing business relations with natural persons who have the citizenship of the Republic of Lithuania. Nevertheless, the Bank's internal control system seeks to prevent financial crimes. The bank operates a separate department dedicated to the implementation of international sanctions, the fight against money laundering, terrorist financing and other financial crimes, there are strict due diligence procedures, indicators and criteria for monitoring business relations with the client, internal escalation process for reporting suspicious transactions to the competent authorities. The Bank has systems and tools for ensuring compliance with international sanctions and has adverse media information monitoring process. The Bank complies with the requirements of international and local legal acts, FATF recommendations, guidelines of other regulating bodies, including local supervisory authorities.

Due to the business model the Bank does not have any exposure to foreign officials in its business dealings.

OTHER ANNUAL REPORT DISCLOSURES

On December 31, 2023 the number of the Bank's employees, as compared to 31 December 2022, slightly increased and was 156 (December 31, 2022 – 152).

The Bank does not hold its own shares and did not acquire or dispose of them during the reporting period.
The Bank has not established any subsidiaries or associated companies and does not have any branches.
The Bank does not conduct any research or development activities.

After the end of the financial year, no material events have happened that could impact the Bank's activities or adjust the Bank's operating plans, except for disclosures provided in Note19.

Below is the information on other managerial duties of the Bank's members of the Board and the Supervisory Board in other companies:

Anželika Hotelovičа, *Chairman of the Supervisory Board*, is:

Chairman of the Supervisory Board at UAB GelvoraSergel, company code 125164834, address of its registered office: Švirtigailos str. 11H, Vilnius
Chairman of the Supervisory Board at SIA GelvoraSergel, company code 40103837691, address of its registered office: Cēsu iela 31 k-3, LV-1012, Riga, Latvia,
Chairman of the Supervisory Board at SIA Aizdevums, company code 40003468776, address of its registered office: Cēsu iela 31 k-3, LV-1012, Riga, Latvia
Chairman of the Supervisory Board at OU CG Core, company code 16183586, address of its registered office: Harju maakond, Tallinn, Kesklinna linnaosa, Roseni tn 7, 10111
Chairman of the Supervisory Board at UAB SG Core, company code 305718420, address of its registered office: Švitrigailos g.11B, Vilnius
Chairman of the Supervisory Board at SIA GS Core, company code 40203304955, address of its registered office: Cēsu street 31 k-3/4, Riga, Latvia, LV-1012

Barbro Charlotte Strandberg, *Member of the Supervisory Board*, is:

Member of the Board at UAB GelvoraSergel, company code 125164834, address of its registered office: Švirtigailos str. 11H, Vilnius
Member of the Board at SIA GelvoraSergel, company code 40103837691, address of its registered office: Cēsu iela 31 k-3, LV-1012, Riga, Latvia,
Member of the Board at SIA Aizdevums, company code 40003468776, address of its registered office: Cēsu iela 31 k-3, LV-1012, Riga, Latvia

Deputy CEO at Marginalen Bank, company code 516406-0807, address of its registered office: Adolf Fredriks Kyrkogata 8 Stockholm, SE 100 41, the Kingdom of Sweden
Deputy CEO at AB Marginalen, company code 556128-4349, address of its registered office: Box 26134 100 41 Stockholm, the Kingdom of Sweden
Member of the Board at Sergel Finans AS, company code 993245887, address of its registered office: Framnesveien 7, 3201 Sandefjord, Postboks 177, 0710 Sandefjord, the Kingdom of Norway
Member of the Board at Sergel Finance OY, company code 2767856-7, PL 401, Lahti, Finland
Member of the Supervisory Board at OU CG Core, company code 16183586, address of its registered office: Harju maakond, Tallinn, Kesklinna linnaosa, Roseni tn 7, 10111
Member of the Supervisory Board at UAB SG Core, company code 305718420, address of its registered office: Švitrigailos g.11B, Vilnius
Board member of Verity International AB, 559067-6416, Adolf Fredriks Kyrkogata 8, Stockholm, the Kingdom of Sweden
Member of the Supervisory Board at SIA GS Core, company code 40203304955, address of its registered office: Cēsu street 31 k-3/4, Riga, Latvia, LV-1012

Per Håkan Örtlund, *Member of the Supervisory Board*, is:

Member of the Supervisory Board at SIA Aizdevums, company code 40003468776, address of its registered office: Cēsu iela 31 k-3, LV-1012, Riga, Latvia
Member of the Board at AB Legres (publ) (Holding Co.)
Member of the Board at AB Toborrow, company code 556942-6736, address of its registered office: Adolf Fredriks Kyrkogata 8, Stockholm, the Kingdom of Sweden
Member of the Board at Marginalen Fastigheter AB company code 556434-0163, Box 1343, Lidingö, the Kingdom of Sweden
Member of the Board at Helix Ice AB company code 556392-6863, Adolf Fredriks Kyrkogata 8, Stockholm the Kingdom of Sweden
Noel Cramer, *Chairman of the Board*, is:

Member of the Supervisory Board at SIA Aizdevums, company code 40003468776, address of its registered office: Cēsu iela 31 k-3, LV-1012, Riga, Latvia
Member of the Board of Marginalen Group AB, company number 556518-2986 with registered address BOX 26134 10041, Stockholm, Sweden

The other members of the Board are employees of the Bank who do not hold any executive positions in the other companies.

FINANCES

The Bank's financial performance in 2023

Statement of financial position

In 2023 consumer loan portfolio of the Bank continued growing although at the slower pace than in 2022. At the end of 2023 it reached 121 million which was 11% increase compared to the end of 2022. The worsening economic environment had an impact on the credit loss which increased in 2023.

The deposit portfolio of the Bank grew 31% in 2023. The launch of the saving account helped this growth and also contributed to the management of cost of funds which was an important aspect in the environment of growing interest rate (for deposits).

In 2023, changes within equity were caused by profit transfer to retained earnings, transfers to legal reserve and dividends.

Profit (loss)

In 2023 the Bank's interest income increased from EUR 15,7 million to EUR 18,6 million as a result of the loan portfolio growth, mix in the portfolio composition (by sales channels/service lines), increased attention to the pricing strategies as well as interest from financial instruments and lending to the group. In 2023 the issuance of new loans was 52,9 million which was down from 62,6 million in 2022.

Operating expenses in 2023 increased only 2.6% although staff related expenses grew by 6%. The growth of revenues combined with the low expense increase improved the C/I (cost to income) ratio from 69% at the end of 2022 to less than 64% in 2023.

Net result achieved in 2023 amounted to EUR 3,006 thousand and exceeded the planned level.

Other financial indicators

Under Basel III requirements the Bank of Lithuania sets the following prudential standards and requirements for banks:

The liquidity coverage ratio (LCR) must not be less than 100%. LCR is defined as an amount of high quality liquid assets (HQLA) that is sufficient to survive a period of significant liquidity stress lasting 30 calendar days.
At the end of 2023, GF Bankas liquidity coverage ratio (LCR) was 248%.

The net stable funding ratio (NSFR) must not be less than 100%. The NSFR is defined as the stable funding amount available for the credit institution that should be no lower than the required stable funding amount over a one-year period.

At the end of 2023, GF Bankas net stable funding ratio (NSFR) was 140%.

The capital adequacy ratio must not be less than 8%. This is the ratio between the own funds and risk weighted assets and off-balance sheet liabilities of the bank.

At the end of 2023 GF Bankas capital adequacy ratio was 16%.

(all amounts are in EUR thousand unless otherwise stated)

Statement of financial position

ASSETS	Notes	As at 31 December 2023	As at 31 December 2022
Cash and cash equivalents	3	24,027	12,316
Debt instruments at FVOCI	4	3,534	-
Loans granted to customers	5	121,299	109,550
Other loans granted	5	13,548	6,411
Prepayments	6	444	618
Other receivables and current assets	7	478	323
Deferred income tax asset	15	94	252
Right-of-use assets	12	625	690
Property, plant and equipment		170	160
Intangible assets		29	192
TOTAL ASSETS		**164,248**	**130,512**

EQUITY AND LIABILITIES			
Amounts payable and liabilities			
Customer deposits	8, 9	133,358	101,711
Financial borrowings	8	149	103
Other current payables and accruals	10	4,991	4,823
Income tax liabilities	15	180	213
Lease liabilities	12	656	737
Total liabilities		**139,334**	**107,587**
Equity			
Share capital	11	9,550	9,550
Legal reserve	11	2,371	1,791
Fair value reserve		23	-
Retained earnings		12,970	11,584
Total equity		**24,914**	**22,925**
TOTAL EQUITY AND LIABILITIES		**164,248**	**130,512**

The accompanying notes are an integral part of these financial statements.
These financial statements were approved on March 20, 2024 These financial statements are approved and signed on behalf of the Bank by:

Chief Executive Officer ____________ Justinas Muleika

Director of Department of Tax and Accounting ____________ Jelena Vasiljeva

(all amounts are in EUR thousand unless otherwise stated)

Statement of comprehensive income

	Notes	2023	2022
Interest income calculated using the effective interest method		18,609	15,744
Other interest and similar income		330	367
Total interest income		**18,939**	**16,111**
Interest expense on borrowings and customer deposits	13	(3,115)	(1,778)
Net interest income		**15,824**	**14,333**
Expected credit losses expense on financial assets	5	(2,059)	(1,279)
Net interest income after credit loss		**13,765**	**13,054**
Staff related expenses	14	(6,453)	(6,086)
Tax expenses and commission fees		(131)	(157)
Advertising, marketing and representation		(751)	(964)
Rent and maintenance of premises		(319)	(372)
Interest relating to lease liabilities	12	(41)	(37)
Depreciation and amortization of own assets	12	(497)	(642)
Other operating expenses	14	(2,094)	(1,768)
Operating expenses		**(10,286)**	**(10,026)**
Other operating income	14	219	218
Net gains (losses) on derecognition of financial assets measured at FVOCI	4	(2)	-
Profit before income tax		**3,696**	**3,246**
Current and deferred income tax	15	(690)	(583)
Net profit		**3,006**	**2,663**
Other comprehensive income that will be reclassified to the profit or loss			-
Debt instruments at fair value through other comprehensive income:			
Net change in fair value during the year		21	-
Reclassification to the profit (loss)		2	-
Net gains/(loses) on debt instruments at fair value throw other comprehensive income		23	-
Total comprehensive income		**3,029**	**2,663**

The accompanying notes are an integral part of these financial statements.
These financial statements were approved on March 20, 2024. These financial statements are approved and signed on behalf of the Bank by:

Chief Executive Officer		Justinas Muleika
Director of Department of Tax and Accounting		Jelena Vasiljeva

(all amounts are in EUR thousand unless otherwise stated)

Statement of changes in equity

	Notes	Share capital	Legal reserve	Fair value reserve	Retained earnings	Total
Balance as at 31 December 2021		**9,550**	**1,276**		**10,286**	**21,112**
Net profit		-	-	-	2,663	2,663
Total comprehensive income		-	-	-	**2,663**	**2,663**
Transfer to legal reserve		-	515	-	(515)	-
Dividends declared	11	-	-	-	(850)	(850)
Balance as of 31 December 2022		**9,550**	**1,791**	**-**	**11,584**	**22,925**
Net profit		-	-	-	3,006	3,006
Net changes fair value of debt instruments of FVOCI		-	-	21	-	21
Net amount reclassified to the Income statement on redemption or sale of debt instruments at FVOCI		-	-	2	-	2
Total comprehensive income		**-**	**-**	23	**3,006**	**3,029**
Transfer to legal reserve		-	580	-	(580)	-
Dividends declared	11	-	-	-	(1,040)	(1,040)
Balance as at 31 December 2023		**9,550**	**2,371**	**23**	**12,970**	**24,914**

The accompanying notes are an integral part of these financial statements.

