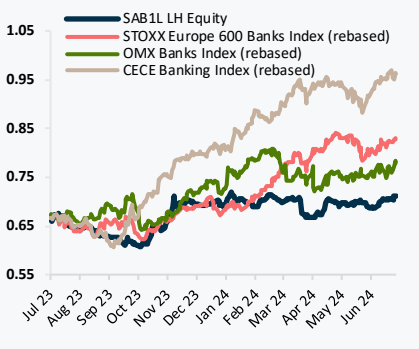


Šiaulių Bankas

Key share data

Sector	Financials
Reuters	SAB1L.VL
Bloomberg	SAB1L:LH
Market Cap (EURm)	471
Free float (EURm)	278
Issued shares, m	662
Avg. daily value traded 3M	180,273

Share price



Upcoming events

2Q24 report	July 29, 2024
3Q24 report	October 31, 2024

This report is paid for by the company covered in it.

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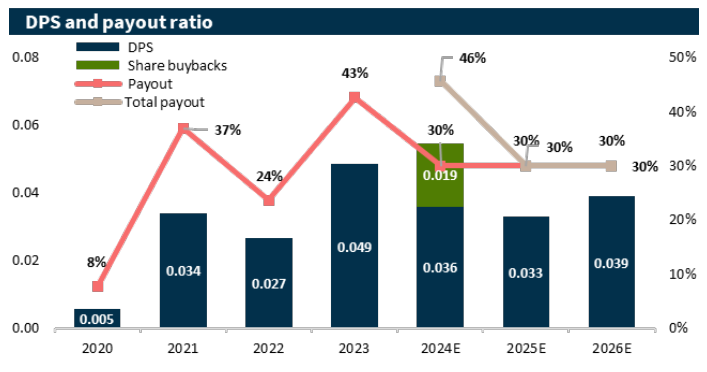
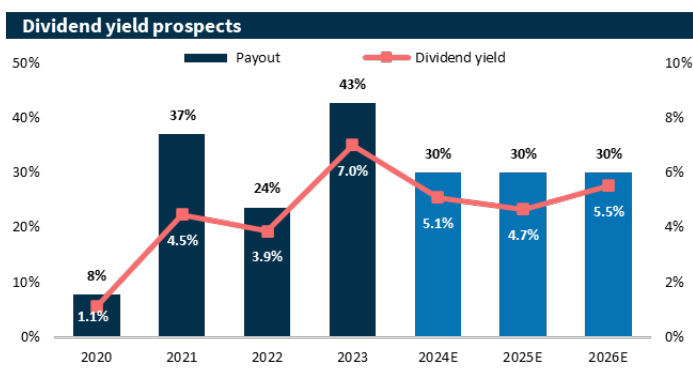
Embracing strategic transformation backed with a solid track record and ambitious growth targets

We initiate coverage of Šiaulių Bankas, a commercial bank serving a broad network of retail and corporate customers across Lithuania since 1992. Šiaulių Bankas, as the largest independently-owned financial institution in Lithuania, leverages its presence in a structurally attractive Lithuanian market to generate superior risk-adjusted returns. With a strong capital and liquidity position, the bank has a proven track record of high growth and profitability, ensuring effective risk management and value delivery to stakeholders. The bank is committed to a minimum dividend payout ratio of 25% and may consider higher payouts if they align with established risk appetite metrics. The bank is embarking on new strategic initiatives to double its retail and corporate client base, implement an advanced core banking platform, and undergo a rebranding. These investments are poised to enhance its long-term competitiveness and expand its market share. Šiaulių Bankas trades at a double-digit discount relative to its Baltic and CEE peers: P/B of 0.89x is undemanding at 14.8% adj. 2024E ROE and considering volume growth of >10%. In addition, the bank offers an attractive dividend yield of 5% and share buybacks as a tool to distribute excess capital. Finally, at the current attractive price point, investors also receive exposure to high growth potential ahead with guided income CAGR of 10% and ROE of >15%. Our blended three methods approach indicates a fair valuation range at EUR 0.88-1.08/share (mid-point EUR 0.94/share), which suggests an upside potential to the current share price of 24-52% respectively for the Low/High case.

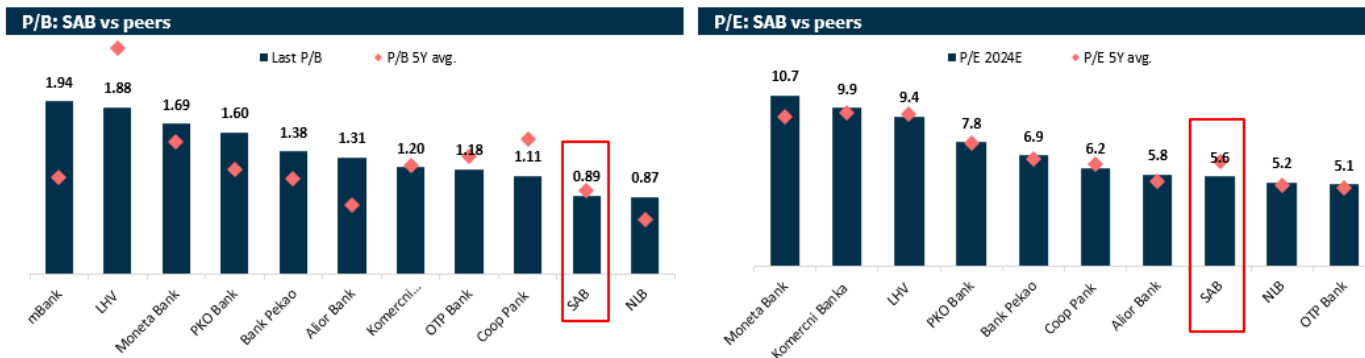
Investment Case Highlights

- Robust domestic market position.** Šiaulių Bankas, the largest independently-owned financial institution in Lithuania, maintains a solid position in the domestic market, serving a diverse network of retail and corporate clients. Over the past two decades, the bank has achieved significant organic growth and expanded through M&A, substantially increasing its market share and enhancing its capabilities and client portfolio. As of 2024, it operates 54 customer service units, the most extensive network among Lithuanian banks.
- Exposure to Lithuania's attractive consolidated banking sector and solid economy.** The highly concentrated Lithuanian banking system, dominated by a few key players controlling 70-80% of the market, showcases top-tier metrics in the EU. These include one of the highest NIM and ROE compared to the EU average, superior cost efficiency, a strong capital position, and a relatively low level of NPLs. Lithuania also exhibits relatively low lending penetration, with corporate loans to GDP ranking among the lowest in the EU. Simultaneously, this positions Šiaulių Bankas to increase market share following its transformation, leveraging Lithuania's strong GDP growth and resilient economic framework to improve lending prospects and mitigate asset quality risks.

- **Strong profitability and high lending growth story.** Šiaulių Bankas provides exposure to a high-growth banking sector, with an average volume growth of approximately 15% over the past five years. This strong performance is complemented by a superior risk-adjusted ROE of 15%, underscoring the bank’s higher-than-average profitability. For investors, Šiaulių Bankas represents a compelling investment opportunity, combining significant growth potential with strong financial performance and decent dividend offerings. This combination is particularly attractive for those seeking investments in high-growth banks accompanied with strong ROE and decent dividend.
- **Fortress balance sheet.** Šiaulių Bankas exemplifies financial robustness with its fortress balance sheet, characterized by solid capital adequacy ratios, comfortable liquidity buffers, and conservative risk management. Its stable asset quality is evidenced by a moderate NPL ratio, prudent loan provisioning, and a diversified loan portfolio. Supported by effective credit risk assessment and rigorous oversight, these factors fortify the bank’s financial health and instill confidence in its ability to sustain profitable growth and navigate economic cycles. Overall, this provides superior risk/reward vs its peers.
- **Ambitious growth targets up till 2029.** The bank has set ambitious strategic targets to double its corporate and private customer segments. This implies a roughly 20%p increase in the proportion of the population using the bank’s group’s products and services by 2029. One of the key drivers in reaching the target will be cross-selling of products post-merger with INVL retail business, new core banking platform as well as rebranding.
- **All-round shareholder value creation strategy.** Solid dividend prospects among other aspects of shareholder value proposition so far have been and are foreseen to continue being a core element of the bank’s shareholder value creation strategy. Along with dividends, the growth prospects – both organic and via M&A – are considered core elements of the shareholder value creation strategy. Ultimately, the bank sees share buybacks as an integral part of capital allocation in the upcoming periods as a way to distribute excess capital.



- **Low pricing multiples, discount to peers along with solid ROE prospects.** Šiaulių Bankas is trading at a considerable discount relative to its Baltic and CEE peers. The current pricing implies a double-digit discount at the last P/B along with one of the highest ROE prospects among the peers for 2024E. This together with the exposure to high growth potential, winning market shares and value-accretive M&A makes the investment case highly appealing.



- Main risks:** interest rate risk due to expected cut in the rates soon; changes in regulatory requirements; real estate market risk; geopolitical risk and political uncertainty. Šiaulių Bankas will also undergo significant changes within the organization post-merger as well as an upcoming change in the core banking platform, which might bring additional risk and costs, and there is no guarantee that the bank will deliver on these structural changes on time. In addition, Lithuania is seen as a frontier market, and this might also imply that it is difficult to narrow the valuation gap vs CEE/European peers due to the perceived higher risk in the frontier market together with the heightened geopolitical aspect.
- Valuation range.** We have used a blended approach using three different valuation methodologies, where we give equal weight to each method. See the separate section for more details. As for the Low-High case, our blended approach implies a valuation range at EUR 0.88-1.08/share, which suggests an upside potential to the current share price of 24-52% respectively for the Low/High case.

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Overview of Šiaulių Bankas

History and the market of operations

Established in 1992, Šiaulių Bankas is the largest independently-owned financial institution in Lithuania, operating as a commercial bank that serves a wide network of retail and corporate customers. As of 2024, it maintains 54 customer service units, representing the most extensive network among banks in Lithuania.

Market of operations

Šiaulių Bankas primarily operates and is based in Lithuania, with an exception being one of Šiaulių Bankas subsidiaries – SB Draudimas – serving the Baltics market post-merger with INVL retail business. At the beginning of 2024 Lithuania's population totaled 2.9 million (Statistics Lithuania). Whereas the number of active clients of Šiaulių Bankas at the end of 2023 exceeded 180,000, and following the INVL merger of the retail businesses, the total number of clients of Šiaulių Bankas Group, including clients of SB Asset Management, SB Draudimas, and SB Lizingas, exceeds 500,000, implying around 17% of the total population of Lithuania can be considered part of the Šiaulių Bankas Group's customer base. Continuously, the bank has set ambitious strategic targets to double its corporate and private customer segments. The growth targets pertain to reaching 40,000 and 1,000,000 clients by 2029, respectively. This implies a roughly 20%p increase in the proportion of the population using the bank's group's products and services by 2029.

Šiaulių Bankas primary market of operations



Source: Šiaulių Bankas

Stock listing

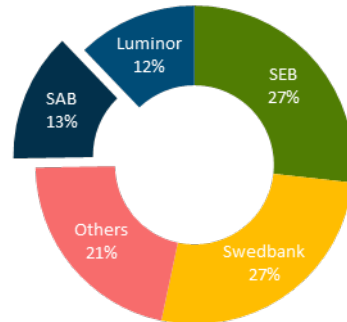
The bank has been listed on the Nasdaq Baltic Stock Exchange (ticker: SAB1L) since 1994. As of 1Q24, the authorized capital of the Bank totalled EUR 192,269,027.34 and is divided into 662,996,646 units of ordinary registered shares with a nominal value of EUR 0.29 each (ISIN LT0000102253 Nasdaq CSD Lithuanian branch). As of the end of 1Q24, Šiaulių Banka's market capitalization amounted to EUR 469m.

