

CREDIT OPINION

18 September 2024

Update

Send Your Feedback

RATINGS

Siauliu Bankas, AB

Domicile	Siauliai, Lithuania
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

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.

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Siauliu Bankas, AB

Update to credit analysis following the assignment of senior unsecured rating

Summary

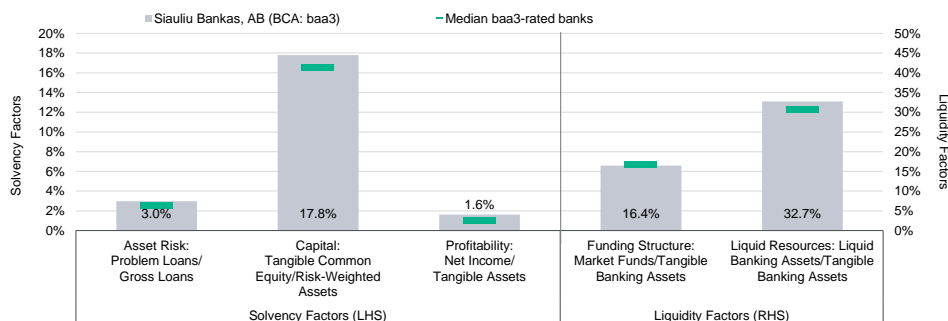
[Siauliu Bankas, AB's](#) Baa1/Prime-2 deposit and Baa1 senior unsecured ratings incorporate a baa3 Baseline Credit Assessment (BCA) and Adjusted BCA, and a two-notch uplift resulting from our Advanced Loss Given Failure (LGF) analysis. The outlook on the long-term deposit and senior unsecured ratings are stable.

The bank's baa3 BCA reflects its strong capitalisation supported by healthy earnings, and sound liquidity buffers. This is balanced against relatively high level of NPLs with a significant proportion of more vulnerable SME lending, and execution risks arising from its ambitious five-year strategy to cement itself as a full-retail service bank following its merger with part of Baltic asset manager Invalda's retail operations.

Additionally, it incorporates the operating environment in Lithuania, where the bank has all of its operations; the continued improvement in solvency, together with a deposit based funding and adequate liquidity profile.

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 Ratings

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 compared to peers
- » Sector concentration in the more vulnerable SME segment along with high loan growth
- » Earnings pressure arising from execution risk in delivering strategic plan

Outlook

The stable outlook on the long-term senior unsecured rating reflects our expectation that Siauliu Bankas' solvency metrics will be maintained despite a modest deterioration in asset quality, and the repayment of its TLTRO drawdown using maturing securities will have a neutral effect on the standalone assessment of the bank.

Factors that could lead to an upgrade

Siauliu Bankas' rating could be upgraded should the bank's standalone strength improve; with a lower long-term problem loans to gross loans ratio and higher coverage ratio, and strong capitalization with TCE/RWA above 16%, and recurring net income to tangible assets above 1.5%, while maintaining a strong liquidity profile and improving the maturity profile of its debt issuance. The rating could also be upgraded following significant issuances of loss absorbing debt.

Factors that could lead to a downgrade

Conversely, downward pressure on Siauliu Bankas could develop if the operating environment deteriorated more than expected, resulting in a significant deterioration in the bank's asset quality, profitability or capital. An unsuccessful refinancing of its outstanding senior debt could also trigger a downgrade of the rating. Furthermore, the rating could come under pressure if the risk appetite of the bank was to increase, resulting in a weakening of its asset quality or increase volatility in its earnings.

The rating could also be downgraded because of lower volumes of loss-absorbing liabilities protecting creditors and depositors in case of failure.

