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CREDIT OPINION
12 June 2023

Update

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RATINGS

Siauliu Bankas, AB

Domicile	Siauliai, Lithuania
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
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 following upgrade

Summary

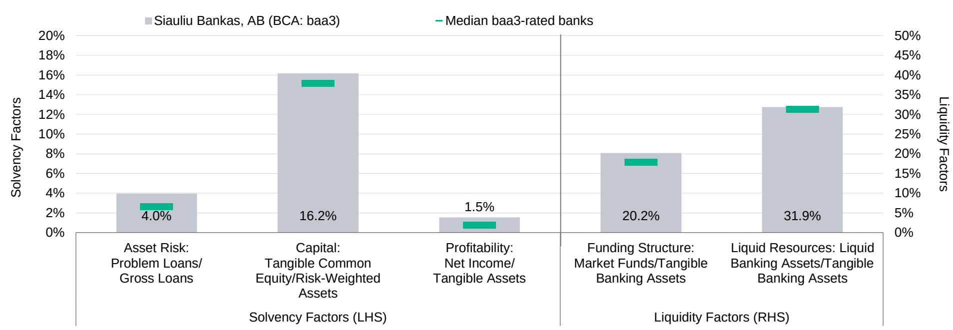
Siauliu Bankas, AB's Baa1/Prime-2 deposit ratings incorporate a baa3 Baseline Credit Assessment (BCA) and Adjusted BCA, and a two-notch uplift resulting from our Advanced Loss Given Failure (LGF) analysis. The outlook on the long-term deposit ratings is stable.

The ratings were upgraded on 7 June 2023.

The baa3 BCA reflects 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 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 compared to peers

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

Outlook

The stable outlook on the long-term deposit ratings reflects Moody's expectations that Siauliu Bankas will be able to absorb moderate deterioration in asset quality without any meaningful deterioration in capitalization, much due to the very strong profitability, which will be the main source of buffers if additional loan loss provisions are taken. Furthermore, Moody's expects that Siauliu Bankas will repay its TLTRO during 2023 and 2024 by using maturing securities. This will lead to an improvement in the funding structure ratio, and a deterioration in the available liquid assets, having a neutral effect on the standalone assessment of the bank.

Factors that could lead to an upgrade

Siauliu Bankas' ratings 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 ratings 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 weakening of the bank's asset quality, profitability or capital. An unsuccessful refinancing of its outstanding senior debt could also trigger a downgrade of the ratings. 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 ratings 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]

	03-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	4,230.8	4,184.5	3,962.5	3,028.8	2,508.2	17.5[4]
Total Assets (USD Million)	4,596.5	4,465.9	4,489.9	3,706.0	2,815.4	16.3[4]
Tangible Common Equity (EUR Million)	420.1	419.2	388.9	336.6	295.0	11.5[4]
Tangible Common Equity (USD Million)	456.5	447.3	440.7	411.8	331.1	10.4[4]
Problem Loans / Gross Loans (%)	2.9	2.8	3.4	6.8	5.3	4.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.2	16.1	17.5	16.6	17.0	16.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	16.9	16.3	17.2	32.3	27.0	21.9[5]
Net Interest Margin (%)	3.4	2.7	2.4	2.7	3.1	2.8[5]
PPI / Average RWA (%)	4.2	3.4	3.3	3.5	4.1	3.7[6]
Net Income / Tangible Assets (%)	1.8	1.5	1.4	1.4	2.1	1.6[5]
Cost / Income Ratio (%)	36.8	41.8	40.3	39.8	37.9	39.3[5]

Market Funds / Tangible Banking Assets (%)	20.1	20.2	19.5	7.7	3.0	14.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	31.3	31.9	40.6	33.6	23.6	32.2[5]
Gross Loans / Due to Customers (%)	97.4	96.8	80.5	77.5	84.9	87.4[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 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 March 2023. 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 20% directly owned by the European Bank for Reconstruction & Development (EBRD, Aaa stable) as of March 2023. However, in December 2021, EBRD announced that it intends to reduce its ownership in Siauliu Bankas down to 8% through a sale of the bank's shares to three parties by June 2024.