Business model and operating segments

Šiaulių Bankas business operations can be categorized into three core areas: 1) Corporate Banking; 2) Retail Banking; and 3) Investment Services.

Corporate Banking. As of the end of 2023, Šiaulių Bankas held roughly 13% market share in the corporate lending segment in Lithuania, primarily in SME and mid-size corporate lending.

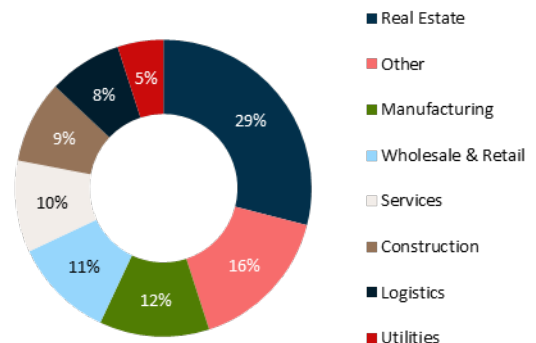
Corporate lending



Source: Bank of Lithuania and LBA

The bank's corporate lending portfolio demonstrates diversification across various industries, reflecting a balanced and risk-mitigated strategy. The portfolio is primarily weighted towards real estate, accounting for 29%. Significant allocations to manufacturing (12%) and wholesale & retail (11%) indicate confidence in the industrial and consumer sectors. Lending to services (10%), construction (9%), and logistics (8%) ensures broad economic coverage, while the utility sector, though smaller at 5%, adds stability. The "Other" category (16%) signifies strategic diversification into smaller or emerging sectors. This distribution underscores the bank's prudent approach to corporate lending, promoting robust performance through diversified exposure across multiple industries.

Corporate loan distribution by industry



Source: Šiaulių Bankas

Looking ahead, Šiaulių Bankas has outlined a strategic growth plan focusing on expanding within four key sectors:

- **Renewable energy:** promoting sustainable energy projects, reflecting the global shift towards green energy.
- **Wholesale and retail trade:** emphasis on both wholesale and retail activities.
- **Manufacturing:** targeting companies involved in various manufacturing processes.
- **Agriculture:** supporting agricultural enterprises to enhance productivity.

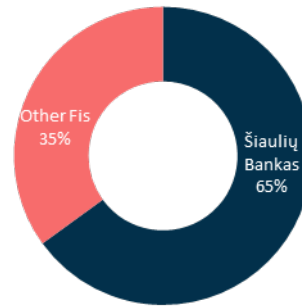
The bank has also communicated a strategic focus on mid-cap companies. Šiaulių Bankas is focusing on mid-sized companies with annual turnovers between EUR 1 to 5 million for several reasons:

- **Market size:** mid-cap companies represent the second largest group of businesses in Lithuania, indicating significant growth potential.
- **Established track record:** these companies typically have a proven business history, making them more reliable for credit and lower risk.
- **Cross-selling opportunities:** established businesses offer more opportunities for cross-selling banking products, not only to the companies but also to their employees.
- **Experience:** Šiaulių Bankas has extensive experience working within this segment, leveraging its historical performance to gain a competitive edge.
- **Focus on large corporates.** Scandinavian banks focus almost exclusively on large corporates -> SMEs struggle to receive funding due to the costs incurred by banks to process individual cases
- **Outdated insights into SME customers.** Large banks have limited and outdated insights into the financial status of SME customers -> high-risk aversion, low lending approval rates
- **Low ticket size.** Low ticket size of typical SME loans and high cost to serve by Scandinavian banks -> unprofitable for banks to lend money to SMEs, thus limited interest and attention to do business with SMEs

While expanding in the aforementioned sectors, Šiaulių Bankas aims to maintain its leading position in the real estate and construction sectors, where the bank guided that the share of these sectors in the total corporate portfolio should not exceed 23% over time. This dual approach is more likely to ensure balanced growth and stability across diverse economic areas.

Lastly, significant contributions to the corporate segment's growth are expected from the renovation business. Šiaulių Bankas has developed an innovative product that has positioned the bank as a market leader in this niche segment with a 65% market share.

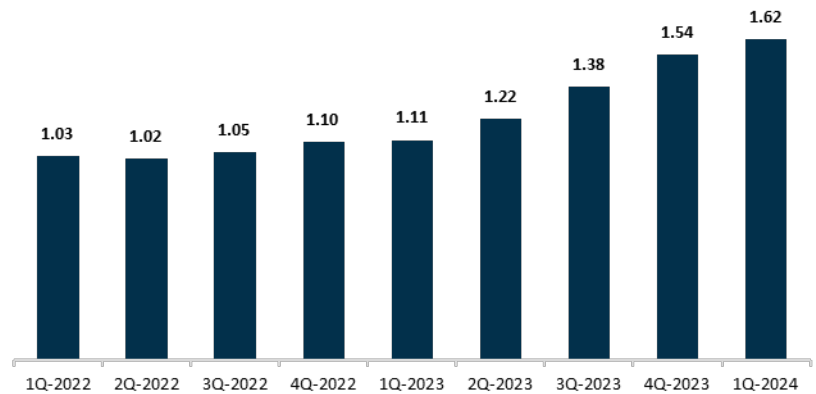
Renovation financing market share



Source: Šiaulių Bankas

The discussed product contributes significantly to the bank's profitability through interest income and various fees (more detail in the *Fee income and other income areas* section of the report), while also supporting its long-term ESG objectives. This dual focus on financial performance and sustainability positions Šiaulių Bankas as a responsible participant in the banking sector. By integrating these ESG principles into its core product offerings, Šiaulių Bankas aims to enhance its market position, drive sustainable growth, and deliver value to its stakeholders. In addition, Šiaulių Bankas strengthened its renovation financing leadership with a new EUR 200m fund („SB Modernization Fund 2“) launch in February 2024, together with EIB and other financial institutions. The bank will earn base management (0.5%) and performance fee (1.0%), in addition to interest income due to its investment of EUR 27.5m.

Renovation fee development



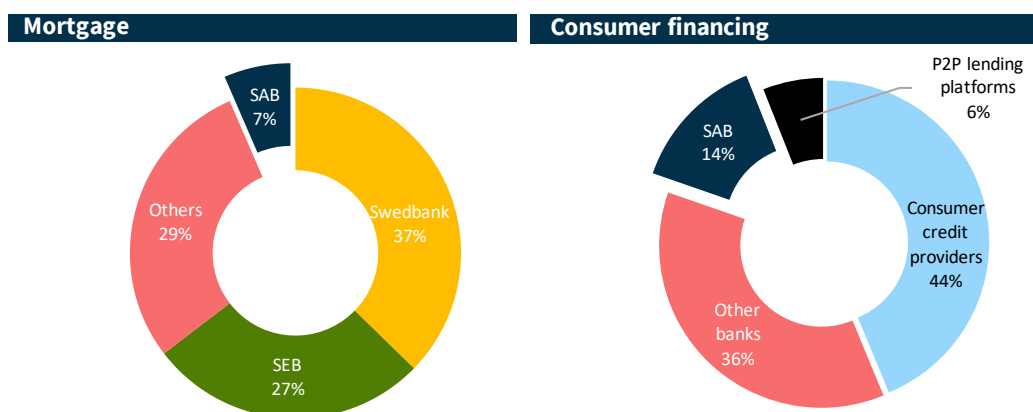
Source: Šiaulių Bankas

Retail Banking. Šiaulių Bankas provides a range of banking products and services to cater to diverse customer needs, ensuring they have access to all necessary financial tools.

Key Šiaulių Bankas retail banking business areas can be defined as follows:

- **Daily banking:** essential banking services including current accounts, payment services, and debit/credit cards.
- **Mortgages:** tailored home financing solutions.
- **Consumer lending (SB Lizingas):** personal loans for various consumer needs. Noteworthy, SB Lizingas holds the second-largest consumer credit portfolio in Lithuania, following Swedbank.
- **Auto leasing:** financing options for purchasing private vehicles.
- **Distribution of savings, investment & protection products:** comprehensive offerings to help customers save, invest, and protect their assets.

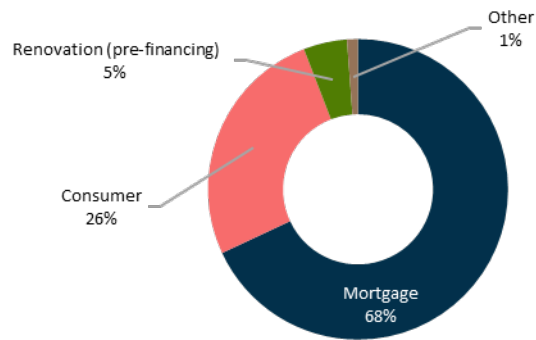
As of the end of 2023, Šiaulių Bankas held roughly 14% market share in consumer financing, and a 7% share in the mortgage segment in Lithuania.



Source: Bank of Lithuania and LBA

The individual loan portfolio is primarily composed of mortgage loans, which constitute 68% of the total portfolio. This substantial allocation highlights a significant focus on real estate financing. The remaining 32% is diversified among other loan categories, with consumer financing accounting for 26% and renovation (pre-financing) representing 5%. This distribution underscores the portfolio's heavy reliance on mortgage loans, while also maintaining a notable presence in other loan segments.

Individual loan distribution by type



Source: Šiaulių Bankas

It is worth noting that the bank maintains a robust presence across multiple channels, including physical branches (as of today, the bank operates 54 physical branches, maintaining the largest network relative to other banks in Lithuania), online banking, mobile platforms and call centre, ensuring convenient access for all customers. Šiaulių Bankas boasts the largest branch network in the country, emphasizing a "phygital" (physical + digital) strategy. This approach ensures customers can benefit from both in-person and digital banking services, even as competitors are reducing their physical presence. Despite the widest network in Lithuania, the bank manages to achieve the best cost efficiencies in the sector in terms of cost/income ratio.

Considering the strategic focus, Šiaulių Bankas aims to enhance its retail banking segment by leveraging its extensive branch network and phygital "strategy" to ensure comprehensive service delivery and customer satisfaction. The bank's commitment to offering a full product suite across various channels potentially positions it among the leading financial institutions in Lithuania.

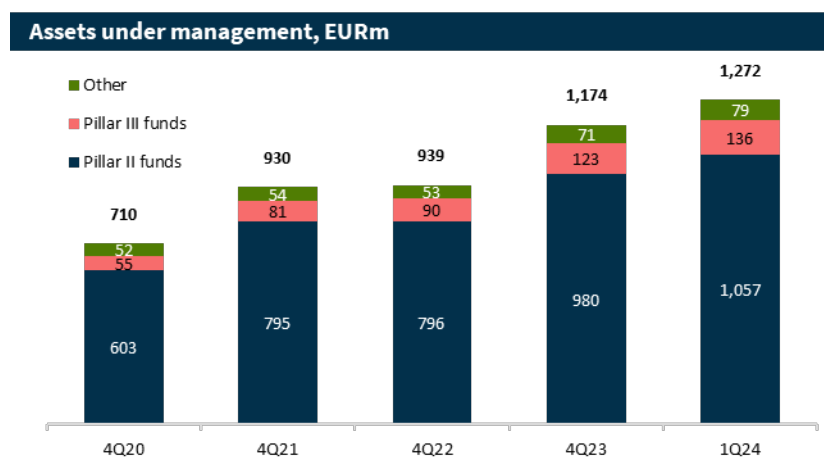
Šiaulių Bankas key initiatives

<p>Now</p> <p>Transformation To customer-centric bank</p>	<ul style="list-style-type: none"> Elevate client journeys to a new level of excellence Enhance organisational performance by leveraging constant client feedback
<p>2024</p> <p>Maximisation Value of existing clients</p>	<p>Increased cross-selling of core areas</p>
<p>2026</p> <p>Growth Higher value segments</p>	<ul style="list-style-type: none"> Become the financial solution center offering personalised products Expand the range of our offerings through partner integration Create personalised digital experiences

Source: Šiaulių Bankas

Investment Services. There are several sub-categories within the investment service business segment, as listed below.