Key indicators

Exhibit 2

Siauliu Bankas, AB (Consolidated Financials) [1]

	06-24 ²	12-23 ²	12-22 ²	12-21 ²	12-20 ²	CAGR/Avg. ³
Total Assets (EUR Million)	5,036.1	4,809.3	4,182.7	3,962.5	3,028.8	15.6 ⁴
Total Assets (USD Million)	5,397.5	5,312.6	4,463.9	4,489.9	3,706.0	11.3 ⁴
Tangible Common Equity (EUR Million)	493.5	481.7	420.4	388.9	336.6	11.6 ⁴
Tangible Common Equity (USD Million)	528.9	532.1	448.6	440.7	411.8	7.4 ⁴
Problem Loans / Gross Loans (%)	2.8	2.8	2.8	3.4	6.8	3.7 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	--	18.8	16.2	17.5	16.6	17.3 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	16.8	16.0	16.2	17.2	32.3	19.7 ⁵
Net Interest Margin (%)	3.3	3.6	2.7	2.4	2.7	2.9 ⁵
PPI / Average RWA (%)	--	4.3	3.6	3.3	3.5	3.7 ⁶
Net Income / Tangible Assets (%)	1.7	1.6	1.6	1.4	1.4	1.5 ⁵
Cost / Income Ratio (%)	43.5	39.7	40.0	40.3	39.8	40.7 ⁵

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Market Funds / Tangible Banking Assets (%)	15.8	16.4	20.2	19.5	7.7	15.9 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	30.9	32.7	32.3	40.6	33.6	34.0 ⁵
Gross Loans / Due to Customers (%)	97.6	95.5	96.2	80.5	77.5	89.4 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 Ratings 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 June 2024. 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 is partially owned by the [European Bank for Reconstruction & Development](#) (EBRD, Aaa stable), which has decreased its stake in Siauliu Bankas in recent years, down from 26% to 7.25% as of June 2024.

Siauliu Bankas had a market share of 7.5% in terms of assets as of Q1 2024, it is the fourth-largest bank in Lithuania, excluding Luminor's Lithuanian branch. The bank operates in all major cities and financially active regional centres of Lithuania. As of June 2024, the bank had 54 regional customer service points across the country and 1,039 employees.

Recent developments

January 2024: Siauliu Bankas announced its strategy update for 2024-2029 following its merger with Invalda INVL. The bank aims to double its customer base, supported by upgrading its core banking system, and boost non-interest income through improved cross-selling of a broader product suite, particularly in the retail sector.

December 2023: the Group completed the merger with part of Invalda INVL. After completion of this transaction, Group entities have acquired parts of insurance and pension funds and investment funds for retail clients' management businesses from Invalda INVL.

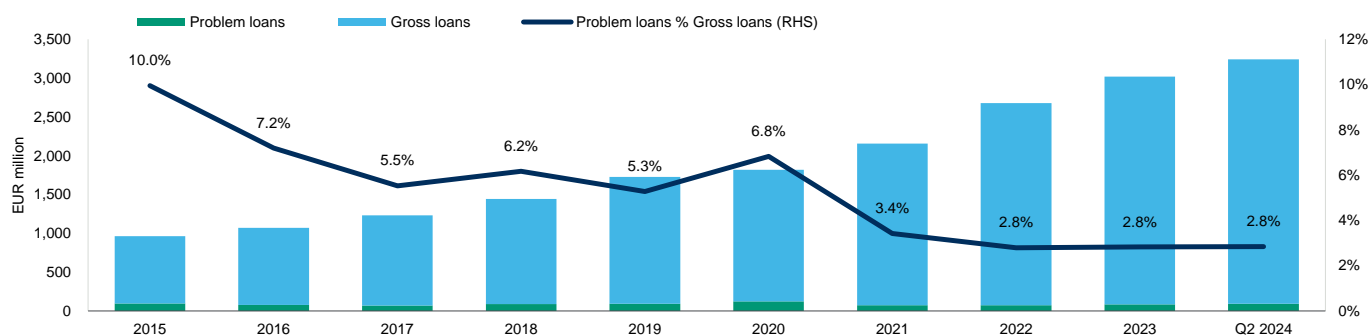
Detailed credit considerations

Asset quality remains resilient, though high lending growth may mask credit risks

Lithuania's strong economic development has contributed to a reduction in Siauliu Bankas' problem loans to gross loans ratio to 2.8% as of June 2024 from 6.8% the end of 2020 (see Exhibit 3). The bank's problem loans ratio has remained resilient despite the challenging operating environment, though this also reflects strong lending growth in recent years, and therefore, may not be fully reflective of underlying credit risks. We expect the share of problem loans to rise over the next 12 months, as still elevated rates pressure borrowers' repayment ability, though this deterioration will be manageable.