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Chief Executive Officer		Justinas Muleika
Director of Department of Tax and Accounting		Jelena Vasiljeva

(all amounts are in EUR thousand unless otherwise stated)

Statement of cash flows

	Notes	2023	2022
Cash flows from (to) operating activities			
Profit before income tax		3,696	3,246
Adjustments for non-cash items:			
Depreciation and amortization		497	642
Write-off of non-current assets		102	(2)
Expected credit loss expense	5	2,059	1,279
Interest income	5	(18,939)	(16,111)
Interest expenses on borrowings, customer deposits and leases		3,156	1,815
Other non-cash transactions elimination		(13)	2
		(9,442)	**(9,129)**
Changes in working capital:			
(Increase) in loans granted and receivables	5	(11,564)	(26,342)
Increase in customer deposits	9	30,508	30,457
Decrease / (increase) in prepayments	6	56	(54)
(Increase) in other receivables	7	(155)	(104)
Increase in trade payables		14	727
Increase / (decrease) in other payables	10	154	(19)
Increase in financial borrowings to partners	8	46	46
Income tax (paid)	15	(443)	(334)
Interest received		16,738	14,130
Interest (paid)		(2,017)	(1,274)
Net cash flows from operating activities		**23,895**	**8,104**
Cash flows from (to) investing activities			
(Acquisition) of non-current assets		(80)	(75)
(Acquisition) of debt instruments at FVOCI	4	(23,750)	-
Proceeds from redemption and sales of debt instruments at FVOCI	4	20,248	-
Other loans (granted)	18	(7,500)	(2,649)
Other loans repayment	18	323	1,251
Net cash flows from (to) investing activities		**(10,759)**	**(1,473)**

(all amounts are in EUR thousand unless otherwise stated)

Statement of cash flows (continued)

	Notes	2023	2022
Cash flows from (to) financing activities			
Loans received		-	7,000
Loans (repaid)		-	(7,000)
Lease liabilities paid	12	(385)	(491)
Dividend payments	11	(1,040)	(850)
Net cash flows from (to) financing activities		**(1,425)**	**(1,341)**

Net increase in cash flows		**11,711**	**5,290**
Cash and cash equivalents at the beginning of the period	**3**	**12,316**	**7,026**
Cash and cash equivalents at the end of the period	**3**	**24,027**	**12,316**

The accompanying notes are an integral part of these financial statements. These financial statements were approved on March 20, 2024. These financial statements are approved and signed on behalf of the Bank by:

Chief Executive Officer	____________________	Justinas Muleika
Director of Department of Tax and Accounting	____________________	Jelena Vasiljeva

(all amounts are in EUR thousand unless otherwise stated)

Notes to the financial statements

1. General information

UAB GF Bankas (hereinafter "the Bank") started banking activities on May 18, 2020 after more than 14 years successful operating as financial institution, providing unlicensed financial services, i.e. consumer credits.
On June 25, 2019 a license No LIC-2018-0049 of a specialized bank was obtained, which allows accepting deposits from non-professional market participants.

On May 18, 2020, UAB GF Bankas registered the Bank's Articles of Association, changed its former name of UAB General Financing to UAB GF Bankas, which is specialising on loans and deposits from residents of the Republic of Lithuania.

GF Bank's shareholder structure at the end of year 2023 is the same as at 31 December 2022 and did not change from 2014, after Marginalen AB purchased 100% of shares.

	Shares held	**Ownership**
„Marginalen" AB	**3,293,100**	**100,00 %**

The ultimate controlling shareholder of the Bank is AB ESCO Marginalen company code/business ID 556096-5765, box 26134, SE-100 41 Stockholm, which owns 100% of AB Marginalen shares.

On 31 December 2023, the issued capital of the Bank amounted to EUR 9.549.990 and is divided into 3.293.100 ordinary registered shares with par value of EUR 2.90 each.
The structure of issued capital has not changed and is the same as on 31 December 2022. All shares were fully paid. Both on 31 December 2023 and 2022, the Bank had no own shares acquired. The Bank's shares are not publicly traded.

The shareholder of the Bank has a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

2. Accounting policies

2.1 Statement of compliance and basis of preparation

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).
These financial statements are prepared based on a cost basis, except for debt instruments at fair value through other comprehensive income (FVOCI), which have been measured at fair value . In the statement of financial position, the Bank presents assets and liabilities based on the liquidity of assets and liabilities.
These financial statements were prepared based on a going concern basis.

Basis of preparation
The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the Bank as of 1 January 2023:

- **IFRS 17: Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2023. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The Bank does not have loans with death waivers, performance guarantees or any other instruments in scope of IFRS 17, therefore the standard does not have an impact on these financial statements.

2. Accounting policies (continued)

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after January 1, 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Management assessed accounting policies disclosure and decided to minimize the disclosure of accounting policies on non-current (tangible and intangible) assets because this position is not considered as a material accounting policy.

- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Management has assessed the effect of the application of these changes and believes that it does not have significant impact on the financial statements.

- IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Management has assessed the effect of the application of these changes and believes that the amendments does not have significant impact on the financial statements.

- IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)

The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023. The Ministry of Finance of Republic of Lithuania postponed the implementation of the Pillar Two rules by 6 years as allowed by exception. Considering the status of endorsement, the Bank has not identified material impact on its' financial statements.

2. Accounting policies (continued)

Standards issued but not yet effective and not early adopted:

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The Management has assessed the effect of the application of these changes and believes that the amendments does not have impact on the financial statements..

- IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The Management has not assessed the impact of amendments to the Standard on financial statements as they have not yet been approved.

- IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The amendments have not yet been endorsed by the EU. The Management has not assessed the impact of amendments to the Standard on financial statements as they have not yet been approved.

- IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The amendments have not yet been endorsed by the EU. The Management has not assessed the impact of amendments to the Standard on financial statements as they have not yet been approved.

2. Accounting policies (continued)

- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Management has assessed the effect of the application of these changes and believes that the amendments does not have impact on the financial statement, because Bank do not prepare consolidation financial statement and do not have such Investment .

2.2 Presentation and functional currency

The financial statements are presented in the local currency of the Republic of Lithuania, Euro (EUR), which is the Bank's functional and presentation currency.

These financial statements are presented in thousand euros, unless stated otherwise.

2.3 Financial assets

As at 31 December 2023 and 31 December 2022, the Bank's financial assets structure is comprised of assets attributable to cash and cash equivalents, debt instruments (bonds), loans and other receivables.

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, at fair value through other comprehensive income (OCI), and at fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Bank initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

For financial asset would be attributed and valued at amortized cost or at fair value through other comprehensive income, cash flows coming from financial asset should be only solely payments of principal and interest (SPPI) from main unfulfilled amount. This assessment is referred to as the SPPI test and is performed at an instrument level.

The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Undrawn loan commitments are accounted as off-balance-sheet items. As at 31 December 2023, the amount of such loans commitments was EUR 39 thousand (as at 31 December 2022 EUR 69 thousand).

Subsequent measurement

After initial recognition, the Bank measures financial assets at:

• Amortised cost (loans and other receivables);
• Fair value through OCI with recycling of cumulative gains and losses upon derecognition into profit or loss (bonds).

2. Accounting policies (continued)

Financial assets carried at amortised cost

This category is the most relevant to the Bank, which measures financial assets at amortised cost if both of the following conditions are met:

• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. EIR is the rate that exactly discounts estimated future cash flows over the expected life of the financial instrument or, if needed shorter period to the gross carrying amount of the financial asset. EIR (therefore and amortised cost of financial asset) is calculated by taking into account all acquisition discounts, fees and expenses that are an integral part of the EIR. Interest calculated using the effective interest method is recognized in the statement of comprehensive income under 'Interest income calculated using the effective interest method' and 'Other interest and similar income' captions. Other interest and similar income include overdue, court adjudged interest and early repaid interest by insurer.

The Bank recognises interest income on loans using the rate of return that is the best estimate of the constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges). If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. Gains and losses are recognized in the statement of comprehensive income when the asset is derecognized, modified or impaired.

The Bank's financial assets measured at amortised cost include cash and cash equivalents, loans granted to customers, other loans granted and other receivables and current assets.

Financial assets at fair value through OCI

The Bank classifies debt instruments at FVOCI when both of the following conditions are met:
• the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
• the contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

As at 31 December Bank has FVOCI debt instruments (bonds), which are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income is recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

2. Accounting policies (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Bank's statement of financial position) when:

• The rights to receive cash flows from the asset have expired; or
• The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

(a) the Bank has transferred substantially all the risks and rewards of the financial asset; or
(b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from a financial asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership of the asset. When the Bank has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of its continuing involvement. In such case, the Bank also recognises related liability. Transferred asset and its related liability are valued based on rights and obligations kept by the Bank.

Derecognition of the difference (gain or loss) between the total recognition of a financial asset and:
- the carrying amounts (estimated at the date of derecognition); and
- the consideration received (including any new assets acquired less any new commitments) is recognise in profit or loss section Gain (Loss) resulting from write offs and disposals.
- on derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

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 (guarantee amount).

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense on financial assets.

