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CREDIT OPINION
30 March 2022

Update

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RATINGS

Siauliu Bankas, AB

Domicile	Siauliai, Lithuania
Long Term CRR	Baa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Mattias Eric Frithiof +46.8.5179.1264
AVP-Analyst
mattias.frithiof@moodys.com

Savina Joseph +357.2569.3045
Associate Analyst
savina.joseph@moodys.com

Simon James Robin Ainsworth +44 207 772 5347
Associate Managing Director
simon.ainsworth@moodys.com

Sean Marion +44.20.7772.1056
MD-Financial Institutions
sean.marion@moodys.com

Siauliu Bankas, AB

Update to credit analysis

Summary

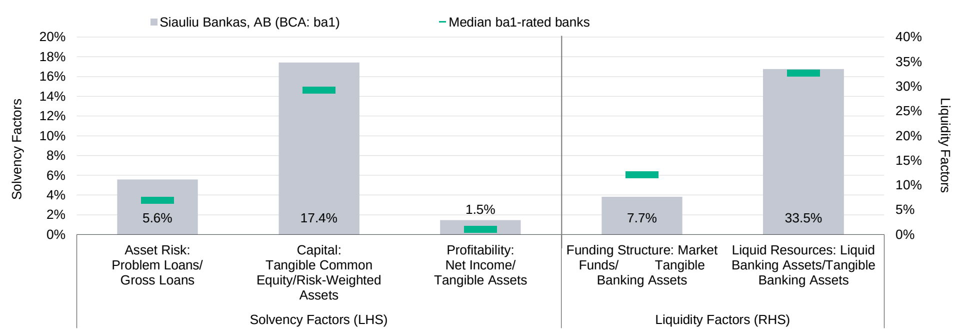
Siauliu Bankas, AB's Baa2/Prime-2 deposit ratings incorporate a ba1 Baseline Credit Assessment (BCA) and Adjusted BCA, and a two-notch uplift resulting from our Advanced Loss Given Failure (LGF) analysis. We also assign a Counterparty Risk (CR) Assessment of Baa1(cr)/P-2(cr) and Counterparty Risk Ratings of Baa1/P-2. The outlook on the long-term deposit ratings is positive.

The ratings reflect the operating environment in Lithuania, where the bank has all of its lending; its increased capitalisation, illustrated by tangible common equity (TCE)/risk-weighted assets (RWA) of 17.4% and TCE to Tangible Banking Assets (TBA) of 10.1% as of 30 September 2021; and a strong recurring profitability. These positives are balanced against the bank's relatively high level of nonperforming loans (NPLs) to gross loans of 4.1%, historically high loan growth, and sector concentration in small and medium-sized enterprises (SMEs) and consumer finance.

The banks funding and liquidity ratios are a relative strength reflecting focus on deposit funding, but a relatively high share is from corporates. The use of the European cental bank's (ECB) third targeted longer-term refinancing operations (TLTRO) inflate both market funding and liquidity ratios as most of the funds are invested in liquid assets.

The probability of support from the Government of Lithuania (A2 stable) to Siauliu Bankas is low, resulting in no further uplift to its deposit rating.

Exhibit 1
Rating Scorecard - Key financial ratios



These are our Banks Methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average or the latest reported ratio. The capital ratio is the latest reported figure. The funding structure and liquid asset ratios are the latest year-end figures.
Source: Moody's Investors Service

Credit strengths

» Robust capital, with significant capacity above regulatory requirements

» Strong profitability, which supports internal capital generation capacity

» Sound funding and liquidity, underpinned by its stable deposit base

Credit challenges

» Relatively high level of NPLs

» Sector concentration towards the more vulnerable SME segment along with high loan growth

Outlook

The positive outlook on Siauliu Bankas' long-term deposit ratings reflects our expectation that the bank will maintain a strong capital position with TCE/RWA of around 18%; demonstrate strong profitability, with net income/tangible banking assets of at least 1.5%; and successfully manage asset risk and risk appetite with problem loans/gross loans of below 6%.

Factors that could lead to an upgrade

We could upgrade Siauliu Bankas' ratings should the bank maintain its profitability and capitalization, along with a low level of problem loans.

Factors that could lead to a downgrade

Conversely, downward pressure on Siauliu Bankas' ratings could develop if the operating environment deteriorates substantially, resulting in a significant decline in the bank's asset quality, profitability, or capitalization.