Exhibit 3

Problem loans decline as operating environment has been supportive



The increase in the problem loan ratio in 2018 was because of a change in definition of Stage 3 gross loans following the introduction of IFRS9.

Sources: Company reports and Moody's Ratings

The bank's lending growth is slowing, yet still remains high. Gross loans grew by 24% in 2022, 13% in 2023 and 7% in the first half of 2024. Whilst we expect increased competition to limit the bank's ability to grow its market share, but given ambitious growth plans are a cornerstone of Siauliu Bankas' updated strategic plan we expect it to remain high. The coverage ratio (loan loss reserves/problem

loans) was around 58% as of June 2024, higher than the 38.2% as of year-end 2020, but significantly lower than the 87.9% global median for its baa3 BCA peers.

Asset quality concerns from rapid loan growth and concentration in the more vulnerable SME segment are incorporated into the ba3 assigned Asset Risk score.

Robust capital with considerable capacity above regulatory requirements

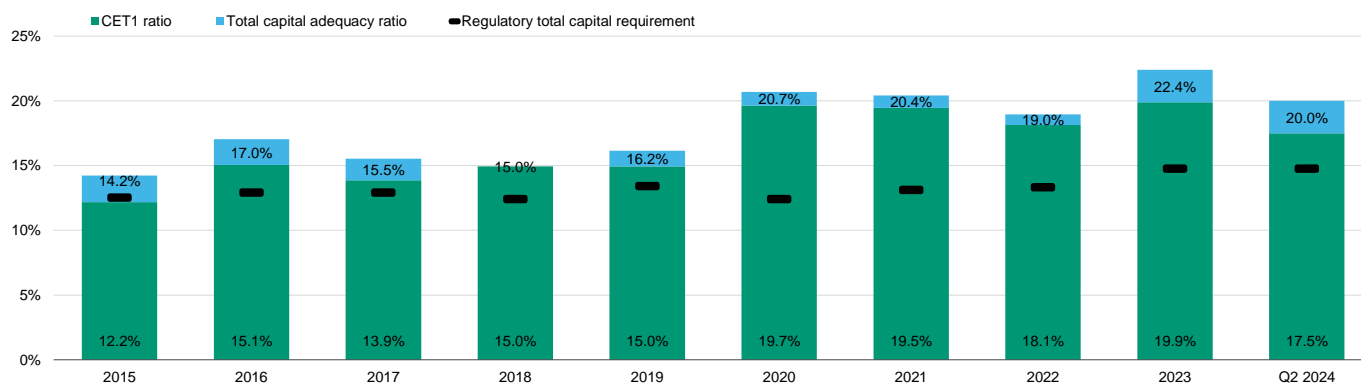
As of June 2024, the bank's TCE/RWA ratio was 17.7%, down from 18.7% as of year-end 2023 primarily due to high lending growth outstripping its strong internal capital generation capacity. Since 2018, the bank's dividend policy is to pay out at least 25% of the group's prior year's annual earnings, though with strong earnings in recent years its actual payout ratio has moved above this range. Distributing 40% in 2022, 25% in 2023 and recently announcing a 43% distribution in 2024.

Siauliu Bankas reported a Common Equity Tier 1 (CET1) capital ratio of 17.5% and a total capital ratio of 20.0% as of 30 June 2024, well-above its total regulatory requirement of 14.75%, which includes a capital conservation buffer of 2.5% and a 1% buffer because of its designation as an Other Systemically Important Institution (O-SII). The outcome of its December 2023 Supervisory Review and Evaluation Process (SREP) was an unchanged Pillar II requirement of 2.05%. The bank's non-binding Pillar 2 Guidance of 1.75%, previously set by the European Central Bank (ECB), remained unchanged.