Modification of financial assets

When the contractual cash flows of a financial asset are renegotiated or otherwise modified as a result of commercial restructuring activity rather than due to credit risk and impairment considerations the Bank performs an assessment to determine whether the modifications result in the derecognition of that financial asset.
If the modification does not result in cash flows that are substantially different, as set out below, then it does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Impairment of financial assets

The Bank recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognized in three stages (Table 1). For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECLs – Stage 1). To determine which Stage 1 loans had a significant increase in credit risk (Stage 2) the loan portfolio is divided in 10 buckets by application data score (this score is calculated using logistic regression models) on each loan initial recognition and for each loan current probability of default (hereinafter - PD) is calculated with latest available data. If loan moves

(all amounts are in EUR thousand unless otherwise stated)

2. Accounting policies (continued)

at least one bucket down compared to initial application score, it is estimated that the credit risk has increased significantly. If a loan is in the 10^{th} bucket it is automatically classified to Stage 2.

The Bank also considers credit exposures with a significant increase in credit risk since initial recognition (stage 2) when:

- contractual payments are more than 30 to 89 days overdue, or were more than 30 days overdue in the last 6 months;
- loan was restructured;
- client have broken verbal agreements in last 30 days or when significant information is received that client is likely to miss next payments;
- client has deferral of payments in past 90 days (the period when only interest is calculated);
- other factors are known that, in the Bank's perspective, indicate a significant increase in risk.

Impairment for Stage 2 loans is accounted for the expected credit losses over the remaining life of the exposure, irrespective of the timing of default (a lifetime ECL). The Bank considers a financial asset in default when:

- financial asset being past due at least 90 days in a row;
- death of borrower is confirmed;
- borrower declares bankruptcy;
- fraud case is confirmed;
- in cases of distress restructuring (loans that were already in default at the time of restructuring).

Table 1. Structure of portfolio

Performing (Stage 1)	Significant increase in credit risk (Stage 2)	Non-performing (Stage 3)
12-month ECL	Lifetime ECL	Lifetime ECL or 100% impairment

Financial assets are written off only when there are no possible ways to recover contractual cash flows when the debtor passes away and their property rights and obligations are not transferred by their successors because the person that passed away did not have any tangible property or real estate that could have been inherited or it was insufficient to cover the requirements and the bankruptcy proceedings of the natural person following the ruling of Court as well as in in fraud cases where the pre-trial investigation expires under the Criminal Code of the Republic of Lithuania and the guilty person has not been identified within the investigation.

The Bank calculates expected credit losses using probable scenarios so that expected cash flow deficiencies, discounted by EIR can be assessed. A shortfall in cash flows is a difference between contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive.

The main elements used to calculate expected credit loss are the following:
- Probability of default (PD) – probability of credit default, calculated according to the Bank's historical data of 7 years (2016-09 – 2023-09). PDs are assessed separately for 3 different segments of the loan portfolio: cash loans, transfer loans and point of sale loans.

- Exposure at default (EAD) - the size of the lending position at the time of default (principal credit, transaction fee, handling fee and accrued interest).
- Loss given default (LGD) – credit default loss, calculated based on historical 7 years data of the Bank (2016-09 – 2023-09). It is based on the difference of contractual cash flows and the expected amount to be received in case of default.

Calculating expected credit losses, the Bank considers the most likely scenario (an assumption is made that the future macroeconomic changes will comply with the latest economic forecasts of the Bank of Lithuania) and stressed scenario from "Financial stability review / 2023" published by Bank of Lithuania in 2023. Severely adverse scenario (from "Financial stability review / 2023" published by Bank of Lithuania in 2023) is also used and makes 20% weight on final outcome.

2. Accounting policies (continued)

If later on losses from impairment of assets decrease and such reduction can be directly related to an event that happened after the recognition of impairment, the previously recognized impairment is reversed. Any impairment reversal is recognized in the statement of comprehensive income to the extent that the carrying value of an asset does not exceed the amortized value at the date of reversal.

Sometimes, reacting to financial difficulties of a debtor, the Bank provides discounts or changes initial contractual terms.

The Bank considers a loan restructured if such changes are made due to current or expected financial difficulties of a borrower and no such changes would be made, if a borrower was financially capable. Factors indicating financial difficulties include default or significant other findings of the Debt Collection Unit against the debtor. Restructuring can include the extension of payment maturity and new loan contract terms. Having reviewed the terms, any impairment is assessed using the initial EIR, calculated before changing the terms. The Bank's policy is to appropriately monitor all restructured loans so that it ensures that future payments are made.

The restructured loans are set amongst 1–3 risk stages based, in general, on the number of overdue days and number of days passed since the restructuring.

When a loan has been renegotiated or modified but is not derecognized, the Bank also reassesses whether the credit risk has materially increased. The Bank also considers if such loan should be classified as a Stage 3 financial asset. If a loan was restructured, it should remain as such during a whole 12-month monitoring period, during which the borrower should meet certain conditions in order to be transferred to a lower risk stage.

Using the official economic indicators presented by Lithuanian Department of Statistics and the Bank of Lithuania, using a linear regression, coefficients are identified, which are applied to adjust expected cash flows and PDs. The coefficients represent economic rises and downfalls under the latest economic forecasts, presented by the Bank of Lithuania. The main indicators used to identify the coefficients are the following:

- Private and public sector consumption;
- Export and import;
- Inflation;
- GDP – Gross Domestic Product;
- Gross income ;
- Unemployment rate.

Indicators that are used in final model: unemployment rate, inflation and private sector consumption.
The Bank also assesses the market situation by economic sector. Clients working in sectors in decline or sectors facing increased macroeconomic risks are subject to stricter requirements when deciding whether they are credit exposures with increased risk.

<u>Expected credit losses for undrawn loan commitments</u>

When estimating ECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For loan commitments the ECL is recognised within Provisions.

<u>Allowance for expected credit losses for amounts due from other credit institutions and government bonds</u>

The amount of ECL for amounts due from other credit institutions and government bonds is calculated under the following formula:
ECL=PD x EAD x LGD, where:

- PD – probability of default, estimated using internal system based on Standard & Poor's and Moody's ratings.
- EAD – exposure at default, loan size including amortization at the time of provisions calculation.
- LGD – loss given default is estimated to be at 100% due to no collateral being in place and potential creditors queue in the case of default.
- This type of ECL is calculated for funds greater than EUR 10 thousand.

2. Accounting policies (continued)

2.4 Financial liabilities

Initial recognition and measurement
The category of financial liabilities includes the Bank's: customer deposits, financial borrowings, lease liabilities and other payables. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities classified as measured at fair value through profit or loss on initial recognition. These liabilities are classified as held for trading. The Bank has not designated any financial liabilities as at fair value through profit or loss during the years ended 31 December 2023 and 2022.

Financial liabilities measured at amortised cost
This category comprises of short-term and long-term deposits from customers, loans received and other payables. After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised once the liabilities are discharged, cancelled or expired.

Deposits, loans and other payables
After initial recognition, deposits, loans, borrowings and other accounts payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised or amortized.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as interest expense in the statement of comprehensive income.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When a present financial liability is swapped with other liability to the same lender, although, upon other conditions or when the present liability terms are substantially changed, this change is recognized as derecognition and initial recognition of a new liability. The difference in the respective carrying amounts is recognised as profit or loss.

2.5 Lease

Bank as a lessee

Under leases, the right-of-use assets and related liabilities are recognised when the Bank may start to exercise the right to use assets. Each lease payment is allocated between the liability and interest expenses. Interest expenses are recognised over the lease term. Lease payments are discounted using the Bank's incremental borrowing rate. The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the initial measurement of the lease liability, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

2. Accounting policies (continued)

Premises	from 2 to 5 years
Vehicles	from 3 to 5 years

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and

amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR rate is reviewed periodically. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Bank's lease liabilities are recognised in the line item, Lease liabilities (see Note 12).

Short-term leases and leases of low-value assets
The Bank applies the short-term lease recognition exemption to its short-term leases of cars. Short-term leases are assessed on the basis of a renewal probability. If the leases have a remaining lease term of less than 12 months at the reporting date, the possibility of extending the leases is then assessed. If the contract is more likely to be extended, an assumption that it will be extended for the planned lease term is adopted. Lease payments on short-term leases and leases of low-value assets (less than USD 5 thousand in equivalent) are recognised as expense on a straight-line basis over the lease term.

2.6 Fair values of financial assets and financial liabilities

The purpose of fair value is to define the amount at which an asset could be exchanged or at which a mutual liability could be set off between market participants at the measurement date under current market conditions. For financial instruments traded in organized financial markets the fair value is determined by reference to quoted market prices. Bid prices are used for financial assets and ask prices are used for financial liabilities. The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar maturity terms and risk characteristics. For unquoted equity investments fair value is determined using valuation techniques. These valuation techniques include certain estimates, some of which depend on the complexity of the instrument and the availability of information based on market data. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis. Where the fair values of financial assets and liabilities differ materially from their carrying amounts, such fair values are separately disclosed in the Notes to the financial statements.

Financial instruments carried at fair value are categorized based on valuation technique within the following three levels:

Level 1: Quoted market prices

Level 1 assessments are made using unadjusted identical instrument quoted prices in active markets, where quoted prices are easily available and reflect factual and regularly performed market transactions between unrelated parties.

2. Accounting policies (continued)

Level 2: Assessing method using observable data
Fair value calculated using level 2 methods, when variables that have material impact on the fair value, is directly or indirectly available in the market. Using assessment methods of level 2, discounted cash flows, option pricing methods, latest transactions and other financial instrument that are basically the same, prices are utilised.

Available values, for example, are foreign currency exchange rates, quoted security prices, market interest rates (LIBOR and other), expected observed option price fluctuation for the same period and actual transactions made by the bank with one or more external parties of the contract.

Level 3: Assessing method using unobservable data

air value calculated using level 3 methods, when the lowest-level variables that have reasonable impact on the fair value, are not supported by available market data. Such methods usually include extrapolation of similar observed data, analysis of historical data and implementation of other analytical methods.

2.7 Cash and cash equivalents

Cash includes cash balances held with the Bank of Lithuania and commercial banks of the Republic of Lithuania, . Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. Such investments at inception mature in less than 3 months and are subject to insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise funds in the Bank of Lithuania, cash in current commercial bank accounts.

2.8 Current and deferred income tax

Income tax on the profit for the year comprises current and deferred tax. Calculation of income tax is based on requirements of the Lithuanian regulatory legislation on taxation.

In accordance with the Lithuanian Law on Corporate Income Tax, taxable profit is subject for income tax at a rate of 15 %. Additional 5% Corporate Income tax is applied on the part of profit that exceeds EUR 2 million.

On 16 May 2023, a new temporary Solidarity levy for banks was introduced. The levy is calculated on net interest income surpluses, as defined in Temporary Solidarity levy Law No XIV-1936. The levy is not payable if the bank has made a loss or will make a loss after paying the levy. The period for payment of the levy is from 16 May 2023 to 31 December 2024.