- **Trading and brokerage platform.** Šiaulių Bankas offers a trading and brokerage platform, providing customers with access to a wide range of investment options and markets.
- **Leading DCM and ECM franchises.** Šiaulių Bankas holds a dominant position in Lithuania’s debt capital markets (DCM), having issued 86% of all bonds in 2023, showcasing its expertise and leadership in the sector. The bank’s robust presence in equity capital markets (ECM) further bolsters its position as a leader in both debt and equity financing. This underscores the importance of sustaining such a franchise, despite the overall ECM market in Lithuania being sluggish.
- **Asset management business.** Previously part of Invalda, Šiaulių Bankas’s asset management division is among the strongest in the Baltic region. There has been a consistent upward trend in the total assets under management over the five years. The total AUM increased from EUR 710m in 4Q19 to EUR 1,272m in 1Q24, indicating a robust growth of approximately 79%. Pillar II funds consistently represent the largest portion of the total AUM each year. Starting at EUR 603m in 4Q19, it grew to EUR 1,057m by 1Q24. This substantial increase (about 75%) highlights the primary role of Pillar II funds in driving the overall growth. The year-over-year growth in Pillar II funds was particularly strong in 2023, where it jumped from EUR 796m in 2022 to EUR 980m, showcasing a significant boost. Overall, Pillar II funds not only maintained but also strengthened dominance in the AUM portfolio, suggesting that it might be the most profitable segment for the bank. While Pillar II funds led the growth, the increases in Pillar III funds and other AUM suggest a balanced and diversified approach to asset management, ensuring growth across various segments. The growth of Pillar 3 AUM, classified as a voluntary contribution fund, also underscores clients’ trust in the bank’s product through their investment choices.

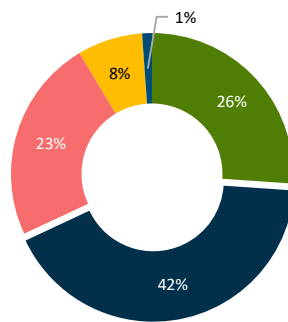


Source: Šiaulių Bankas

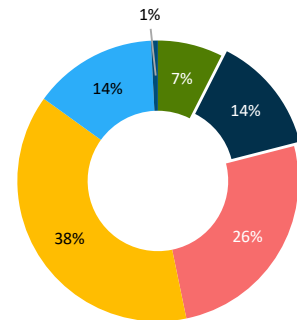
Šiaulių Bankas has recently strengthened its market position through a strategic merger with Invalda. The merger involved integrating Invalda's P2 and P3 pension funds and mutual funds into the operations of Šiaulių Bankas. This integration marks a substantial expansion of Šiaulių Bankas's service offerings, enabling the bank to provide a more comprehensive suite of financial products. The addition of these funds allows Šiaulių Bankas to cater to a broader range of customer needs, from retirement planning and investment management to life insurance services. Overall, the bank offers a range of mutual funds tailored to various investment strategies and risk appetites.

The bank's leading position in the P3 pension fund market with an approximately 42% market share highlights its strong brand and effective fund management strategies, attracting a significant portion of net assets and participants. In the P2 pension fund market, while holding a smaller but still substantial 14% market share, the bank maintains a competitive presence. This dual-market strength showcases the bank's comprehensive capabilities in managing pension funds and securing participant trust across different segments of the pension fund market in Lithuania.

Net asset value of P3 pension funds



Net asset value of P2 pension funds



■ Luminor investicijų valdymas UAB
 ■ UAB „SB Asset Management“
 ■ UAB „SEB investicijų valdymas“
■ UAB „Swedbank investicijų valdymas“
 ■ Allianz Lietuva gyvybės draudimas UAB
 ■ Goindex, UAB

Data as of 31/03/2024

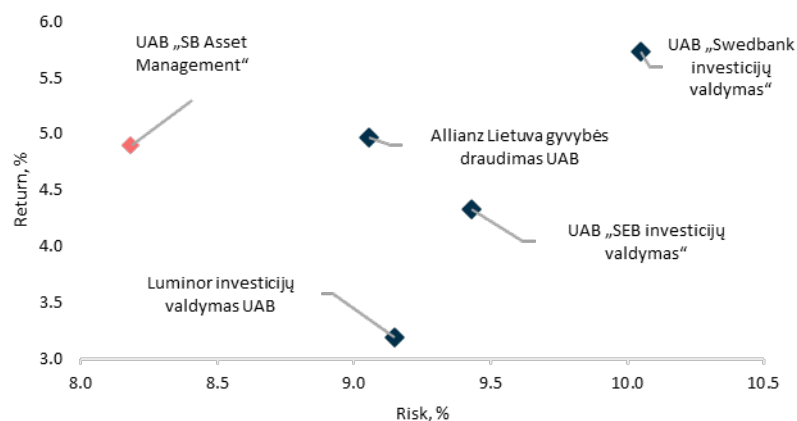
Source: Bank of Lithuania

Strategic implications:

- **Market positioning:** SB Asset Management's position reflects a prudent investment strategy, which can be appealing to a broad range of investors looking for a balanced risk-return profile.
- **Investment appeal:** by delivering competitive returns with substantially lower risk exposure, SB Asset Management can attract investors who seek a balanced approach. This strategy appeals to those looking for a middle-ground investment option, offering the potential for high returns while maintaining a manageable level of risk.

In summary, SB Asset Management maintains a competitive position in terms of risk and return within the P2 pension funds. This balanced approach makes it an attractive option for investors seeking a stable investment with reasonable growth potential, without the high volatility of more aggressive funds.

Average risk* and return** of P2 pension funds



*Standard deviation of unit value over the past 3 years

**Average annual change in unit value over the past 3 years

Data as of 31/03/2024

Source: Bank of Lithuania

- Life insurance business.** Throughout the observed period from September 2022 to September 2023, INVL Life maintained a relatively stable market share, fluctuating between 5.2% and 5.4%. This consistent presence reflects a steady market position, albeit with a smaller share compared to leading competitors in the insurance sector. Meanwhile, SB Draudimas held the smallest share among rivals, increasing from 3.6% to 3.9% during the same period. However, the merger with INVL Retail significantly boosted SB Draudimas's market share in life insurance, effectively doubling it and showcasing the entity's expanded reach and capability in this sector.

The combined entity now holds a substantial market share of over 9%, positioning it ahead of several players in the market and enhancing its overall market presence. With this increased market share, the merged entity is poised to benefit from economies of scale, leading to more efficient operations, optimized resource allocation, and improved customer service capabilities. The merger is anticipated to stabilize the market position of both entities, while their combined strength provides a robust platform for future growth and market expansion. Key insurance products offered by the merged entity include term life insurance, unit-linked life insurance, critical illness insurance, and child insurance.

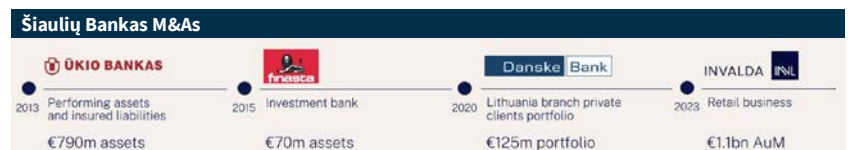
- Custodian services.** The bank also provides custodian services, ensuring custody of clients' assets.

Ultimately, Šiaulių Bankas is committed to growing its investment services, leveraging its leading positions in DCM and ECM, and expanding its asset management and life insurance businesses. The strategic aim is to maintain and strengthen its market leadership across these segments, offering comprehensive investment solutions to its clients.

Solid M&A track record

For the past two decades, value-accretive M&As have been a cornerstone of Šiaulių Bankas's growth strategy, significantly enhancing the bank's market presence, client base, and operational capabilities.

In 2013, Šiaulių Bankas completed the takeover of Ūkio Bankas with assets valued at EUR 790m. Subsequently, in 2015, Šiaulių Bankas signed an agreement on the acquisition of 100% of the shares of Finasta Bank and Finasta financial brokerage company. In 2020, Šiaulių Bankas signed an agreement with the Lithuanian branch of Danske Bank A/S for the acquisition of a portfolio of private customer loans valued at EUR 125m. In the most recent move, Šiaulių Bankas and asset management group Invalda completed the merger of retail businesses at the end of 2023.



Source: Šiaulių Bankas

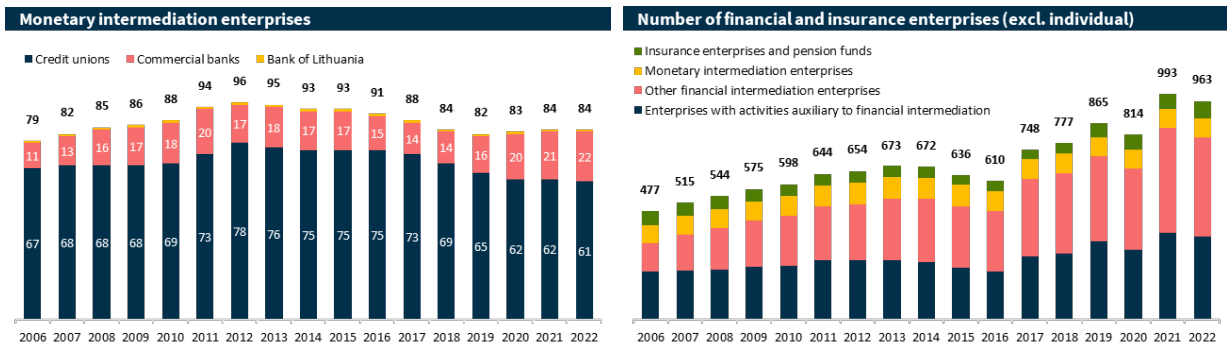
Following the merger with INVL's retail businesses, the total client base of Šiaulių Bankas Group, including SB Asset Management, SB Draudimas, and SB Lizingas, now exceeds 500,000. This expansion signifies that roughly 17% of Lithuania's population is now part of the Šiaulių Bankas Group's customer base, highlighting the bank's extensive market reach.

Parallel to the growth in the client base, the group's workforce has experienced substantial expansion. Over the past few years, and particularly in 2023, the number of employees within the Šiaulių Bankas Group has steadily increased. As of 1Q24, the total number of employees reached 1,163, marking a year-over-year growth of approximately 24%. This increase demonstrates the bank's commitment to scaling its operations and enhancing its service delivery capabilities to meet the growing demands of its expanded customer base.

These developments underscore Šiaulių Bankas's effective execution of its value-accretive M&A strategy, which not only fortifies its market position but also ensures sustainable growth through an enlarged client base and a strengthened workforce. By successfully integrating acquired businesses and leveraging synergies, Šiaulių Bankas continues to advance its mission of providing comprehensive, high-quality financial services to a significant proportion of the Lithuanian population.