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 Ratings

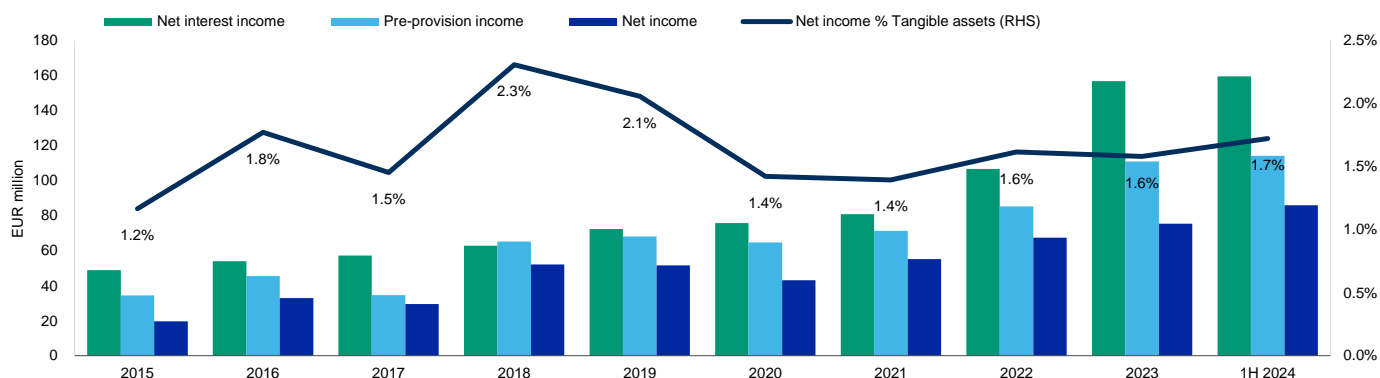
Strong profitability supported by high net interest margins

Siauliu Bankas' solid recurring revenue generation capacity is a credit strength, as reflected in its baa1 Profitability score. This captures the bank's sound profitability metrics, notably strong net interest margins (NIM) supporting its solid net income/tangible assets ratio, which we expect to persist in the next 12-18 months. This is balanced against pressure from higher operating expenses as the bank upgrades its core banking system.

The bank's net profit reached €43.0 million for the first six months of 2024, which equates to an annualised net income/tangible assets of 1.7%. Earnings benefitted from elevated, albeit slightly lower, net interest margins, strong lending growth and a 43% year on year growth in net fees and commission income, largely driven by the successful asset management acquisition and strong performance across other fee-generating businesses.

Exhibit 5

Profitability metrics and drivers over recent years



1H 2024 period data is annualized.

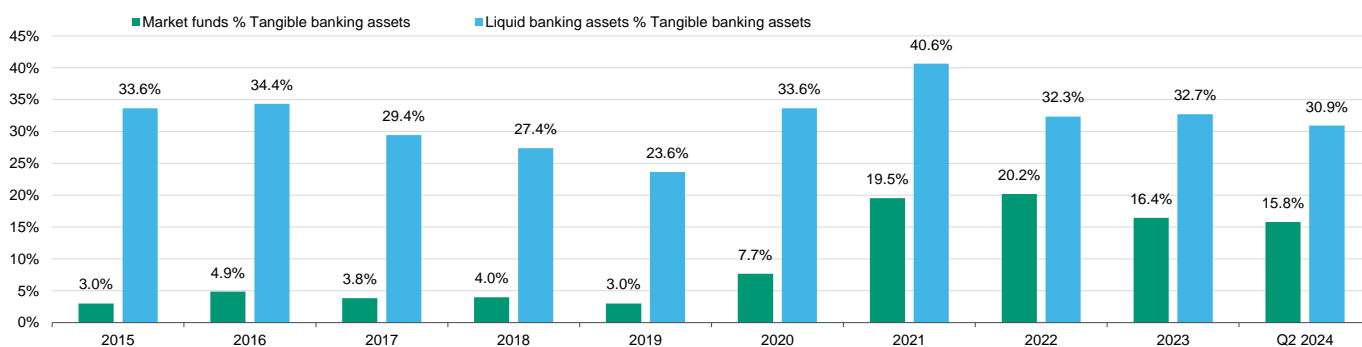
Sources: Company reports and Moody's Ratings