Siauliu Bankas held €4.2 billion in assets as of March 2023 and, with a market share of 7.3% in terms of assets as of year-end 2022, 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 March 2023, the bank had 56 regional customer service points across the country and 846 employees.

Recent developments

On 9 May 2023 Lithuania's (A2 stable) parliament approved a temporary tax on banks' net interest income. The government will levy a 60% tax on banks' extraordinary gains, defined as the proportion of a bank's net interest income (NII) that is more than 50% higher than its four-year average, subject to additional safeguards. The tax will be applied on NII in 2023 and 2024. The government expects to collect over €400 million in tax proceeds over the two years.

On 22 November 2022 Siauliu Bankas and AB Invalda INVL signed an agreement on the merger of part of their retail businesses. After the closing of the transaction, the Siauliu Bankas group, in addition to the financial services it already offers, will manage second- and third-pillar pension funds and mutual funds in Lithuania and will provide life insurance services throughout the Baltic countries. It is planned for the bank's subsidiary SB Draudimas to take over AB Invalda INVL's life insurance business in Lithuania, Latvia and Estonia, while the pension and mutual funds business in Lithuania will be carried out through a newly established company within the Siauliu Bankas group. The transaction is expected to be completed within one year, subject to the necessary approvals. The new business is expected to be fully onboarded by the end of 2023.

In order to implement the merger a new Siauliu Bankas group company was established on 7 February 2023 – SB Asset Management UAB.

Detailed credit considerations

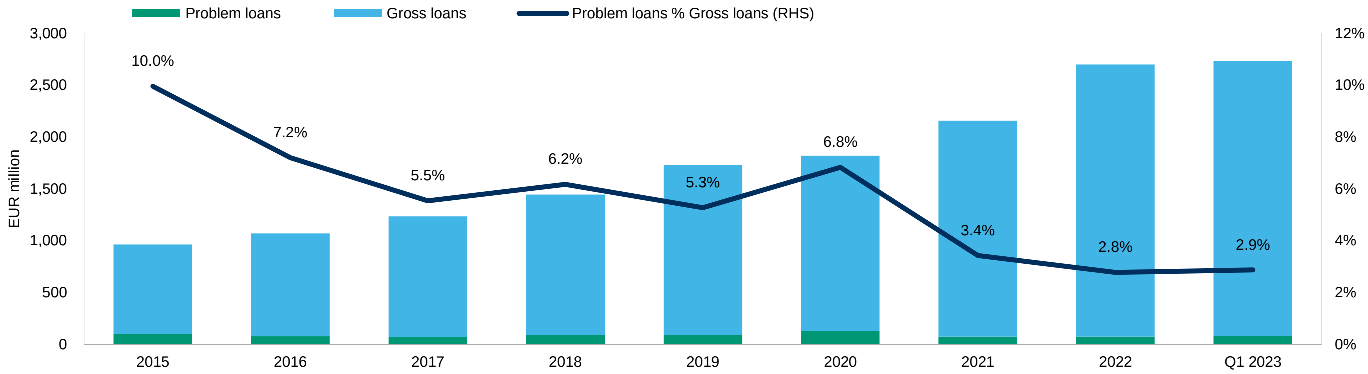
High loan growth in recent years

Lithuania's strong economic development has allowed Siauliu Bankas to reduce its problem loans to gross loans ratio to 2.9% as of March 2023 from 6.8% the end of 2020 (see Exhibit 3). The improved problem loan ratio, which also reflects rapid lending growth, is close to the global 2.6% median of its baa3 BCA peers.

The coverage ratio (loan loss reserves/problem loans) was around 53% as of March 2023, higher than the 38.2% as of year-end 2020, but significantly lower than the 98.4% global median for its baa3 BCA peers.