Furthermore, the ratings could come under pressure if the bank's risk appetite were to increase, weakening its asset quality and increasing the volatility in its earnings.

Key indicators

Exhibit 2

Siauliu Bankas, AB (Consolidated Financials) [1]

	09-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	3,751.8	3,028.8	2,508.2	2,261.7	2,030.8	17.8[4]
Total Assets (USD Million)	4,348.1	3,706.0	2,815.4	2,585.5	2,438.5	16.7[4]
Tangible Common Equity (EUR Million)	377.6	336.6	295.0	271.9	204.9	17.7[4]
Tangible Common Equity (USD Million)	437.6	411.8	331.1	310.8	246.1	16.6[4]
Problem Loans / Gross Loans (%)	4.1	6.8	5.3	6.2	5.5	5.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.4	16.6	17.0	17.4	15.8	16.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.3	32.3	27.0	28.0	28.4	27.2[5]
Net Interest Margin (%)	2.4	2.7	3.1	3.0	3.0	2.8[5]
PPI / Average RWA (%)	3.2	3.5	4.0	4.5	2.9	3.6[6]
Net Income / Tangible Assets (%)	1.4	1.4	2.0	2.3	1.5	1.7[5]
Cost / Income Ratio (%)	40.0	40.2	38.8	35.1	51.0	41.0[5]
Market Funds / Tangible Banking Assets (%)	18.8	7.7	3.0	4.0	3.8	7.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	39.3	33.5	23.6	27.4	29.4	30.6[5]
Gross Loans / Due to Customers (%)	81.3	77.5	84.9	78.1	74.8	79.3[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

Siauliu Bankas, AB was established in 1992 in Siauliai, Lithuania, and is publicly traded on Nasdaq Vilnius. The bank had six subsidiaries as of year-end 2021. Siauliu Bankas is focused on finance leasing and consumer credits, life insurance, investment management activities, real estate management activities, and the development of residential areas in Lithuania, and it started offering deposit services in Germany in April 2019. The bank was 26% directly owned by the European Bank for Reconstruction & Development (EBRD, Aaa stable) as of year-end 2021. However, in December 2021, EBRD announced that it will reduce its ownership in Siauliu Bankas to 8% through a sale of the bank' shares to three parties by June 2024, pending regulatory approvals.

Siauliu Bankas held €4.0 billion in assets as of year-end 2021 and, with a market share of 9.1% in terms of assets as of 30 September 2021, it is the fourth-largest bank in Lithuania. The bank operates in all major cities and financially active regional centers of Lithuania. As of year-end 2021, the bank had 56 regional customer service points across the country and 789 employees.

Recent developments

We expect advanced economies to expand by 3.6% in 2022, revised downward from our previous expectation of 4.3%, as a result of increasing commodity prices, financial and business disruption, and increased security and geopolitical risks stemming from Russia's (Ca negative) invasion of Ukraine (Caa2 review for downgrade). Weaker-than-expected growth and an unexpected uptick in inflation in 2021 have already dented some of the optimism surrounding the global economic recovery from the coronavirus pandemic. Over the course of 2022, however, we expect uncertainties, supply-chain imbalances and labour shortages related to the coronavirus pandemic to diminish.

Following a GDP contraction of 0.1% in 2020, a much milder decline than that experienced by most of its European peers, the Lithuanian economy grew 4.8% in 2021, broadly in line with our growth expectations for the euro area as a whole. The outlook for 2022 now looks more challenging with inflation running high and trade being hampered from the sanctions on Russia. Nevertheless, we still expect real GDP to grow in 2022 but at a lower level.