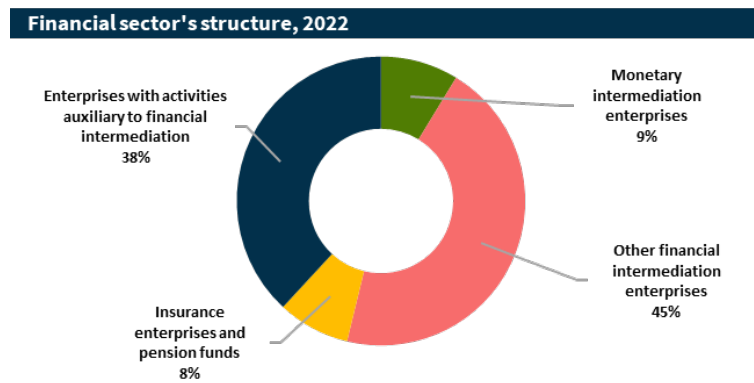
Financial sector in Lithuania

From 2012 to 2022, the number of financial institutions in Lithuania increased by 47%, signifying substantial sector growth and resulting in a highly saturated and competitive market environment, primarily in the money transfers and payment segment due to the onset of Fintechs. Despite this growth, the total number of monetary intermediation enterprises has steadily declined. However, the number of commercial banks has slightly increased, driven primarily by the entry of small-scale enterprises with specialised banking licenses, which still have relatively low volumes and market share. This suggests that while there is numerical growth in commercial banks, it has not significantly altered the competitive landscape in the sector as there are also some new niche players which are focusing only on consumer lending, SMEs, etc. Following the change in management of the Bank of Lithuania and the change in the strategy, the processing of the specialised bank licenses stopped with currently no new specialised bank applications under review. However, there have been some speculations that Polish or German banks might be interested in entering the Lithuanian market.



Source: Statistics Lithuania

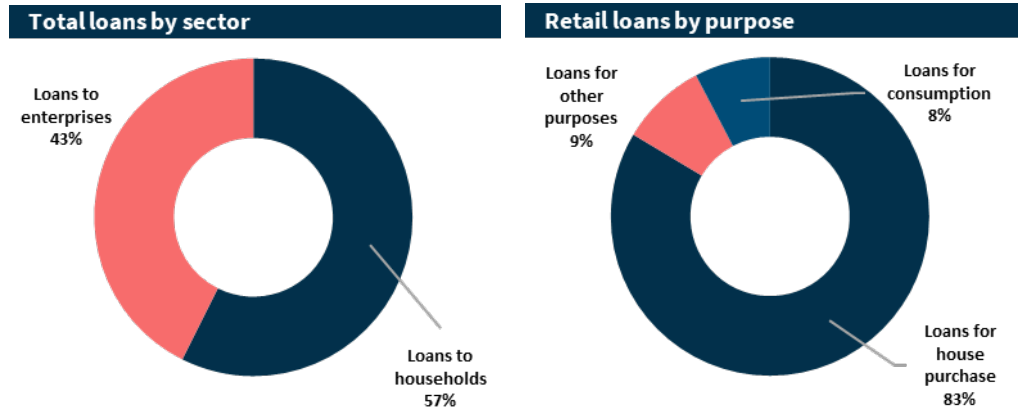
According to Statistics Lithuania, the largest segment of the financial sector (45%) comprises financial leasing, other credit granting, collective investment undertakings, and other financial intermediaries, indicating a strong focus on diverse credit and investment activities. The second largest segment (38%) includes enterprises involved in auxiliary financial intermediation, such as stock brokerage firms, management enterprises, insurance brokers, and agents. This composition highlights a well-rounded financial sector with a robust infrastructure supporting both direct financial services and auxiliary functions, fostering resilience and growth.



Source: Statistics Lithuania

Financial activity in Lithuania

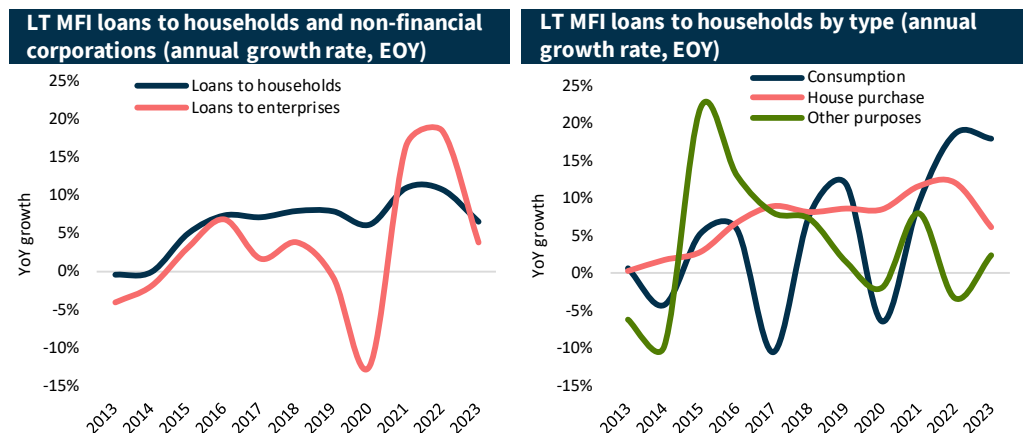
Around 60% of the total outstanding loans, supplied by the Lithuanian monetary financial institutions (MFIs), were to households (Bank of Lithuania). As of 2024, retail lending continues to be the dominant lending type supplied by the Lithuanian MFIs. Moreover, as of March 2024, around 83% of outstanding retail loans supplied by the Lithuanian MFIs were for house purchases.



Source: Bank of Lithuania

Since 2013, retail lending, particularly housing loans, demonstrated consistent growth, solidifying its dominance in the retail credit portfolio. Housing loans have shown stable growth due to sustained demand and a robust housing market. This sector's stability underscores its importance in the retail lending landscape.

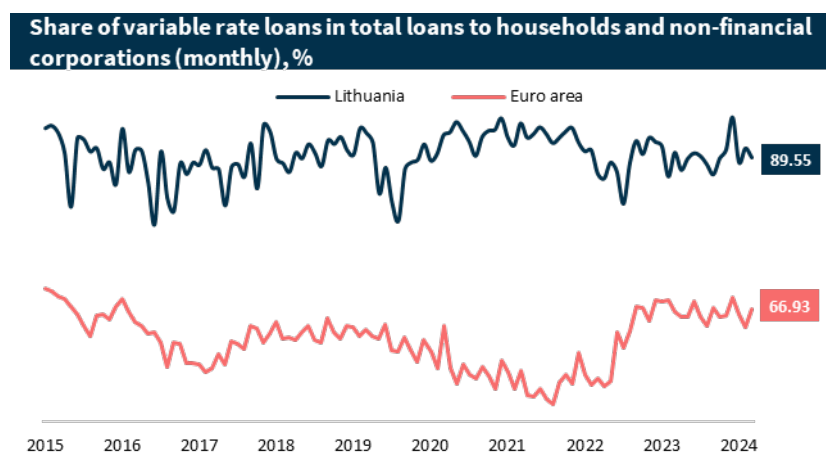
Conversely, loans for consumption exhibited notable volatility, reflecting their sensitivity to broader economic conditions. Consumption loans experienced significant peaks and troughs, with a substantial increase of 19% in 2022 driven by post-pandemic economic recovery, but also faced sharp declines in 2017 (-11%) and 2020 (-6%). This volatility indicates fluctuating consumer confidence and spending patterns.



Source: Bank of Lithuania

Enterprise loans also displayed sharp fluctuations, highlighting the sector's vulnerability to economic cycles. Significant declines were observed during the pandemic in 2020-2021 triggered by the economic impact of COVID-19, followed by robust recoveries in 2022-2023, reaching 18%. This pattern reflects that this sector's performance is closely tied to economic cycles and external shocks, as evidenced by the sharp declines during the pandemic and the strong recovery afterward. The corporate lending portfolio, while advancing, has done so at a less steady pace compared to retail lending.

Overall, the trends highlight the resilience of housing loans as a stable backbone for the retail credit portfolio amidst economic fluctuations. Other loan types, such as consumption and enterprise loans, demonstrate the cyclical nature of economic impacts, with periods of growth and contraction reflecting broader economic conditions and consumer behavior. The data underscores the importance of economic stability for consistent loan growth and the varying impacts of economic events on different loan categories.



Source: ECB Data Portal

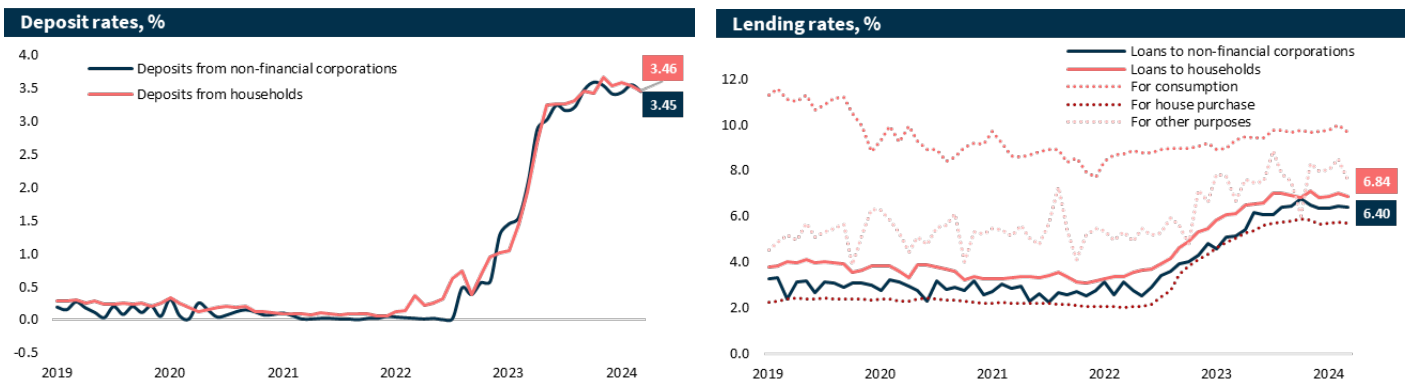
Lithuania consistently maintains a high share of variable-rate loans (85%-95%), with floating rates or initial rate fixation periods of up to one year. This strong preference likely stems from favorable interest rate environments and limited availability of fixed-rate products. In contrast, the Euro area has recorded a share of around 67% recently. Lithuania's stable trend indicates a structural reliance on variable-rate loans, exposing it to interest rate risks but benefiting from potentially lower initial borrowing costs.

Interest rates have been on an upward-sloping curve from mid-2022 onwards, with both deposit and lending rates surging to the highest recorded rates in the past five-year period. Although inflationary pressures can be considered largely tamed by 2024 with Eurozone inflation nearing the 2% target, both households and enterprises are still subject to high-interest rate pressures in Lithuania.

The most considerable impact is seen in persistently elevated mortgage lending rates, which significantly reduce household housing affordability and disposable income in the medium term. However, the low indebtedness of the private sector in Lithuania offers a cushion against these higher rates, as households are generally less leveraged and better positioned to absorb increased borrowing costs.