The Bank has calculated whether it has an obligation to pay the Solidarity levy and came to conclusion that there is no such obligation for 2023. The Bank provides customers loans of up to €25,000 at fixed interest rates, which didn't was affected by ECB interest rate increases in recent years.

Tax losses can be carried forward for unlimited consecutive years in Lithuania. Starting 1 January 2014, the transferable tax loss cannot cover more than 70% of the taxable profit of the current year. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets have been recognised in the balance sheet to the extent the Bank's management believes it will be realised in the foreseeable future, based on taxable profit forecasts.

When it is probable that future taxable profit will not be available against which the deferred income tax will be utilised, such deferred income tax is not recognized in the financial statements. At the end of 2020, the Bank recognised in its financial statements deferred tax assets, calculated as a result of a change in tax regulation following the start of banking activities and the costs of allowance for loan losses becoming allowable expenses. Consequently, on 31 December 2020, the tax losses were calculated and on the basis of which the deferred tax asset

2. Accounting policies (continued)

was recognised. As at 31 December 2023, total amount of previously recognised deferred tax was fully used.

2.9 Revenue recognition

Revenue is recognized when it is probable that future economic benefits will flow to the Bank and the amount of revenue can be measured reliably. Revenue is recognized on accrual basis when earned.

Interest income on consumer credits is recognised on accrual basis with regard to the balance of debt and the effective interest rate. When calculating the effective interest rate, the Bank measures cash flows considering all the credit contract terms but does not take into account future credit loss. The calculation includes all dues and other fees the contractual parties paid or received from each other, which are an integral part of the actual interest rate, as well as all commission fees or discounts.

The Bank calculates interest income applying effective interest rate to gross balance value (excluding impairment) for a financial asset which is not credit – impaired (defaulted). When financial asset credit risk increases and due to this reason, it is attributed to stage 3, the Bank recognises income by applying effective interest rate to the net amortized cost of a financial asset (less impairment).

If financial asset's condition improves, it is returned to stage 2 or stage 1 and the Bank returns to the recognition of income from a financial asset from the gross balance value before impairment.

Revenue from other services is recognized when the transaction has been completed or when its stage of completion may be reliably measured at the financial reporting date.

Fines received on late payments and other liabilities related to loans are recognized to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured.

2.10 Expense recognition

Interest on deposits is recognised on an accrual basis taking into account the amount of deposit and by using the interest rate applicable to the deposit agreement. Other operating expenses are recognised in accordance with the principles of accrual

Expenses are usually measured at amount paid or payable, including non-deductible VAT. In cases where a long settlement period is foreseen and no interest is deducted, the cost amount is estimated by discounting the settlement amount at the market rate.

2.11 Use of estimates and management judgement in preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as adopted in the European Union, requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future, are discussed below.

Write-off of customer overpayments from expired loan agreements

The Bank accounts for and continuously monitors overpayments from customers who do not have outstanding loans. GF Bankas assesses overpayments according to the maturity of the overpayment at the end of each reporting period based on the Marginalen Group's customer overpayment handling policy and taking into consideration the general 10-year limitation period of the claim provided for in the Civil Code of the Republic of Lithuania. When the overpayment reaches the age of 10 years and during this time the customer has not applied for return of overpayment and the Bank has not been able to obtain reliable information necessary for the repayment of the said amounts, the overpayment could be derecognized and accounted as income. According to management decision in 2023 Bank didn't write-off customer overpayments, because of amounts being immaterial.

2. Accounting policies (continued)

Estimation of expected credit losses on loans granted to customers (otherwise – impairment)

The Bank regularly reviews its portfolio of loans to assess impairment. In determining whether loan impairment loss should be recorded in profit or loss, the Bank uses estimates whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the Bank's debtors with similar risk characteristics. This estimate is based on the analysis of historical data about the group of debtors with similar risk characteristics and related future information. A loss ratio is established for each group of debtors with similar risk characteristics and is used to determine impairment. Assumptions used are reviewed regularly (at least once a year) to reduce any differences between loss estimate and actual loss incurred.

While calculating expected credit losses, historical data of economic indicators and official future forecasts presented by the Statistics Department of Lithuania and by the Bank of Lithuania are used to evaluate increase or decrease of expected cash flows. The principle rates used that were selected using regressive analysis, unemployment rate, inflation and private sector consumption. By using these indexes, rates are identified that help adjust expected cash flows and separate client groups' risk levels. In addition, the management applies estimates as regards to other components of ECL assessment: weighting applied for macro scenarios, cash flow forecasts beyond observable periods in LGD calculations, and others. The management applies professional judgement when making decisions about these estimates, taking into account the nature of the Bank's business, its historical performance and the management's professional experience. The amounts involved are disclosed in Note 5.

Accounting of banking system MAMBU expenses

In May 2020, the Bank started using the banking system MAMBU for deposit accounting. It is a cloud computing arrangement with a third-party service provider. The management has assessed whether the agreement falls within the scope of IFRS 16. The contract conveys only the right to receive access to the supplier's application software over the contract term and the Bank has no decision-making rights to direct the use of the software (e.g. when to update or reconfigure). Therefore, it was determined by the Management of the Bank that contract does not fall in scope of IFRS 16. In addition, management considered whether IAS 38 capitalization criteria are met. The Bank has non-exclusive rights according to the contract and has no contractual right to take possession of the software during the service period, therefore the contract costs were not capitalized in accordance with IAS 38. Since based on the assessment of the Management the arrangement does not contain a lease in the scope of IFRS 16 and does not contain an intangible asset in the scope of IAS 38, the contract costs are accounted as general service expenses as incurred. Total expenses for MAMBU banking system fall under IT and communication expenses disclosed in the Note 14.).

Deferred income tax assets

Deferred income tax assets are recognized on temporary differences to the extent that it is probable that tax benefits will be utilized against the future taxable profit. Management judgement is required to determine the amount of deferred tax assets to be recognized based on the likely timing and amount of future taxable profits together with future tax planning strategies. Deferred income tax assets are recognized with reference to the Bank's projections of its operating results and taxable profits.

Future events may occur which will cause the assumptions used for estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. For additional details, please refer to Note 15.

Right-of-use assets and lease liabilities

All leases result in the lessee obtaining the right to use an asset at the start of the lease.
Bank recognises leases as a right-of-use asset and corresponding liability at the date at which the leased asset is available for use.

While identifying when leases are to be recognized in the form of right-of-use assets and leases, the following criteria are adopted:
- lease contract is valid for more than 12 months;
- total lease payments exceed USD 5,000 (4,600 EUR)
- if the contract term extended, an assumption that it will be extended for 36 months is adopted.

2. Accounting policies (continued)

Potential impact of war in Ukraine and economic sanctions on Russia and Belarus on business

The economic sanctions imposed on Russia do not have the direct impact on the Bank's business because of the business model (no loans to corporates with the potential exposure to sanctioned entities). The Bank only has consumer loans to the residents of Lithuania (up to EUR 25 thousand). The indirect impact of the war and sanctions will be dependent on the overall macroeconomic impact. Since Bank's ECL model is made using forward-looking approach and is constantly updated with latest macroeconomic indicators, it is aimed at quickly and adequately reacting to any material macroeconomic changes as long as they become known. The Bank has very strong own liquidity position (LCR, NSFR, survival horizon[1], counterbalancing capacity[2]) and the ability to rely on the Group funding (outstanding credit line which is not used at the moment of the annual report). The daily liquidity monitoring ensures the Bank's readiness to react appropriately to any upcoming changes in the market sentiment affecting liquidity. Therefore, these financial statements are continued to be prepared on the going concern basis.

Bank has tools to constantly monitor performance of clients working in vulnerable macroeconomic sectors/companies and will change its creditworthiness evaluation models as soon as any warning signals are detected internally or announced publicly by press or other official sources. Bank has no intentions in taking additional credit risks with regards to situation in Ukraine and will make all necessary adjustments to retain a heathy portfolio.

2.12 Events after the reporting period

Events after the reporting period providing additional information on the Bank's financial position as at the date of the statement of the financial position (adjusting events) are accounted for in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the Notes when material.

[1] period during which the Bank can fulfil its stressed expected net cash outflows stemming from ongoing business operations without access to the market but including the sale of its available liquid assets in the market
[2] the stock of unencumbered assets or other funding sources which are legally and practically available to the institution at the reporting date to cover potential funding gaps.

3. Cash and cash equivalents

	As at 31 December 2023	As at 31 December 2022
Cash in commercial bank and in ASDB*, gross value	365	3,906
Expected credit losses**	-	(1)
Funds held by the Bank of Lithuania	23,662	8,411
Total	**24,027**	**12,316**

* ASDB are cashiers' automatic safe-deposit boxes for the dispensing of cash on the basis of concluded financing transactions. In March 2023, Bank management has assessed the effectiveness of the use of ASDB and made a decision to stop offering a cash loan product in the own channels. This decision was driven by two main reasons: relatively small new loan issuance of this type of loans and, at the same time, significant need for IT resources required to support AKS activities. From April 1st 2023, the Bank stopped using ASDB for new loans. Due to this reason at the end of 2023 the Bank did not have cash in these cash machines.
Compulsory reserves are a requirement for credit institutions established in Lithuania to keep a portion of their funds with the central bank. It is one of the monetary policy measures aimed at stabilising interbank interest rates
The Bank is under the regime of the mandatory 1% reserve from deposits keeping the funds in the Bank of Lithuania. The average method is used to meet the reserve requirement.
As at the reporting dates the following minimum reserves were applied: the calculated minimum reserve 933 EUR thousand as at 31 December 2023, it was EUR 652 thousand as at 31 December 2022.
** ECL on cash in commercial bank as at 31 December 2023 amounted 140 EUR, because of materiality this amount is not present in table above

4. Debt instruments at FVOCI

In 2023, in the environment of the expected interest rate decreases by ECB in 2024 and later, the Bank started investing liquidity surplus in government bonds with the aim to lock in current level of profitability. Although the government bonds (if held to maturity) present earnings upside potential their main purpose still remains to serve as a liquidity buffer which can be sold at any time or used as a collateral (to borrow cash from the BoL). Additionally, bonds with longer maturities could be sold in case of the need to adjust IRRBB (i.e. shorten the duration of assets).