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

Siaulių Bankas is largely deposit funded, though it also utilises a modest share of wholesale funding. Its market funds ratio stood at 15.8% of tangible banking assets as of June 2024, comprising mostly senior debt and TLTRO funding. Its deposit book is primarily retail deposits (61% of total deposits as of June 2024), though it also has a relatively high share of corporate deposits (29% of total deposits for the same period), which we consider more volatile than retail deposits.

Exhibit 6

Siaulių Bankas' funding and liquidity are constrained by more volatile junior deposits



Sources: Company reports and Moody's Ratings

The bank's share of wholesale funding has increased to comply with its Minimum Requirement for Eligible Liabilities and own funds (MREL). Because the bank's senior debt is issued as a one benchmark issuance, it creates potential refinancing hurdles at the call date. Though we note the bank has successfully managed this risk to date, and most recently refinanced its outstanding €210 million with October 2025 maturity date with a benchmark issuance of €300 million in August 2024.

The bank's outstanding TLTRO funding will need to be fully repaid in 2024. We expect the bank's market funds ratio, as well as the liquid banking assets ratios, to decrease once the TLTRO is repaid with maturing securities, but the refinancing hurdle of the single large senior unsecured maturity and sizable share of corporate deposits continues to constrain the funding structure score of ba1.

In our assessment of liquidity, we only consider cash, deposits with financial institutions, government bonds held to maturity, mainly Lithuanian, and trading securities. As of June 2024, this comprised 31% of tangible banking assets, and doesn't include an additional €56 million in investment-grade corporate bonds which corresponds to 1% of tangible banking assets.

The expected decline in liquid reserves to repay TLTRO funding is reflected in our assigned baa3 Liquid Resources score.

Sources of facts and figures cited in this report

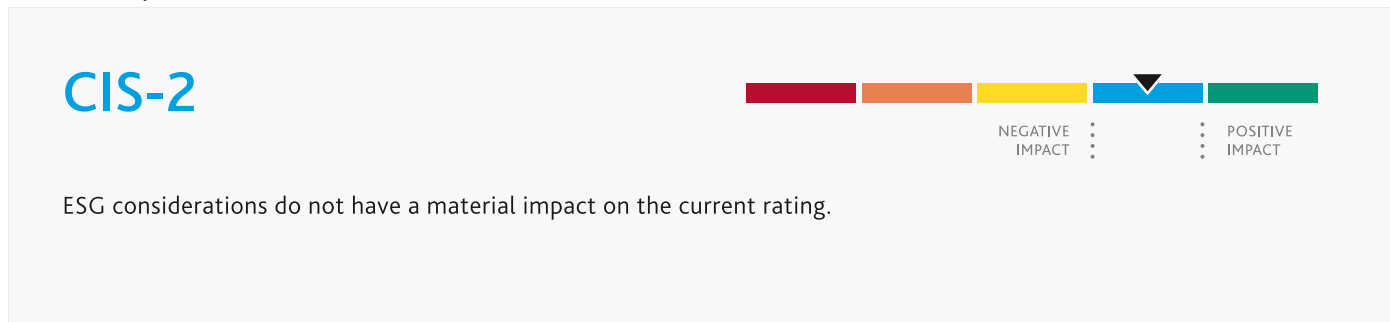
Unless noted otherwise, the bank-specific figures originate from banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please see [Financial Statement Adjustments in the Analysis of Financial Institutions](#), published on 8 April 2024.