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 Investors Service

Because of the gradual recovery in economic activity in 2021, combined with high inflation and loans bought from Danske Bank, Siauliu Bankas' gross loan portfolio grew 18% in the year, following a slowdown to 5% growth in 2020. A further 25% growth was recorded in 2022, with growth slowing down in the first quarter of 2023 to 1%. While we expect increased competition to limit the bank's ability to increase its market share, still relatively high inflation will drive high loan growth in 2023. Despite a more difficult operating environment in 2023, we expect the bank to maintain its problem loan ratio below the 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.

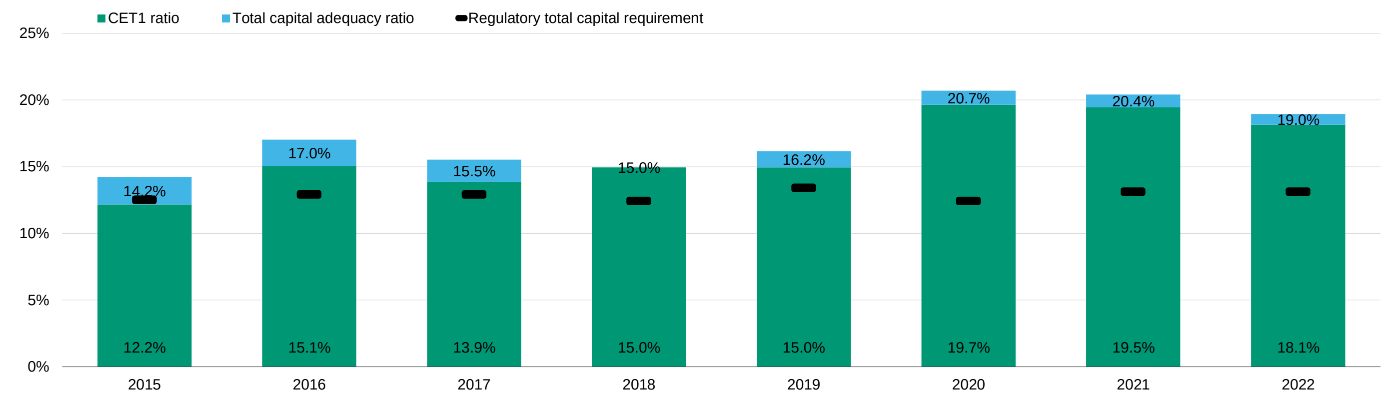
Robust capital with considerable capacity above the regulatory requirements

As of March 2023, the bank's TCE/RWA ratio was 16.2%, down from 17.5% as of year-end 2021 and in line with 16.1% as of year-end 2022. The decrease in the ratio in 2022 was mainly driven by high loan growth and resumed dividend payouts. Siauliu Bankas has strong internal capital generation capacity. Since 2018, the bank's dividend policy is to pay out at least 25% of the group's annual earnings. Following the retention of all profit in 2020, the bank resumed dividend payments in 2021, distributing 6% of 2020's net profit, 40% of 2021's net profit in 2022 and 25% of 2022s net profit in 2023.

Siauliu Bankas reported a phased-in Common Equity Tier 1 capital ratio of 18.1% and a total capital ratio of 19.0% as of 31 December 2022, which corresponds to significant capacity above the total regulatory requirement of 13.3%, including a 1% buffer because of its designation as an Other Systemically Important Institution (O-SII)[1], and a capital conservation buffer of 2.5%. In the most recent Supervisory Review and Evaluation Process (SREP) in December 2022, Pillar II requirement was increased to 2.05% from previous 1.6%, effective from January 2023. Nonbinding Pillar 2 guidance requirement 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 Investors Service