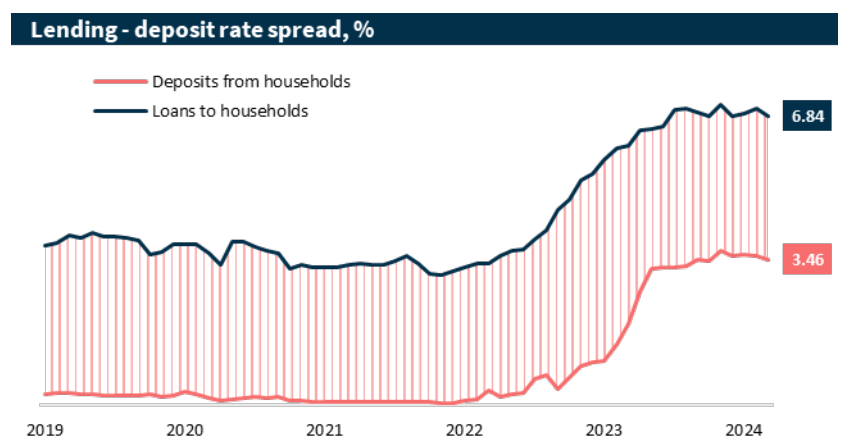
On the corporate side, while high financing costs in 2024 pose vulnerabilities by lowering cash flows available for investments, the recent record profitability of Lithuanian corporations mitigates some of these effects. Strong profitability has led to robust balance sheets and greater internal funds, reducing reliance on external financing and supporting investment levels despite higher borrowing costs.

Overall, while elevated lending rates present challenges, the low private sector, high wage growth, relatively low indebtedness and strong corporate profitability in Lithuania provide a buffer that mitigates the negative impacts on household affordability and corporate investment capacity.



Source: Bank of Lithuania

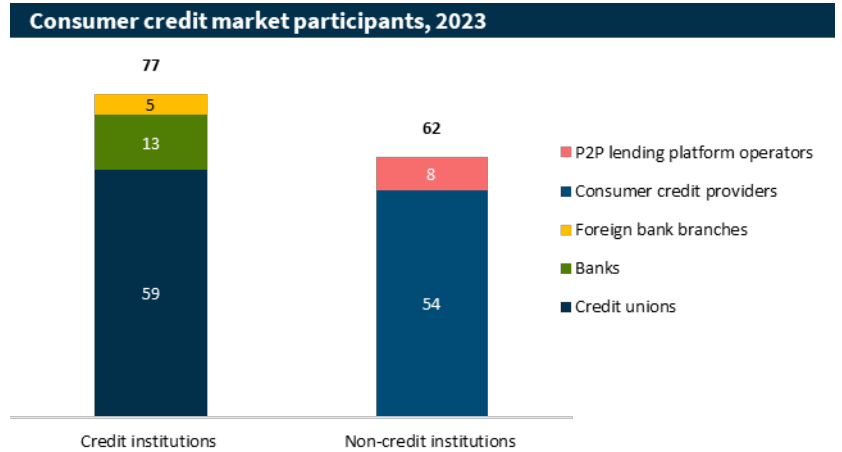
Notably, the lending-deposit spread in the household segment has recently narrowed and remains low compared to its peak at the beginning of 2023.



Source: Bank of Lithuania

Consumer credit market overview

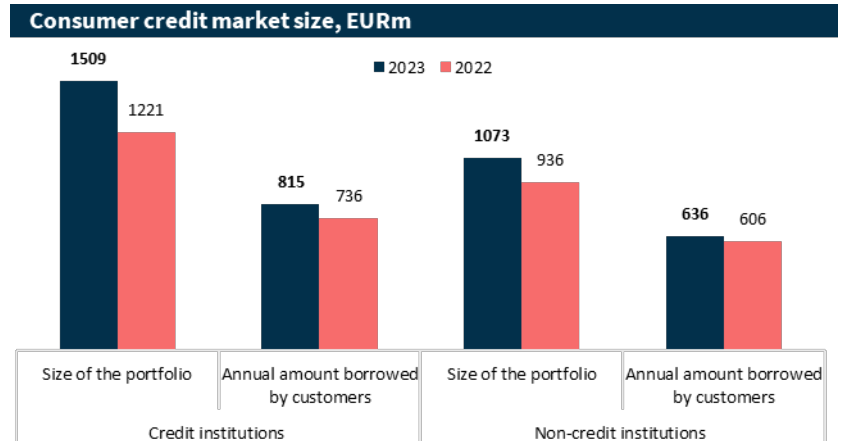
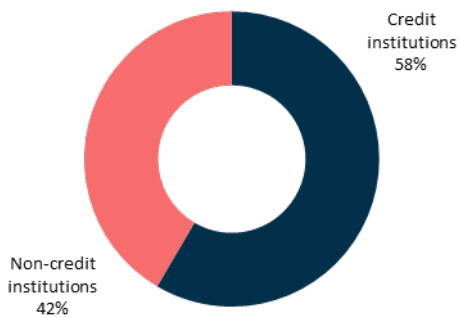
In 2023, based on the Bank of Lithuania data, there were a total of 139 consumer credit market participants categorized by credit (77) and non-credit institutions (62). Credit institutions encompass credit unions and banks, whereas non-credit institutions refer to various non-traditional financing providers including shared P2P lending platforms.



Source: Bank of Lithuania

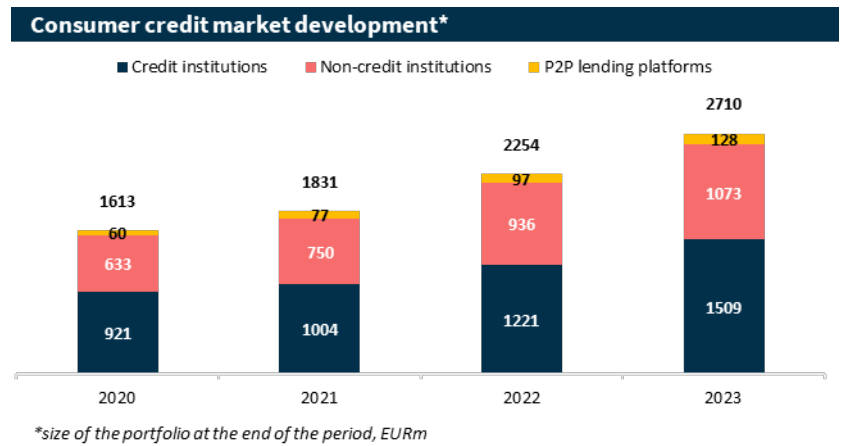
In 2023, Lithuania's total consumer credit portfolio expanded by 20%, with credit institutions accounting for 58% of the total, reflecting a 24% year-over-year increase. Customer borrowing rose by 8%, with approximately 56% of this credit provided by credit institutions (Bank of Lithuania). This growth indicates heightened demand for credit, supported by recovering consumer confidence. Despite elevated lending rates, the low indebtedness of the private sector supports continued borrowing capacity.

Consumer credit market's structure in 2023 (based on the portfolio size)



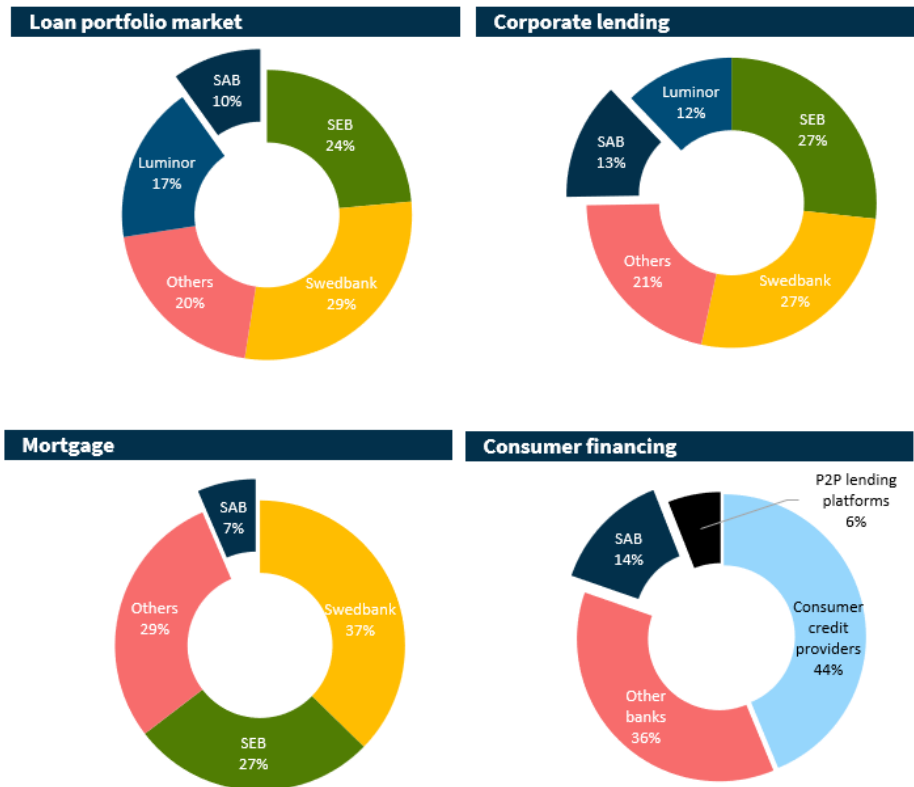
Source: Bank of Lithuania

From 2020 to 2023, the consumer credit market expanded by nearly 70%. Credit institutions, holding the largest market share, grew by over 60%, with a notable 24% increase from 2022 to 2023, driven by increased consumer borrowing capacity. Non-credit institutions also grew significantly, particularly between 2022 and 2023, partially due to flexible lending criteria. Meanwhile, the P2P lending portfolio doubled, reflecting rising consumer interest in alternative financing options. This diverse growth underscores evolving consumer preferences and the increasing availability of varied credit sources, highlighting the market's dynamic and adaptive nature.



Source: Bank of Lithuania

Market share statistics as of December 2023

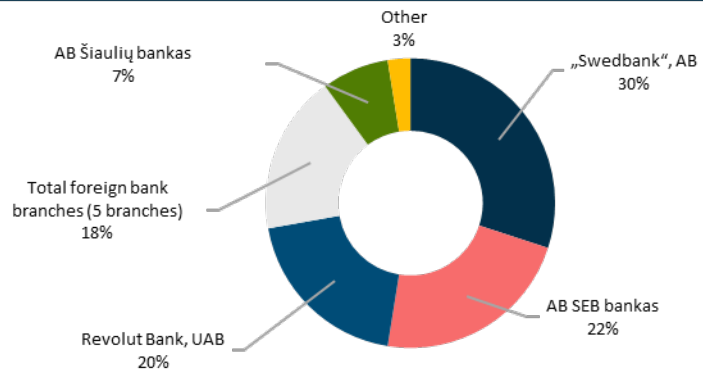


Source: Bank of Lithuania and LBA

Banking sector overview

Based on the year-end 2023 data 13 banks hold a banking license in Lithuania, while 5 banks operate as foreign bank branches accounting for 18% of the total market. The banking sector in Lithuania is highly concentrated and continues to be dominated by banks backed by Nordic capital, as the two largest banks (AB SEB Bankas and Swedbank, AB) comprise around 52% of the total market by assets as of the end of 2023. Among the foreign bank branches in Lithuania, Luminor Bank AS holds the largest stake.

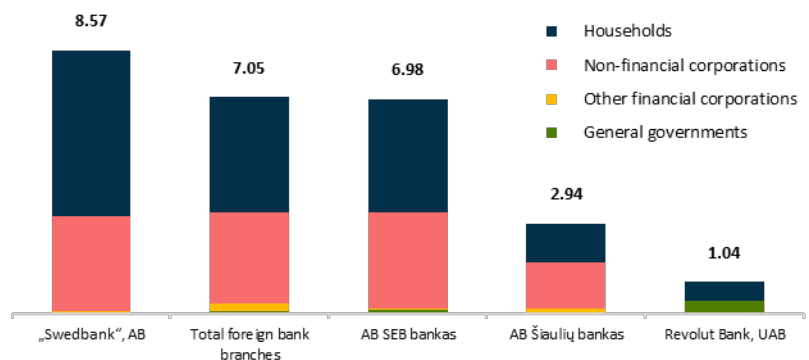
Banks and foreign bank branches operating in Lithuania (% of banking system's assets, 4Q23)



Source: Bank of Lithuania

Relative to other banking sector participants in Lithuania, Šiaulių Bankas ranks on the lower end of the scale based on the total lending (incl. leasing) volumes considering the year-end of 2023 data.