The table below presents debt instruments at 31 December 2023:

Issuer	Carrying amount	Nominal amount	Maturity
Lithuanian Government bonds	2,564	2,500	2026 08 02
Lithuanian Government bonds	970	1,000	2027 07 13
Total	3,534	3,500	

The expected credit loses (ECL) calculation for debt instruments at FVOCI is explained in Accounting Policy part 2.3 Impairment of Financial assets . At the end of 2023, ECL for debt instruments (bonds) rounds to nil.

(all amounts are in EUR thousand unless otherwise stated)

5. Loans granted and receivables

Net amount of consumer loans granted included the following:

	As at 31 December 2023	As at 31 December 2022
Consumer loans granted	123,202	110,926
Expected credit losses	(1,903)	(1,376)
Total	**121,299**	**109,550**

Consumer loans are only granted to private individuals, all loans are granted in euros.

Other loans granted	13,552	6,413
Expected credit losses	(4)	(2)
Total	**13,548**	**6,411**

During 2023, according to signed term loan facility agreements additional loan of total amount EUR 7.5 million was granted to Marginalen AB (related party, Borrower). Main conditions of agreement are the same as for previous term loan. Maturity for all loans is 5 years. The interest rate for each financial quarter is variable and is determined in accordance with Bank policy for pricing of intercompany loans. Loans conditions meet arms-length principles. According to the contract, Borrower shall repay loan in instalments by repaying part of the loan once per quarter on each interest payment date. Data related to the applied interest rate, interest income and residual value of the loan during 2023 presented in table below:

Loan to Marginalen	Q1	Q2	Q3	Q4	2023
Interest rate	4,27%	4,35%	5,35%	5,49%	
Accrued interest, thousand EUR	98.2	142.46	187.59	191.20	619.45
Residual value of the loan, thousand EUR	11,330	13,738	13,645	13,552	13,552

On the maturity date the loan shall be repaid in full.

Although at the same time the Bank has the credit line from Marginalen AB (25M EUR), the purpose of the loan to Marginalen AB is to contribute to the Group funding by leveraging the interest rate differential in Lithuanian and Swedish deposit markets (the Bank can borrow at more favorable rate in Lithuania) without incurring currency risk (when lending to other group entities where functional currency is EUR). The purpose of the credit line commitment, on the other hand is to have emergency liquidity tool in the unlikely event of liquidity shortage.

(all amounts are in EUR thousand unless otherwise stated)

5. Loans granted and receivables (continued)

The change in impairment of consumer loans granted is presented in the table below:

	2023	2022
Loss allowance as at January 1	**1,376**	**1,107**
Loss allowance for the year	2,162	1,286
(Reversal of loss allowance) of loans sold	(1,513)	(781)
(Reversal of loss allowance) of loans written off	(122)	(236)
Loss allowance as at December 31	**1,903**	**1,376**

Loans that were written off during the period and are still subject to enforcement activities amount to EUR 122 thousand in 2023 and EUR 236 thousand in 2022.

Expenses of interest-bearing assets:

	2023	2022
Loss allowance of other loans granted	-	3
Loss allowance (reversal of loss allowance) of consumer loans	2,162	1,286
Interest related IFRS 9 adjustment at Stage 3*	(103)	(10)
Impairment of loans granted	**2,059**	**1,279**

* including interest related IFRS9 adjustment for Stage 3 loans in amount of EUR 103 thousand in 2023, EUR 10 thousand in 2022. In accordance with IFRS 9, the Bank accounts for interest income on Stage 3 loans at amortized cost (value after impairment). The adjustment of interest income on loans is made by adjusting the impairment balance, which results in the difference between the change in impairment in the statement of financial position and the impairment expense recognized in the statement of comprehensive income.

The result of non-performing loan sales on total comprehensive income

	2023	2022
Gross carrying amount of loan portfolio	3,082	1,694
Expected credit losses	(1,513)	(781)
Sale price	(1,569)	(913)
Loss / (gain) on sale of loans granted	-	-

(all amounts are in EUR thousand unless otherwise stated)

5. Loans granted and receivables (continued)

The structure of consumer loan receivables by contractual maturity is as follows:

	2023	2022
Up to 1 year	40,212	36,319
1–5 years	72,863	66,387
More than 5 years	8,224	6,844
Consumer loan receivables, net	**121,299**	**109,550**

Credit quality according to the classes of financial assets

All consumer loans of the Bank have similar characteristics and are assessed collectively for estimation of expected credit losses. Before making a decision to grant a loan, the Bank collects all the required data for assessment from the business management system, external registers and directly from clients. If a part of data required for assessment is not collected, the application is not processed thereon. To assess the solvency of natural persons, the Bank applies an internal statistic rating system and additional risk evaluation rules, which, from the collected data, assesses the client's credit history, monthly income, current liabilities, liability and income ratio and other indices related to that. Signing a contract for family purposes, the spouse's income and liabilities are assessed as well, married persons without their spouse can sign a contract only for personal purposes. Not only the customer but also each particular proposal and its maturity is assessed, this way rejecting options that bear risk on the Bank and presenting only offers with a risk level acceptable to the Bank.

An overall loan portfolio risk is evaluated with reference to (lP) early risk and (HR) high risk indicators that enable to constantly monitor the risk of granted loans. Aside from the general portfolio risk, risk of separate products and partners is measured as well, which can be assessed for any defined segment if needed.

Under IFRS 9 requirements, the loans are classified into the following stages: Stage 1, when loans are non-defaulted, Stage 2 when loans are non-defaulted, but when significant increase in credit risk occurred since initial recognition and Stage 3, when loans are defaulted.

Loans are also classified by their payments past due to homogenic groups for each 30 overdue days (1-29, 30-59, etc.), which enable to assess the changes in portfolio quality. For payments past due for up to 90 days, clients are required to cover only payments past due and late payments, whereas when payments are past due for more than 90 days, and it makes up more than 10% of the loan, the clients may be required to repay the whole loan balance and late payments immediately.

The table below presents consumer loans after evaluation of expected credit loss by internal risk level of the Bank as of 31 December 2023

		Loans past due			
As at 31 December 2023	**Not past due**	**Low risk** (past due for up to 30 days)	**Higher risk** (past due for 30-90 days)	**High risk** (past due for more than 90 days)	**Total**
Consumer loans, net	109,558	9,315	2,173	253	121,299
Other loans, net	13,548	-	-	-	13,548

(all amounts are in EUR thousand unless otherwise stated)

5. Loans granted and receivables (continued)

The table below presents consumer loans after evaluation of expected credit loss by internal risk level of the Bank as of 31 December 2022:

As at 31 December 2022	Not past due	Loans past due **Low risk** (past due for up to 30 days)	**Higher risk** (past due for 30-90 days)	**High risk** (past due for more than 90 days)	Total
Consumer loans, net	99,506	8,055	1,715	274	109,550
Other loans, net	6,412	-	-	-	6,412

The composition of consumer loan portfolio before expected credit losses by stages and risk levels at the end of 2023 and 2022 were as follows:

As at 31 December 2023	Stage 1	Stage 2	Stage 3	Total
Not past due	88,030	22,096	319	**110,445**
Low risk (past due for up to 30 days)	4,545	4,570	386	**9,501**
Higher risk (past due for 30-90 days)	-	1,588	800	**2,388**
Highest risk (past due for more than 90 days)	-	2	866	**868**
Total	**92,575**	**28,256**	**2,371**	**123,202**

As at 31 December 2022	Stage 1	Stage 2	Stage 3	Total
Not past due	84,362	15,642	127	**100,131**
Low risk (past due for up to 30 days)	4,307	3,679	234	**8,220**
Higher risk (past due for 30-90 days)	-	1,268	549	**1,817**
Highest risk (past due for more than 90 days)	-	1	757	**758**
Total	**88,669**	**20,590**	**1,667**	**110,926**

(all amounts are in EUR thousand unless otherwise stated)

5. Loans granted and receivables (continued)

Changes in consumer loan portfolio value before expected credit losses in 2023 and 2022 were as follows:

Portfolio value before expected credit losses	Stage 1	Stage 2	Stage 3	Total
Balances as at 31 December 2022	**88,669**	**20,590**	**1,667**	**110,926**
New loans	66,210	-	-	66,210
Transfer to Stage 1	18,193	(18,187)	(6)	-
Transfer to Stage 2	(40,639)	41,814	(1,175)	-
Transfer to Stage 3	(292)	(5,324)	5,616	-
Sale of loans	-	-	(3,082)	(3,082)
Loan write-offs	-	-	(122)	(122)
Repayments and other changes	(39,566)	(10,637)	(527)	(50,730)
Balances as at 31 December 2023	**92,575**	**28,256**	**2,371**	**123,202**

Portfolio value before expected credit losses	Stage 1	Stage 2	Stage 3	Total
Balances as at 31 December 2021	**65,201**	**17,748**	**786**	**83,735**
New loans	72,339	-	-	72,339
Transfer to Stage 1	19,564	(19,564)	-	-
Transfer to Stage 2	(33,472)	33,643	(171)	-
Transfer to Stage 3	(281)	(2,919)	3,200	-
Sale of loans	-	-	(1,694)	(1,694)
Loan write-offs	-	-	(236)	(236)
Repayments and other changes	(34,682)	(8,318)	(218)	(43,218)
Balances as at 31 December 2022	**88,669**	**20,590**	**1,667**	**110,926**

(all amounts are in EUR thousand unless otherwise stated)

5. Loans granted and receivables (continued)

Changes in expected losses for consumer loan portfolio in 2023 and 2022 is presented in the tables below:

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Balances as at 31 December 2022	**405**	**284**	**687**	**1,376**
New loans	436	-	-	436
Transfer to Stage 1	274	(273)	(1)	0
Transfer to Stage 2	(296)	546	(250)	-
Transfer to Stage 3	(7)	(84)	91	-
Sale of loans	-	-	(1,513)	(1,513)
Loan write-offs	-	-	(122)	(122)
Change in impairment	(291)	(81)	2,098	1,726
Loan as at 31 December 2023	**521**	**392**	**990**	**1,903**

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Balances as at 31 December 2021	**290**	**222**	**595**	**1,107**
New loans	434	-	-	434
Transfer to Stage 1	269	(269)	-	-
Transfer to Stage 2	(248)	284	(36)	-
Transfer to Stage 3	(7)	(47)	54	-
Sale of loans	-	-	(781)	(781)
Loan write-offs	-	-	(236)	(236)
Change in impairment	(333)	94	1,091	852
Loan as at 31 December 2022	405	284	687	1,376

6. Prepayments

	As at 31 December 2023	As at 31 December 2022
Prepayments to suppliers under service agreements	2	21
Security deposits to lessors under premises' lease agreements	76	122
Deferred expenses	336	316
Prepaid income tax	-	118
Other	30	41
Total	**444**	**618**

(all amounts are in EUR thousand unless otherwise stated)

7. Other receivables and current assets

	As at 31 December 2023	As at 31 December 2022
Receivables from partners (receivables on loans sales, income for insurance intermediation services, other customers)	420	273
Receivables under the contract payment schedules collected by collectors (partners) from clients but not yet transferred to the Bank	58	45
Other current assets	-	5
Total	**478**	**323**

8. Financial borrowings and customer deposits

	As at 31 December 2023	As at 31 December 2022
Customer term deposits	120,381	94,229
Customer saving accounts	12,977	7,482
Other financial liabilities (to partners)	149	103
Total	**133,507**	**101,814**

In 2023 the continued offering competitive interest rate for deposits allowed to further grow public deposits portfolio.

