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Independent Auditor’s Report

To the Shareholders of Šiaulių Bankas AB

Report on the Audit of the Separate and the Consolidated Financial Statements

■ Opinion

We have audited the separate financial statements of Šiaulių Bankas AB (“the Bank”) and the consolidated financial statements of Bank and its subsidiaries (“the Group”) contained in the file 549300TK038P6EV4YU51-2023-12-31-en.zip (ParsePort generated hashcode: 6tRjzA2sxT6NN6c=). The Bank’s separate and the Group’s consolidated financial statements comprise:

- the separate and the consolidated statement of financial position as at 31 December 2023,
- the separate and the consolidated income statement and statement of other comprehensive income for the year then ended,
- the separate and the consolidated statement of changes in equity for the year then ended,
- the separate and the consolidated statement of cash flows for the year then ended, and
- the notes to the separate and the consolidated financial statements, comprising material accounting policies and other explanatory information.

In our opinion, the separate and consolidated financial statements give a true and fair view of the non-consolidated financial position of the Bank and the consolidated financial position of the Group as at 31 December 2023, and of their non-consolidated and consolidated financial performance and their non-consolidated and consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards, as adopted by the European Union.

■ Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Separate and Consolidated Financial Statements section of our report. We are independent of the Bank and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) issued by the International Ethics Standards Board for Accountants and the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of 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 separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Each audit matter and our respective response are described below.

Impairment of loans to customers and finance lease receivable (separate and consolidated financial statements)

The gross amount of loans to customers in the consolidated financial statements as at 31 December 2023: EUR 2,685 million; total allowances for impairment losses as at 31 December 2023: EUR 44 million; of which impairment losses on loans to customers increased in 2023: EUR 10 million; the gross amount of finance lease receivables as at 31 December 2023: EUR 294 million; total allowances for impairment losses as at 31 December 2023: EUR 7,6 million; of which impairment losses on finance lease receivable recognised in 2023: EUR 2,3 million.

The gross amount of loans to customers in the separate financial statements as at 31 December 2023: EUR 2,661 million; total allowances for impairment losses as at 31 December 2023: EUR 31 million; of which impairment losses on loans increased in 2023: EUR 4 million; the gross amount of finance lease receivables as at 31 December 2023: EUR 293 million; total allowances for impairment losses as at 31 December 2023: EUR 6,8 million; of which impairment losses on finance lease receivable recognised in 2023: EUR 2,3 million.

Refer to page 12 (Accounting policies) and Notes 13 Loans to customers and 14 Finance lease receivables.

The key audit matter	How the matter was addressed in our audit
<p>Impairment allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within the loans to customers and finance lease receivables at the reporting date. We focused on this area as the determination of impairment allowances requires complex and subjective judgment from the Management Board over the amount of any such impairment.</p> <p>Impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> obtaining understanding of the Bank's and the Group's ECL impairment methodology and assessing its compliance with the relevant requirements of IFRS 9 standard. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of IFRS 9 requirements. Additionally, assisted by our own Financial Risk Management ("FRM") specialists, we have challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on our assessment of the entity-level and loan portfolio-level factors; obtaining an understanding of the Bank's retrospective review of its ECL estimates and its response to the results of the review, and performing our own independent back-test;

For non-performing exposures (Stage 3), the impairment assessment is based on the Bank's and Group's knowledge and understanding of each individual borrower's circumstances and often on estimation of the realizable amount of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows valuation.

For the above reasons, coupled with the significantly higher estimation uncertainty stemming from the impact of the geopolitical situation on multiple sectors of the economy, impairment of loans and advances to customers and finance lease receivables was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.

- making relevant inquiries of the Bank's and Group's risk management and information technology (IT) personnel in order to obtain an understanding of the impairment allowances and provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Assessing and testing the Bank's and Group's IT control environment for data security and access, assisted by our own IT specialists;
 - testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, advances and finance lease receivables, including, but not limited to, those over loan risk monitoring, identification of loss events / default, appropriateness of classification into performing and non-performing exposures, calculation of days past due and the overall ECL estimate;
 - assessing whether the definition of default and the staging criteria of the Standard were consistently applied.
- For collective impairment allowance:
- obtaining the relevant forward looking information and macroeconomic forecasts used in the Bank's and the Group's ECL assessment. Independently assessing the information by means of inspection of publicly available information and corroborating inquiries of the Management Board;
 - challenging the collective loss given default (LGD), exposure at default (EAD) and probability of default (PD) parameters used by the Bank and the Group, by reference to historical defaults and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances.
- For impairment allowances calculated individually, for a risk-based sample of loans:
- critically assessing the existence of any triggers for classification to Stage 3 as at 31 December 2023, by reference to the underlying documentation (loan files) and through discussion with Management Board and taking into consideration business operations of the respective customers as well as market conditions and historical repayment pattern;