Detailed credit considerations

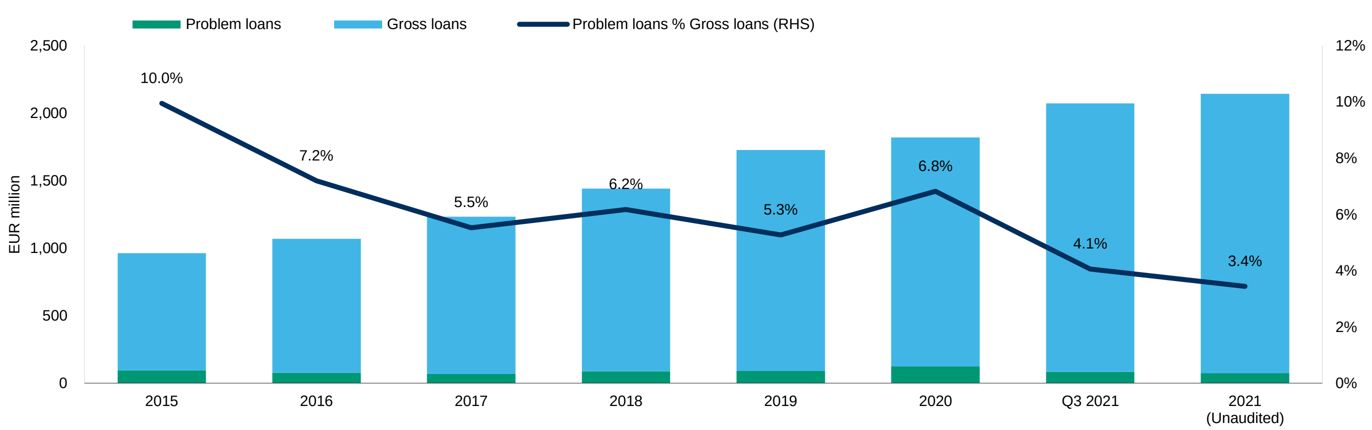
High loan growth in recent years

Lithuania's strong economic development has allowed Siauliu Bankas to continue to improve its problem loans/gross loans to 3.4% as of year-end 2021, from 6.8% a year earlier and 5.3% in 2019 (see Exhibit 3). The improved NPL ratio, which, also reflects rapid lending growth, is now in line with the global 3.5% median of its ba1 BCA peers.

The coverage ratio (loan loss reserves/problem loans) was around 54% as of 31 December 2021, higher than the 38.2% as of year-end 2020, but significantly lower than the 102.0% global median for its ba1 BCA peers.

Exhibit 3

Problem loans declined because of a disciplined review of the legacy portfolio from Ukio Bankas along with strong lending growth



The increase in the problem loan ratio in 2018 is because of a change in definition (Stage 3 gross loans) following the introduction of IFRS9.
Source: Company reports and Moody's Investors Service

Because of the gradual recovery in economic activity in 2021, Siauliu Bankas' gross loan portfolio grew 18% in the year, inching closer to the pre-pandemic levels, following a slowdown to 5% growth in 2020. While we expect increased competition to limit the bank's ability to increase its market share high inflation will drive high loan growth in the near term. Despite a more challenging operating environment in 2022 we expect the bank to maintain a ratio of problem loans below its historical level. We continue to incorporate risks in our assessment because of the rapid loan growth and concentration in the more vulnerable SME segment and, therefore, assign an Asset Risk score of b2.

Robust capital with considerable capacity above the regulatory requirements

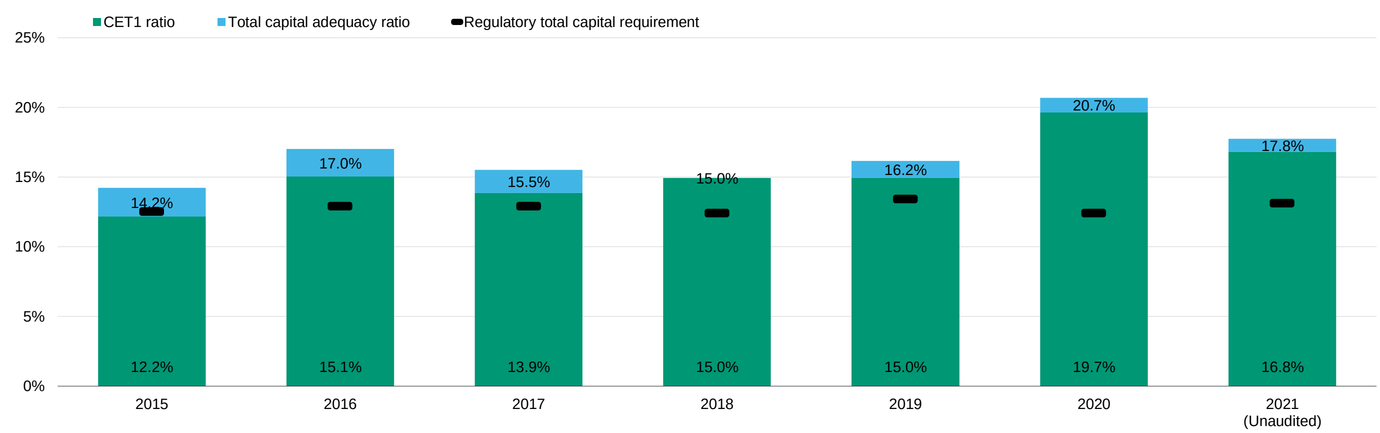
As of 30 September 2021, the bank's TCE/RWA was 17.4%, up from 16.6% as of year-end 2020. At the same time, the TCE/TBA ratio was 10.1% as of 30 September 2021 (compared with 11.1% as of year-end 2020). The reduction of the TCE/TBA ratio was driven by the growth of the balance sheet from liquid assets being funded through TLTRO.