Loans and advances (incl. leasing) of largest banking sector participants (EURm as of 4Q23)



Source: Bank of Lithuania

Consolidated main indicators of banking sector activities (Financial Group) in Lithuania (based on 1 January 2024 unaudited data):

- CAR at 19.94%
- LCR at 342% and NSFR at 201%
- Leverage ratio 6.05%
- Customer deposits were the largest component in the bank financing structure accounting for 60% of bank liabilities.

Source: Bank of Lithuania

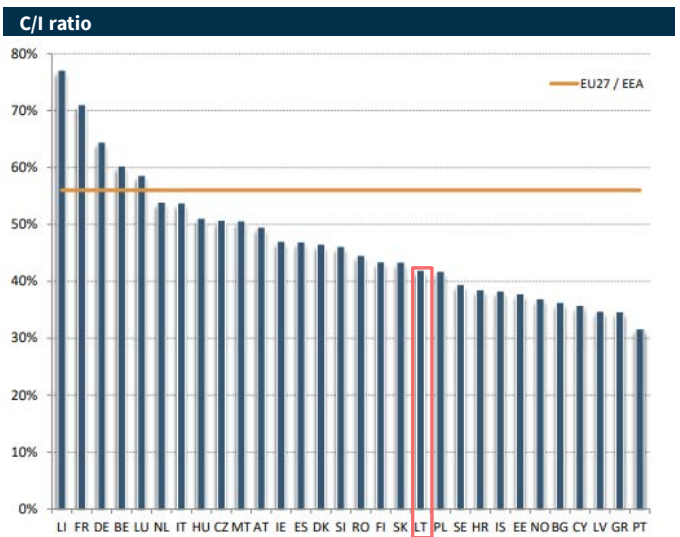
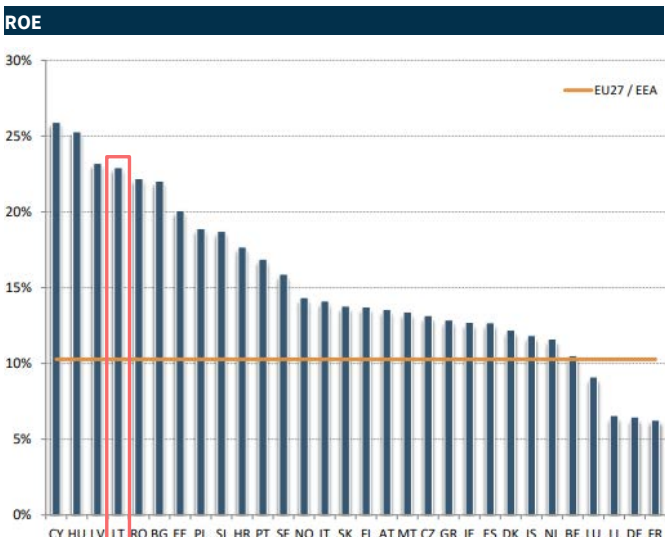
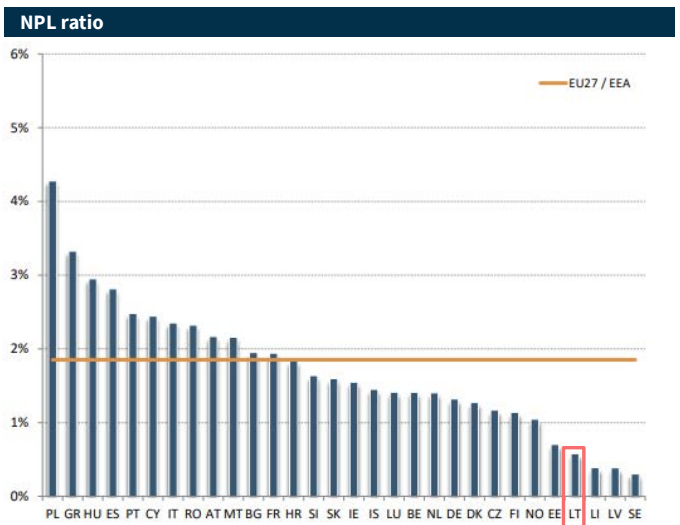
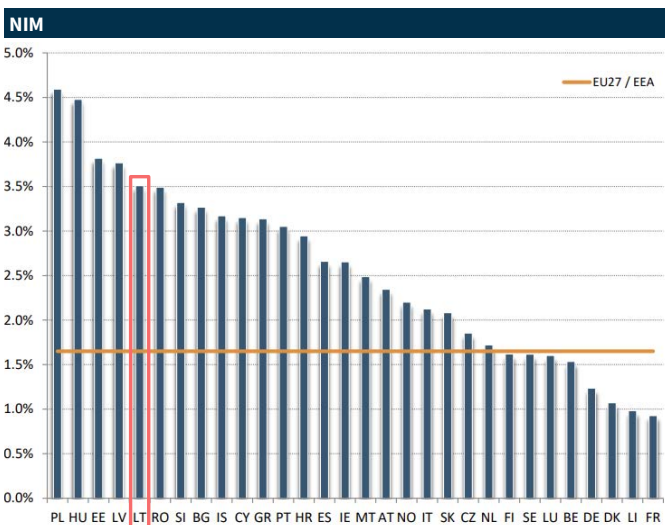
Lastly, in the broader European context, the Lithuanian banking sector is perceived to be relatively attractive with low risk and exemplary profitability metrics.

The cross-country comparisons are done using the EBA Risk Dashboard.

The EBA Risk Dashboard is part of the regular risk assessment conducted by the EBA and complements the Risk Assessment Report. The EBA Risk Dashboard summarises the main risks and vulnerabilities in the banking sector in the European Union (EU) by looking at the evolution of Risk Indicators (RI) among a sample of banks across the EU.

Relative to other European countries, the Lithuanian banking sector exemplifies operational efficiency via moderate cost-to-income levels. In turn, the Lithuanian banks provide one of the highest returns in Europe, supported by comparably strong NIM. Additionally, one of the lowest non-performing loan (NPL) ratios among European peers indicates a relatively low-risk exposure within the national banking sector. This combination of high profitability, efficient operations, and low credit risk positions Lithuania's banking sector favorably within the European financial landscape, highlighting its growth potential.

Country dispersion (as of Dec. 2023)

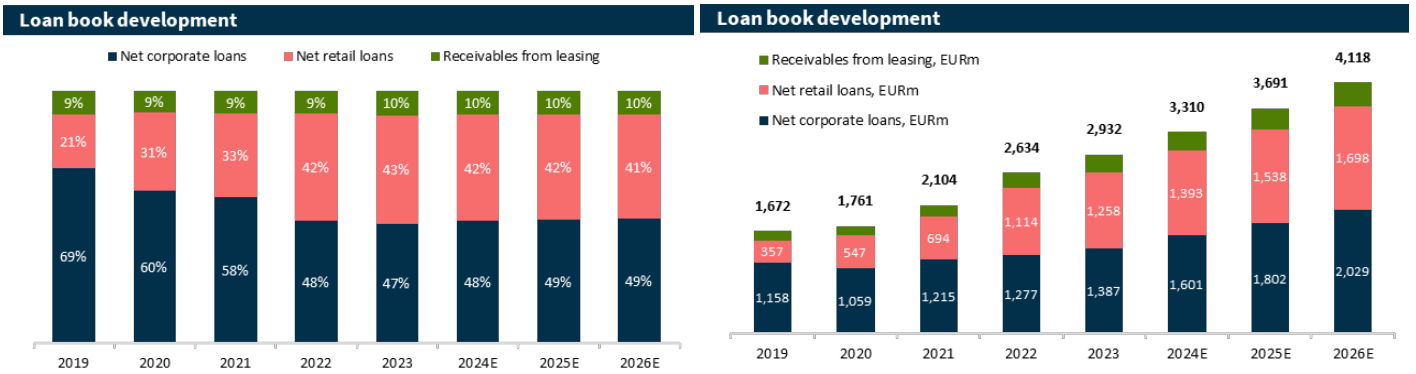


Source: EBA

Financial performance & highlights

Loan book overview

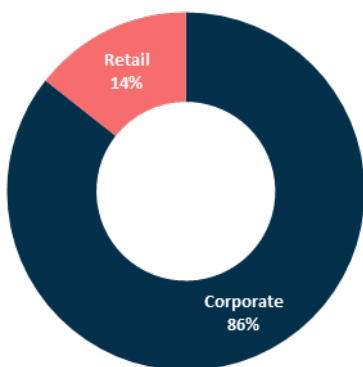
The bank's loan book has totalled EUR 3,045m by 1Q24, implying around a 13% increase on an annual basis. The largest proportion of the loan book consisted of corporate loans (47%) in 2023, and corporate lending volumes are anticipated to continue to constitute the largest share of the loan book from 2024 onwards, equating to roughly 50% by 2026.



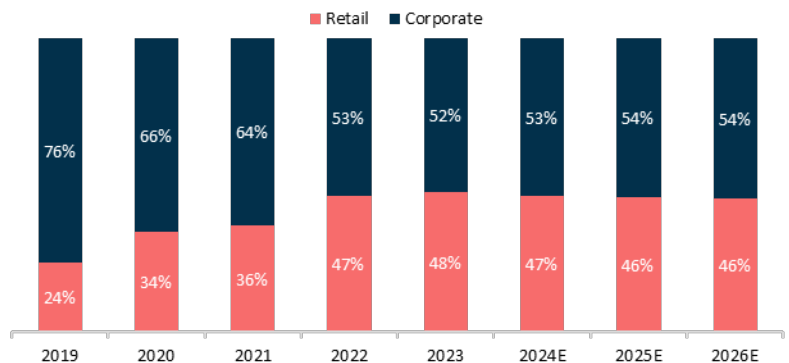
Source: Šiaulių Bankas, Norne Securities for estimates

Still, despite sustained growth in the bank's retail lending volumes corporate lending makes up slightly over half of the net lending as of 1Q24. Such proportion is expected to pertain to upcoming periods as the bank's guidance provides estimates of both retail and corporate lending customers doubling by 2029, i.e., implying constant growth between segments based on the current lending portfolio structure. The bank's exposure to corporate lending has gradually decreased since 2019 and consequently increased in retail, thus potentially reducing the overall risk of the portfolio compared to the historical perspective.

Finance lease receivables (gross) 1Q24



Loan portfolio structure: retail vs corporate share

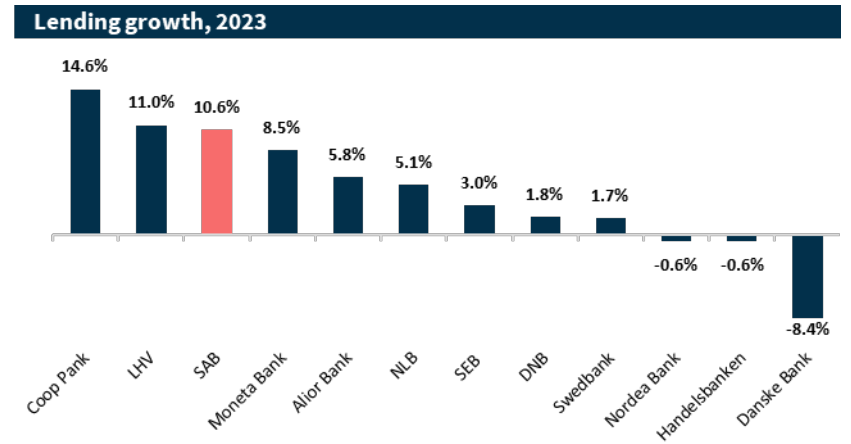


Source: Šiaulių Bankas, Norne Securities for estimates

Contrary to marginal proportion differences between retail and corporate sector volume shares in the lending portfolio, financial lease receivables are incoming primarily from the corporate sector, constituting around 86% of the total lease receivables in 1Q24.