	<ul style="list-style-type: none"> for the exposures with triggers for classification in Stage 3, challenging key assumptions applied in the Bank's and the Group's estimates of future cash flows such as discount rates, collateral values and realization period by reference to the original effective interest rate inspection, assessment of collateral values and reasonableness of the cash flow realization periods, and also performing respective independent estimations, where relevant. <p>— For loan and advances exposures in totality:</p> <ul style="list-style-type: none"> Critically assessing the reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage, by benchmarking them against publicly available industry data. <p>Evaluating the accuracy and completeness of the loan impairment and credit risk-related disclosures in the financial statements by reference to the requirements of the applicable financial reporting framework.</p>
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Liabilities related to insurance activities (consolidated financial statements)

The gross amount of liabilities related to insurance activities in the consolidated financial statements as at 31 December 2023: EUR 179,319 million, of which 86,996 million is insurance contracts liabilities for remaining coverage and 92,322 million liabilities under investment contracts.

Refer to page 12 (Accounting policies) and Note 24 Assets and liabilities related to insurance activities.

The key audit matter	How the matter was addressed in our audit
<p>Liabilities for remaining coverage – LRC for life insurance contracts measured under general measurement model (GMM) and variable fee approach (VFA) (“the insurance liability”) represents a significant element of insurance contract liabilities in the Group’s statement of financial position. In measuring the insurance liability the Management was required to establish present value of future cash flows (PVFCFs), risk adjustment for non-financial risk (RA LRC) and contractual service margin (CSM). We focused on this area as measurement of the insurance liability requires the Management Board to apply professional judgement, as well as complex and subjective assumptions, including those with a long-time period.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> Obtaining understanding of the methodology used when estimating Group’s LRC for life insurance contracts and assessing its compliance with the relevant requirements of IFRS 17 standard and relevant legal and regulatory requirements. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of IFRS 17 requirements. Additionally, assisted by our own actuarial specialists, we have challenged the Management Board on whether the level of the methodology’s sophistication is appropriate. Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of insurance policies including, but not limited to, those over quality of the policy data.

<p>Relatively insignificant changes in the key assumptions may have a material impact on the amount of the insurance liability for remaining coverage. The key assumptions include:</p> <ul style="list-style-type: none"> • Mortality rates • Disability/morbidity • Lapse rates • Expenses. <p>These assumptions are treated as inputs for cash flow models using complex actuarial methods. For the above reasons, obtaining sufficient and appropriate audit evidence in respect of the amount of the insurance liability for remaining coverage for life insurance contracts was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.</p>	<ul style="list-style-type: none"> • Challenging the Management Board's back testing of estimated fulfilment cash flows, by: <ul style="list-style-type: none"> ○ assessment of the assumptions underlying the analyses; ○ assessment of the results of the analyses. • Challenging the key actuarial assumptions used by the Group, including mortality rates, disability/morbidity, lapse ratios, and expenses, – by reference as applicable to financial reporting standards and regulatory requirements as well as by comparison of these assumptions to their historical values and available forecasts or other statistical and market data or contractual terms. • Assessment of the completeness and the accuracy of the input data used by the Management Board in valuation of the LRC for life insurance contracts. • Recalculating, with the help of the specialists, the PVFCFs, RA LRC and CSM as at 31 December 2023 for a sample of selected groups of insurance contracts. <p>Evaluating the accuracy and completeness of the LRC for life insurance contracts disclosures in the financial statements by reference to the requirements of the applicable financial reporting framework.</p>
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Business combination (consolidated financial statements)

On 1 December 2023 the Group completed business combination with AB Invalda INVL where control over retail asset management and life insurance businesses was obtained based on master agreement concluded on 22 November 2022.

Identifiable net assets acquired as part of business combinations recognized in the consolidated statement of financial position as at 1 December 2023 amounted to EUR 37.47 million. Goodwill arising from the acquisition of the businesses amounted to EUR 4.2 million.

Refer to page 12 (Accounting policies) and Note 16 Investment in subsidiaries.

