

**Rating Action: Moody's upgrades deposit ratings of Siauliu Bankas to Baa2/P-2 with stable outlook**

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16 May 2019

Stockholm, May 16, 2019 -- Moody's Investors Service, ("Moody's") has today upgraded the long- and short-term deposit ratings of Siauliu Bankas, AB (Siauliu Bankas) in Lithuania to Baa2/P-2 from Baa3/P-3. The baseline credit assessment (BCA) was upgraded to ba1 from ba2. The outlook changed to stable from positive.

The key drivers for the upgrade are the bank's stronger fundamentals, as reflected in the BCA: (1) a continued strengthening of the bank's capitalisation, inter alia supported by the conversion of a EUR 20 million convertible subordinate loan from the EBRD into equity in September 2018, and (2) a sustained improvement in the bank's profitability, supported by lending growth and good margins. This is balanced against the bank's high loan growth and sector concentration toward SMEs in Lithuania.

The stable outlook reflects Moody's expectation that continued favorable operating conditions in Lithuania will support the bank's fundamentals.

A full list of affected ratings can be found at the end of this press release.

**RATINGS RATIONALE**

**BASELINE CREDIT ASSESSMENT**

The primary drivers for the upgrade of Siauliu Bankas' BCA is a continued strengthening of both its capitalisation and profitability.

The bank has continued to increase its capitalisation, inter alia supported by the conversion of a EUR 20 million convertible subordinate loan from the EBRD into equity in September 2018. Tangible common equity over risk weighted assets has continued to strengthen to 17.4% at year-end 2018 from 15.8% at year-end 2017. The bank's internal capital generation capacity has also improved, and Moody's expects capital adequacy to remain robust going forward. Moreover, the bank had a CET1 ratio of 15.0% at year-end 2018, 6.1 percentage points above its CET1 requirement of 8.9% at the same date.

The bank's profitability has also continued to strengthen with net income over tangible assets increasing to a strong 2.3% in 2018, compared to 1.5% in 2017. As net profit in 2018 was supported by net gains in fair value of subordinated loans, Moody's expects earnings to be around 1.5% going forward.

We position the BCA at ba1, at the bottom of the BCA range in the bank's scorecard, primarily to reflect the risk that Siauliu's rapidly expanding loan portfolio, with an annual average increase of about 15% between 2015-2018, and primarily towards the SME segment, will be particularly hit if there is a significant downturn in the Lithuanian economy. It also reflects the potential risk of money laundering issues (although there hasn't been any allegations regarding Siauliu in this respect), given the environment where the bank operates, and a limited risk linked to the legacy portfolio of Ukio bankas (which was acquired by Siauliu in 2013 at no cost following regulatory concerns which led to the withdrawal of Ukio's banking license), although the risk is now broadly in line with the bank's own portfolio.

**DEPOSIT RATINGS**

The upgrade of the long- and short-term deposit ratings follows the upgrade of the BCA, and incorporates Moody's advanced Loss Given Failure (LGF) approach and unchanged government support assumptions.

The upgrade of Siauliu Bankas' deposit ratings to Baa2/P2 from Baa3/P3 therefore reflects: (1) the upgrade of the bank's BCA and adjusted BCA to ba1; (2) the large amount (€480 million at year-end 2018) of junior deposits indicating a very low loss given failure according to Moody's advanced LGF analysis, as reflected by two notches of uplift for the deposit ratings above the adjusted BCA; and (3) Moody's assessment of a low probability of government support for Siauliu Bankas, which results in no additional uplift for the deposit ratings.

## STABLE OUTLOOK

The stable outlook on Siauliu Bankas' long-term deposit ratings reflects Moody's expectations that the favorable operating conditions will continue to support the bank's fundamentals. The rating agency projects that the bank will maintain solid capitalisation, with a significant headroom above regulatory CET1 requirements, along with robust profitability.

## WHAT COULD CAUSE RATINGS TO GO UP/DOWN

Siauliu Bankas' ratings could be upgraded if the bank were able to demonstrate resilience in terms of broadly maintaining its problem loan ratios, profitability and capitalisation, particularly in the event of an economic downturn.

Conversely, downward pressure on Siauliu Bankas could develop if the operating environment deteriorated significantly, resulting in a significant deterioration of the bank's asset quality, profitability or capital.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## FULL LIST OF AFFECTED RATINGS

Issuer: Siauliu Bankas, AB

### ..Upgrades:

- .... Adjusted Baseline Credit Assessment, Upgraded to ba1 from ba2
- .... Baseline Credit Assessment, Upgraded to ba1 from ba2
- .... Long-term Counterparty Risk Assessment, Upgraded to Baa1(cr) from Baa2(cr)
- .... Long-term Counterparty Risk Rating, Upgraded to Baa1 from Baa2
- .... Long-term Bank Deposits, Upgraded to Baa2 from Baa3, Outlook Changed To Stable From Positive
- .... Short-term Bank Deposits, Upgraded to P-2 from P-3

### ..Affirmations:

- .... Short-term Counterparty Risk Assessment, Affirmed P-2(cr)
- .... Short-term Counterparty Risk Rating, Affirmed P-2

### ..Outlook Action:

- .... Outlook Changed To Stable From Positive

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