As the part of the annual financial planning process the Bank renewed the revolving credit facility (RFC) agreement with the parent company establishing credit line limit of EUR 25 million. This limit is meant for as an extra liquidity tool in the case of unexpected liquidity needs. At the end of 2023, as well as at the end of 2022, the full amount of this RFC was unused.

Side letter received from Marginalen AB is renewed annually, the following covenants that must be maintained by the Bank was not changed compared to 2022 and are set:

- Interest Coverage ratio >1.50
- Equity ratio >15%
- Loan to Value <50%

The Bank complied with the covenants in 2023 and 2022.

Other financial liabilities to partners consisted of payables under financial transactions concluded as at 31 December 2023, and commission fees payable to the partners for December under the cooperation agreements.

9. Customer deposits

Retail deposits	**2023**	**2022**
Customers saving accounts	12,977	-
Term deposit with original maturity less than one year	8,649	7,913
Term deposit with original maturity one year and longer	109,051	92,152
Accrued deposit interest	2,651	1,512
Bank accounts (technical customer accounts)	30	134
Total customer deposits	**133,358**	**101,711**

(all amounts are in EUR thousand unless otherwise stated)

9. Customer deposits (continued)

All deposits are accepted only in euros from Lithuanian residents. According to Lithuanian legislation, deposits are insured by Deposit and Investment Insurance company. Insurance covers deposits up to 100 000 EUR per client. The Bank accepts term deposits (TD) and offers to clients Saving account opportunity. This product was launched in January 2023 and has become attractive to customers because of competitive interest and the possibility to add/withdraw funds without restrictions and without losing accrued interest rate. For term deposits Bank pays fixed interest rate to the client. Usually, the Bank pays higher interest rates on longer term deposits as they provide higher stability and reduce interest rate risk of the bank. At the end of 2023 this approach has changed due to expectations of ECB rate decreases in 2024. The Bank accepts term deposits with original maturities from 1 month to 7 years.

10. Other current payables and accruals

	As at 31 December 2023	**As at 31 December 2022**
Client overpayments	215	211
Vacation accruals	333	376
Accrued annual bonuses	519	380
Payable taxes except for income tax	113	103
Accrued expenses	148	147
Accrued payable to partners*	3,440	3,338
Other payables	223	268
Total	**4,991**	**4,823**

According to Bank's management decision client overpayments were not written-off in 2023 due to immateriality reasons. In 2022 this write-off comprised 16 thousand EUR.
* The largest portion of accrued payable to partners consists of instalments payable to Compensa according to client's loan contract insurance – EUR 3,233 thousand (in 2022: EUR 3,175 thousand). Accrued payables to partners, including payables to Compensa in 2023 slightly increased, mainly because of increasing loan portfolio.

11. Issued capital and reserves

Issued capital
As part of equity management, the Bank's management is continuously monitoring the Bank's total equity, which cannot be less than 50% of its issued capital as specified in the Republic of Lithuania laws. As of 31 December 2023 as well as 31 December2022, the Bank complied with this requirement.

As of 31 December 2023, the Bank's issued capital was the same as at the end of 2022 and consisted of 3,293,100 ordinary registered shares with the par value of EUR 2.90 each.
The main objective of the management of the Bank's share capital is to ensure that the Bank complies with external capital requirements and maintains high capital rates. For the capital management purposes, the capital includes issued capital, retained earnings and legal reserve.

Legal reserve
A legal reserve is a compulsory reserve under legislation of the Republic of Lithuania. Annual transfers of at least 5% of net profit calculated under accounting principles of the Republic of Lithuania are compulsory.

In accordance with the provisions of legal acts regulating the Bank's activities in Lithuania, the Bank's legal reserve, which amounted to EUR 2,371 thousand at the end of 2023 (31 December 2022: EUR 1,276 thousand), can be used to cover future losses only.

(all amounts are in EUR thousand unless otherwise stated)

11. Issued capital and reserves (continued)

Dividends
Based on good financial results and earned profit in 2022 according to the shareholder decision EUR 1,040 thousand dividends were declared for 2023 (2022: EUR 850 thousand). Dividends were paid in April 2023.

Capital management
GF Bankas manages its capital with the aim of ensuring the long-term operational continuity and stability, creating a return to shareholders while adhering to the capital adequacy requirements set by the European Parliament and the EU Council (Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR), as well as internal target capital adequacy ratios.

Banks must satisfy the following own funds requirements:
Capital or own funds requirements:

- 4.5 per cent Common Equity Tier 1. This is the ratio between Tier 1 equity capital and risk weighted assets and off-balance sheet liabilities of the bank;
- 6 per cent Tier 1 capital ratio. This is the ratio between Tier 1 capital and risk weighted assets and off-balance sheet liabilities of the bank;
- a total capital ratio of 8 per cent. This is the ratio between the own funds and risk weighted assets and off-balance sheet liabilities of the bank.

In addition to the capital requirement, to which the ratio of 8 per cent is further applied, banks must meet additional capital buffer requirements:

- capital conservation buffer of 2.5 per cent
- countercyclical capital buffer (CCyB) rate (currently 1%).

The Bank capital consists of Tier I capital, the total amount of which was EUR 21,850 thousand at the end of 2023 (EUR 19,869 as at 31 December 2022) and consisted of the Bank's issued capital, retained earnings, reserves, current year profit (once audited), less deductions established by the legal acts regulating the Bank's activities.

Detailed information on the Bank's capital	**As at 31 December 2023**	**As at 31 December 2022**
Paid-up issued capital	9,550	9,550
Retained earnings for the prior year	9,964	8,921
Profit for the current year	-*	-*
Legal reserve	2,371	1,791
(-) Value adjustments due to the requirements for prudent valuation	(4)	-
(-) The amount of intangible assets exceeding the prudential requirements	(25)	(136)
(-) Deferred tax assets that rely on the Bank's future profitability	(0)	(252)
(-) Insufficient coverage for non-performing exposures	(6)	(5)
Total own funds	**21,850**	**19,869**

*In calculation of total own funds, the Bank includes profit for the reporting period only after annual financial statements are audited and published.

Risk assets are calculated using the Standardised Approach for credit risk.
The Bank's capital adequacy ratio at the end of 2023 was 16%.

(all amounts are in EUR thousand unless otherwise stated)

11. Issued capital and reserves (continued)

Calculating capital adequacy ratio	**As at 31 December 2023**	**As at 31 December 2022**
CET1 = Tier 1 capital	**21,850**	**19,869**
Total own funds	**21,850**	**19,869**
Total risk-weighted exposure amounts	**132,832**	**109,298**
CET1 = Tier 1 capital ratio	16%	18%
Common Equity Tier 1 capital ratio	16%	18%
Common Equity Tier 1 ratio	16%	18%
Common Equity Tier 1 capital surplus (+)/deficit (-)	15,873	14,951
Tier 1 capital ratio	16%	18%
Tier 1 capital surplus (+)/deficit (-)	13,880	13,311
Total capital ratio	16%	18%
Total capital ratio surplus (+)/deficit (-)	11,223	11,125

12. Right-of-use assets and lease liabilities

The carrying value of right-of-use assets as at 31 December 2022 and December 2021 and its movement throughout the year is disclosed in the tables below:

	Commercial premises	**Vehicles**	**Total**
As at 1 January 2022	**853**	**58**	**911**
Additions	252	54	306
Contracts terminations	(47)	(6)	(53)
Depreciation expenses	(428)	(46)	(474)
As at 31 December 2022	**630**	**60**	**690**
Additions	147	190	337
Remeasurements	24	-	24
Contracts terminations	(28)	(29)	(57)
Depreciation expenses	(329)	(40)	(369)
As at 31 December 2023	**444**	**181**	**625**

(all amounts are in EUR thousand unless otherwise stated)

12. Right-of-use assets and lease liabilities (continued)

Lease liabilities:

	2023	2022
As at 1 January	**737**	**975**
Additions / Renewals of contracts	337	306
Remeasurements	24	-
Contracts terminations	(57)	(53)
Increase in interest	41	37
Payments	(426)	(528)
As at 31 December	**656**	**737**
Current	320	390
Non-current	336	347

The following amounts are recognised in profit (loss):

	2023	2022
Depreciation expenses of right-of-use assets	369	474
Lease liability interest expenses	41	37
Expenses related to low-value assets (included in Rent and maintenance of premises expenses)	24	5
Expenses related to short-term leases (included in Rent and maintenance of premises expenses)	2	2
Total recognized in profit / (loss)	**436**	**518**

Total cash outflows related to leases comprised of EUR 452 thousand in 2023 (2022: EUR 536 thousand).

Future undiscounted cash flows on lease liabilities by contractual maturities are disclosed in Note 17.

13. Interest expense

Interest expenses are calculated using the effective interest method.

	2023	2022
Loan interest Marginalen AB (shareholder)	-	144
Interest on customer deposits	3,115	1,626
Interest for cash in Bank of Lithuania account	-	8
Interest expense	**3,115**	**1,778**

In July 2022 ECB has changed interest rate, which became positive. Because of this change Bank of Lithuania stopped charging interest on the cash balances which was applied in previous periods. In 2023 interest expenses consist only of interest payment on client's deposits.

(all amounts are in EUR thousand unless otherwise stated)

14. Staff related expenses and other operating income and expenses

Other operating income consists of the following:

	2023	2022
Insurance mediatory income	212	202
Other income	7	16
Total	**219**	**218**

Other operating expenses are comprised of the following:

	2023	2022
Non-deductible VAT expenses	12	18
Other tax expenses	33	23
IT and communication expenses	1,185	1,028
Consulting, management and audit expenses*	250	250
Operating lease and maintenance expenses	56	56
Office supplies, postal services and subscription of publications	57	52
Document archiving services	45	33
Business trip expenses	13	19
Bank charges	16	13
Property insurance expenses	134	91
Sponsorship expenses	22	36
Product selling expenses	145	132
Other expenses	126	17
Total	**2,094**	**1,768**

*In 2023 and 2022, consultation, management and audit expenses were mostly related to the recognised management fee (EUR 81 thousand in 2023, EUR 87 thousand in 2022) and audit of the financial statements (EUR 85 thousand in 2023, EUR 90 thousand in 2022). Fees for permitted non-audit services provided by the statutory auditor (including by other member firms of the auditor's network) amounted to EUR 9 thousand (2022: EUR 2 thousand).