ESG considerations

Siauliu Bankas, AB's ESG credit impact score is CIS-2

Exhibit 7

ESG credit impact score



Source: Moody's Ratings

Siauliu's ESG Credit Impact Score is **CIS-2**. This reflects the limited credit impact of environmental and social factors on the rating to date, and neutral-to-low governance risks.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Siauliu faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Siauliu is developing its climate risk and portfolio management capabilities.

Social

Siauliu faces moderately high industry-wide social risks particularly related to customer relations risk and associated regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by the bank's developed policies and procedures. Significant cyber and personal data risks are mitigated by the bank's strong IT framework.

Governance

Siauliu faces low governance risks. Siauliu is a regional bank with an adequate track record of good risk management and financial strategy. Loan growth has been high in the past years but focused on segment with lower risk, such as mortgages. The bank has a clear and simple organisational structure with no identified concerns regarding ownership and control. Due to the historical AML issues in the Baltic countries, financial crime is a high risk, but low exposures to non-resident clients reduce the risk for Siauliu.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) 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 baa3 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.

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 9

Rating Factors

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	3.0%	a3	↔	ba3	Loan growth	Sector concentration				
Capital										
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	17.8%	a1	↔	a1	Expected trend					
Profitability										
Net Income / Tangible Assets	1.6%	a3	↔	baa1	Expected trend					
Combined Solvency Score		a2		baa2						
Liquidity										
Funding Structure										
Market Funds / Tangible Banking Assets	16.4%	baa2	↑↑	ba1	Deposit quality	Term structure				
Liquid Resources										
Liquid Banking Assets / Tangible Banking Assets	32.7%	a3	↓	baa3	Expected trend	Quality of liquid assets				
Combined Liquidity Score		baa1		ba1						
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				baa3						
Affiliate Support notching				0						
Adjusted BCA				baa3						
Balance Sheet										
		in-scope (EUR Million)		% in-scope	at-failure (EUR Million)		% at-failure			
Other liabilities		1 213		24.3%	1 552		31.1%			
Deposits		3 323		66.6%	2 984		59.8%			
Preferred deposits		2 459		49.3%	2 336		46.8%			
Junior deposits		864		17.3%	648		13.0%			
Senior unsecured bank debt		210		4.2%	210		4.2%			
Dated subordinated bank debt		95		1.9%	95		1.9%			
Equity		150		3.0%	150		3.0%			
Total Tangible Banking Assets		4 990		100.0%	4 990		100.0%			
Debt Class										
	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned	Additional	Preliminary
	Instrument	Sub-	Instrument	Sub-	De Jure	De Facto	Notching	LGF	Notching	Rating
	subordination	ordination	subordination	ordination			Guidance	notching		Assessment
							vs.			
							Adjusted			
							BCA			
Counterparty Risk Rating	22.1%	22.1%	22.1%	22.1%	3	3	3	3	0	a3
Counterparty Risk Assessment	22.1%	22.1%	22.1%	22.1%	3	3	3	3	0	a3 (cr)
Deposits	22.1%	4.9%	22.1%	9.1%	2	3	2	2	0	baa1
Senior unsecured bank debt	22.1%	4.9%	9.1%	4.9%	2	0	1	2	0	baa1
Dated subordinated bank debt	4.9%	3.0%	4.9%	3.0%	-1	-1	-1	-1	0	ba1

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	a3	0	A3	A3
Counterparty Risk Assessment	3	0	a3 (cr)	0	A3(cr)	
Deposits	2	0	baa1	0	Baa1	Baa1
Senior unsecured bank debt	2	0	baa1	0	Baa1	
Dated subordinated bank debt	-1	0	ba1	0	Ba1	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 10

Category	Moody's Rating
SIAULIU BANKAS, AB	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured -Dom Curr	Baa1
Subordinate -Dom Curr	Ba1

Source: Moody's Ratings

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