

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

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 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

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this

credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody's.com for additional regulatory disclosures for each credit rating.

Louise Lundberg
VP - Senior Credit Officer
Financial Institutions Group
Moody's Investors Service (Nordics) AB
Norrandsgatan 20
Stockholm 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Sean Marion
MD - Financial Institutions
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service (Nordics) AB
Norrandsgatan 20
Stockholm 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT

CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain

policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.