(all amounts are in EUR thousand unless otherwise stated)

14. Staff related expenses and other operating income and expenses (continued)

Staff related expenses:

	2023	2022
Salaries and bonuses	6,318	5,926
Staff recruitment, training and other staff related expenses	135	160
	6,453	**6,086**

The average annual number of full-time staff, excluding staff on maternity leave, was 134 (133 in 2022).

15. Current and deferred income tax

The tables below provide information on income tax:

	2023	2022
Components of income tax income (expenses)		
Current year income tax expenses	(532)	(227)
Change of deferred income tax	(158)	(356)
Income tax income/(expenses) accounted for in the statement of comprehensive income	**(690)**	**(583)**

	2023	2022
Deferred income tax assets		
Accruals	94	74
Tax loss carried forward	-	178
Deferred income tax, net	**94**	**252**

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which tax losses can be utilised. The Bank's lease payments are deductible upon payment for tax purposes. In accounting for the deferred tax relating to the lease, the Bank considers both the lease asset and liability separately. The Bank separately accounts for the deferred taxation on the taxable temporary difference and the deductible temporary difference, which upon initial recognition are equal and offset to zero. Deferred tax is recognized on subsequent changes to the taxable and temporary differences.

Profit before tax in 2023 was EUR 3,696 thousand. The Bank used the opportunity provided by law to reduce taxable profit in 2023 by utilising recognized tax loss carried forward from 2020. The deferred income tax asset has been fully utilised in the calculation of income tax payable for 2023.

	2023	2022
Profit before income tax	3,696	3,246
Income tax expenses at a 15% rate as established by the law	(568)	(508)
Additional income tax for credit institution	(122)	(73)
Permanent differences	-	(2)
Income tax income/(expenses) accounted for in the statement of comprehensive income	**(690)**	**(583)**

(all amounts are in EUR thousand unless otherwise stated)

16. Fair value of financial assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As no readily available market exists for a large part of the Bank's financial assets and liabilities, the fair value is determined with reference to the current economic conditions and specific risks attributable to the instrument. The Bank evaluates the levelling at each reporting period and reclassifies instruments when necessary. At 31 December 2023 the classification between levels was not changed, but a new Level 1 was attributed for debt instruments (bonds).

Assessing the fair value of the following financial assets, except for cash and customer deposits (Level 2) and bonds (Level 1), the Bank attributes them to Level 3 in the fair value hierarchy and uses the following methods and assumptions:

Cash and cash equivalents. These are cash balances in current bank accounts, their fair value approximates their carrying amount.

Loans and receivables. Fair value of loans and receivables was determined by discounting the future cash flows from each amount receivable over its maturity, using the interest rates prevailing in the market.

Other receivables within one year. Fair value of these assets approximates the carrying amount due to a relatively short maturity of this financial instrument.

Financial borrowings and customer deposits. Interest rates of financial borrowings and customer deposits reflect the market interest rates, which during 2023 year were quite volatile. Fair value of customers deposit was determined by discounting the future cash flows from each amount receivable over its maturity, using the interest rates prevailing in the market.

The table below presents comparative information on the carrying amounts and fair values of the financial instruments not carried at fair value in the financial statements:

	2023		**2022**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and cash equivalents	24,027	24,027	12,318	12,318
Loans granted	134,848	129,081	115,962	111,368
Other current assets and receivables	478	478	323	323
Total financial assets	**159,353**	**153,586**	**128,603**	**124,009**

(all amounts are in EUR thousand unless otherwise stated)

16. Fair value of financial instruments (continued)

	2023		2022	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
Other financial liabilities (to partners)	149	149	103	103
Customer deposits	133,358	132,335	101,711	101,225
Lease liabilities	656	656	737	737
Other financial liabilities	4,991	4,991	4,720	4,720
Total financial liabilities	139,154	138,131	107,271	106,785

17. Risk management and financial assets and liabilities

Credit risk

Credit risk is the risk of financial loss to the Bank if a counterparty fails to meet its contract liabilities. This is the main risk of the Bank arising from lending to customers.

Before issuing a new loan, the Bank performs a credit risk assessment of each customer. Statistical credit-scoring models and creditworthiness assessment rules are used for the purpose of analysis of loans to private customers. Net income and cost of living are taken into account when assessing the customer's ability to repay the loan, as the Bank's strategy grants no presumption of using the collateral or any other source of financing to repay the loan. All regulatory guidelines and recommendations are also taken into account when assessing customer creditworthiness.

Statistical modelling is performed to develop customer credit scoring models. The result (score) creates a numerical assessment that reflects the expected level of default, and allows customers to be compared against each other, and to be divided into risk levels. Such categorisation allows the Bank to differentiate its strategies according to the expected level of risk. Logistic regression is a key modelling tool. The Bank applies 4 statistical models:

- customers with no credit history with the Bank applying for financing of goods or services;
- customers with credit history with the Bank applying for financing of goods or services;
- customers with no credit history with the Bank applying for loans issued in cash or transferred to the customer accounts;
- customers with credit history with the Bank applying for loans issued in cash or transferred to the customer accounts.

The entire process and results of developing statistical models are well documented and tested, and the accuracy of the models can be assessed at any time. Model performance is reviewed at least once a year. New models are developed every 2–5 years.

The Bank may grant a loan only if it can reasonably assume that the customer's obligations will be met. The decision to grant a loan, including related assessment data are stored. The assessment process and the rationale for decision making can be fully restored at any time.

Credit risk is managed by granting loans only within the acceptable risk level. The acceptable risk level may vary depending on the product, profitability, the Bank's strategy and objectives. The risk classification tools used by the Bank are well documented and approved by the Risk Management Committee. The accuracy of risk classification models is reviewed at least annually. The main criteria for taking a risk and granting a loan or rejecting a customer and not granting a loan are valuation models and creditworthiness assessment rules. Credit risk is managed by maintaining a properly diversified credit portfolio with an acceptable level of risk. This is ensured by providing credit

(all amounts are in EUR thousand unless otherwise stated)

17. Risk management and financial assets and liabilities (continued)

on the basis of a conservative approach, avoiding concentration and ensuring diversification, keeping the positions of one entity relatively small compared to the entire portfolio.

In order to manage the credit risk of individual customers or groups of customers, limits are set indicating the maximum credit risk exposure that the Bank can assume. All limits are regularly monitored and may be amended only with the approval of the Supervisory Board. The Bank's Debt Collection Division handles the lower-quality and problem loans from the very first day of delay to ensure that the most suitable solution is made for both the customer and the Bank.

Allowance for expected credit losses are recognized in accordance with the requirements of IFRS 9, providing relevant information on the appropriate valuation of the Bank's financial assets and liabilities.

The Bank provides the option of modification in terms of a loan (restructuring) in favour of the customer facing financial difficulties. In such cases, the customer's outstanding payments are spread over a longer period of time, thus reducing the customer's financial burden.

Concentration risk

The Risk Management Department reviews and assesses the overall risk of the credit portfolio on the regular basis by taking into account industry, geographic area, risk group, product type, credit amount and other data. The concentration of risk in a given geographical area and industry sector, as well as in the case of large exposures dealing with single name concentration risk, is kept under constant review. The business concept of the Bank is being a specialised bank focused on responsible lending. The Bank's lending activity is not limited only to customers of a specific occupation, location or other specific group.

At least quarterly, the Risk Management Committee reviews the results of all tests and reports prepared by the Head of the Risk Management Department to identify potential concentrations and possible responses to changes in risk concentration conditions that could adversely affect the Bank's position, and reports to the Board.

Maximum credit risk

The table below shows the breakdown of maximum exposure to credit risk by on-balance sheet and off-balance sheet items. Maximum exposure to credit risk is disclosed before the values of collaterals.

	2023	2022
Financial assets		
Cash and cash equivalents	24,027	12,316
Loans granted	134,847	115,961
Other current assets and receivables*	1,840	2,235
Off-balance undrawn loan commitments	39	69
Total	**160,753**	**130,581**

*According to the Bank's management, deferred expenses included in the Bank's statement of financial position within "Other current assets" and receivables do not give rise to credit risk, and, accordingly, they have not been included in the total maximum exposure to credit risk in the table above.

17. Risk management and financial assets and liabilities (continued)

Maximum exposure to credit risk by industry

Industry risk refers to amounts receivable from clients whose economic activities are closely related or are the same. Services provided by the Bank to private clients does not exceed EUR 25 thousand per single borrower, concentration in the same sector of receivables is thus avoided. The Bank also has EUR 13,553 M exposure to the parent company Marginalen AB. Loan to parent company is considered as a low-risk investment, since it is an inter-group loan and as per the Management's assessment Marginalen has a strong financial position which would allow to repay the loan without concern and in timely manner. The Bank also has EUR 3,5 M worth Lithuanian government bonds which is considered as a low-risk investment since Lithuania have high credit ratings.

Maximum exposure to credit risk by geographical area

The Bank issues consumer loans only to the residents of the Republic of Lithuania, has EUR 3,5 M worth of Lithuanian government bonds and has one EUR 13,55 M intra-group loan to parent company Marginalen AB in Sweden, therefore, according to the management, there is no need to analyse financial assets in greater detail by geographical areas.

Credit quality according to the classes of financial assets

The Bank's assessment of creditworthiness of the client or counterparty is based on credit rating or scoring. The Bank performs assessment of customer creditworthiness based on available credit history (if it is not a first-time loan issued to the customer), and data from external registers (Social Insurance, Residents Register Service, debt administration information system SAIS of UAB Creditinfo Lietuva and Credit bureau). Based on this data, the maximum exposure per single borrower is established and the repayment schedule is produced.

Low rating concentration risk refers to the concentration of the portfolio in low rating groups. The low rating is determined by the days past due. Based on days past due loans are divided into homogeneous groups for which ECLs are calculated. The portfolio structure and rating concentration are reviewed on a monthly basis.