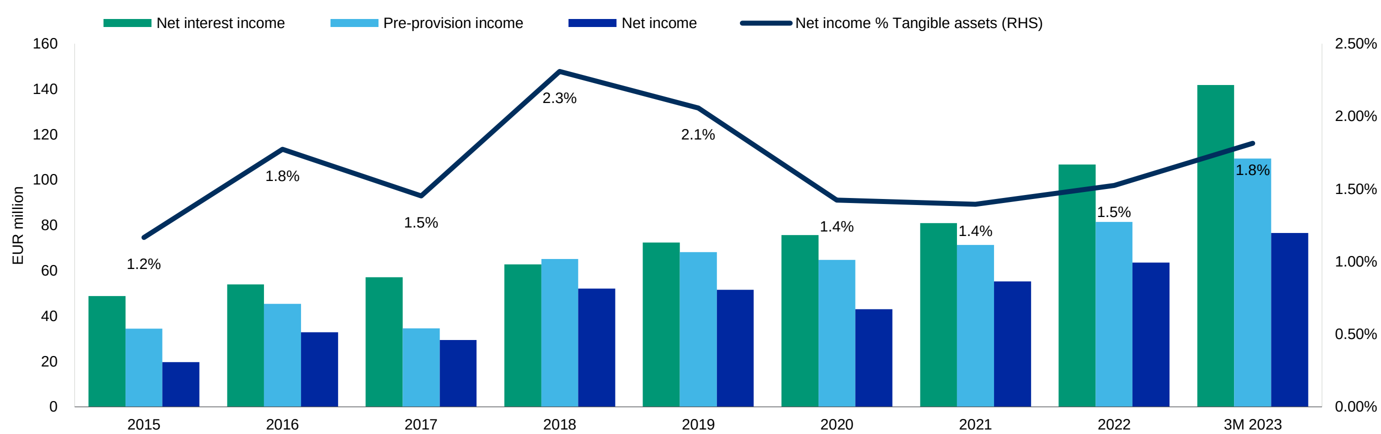
Strong profitability supported by higher interest rate margins

Siauliu Bankas' solid recurring revenue generation capacity is a credit strength, supporting the bank's Profitability score of a3. The score captures the bank's sound profitability metrics and expect trend. The bank will also likely incur higher expenses as a result of high, although receding, inflation and investments needed to onboard the acquired portfolio from Invalda in 2022.

The bank's net profit reached €19.2 million in the first three months of 2023, up from €11.5 million in the same period in 2022. The main driver for increased profitability was strengthening in the net interest margin following the repricing of floating rate loans. The bank's net income/tangible assets ratio reached 1.8% for the first quarter of 2023 (2022: 1.5%), a considerable increase from 1.2% in March 2022.

Net fees and commission income increased by 9% year over year in 2022, mainly driven by higher income from cash operations and account administration.

Exhibit 5
Profitability metrics and drivers over recent years



Metrics shown for the first three months (3M) of 2023 are annualised.
Sources: Company reports and Moody's Investors Service

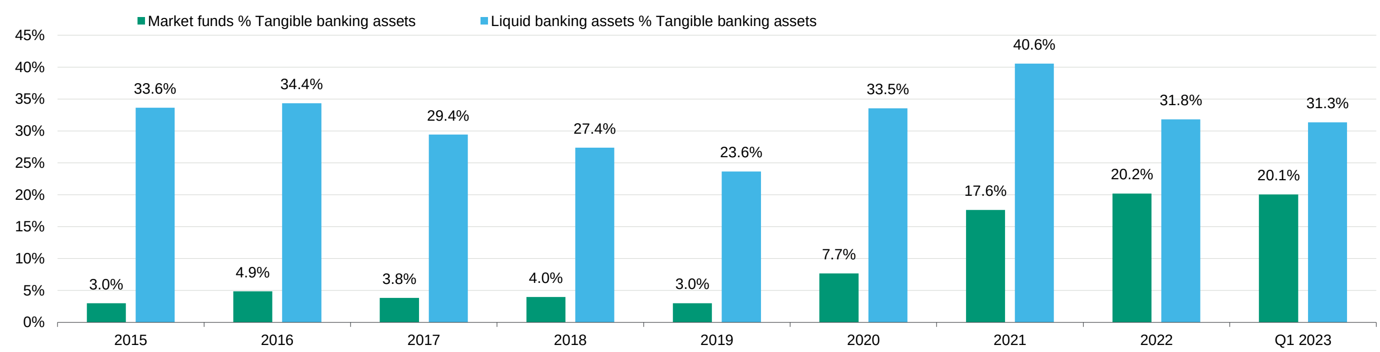
Sound funding and liquidity, underpinned by a deposit-based funding model