Siauliu Bankas has strong internal capital generation capacity. In 2018, the bank updated its dividend policy to pay out at least 25% of the group's annual earnings as dividends. Because of the uncertainty posed by the pandemic, the bank did not distribute any dividends in 2020, thereby retaining the full net income from 2019. Out of the 2020 net profit, the bank paid out a dividend amounting to 6% to its shareholders.

Siauliu Bankas reported a phased-in Common Equity Tier 1 capital ratio of 16.8% as of 31 December 2021 and a total capital ratio of 17.8%, which corresponds to significant capacity above the total regulatory requirement of 13.1%, including a 1% buffer because of its designation as an Other Systemically Important Institution (O-SII)[1], a capital conservation buffer of 2.5% and a Pillar II requirement of 1.6%. In the most recent Supervisory Review and Evaluation Process (SREP) in January 2022, an additional nonbinding Pillar 2 guidance requirement of 1.75% was set by the European Central Bank (ECB).

Our assessment of Siauliu Bankas' robust capital is reflected in the assigned a1 Capital score.

Exhibit 4
Evolution of Siauliu Bankas' capital position



Sources: Company reports and Moody's Investors Service

Strong profitability, dented by the pandemic

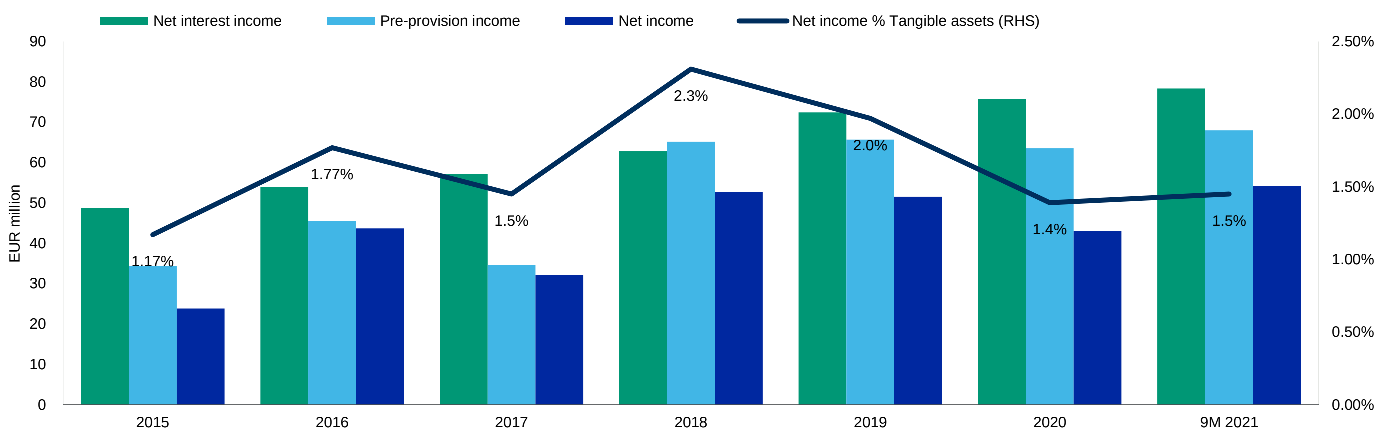
Siauliu Bankas' solid recurring revenue generation capacity is a credit strength, supporting the bank's profitability score of baa1. The score captures the bank's sound profitability metrics, balanced against some volatility in earnings and likely increase in competition. The bank will also likely incur higher expenses as a result of higher inflation in 2022.