Interest rate risk

Interest rate risk is the potential for losses that result from a change in the market interest rates. This risk arises largely due to the fact that the fixed interest rates for issued consumer loans are set for a longer term than for deposits.
Internal standards applicable to interest rate risk are set by the Bank's Supervisory Board and laid down in the Risk Management Strategy. Interest rate risk is managed by the Treasury Department, which reports to the Management Board on a monthly basis. Reports on risk management are submitted to the regulators on a quarterly basis. The Bank manages this risk through deposit pricing by promoting the attraction of deposits of longer maturity when needed and, in some cases, may use derivative financial instruments, such as futures on EU government bonds.

The Bank measures interest rate risk in two ways: as possible decrease of net interest income during a period of 1 year and as possible decrease of the economic value of equity (DEVE) in revaluation of assets caused by changes in market interest rates for longer maturities. The Bank has set an internal limit to keep DEVE below 14% of Tier 1 capital for any of the 6 standard test scenarios. These scenarios describe different possibilities how short and long end of the yield curve may be moving in the interest rate shock situation. Six standard interest rate shock scenarios are defined by European Banking Authority: (1) parallel shock up, (2) parallel shock down, (3) steepener shock (short rates down and long rates up), (4) flattener shock (short rates up and long rates down), (5) short rates shock up and (6) short rates shock down.

In comparison to the end of 2022 DEVE slightly increased both in Parallel-up and in Flattener scenarios. This shift happened due to change in deposit term structure (e.g. launch of saving account).

(all amounts are in EUR thousand unless otherwise stated)

17. Risk management and financial assets and liabilities (continued)

DEVE*(unaudited)	2023	2022
Parallel-up scenario (+2%)	-2,255 (10.3%)	-1,729 (8.2%)
Flattening scenario	-693 (3.17%)	-416 (2.0%)
Maximum risk	**-2,255 (10.3%)**	**-1,729 (8.2%)**

* percentage in the brackets is calculated to Tear 1 equity.

As of the year-end of 2023, a fixed interest rate was set for all loans granted to the Bank's retail customers, and their maximum term was increased from 7 to 10 years during the year. Loans to parent company were issued with floating rate set every 3 months, hence their impact on interest rate risk was minimal.

Liquidity risk

The Bank manages its liquidity risk by ensuring that it has sufficient funds to meet its financial obligations both in the short and long term. Liquidity risk limits are set by the Bank's Supervisory Board and embedded in the Risk Management Strategy, which is updated at least once a year. The major decisions on liquidity risk management are made by the Management Board and Risk and Assets/Liabilities Management Committee. Currently liquidity management is performed by the Treasury Department following the Liquidity Risk Management Policy approved by the Board of the Bank. Detailed analysis of liquidity adequacy and management is being performed once a year through internal liquidity adequacy assessment process (ILAAP).

The Bank applies following indicators to assess liquidity risk: liquidity coverage ratio (LCR) for short-term liquidity and net stable funding ratio (NSFR) for long-term liquidity. In 2023 the Bank also started calculating survival period under extreme stress scenario.

Liquidity coverage ratio is calculated following regulatory standards established by European Banking Authority. The Bank is required to maintain liquidity coverage ratio of at least 100% at any day, and the Bank has set an internal requirement to have this ratio at least 120%. This indicator represents ratio of high-quality liquid assets to net cash outflows over the next 30 days.

Liquidity ratios (%)	2023	2022
Liquidity coverage ratio (LCR)	248%	433%
Available liquidity to deposits ratio (ALDR) (unaudited)	40.2%	19%
Net stable funding ratio (NSFR)	140%	132%
Survival period (days) (unaudited)	397	Not calculated

Internally developed available liquidity to deposits ratio (ALDR) is also used for short term liquidity. It is calculated as a ratio of available liquidity (including current deposits with other banks and also part of available credit line) to total customer deposits. This ratio reflects proportion of customer deposits that could be withdrawn from the Bank in a short-term without creating liquidity shortage. Internal limit for ALDR was set at 15%.

(all amounts are in EUR thousand unless otherwise stated)

17. Risk management and financial assets and liabilities (continued)

Net Stable Funding Ratio (NSFR) is calculated as a ratio of available stable funding (expected to stay with the Bank for one year or longer) over risk weighted assets of lower liquidity. Bank's own equity along with insured retail deposits are considered the most stable sources of funding. Value of the ratio should be at least 100%, and internal limit is 110%.

Survival period - the period during which the Bank can continue operating without needing to generate additional funds and still meet all its payments due under the assumed modelled stress scenarios. Those stress scenarios assume lower issuance of loans (thus - lower profitability), slow-down in collection of loan payments and increased outflows of deposits.

The Bank's ability to respond quickly to the changing liquidity situation is provided by the liquidity buffer: in 2023 the majority of liquid assets was cash held in Central banks, whereas only minor amount was held in the current accounts of commercial banks. At the end of 2023 the Bank also had a portfolio of Government securities which are considered high quality liquid assets. Committed credit line from the parent company Marginalen AB could provide additional liquidity if needed.

Available liquidity	**2023**	**2022**
Cash on hand	-	88
Cash balances at central banks	23,662	8,411
Accounts with commercial banks	365	3,817
Debt securities	3,534	-
Total liquid assets	**27,561**	**12,316**

Credit line	**2023**	**2022**
Total credit line limit	25,000	25,000
Unutilized available portion	25,000	25,000

The table below provides an analysis of the Bank's undiscounted cash flows of financial liabilities grouped by contractual maturities:

Financial liabilities As at 31 December 2023	**Up to 3 months**	**3–12 months**	**1–5 years**	**More than 5 years**	**Total**
Financial borrowings	149	-	-	-	**149**
Customer deposits	34,836	51,733	50,031	1,455	**138,055**
Trade payables	505	648	2.050	258	**3,461**
Lease liabilities	84	236	336	-	**656**

Financial liabilities As at 31 December 2022	**Up to 3 months**	**3–12 months**	**1–5 years**	**More than 5 years**	**Total**
Financial borrowings	103	-	-	-	**103**
Customer deposits	10,641	55,472	37,538	964	**104,615**
Trade payables	447	634	2.063	303	**3,447**
Lease liabilities	108	282	337	10	**737**

(all amounts are in EUR thousand unless otherwise stated)

17. Risk management and financial assets and liabilities (continued)

Foreign exchange risk
The Bank issues loans to customers only in EUR, and accepts deposits from public also only in EUR. The Bank does not create significant currency positions in any other way. An insignificant foreign currency position may appear only in exceptional cases: if the customer executes settlement in another currency, foreign currency position may remain until the amount is converted into the main currency of the Bank.

Liabilities arising from financing activities

The table sets out the movements of the Bank's liabilities, which are presented in the statement of cash flows from financing activities.

	Other financial liabilities	Dividends payable	Lease liabilities
As at 31 December 2022	**103**	**-**	**736**
Declared dividends	-	1,040	-
Dividends paid in cash	-	(1,040)	-
Other	46	-	-
Additions	-	-	304
Repayments	-	-	(426)
Interest expense	-	-	41
As at 31 December 2023	**149**	-	**655**

	Other financial liabilities	Dividends payable	Loans	Lease liabilities
As at 31 December 2021	**57**	**-**	**-**	**975**
Declared dividends	-	850	-	-
Dividends paid in cash	-	(850)	-	-
Other	46	-	-	-
Lending	-	-	-	-
Borrowing	-	-	7,000	-
Additions	-	-	-	253
Repayments, including interest	-	-	(7,144)	(529)
Accrued interest	-	-	144	37
As at 31 December 2022	**103**	**-**	**-**	**736**

(all amounts are in EUR thousand unless otherwise stated)

18. Transactions with related parties

Parties are defined as related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.
During 2023 Bank's related parties did not change and are the same as in 2022: Marginalen AB (sole shareholder, Sweden), Aizdevums SIA (sister company, Latvia), Inkasso AB Marginalen (Sweden) and other companies of ESCO Marginalen AB Group.

On-balance sheet and off-balance sheet amounts and amounts reported in the statement of comprehensive income, related to transactions with related parties are presented below.

The table below presents the Bank's transactions with related parties conducted in 2023, and outstanding balances arising from these transactions at 31 December 2023:

	Sales *	Purchases	Loans
Loan granted to Marginalen AB*	-	-	(7,500)
Interest on granted loan to Marginalen	619	-	-
Loan repayments	-	-	323
Aizdevums SIA (LV) (common shareholder)**	-	82	-
Total	**619**	**82**	**(7,177)**

*At the end of 2023 loan granted to Marginalen amounted EUR 13,553 thousand
** Business management costs of EUR 82 thousand

The table below presents transactions with related parties conducted in 2022 and outstanding balances arising from these transactions at 31 December 2022.

	Sales *	Purchases	Loans
Borrowings from AB Marginalen (shareholder)	-	-	-
Interest on borrowings from AB Marginalen (shareholder)	(144)	-	-
Loan granted to Marginalen AB	-	-	6 375
Interest on granted loan to Marginalen	149	-	-
UAB Gelvora (LT) (common shareholder)*	-	7	-
Aizdevums SIA (LV) (common shareholder)**	-	87	-
Total	**5**	**94**	**6 375**

*Repayment of sold in 2021 NPL portfolio
** Business management costs of EUR 87 thousand.

Remuneration to management and other benefits

The Board members of the Bank represent the management of the Bank and consist of CEO, Deputies of CEO, CFO, Director of IT department and CPO.

18. Transactions with related parties (continued)

At the end of 2023 the Board consisted of 6 employees of the Bank, to whom EUR 771 thousand of salary-related income was paid in 2023: base salary – EUR 665 thousand, bonuses Eur 86 thousand, income in kind 19 thousand, miscellaneous compensation - EUR 1 thousand. At the end of 2022 the Board consisted of 5 members. In 2022, the remuneration calculated for the Bank management, including bonuses, amounted to EUR 615 thousand, of which: basic salary – EUR 532 thousand, income in kind EUR 19 thousand, miscellaneous compensation - EUR 1 thousand

In 2023 and 2022 the management had no loans or guarantees granted, there were no sales contracts.

19. Events after the reporting period

On Feb 9th 2024 Marginalen AB fully repaid all the loans to the Bank (which had initial maturity of 5 years). Those loans are described in the Note 5. Total amount repaid by Marginalen AB to the Bank amounted to 13,553 thousand EUR. This repayment was done in line with the loan agreement clause 8.2. related to the voluntary prepayment.

There were no other significant events after the reporting period.

GENERAL FINANCING BANKAS (formerly General Financing) has been operating in the financial sector since 2005. The Bank has 13 customer service departments in Lithuania. GENERAL FINANCING BANKAS provided (financial) support to "Rimantas Kaukėnas foundation", "SOS children's villages in Lithuania", "Padėk gatvės vaikams", "WoW University".

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