We assess Siauliu Bankas' funding and liquidity based on its funding structure and stock of liquid assets. We assign a Funding score of ba1, adjusted one notch below the initial score, which incorporates the high share of corporate deposits and the large refinancing hurdle of its senior bond. The relatively high share of corporate deposits are considered more volatile than retail deposits. The bank has increased its market funding to comply with its Minimum Requirement for Eligible Liabilities and own funds (MREL). Market funds reached 20.1% of tangible banking assets as of the end of March 2023, following the issuance of a senior preferred bond of €75 million in October 2021 and an additional top up issue of €85 million in 2022. The bond has a maturity in October 2025 but needs to be refinanced one year prior for the bank to be able to fulfill its MREL, creating a refinancing hurdle for the bank. The remaining market funding consists mostly of TLTRO which will be fully repaid in 2024 and is matched by maturing securities. The market funding ratio will decrease once TLTRO is repaid but the refinancing hurdle of the senior bond constrains the funding structure score.

The bank's loan-to-deposit ratio was 97%, as a result of a more rapid growth in loans (21.3%) over the 12-month period that ended in March 2023. The bank's decision to take part in ECB's TLTRO III program has also boosted its liquidity, with estimated liquid banking assets at 31% of tangible banking assets as of March 2023. Once TLTRO funding is fully repaid in 2024, bank's liquidity ratio will decrease, which is reflected in our assigned baa3 score.

In our assessment of liquidity, we only consider cash and government bonds held to maturity, mainly Lithuanian. As of March 2023, Siauliu Bankas also invested €136 million in investment-grade corporate bonds, corresponding to around 3% of tangible banking assets.

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

Siauliu Bankas, AB's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 7
ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Siauliu's ESG Credit Impact Score is neutral-to-low (**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

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2
Moderately Negative	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

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 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. High 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.

Counterparty Risk Ratings (CRRs)
Siauliu Bankas' CRRs are positioned at A3/P-2
Siauliu Bankas' CRRs are A3/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 baa3.

Counterparty Risk (CR) Assessment

Siauliu Bankas' CR Assessment is positioned at A3(cr)/P-2(cr)

The CR Assessment, before government support, is three notches above the Adjusted BCA of baa3. 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 9

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	4.0%	baa2	↔	b2	Loan growth	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	16.2%	a1	↔	a1	Expected trend	
Profitability						
Net Income / Tangible Assets	1.5%	a3	↔	a3	Expected trend	
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	20.2%	baa3	↑↑	ba1	Deposit quality	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	31.9%	a3	↓↓	baa3	Expected trend	Quality of liquid assets
Combined Liquidity Score		baa2		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	1 108	26.3%	1 394	33.1%
Deposits	2 804	66.5%	2 518	59.7%
Preferred deposits	2 075	49.2%	1 971	46.7%
Junior deposits	729	17.3%	547	13.0%
Senior unsecured bank debt	160	3.8%	160	3.8%
Dated subordinated bank debt	20	0.5%	20	0.5%
Equity	127	3.0%	127	3.0%
Total Tangible Banking Assets	4 219	100.0%	4 219	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	20.2%	20.2%	20.2%	20.2%	3	3	3	3	0	a3
Counterparty Risk Assessment	20.2%	20.2%	20.2%	20.2%	3	3	3	3	0	a3 (cr)
Deposits	20.2%	3.5%	20.2%	7.3%	2	2	2	2	0	baa1

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

[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 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)

Source: Moody's Investors Service

Endnotes

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

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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