The key audit matter	How the matter was addressed in our audit
<p>The assets, liabilities and contingent liabilities acquired were stated at their fair values which were determined by the Group during purchase price allocation and fair value determination exercises. This resulted in net assets measured at fair value in the amount of EUR 37.47 million.</p>	<p>Among others, we performed the following audit procedures:</p> <ul style="list-style-type: none"> - We have gained knowledge of the management process related to acquisition accounting. We read the master agreement concluded on 22 November 2022 and analysed the relating documentation, terms and conditions of the transaction and assessed the accounting treatment of the consideration transferred and the assets and liabilities acquired in accordance with IFRS 3 'Business Combinations'.

<p>Management has the discretion to make judgements, estimates and assumptions in allocating the purchase price and determining fair value. Changes in these assumptions could have a significant effect on the purchase price allocation and fair values.</p> <p>Due to the matter described above, we considered the business combination and in particular the purchase price allocation and fair value determination as a key audit matter in our audit.</p>	<ul style="list-style-type: none"> - We have engaged our valuation and actuarial specialists to assist us in analysing the Group's purchase price allocation and in assessing the methodology used to determine the assets acquired and liabilities assumed, in particular: <ul style="list-style-type: none"> - the methodologies and key assumptions, such as ones used in measuring insurance liabilities and discount rates used in the purchase price allocation of the acquired business; - a reconciliation of the key inputs used in the fair value measurement and purchase price allocation models; - checking the mathematical accuracy of calculations used in fair value measurement and purchase price allocation models. - We assessed the adequacy of disclosures of financial information, including disclosure of key assumptions and estimates based on requirements of the relevant financial reporting standard.
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■ Other Information

The other information comprises the information included in the consolidated annual management report, including Corporate Governance Statement, Remuneration Statement and Corporate Social Responsibility Report, but does not include the separate and consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

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

- The information given in the consolidated annual management report, including Corporate Governance Statement and Remuneration Statement, for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and



- The consolidated annual management report, including Corporate Governance Statement and Remuneration Statement, has been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards, as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group'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 and the Group or to cease operations, or has no realistic alternative but to do so.

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

■ Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the separate and consolidated 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 and the Group'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 and the Group'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 separate and consolidated 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 and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

■ Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting we were appointed on 6th June 2020 for the first time to audit the Bank's and the Group's separate and consolidated financial statements. Our appointment to audit the Bank's and the Group's separate and consolidated financial statements is renewed each year under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 4 years.

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

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

In the course of audit, in addition to the audit of separate and consolidated financial statements, we have provided review of half year condensed separate and consolidated interim financial statements and agreed upon procedures on the data used for the calculation of ex-ante contributions to Single Resolution Fund.



■ Report on the compliance of format of the separate and consolidated financial statements with the requirements for European Single Electronic Reporting Format

We have been engaged based our agreement by the management of the Bank to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the European single electronic reporting format of the separate and consolidated financial statements, including consolidated annual management report, for the year ended 31 December 2023 (the “Single Electronic Reporting Format of the separate and consolidated financial statements”).

Description of a subject and applicable criteria

The Single Electronic Reporting Format of the separate and consolidated financial statements has been applied by the management of the Bank to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the “ESEF Regulation”). The applicable requirements regarding the Single Electronic Reporting Format of the separate and consolidated financial statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Single Electronic Reporting Format of the separate and consolidated financial statements and, in our view, these requirements constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibilities of management and those charged with governance

The management of the Bank is responsible for the application of the Single Electronic Reporting Format of the separate and consolidated financial statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Single Electronic Reporting Format of the separate and consolidated financial statements which is free from material non-compliance with the requirements of the ESEF Regulation.

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

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Single Electronic Reporting Format of the separate and consolidated financial statements complies with the ESEF Regulation.

We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) ‘Assurance Engagements other than Audits and Reviews of Historical Financial Information’ (the „ISAE 3000 (R)”). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Single Electronic Reporting Format of the separate and consolidated financial statements is prepared, in all material aspects, in accordance with the applicable requirements. Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance ISAE 3000 (R) will always detect the existing material misstatement (significant non-compliance with the requirements).



Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Single Electronic Reporting Format of the separate and consolidated financial statements was applied, in all material aspects, in accordance with the applicable requirements and such application is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Single Electronic Reporting Format of the separate and consolidated financial statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of single electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Bank's and the Group's' use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, the Single Electronic Reporting Format of the separate and consolidated financial statements for the year ended 31 December 2023 complies, in all material respects, with the ESEF Regulation.

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

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
8th March 2024