The bank's net profit at €55.2 million in 2021 was higher than the €43.0 million in 2020. The bank's net income/tangible assets was 1.4% for 2021, similar to that in 2020. The ratio in 2021 was negatively affected by the inflated balance sheet, due to the use of TLTRO funding mostly invested in liquid assets. From 2020 onwards, net interest income improved on strong growth in mortgage lending partly because of the acquisition of the private customers' credit portfolio from Danske Bank A/S' (A3 stable/A2 stable, baa2)[2] Lithuania branch. Mortgage lending generates a stable income which is positive but the lending margin is lower than Siaulius other lending.

Net fees and commissions increased 7% year over year in 2021, mainly because of higher income from securities and settlement services.

Exhibit 5

Profitability metrics and drivers over recent years



Metrics shown for the first nine months (9M) of 2021 are annualised.
Sources: Company reports and Moody's Investors Service

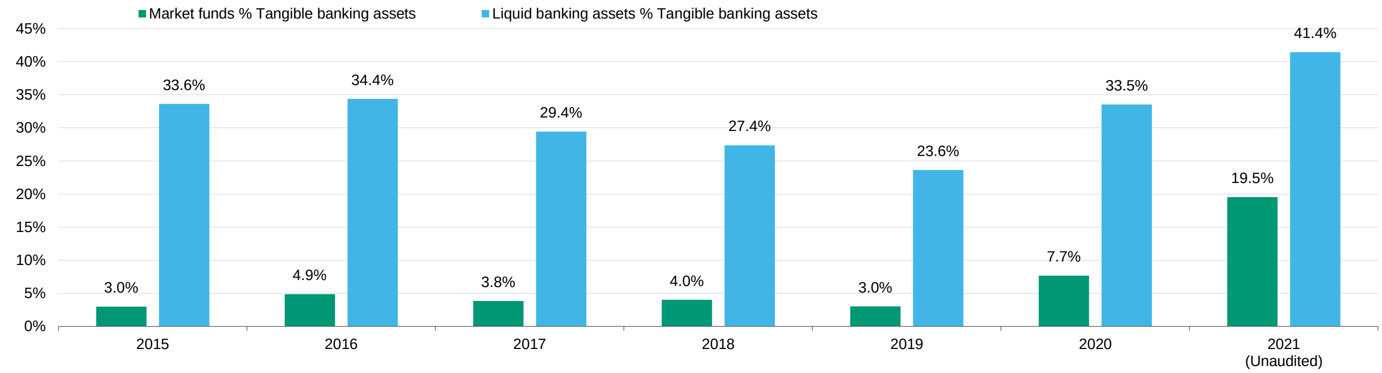
Sound funding and liquidity, underpinned by a deposit-based funding model

We assess Siauliu Bankas' funding and liquidity based on its funding structure and stock of liquid assets. We assign a Funding score of baa2, adjusted two notches below the Initial score. The bank has increased its market funding to comply with its Minimum Requirement for Eligible Liabilities and own funds (MREL) requirement, although the adjustment also highlights the relatively high share of corporate deposits, which tend to be more volatile than retail deposits. We estimate that the market funds increased to 19.5% of tangible banking assets by year-end 2021, following the issuance of a senior preferred bond of €75 million in October 2021 with the remaining market funding mostly from the use of TLTRO.

Siauliu Bankas' liquidity benefits from its deposit-oriented business model, with deposits funding 68% of total assets as of 31 December 2021, and primarily coming from domestic residents. As of the same date, the bank reported a net loan-to-deposit ratio of 80%, as a result of a more rapid growth in loans (19%) than in deposits (14%) in 2021. The bank's decision to take part in ECB's TLTRO 3 has also boosted its liquidity, with estimated liquid banking assets at 41% of tangible banking assets as of 31 December 2021, reflected in the assigned liquidity score of baa1.

In our assessment of liquidity we only consider cash and holdings of government bonds, mainly Lithuanian. Siauliu Bankas also invests about 9% of its liquidity in investment-grade corporate bonds.

Exhibit 6
Siauliu Bankas' funding and liquidity are constrained by more volatile junior deposits



Sources: Company reports and Moody's Investors Service

Sources of facts and figures cited in this report

Unless noted otherwise, the bank specific figures originate from banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please see Financial Statement Adjustments in the Analysis of Financial Institutions, published on 9 August 2018.

ESG considerations

In line with our general view of the banking sector, Siauliu Bankas has a low exposure to environmental risks, see our environmental risk heat map for further information.

The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology cost, ageing population concerns in several countries affecting the demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base.

In addition, we regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. See our social risk heat map for further information.