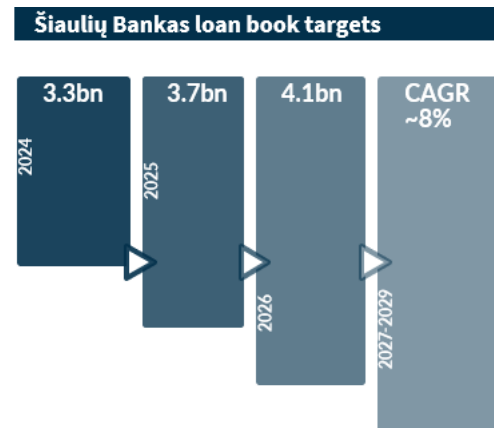
Although lease receivables are estimated to take up a larger proportion of the loan book in the upcoming years, the leasing share in the loan book will still be insubstantial relative to the total net lending. Lease receivables are expected to amount to up to 10% of the total loan book portfolio by 2026.

Notably, in 2023, Šiaulių Bankas recorded one of the highest annual lending growth rates among peers.



Source: Bank reports, Norne Securities

We expect the bank to sustain an average annual net lending growth rate of around 12% for 24/26e and settle at around 8% growth rate from 2026 onwards being largely in line with the bank’s guidance for the respective periods. The bank provides guidance on total loan book development up until 2029, illustrated in the figure below.

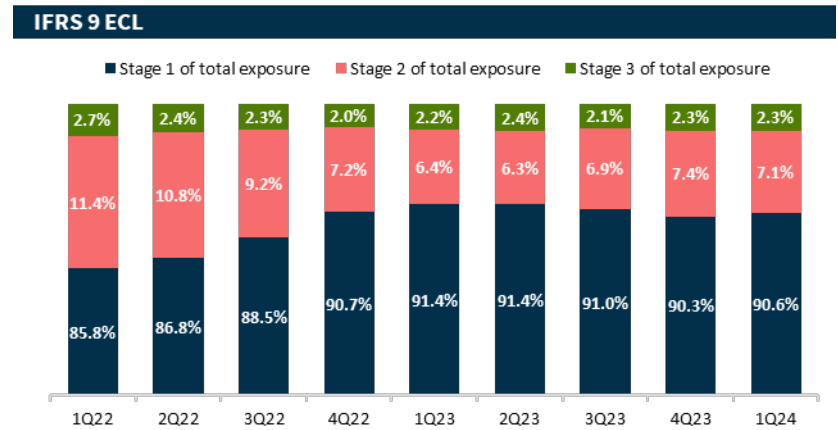


Source: Šiaulių Bankas

This suggests the bank should experience one of the highest lending growth ambitions among its peers and competitors.

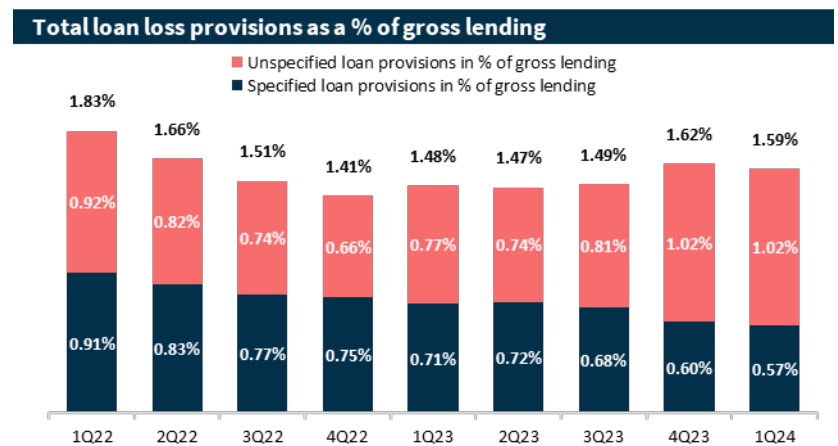
Asset quality

Based on the IFRS 9 ECL model, the bank's stage 3 exposures equated to an average share of approximately 225bps of total exposures during 2023. Alternatively, throughout 2023, stage 1 exposures constituted >90% of total exposures suggesting an overall limited high-risk loan exposure in the bank's lending portfolio.



Source: Šiaulių Bankas

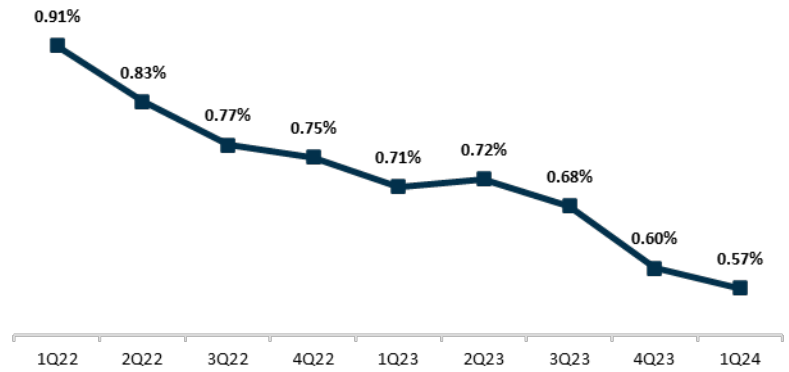
Likewise, loss provisions as a percentage of gross lending suggest no signs of worsening asset quality, remaining at a steady range between 140-165bps since the end of 2022.



Source: Šiaulių Bankas

Moreover, specified loan loss provisions as a percentage of gross lending have been on a steady decline since 1Q22 implying solid quality of the bank's assets despite challenges related to high interest rates and inflation.

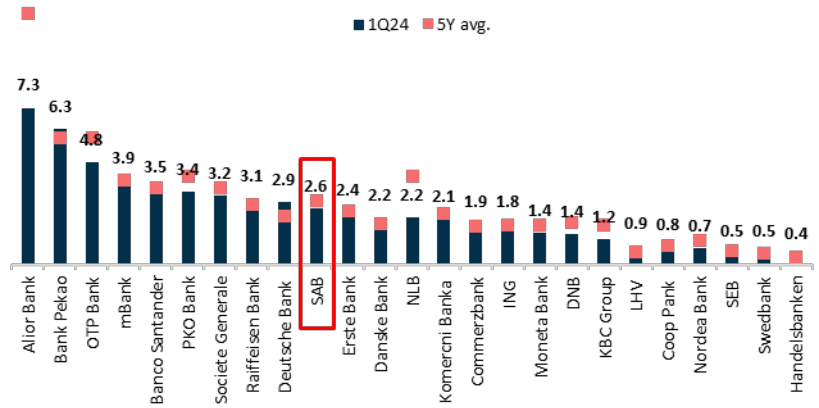
Stage 3 loan loss provisions as a % of gross lending



Source: Šiaulių Bankas

When it comes to non-performing loans (NPLs) relative to peers, Šiaulių Bankas NPL stands at 2.6% of total lending or relatively at the middle of its comparable banks, but slightly below its 5-year historical average.

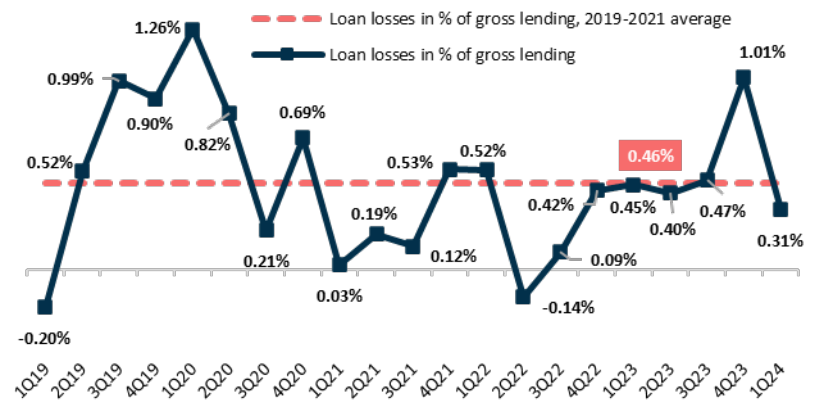
Non-performing loans to total loans



Source: Bloomberg

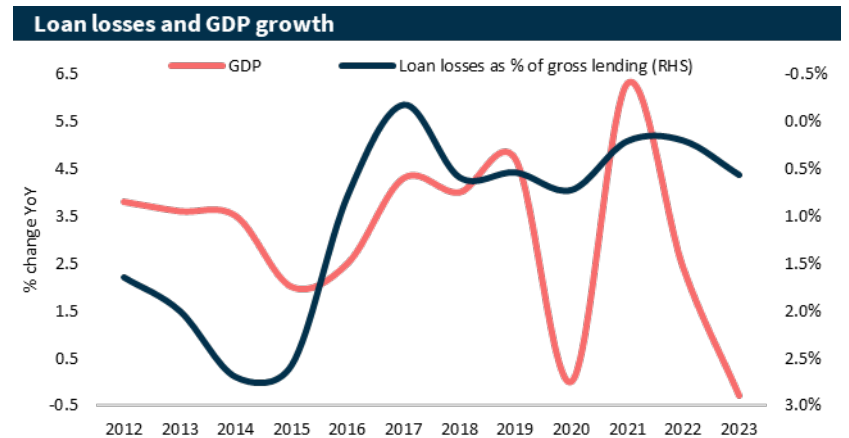
Relative to a 5-year average level of 0.46% loss provisions as a % of gross lending, Šiaulių Bankas recorded a considerable decline in 1Q24 – loan losses dropped to 31bps of gross lending (70bps down Q/Q).

Loan losses as a % of gross lending



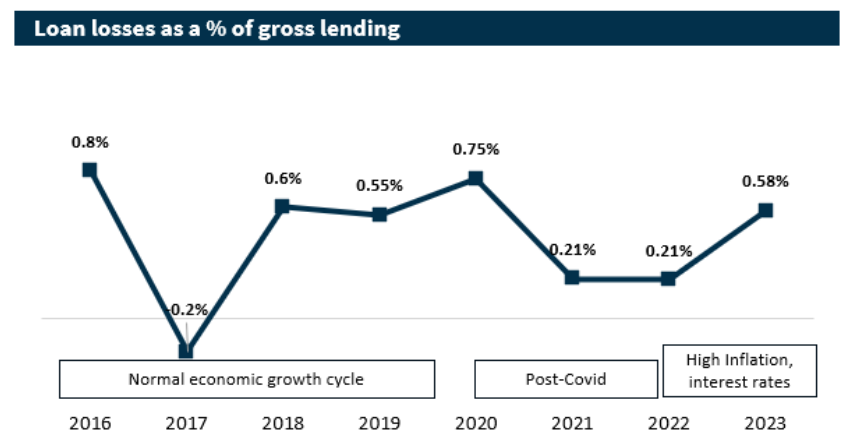
Source: Šiaulių Bankas

The bank's loan losses have been rather volatile in recent years partly driven by different economic cycles and shocks. While the average GDP growth in Lithuania since 2012 was around 3%, it is now expected to slow down to ~1.8% in 2024, before reverting to around the historical average in 2025. The historical average loan losses in the bank were around 0.46%. Although there is no perfect correlation, but if it were to hold, the current GDP development would imply that the provisions should be higher than in the normal cycle. However, there is no clear correlation between loan losses and GDP growth, probably partly impacted by some lag effects as it takes time for weaker macro indicators to feed into the companies' cash flows/household disposable income.