Governance is highly relevant for Siauliu Bankas, as it is to all entities in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for Siauliu Bankas, we do not have material governance concerns. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Loss Given Failure analysis

We apply our Advanced LGF analysis to Siauliu Bankas because the bank is subject to the European Union Bank Resolution and Recovery Directive, which we consider an operational resolution regime. For this analysis, we assume that equity and losses are at 3% and 8%, respectively, of tangible banking assets in a failure scenario. We also assume a 25% run-off of junior wholesale deposits, a 5% run-off in preferred deposits and a 26% proportion of junior deposits. These are in line with our standard assumptions.

Siauliu Bankas' deposits are likely to face very low loss given failure because of the loss absorption provided by the large volume of junior deposits. Siauliu Bankas' deposits are rated two notches above the ba1 Adjusted BCA because of a significant buffer of liabilities eligible for bail-in.

Government support considerations

We assign a low probability of government support for deposits, which does not translate into any uplift. Likewise, the CR Assessment does not benefit from government support.

Counterparty Risk Ratings (CRRs)

Siauliu Bankas' CRRs are positioned at Baa1/P-2

Siauliu Bankas' CRRs are Baa1/P-2, incorporating three notches of uplift from the LGF analysis. There is a considerable volume of loss-absorbing liabilities junior to the CRR obligations. In this case, we assume a nominal volume at failure, because we are not able to accurately assess the volume of CRR liabilities at failure or the inherently more volatile nature of such liabilities as the bank approaches failure. The ratings incorporate three notches of uplift for the CRRs from the bank's Adjusted BCA of ba1.

Counterparty Risk (CR) Assessment

Siauliu Bankas' CR Assessment is positioned at Baa1(cr)/P-2(cr)

The CR Assessment, before government support, is three notches above the Adjusted BCA of ba1. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than the expected loss; therefore, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 7

Siauliu Bankas, AB

Macro Factors							
Weighted Macro Profile	**Strong -**	**100%**					
Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	5.6%	ba1	↑	b2	Sector concentration	Loan growth	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.4%	a1	↔	a1			
Profitability							
Net Income / Tangible Assets	1.4%	a3	↔	baa1	Earnings quality		
Combined Solvency Score		baa1		baa3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	7.7%	a3	↓↓	baa2	Deposit quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	33.5%	a3	↑	baa1	Quality of liquid assets		
Combined Liquidity Score		a3		baa2			
Financial Profile				baa3			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				A2			
BCA Scorecard-indicated Outcome - Range				baa2 - ba1			
Assigned BCA				ba1			
Affiliate Support notching				0			
Adjusted BCA				ba1			

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	1,268	32.1%	1,336	33.8%
Deposits	2,549	64.4%	2,406	60.8%
Preferred deposits	1,886	47.7%	1,883	47.6%
Junior deposits	663	16.8%	522	13.2%
Senior unsecured bank debt			75	1.9%
Dated subordinated bank debt	20	0.5%	20	0.5%
Equity	119	3.0%	119	3.0%
Total Tangible Banking Assets	3,956	100.0%	3,956	100.0%

Debt Class	**De Jure waterfall**		**De Facto waterfall**		**Notching**		**LGF Notching Guidance vs. Adjusted BCA**	**Assigned LGF notching**	**Additional Notching**	**Preliminary Rating Assessment**
	Instrument volume + subordination	**Sub-ordination**	**Instrument volume + subordination**	**Sub-ordination**	**De Jure**	**De Facto**				
Counterparty Risk Rating	18.6%	18.6%	18.6%	18.6%	3	3	3	3	0	baa1
Counterparty Risk Assessment	18.6%	18.6%	18.6%	18.6%	3	3	3	3	0	baa1 (cr)
Deposits	18.6%	3.5%	18.6%	5.4%	2	2	2	2	0	baa2

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**

Counterparty Risk Rating	3	0	baa1	0	Baa1	Baa1
Counterparty Risk Assessment	3	0	baa1 (cr)	0	Baa1(cr)	
Deposits	2	0	baa2	0	Baa2	Baa2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
SIAULIU BANKAS, AB	
Outlook	Positive
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)

Source: Moody's Investors Service

Endnotes

1 Please see Lithuania raises Siauliu Bankas' capital requirements, a credit positive, 3 December 2018.

2 The ratings shown in this report are the long-term senior unsecured and long-term deposit ratings, and the Baseline Credit Assessment.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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