Source: Šiaulių Bankas, Statistics Lithuania

When it comes to the breakdown of loan losses over different cycles, we see that loan losses ratio stood at 0.55% in the economic growth cycle in 2019, followed by a spike to 0.75% in 2020 due to the COVID-19 pandemic. Not surprisingly, loan losses declined in the 2021-2022 period: most of the provisions on the IFRS 9 have not materialised and thus followed by some net reversals in the next years. If taking the average of 2020-2022, the loan losses ratio was around 0.39% or broadly in line with the 5-year historical average of 0.46%. The increase in 2023 is probably partly related to the impact of high interest rates and also as the bank noted due to *revision of the parameters for the calculation of provisions in the light of updated macroeconomic forecasts*.



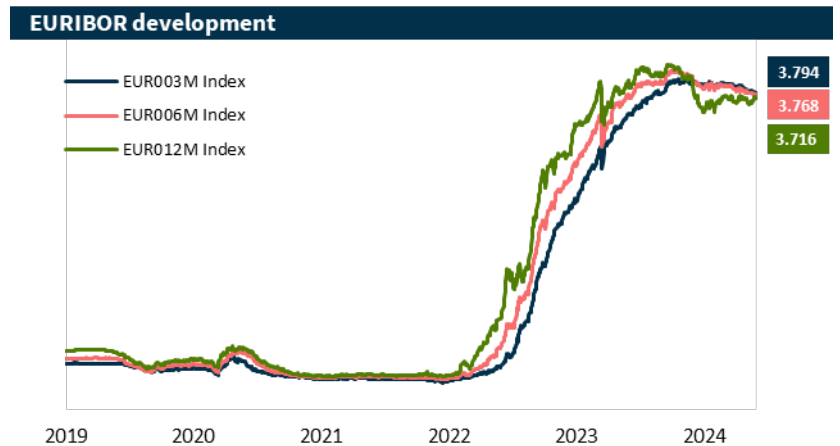
Source: Šiaulių Bankas

Still, it is yet to be seen if there are any lag effects in the portfolio development due to recently high interest rates significantly impacting the companies' cash flows and households' disposable income. Having said that, we perceive the bank loan losses ratio in the range of 0.40-0.50% going forward or broadly in line with the last 5-year historical average. The bank itself said that over the cycle it expects the cost of risk below 0.50%. Our loan losses ratio estimate is rather conservative as while the bank has a relatively firm asset quality, we also take some buffer in estimate considering that high lending growth ambitions (2x clients in corporate/retail) might prompt some increase in credit risk over time depending on the clients' risk selection.

Overall, we perceive Šiaulių Bankas's assets to be of solid quality with relatively moderate loan loss provision booking volatility as well as largely consistent stage 3 exposures.

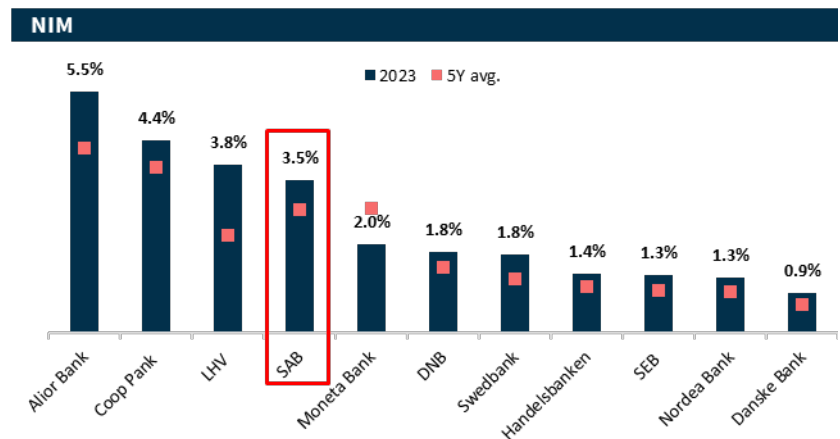
NII development

Owing to persistent inflationary pressures, markets have been exposed to a high-interest rate environment since mid-2022. Repricing trends have had a considerable impact on the NII development in the banking sector along elevated margins as the banks have a much higher flexibility in margin spread in the rising interest rates environment vs low interest rates. This is because the pass-through of interest rates is higher in this kind of environment as of today. However, foreseeable changes in interest rate markets are likely to flatten out the NII and NIM highs recorded up till 2023.



Source: Bloomberg

Šiaulių Bankas' NII advanced by 32% and 47% on an annual basis in 2022 and 2023, respectively. Likewise, the bank's NIM rose to around 3.5% in 2023 vs 2.6% recorded in the previous year. This also implies a superior NIM compared to its closest peers and also vs historical average level.

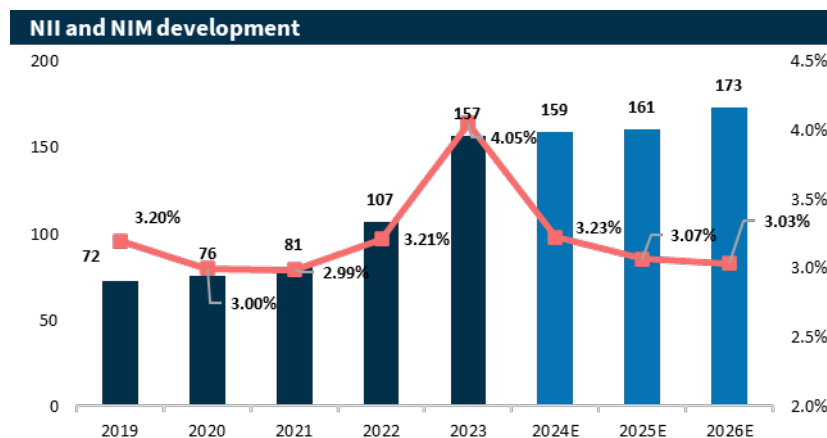


Source: Bank reports, Norne Securities

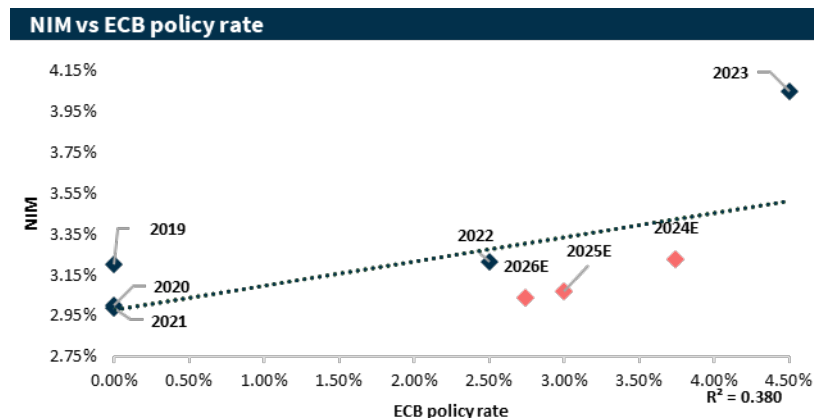
Still, considering the current interest rate path forecasts, NII is foreseen to undergo less robust growth during the 2024/25 period and flatten out in 2026. Similarly, NIM is most likely to have peaked already and a steady decline is largely expected for 2024/26e.

On the other hand, we are likely to see that the ECB will keep interest rates at more normal levels compared to the close zero interest rates environment in the last decade. Thus, we expect the bank to continue to enjoy NIM stronger than in the last decade.

Based on our estimates NII is expected to advance by around 3% on average considering the 2024/26e. Likewise, NIM is also foreseen to settle at more modest levels relative to the highs delivered in the previous periods, still settling at, and ranging between 3.00-3.25% for 2024/26e, mostly in line with the bank's guidance. The bank indicates that NIM is likely to be recorded above (around) the 3% level for the respective periods, assuming that the interest rate reduction will be gradual and respective adjustments, if needed, will be possible. Notably, the near-term planned repayment of the ECB loan is likely to have a positive effect on NIM.



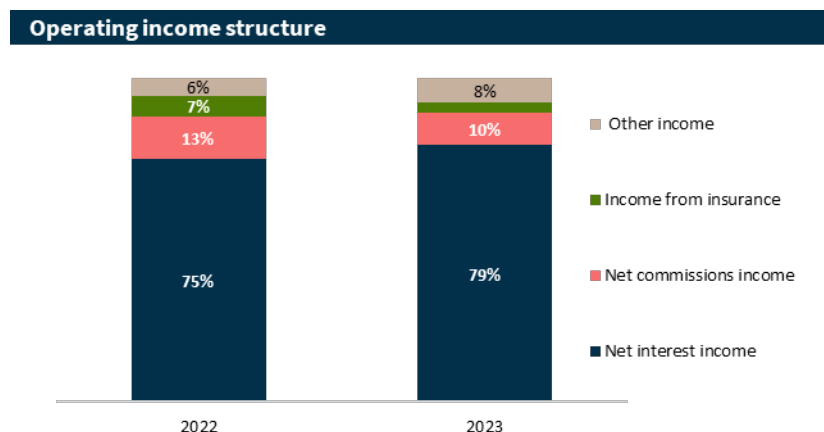
Source: Šiaulių Bankas, Norne Securities for estimates



Source: Šiaulių Bankas, ECB

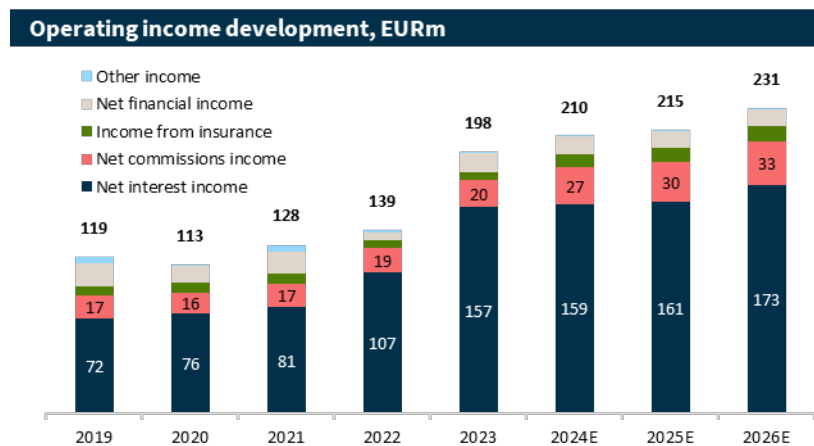
Fee income and other income areas

Šiaulių Bankas' NII makes up around 80% of the bank's total income structure, which means that its income is quite sensitive to interest rates. Other significant sources of income include net commission income, accounting for approximately 10%, and insurance income, making up about 5% of the total income structure.



Source: Šiaulių Bankas

We anticipate Šiaulių Bankas total operating income to amount to EUR 210m for 2024e, implying roughly 6% annual growth and largely in line with the bank's guidance. Subsequently, for 2025/26e, we foresee an operating income catching momentum and accelerating by roughly 2% and 8% YoY, respectively. The operating income growth is estimated to be largely based on the growth in the largest constituent (NII and NFCI) earnings. Insurance earnings are also expected to increase, reaching EUR 13m by 2026.



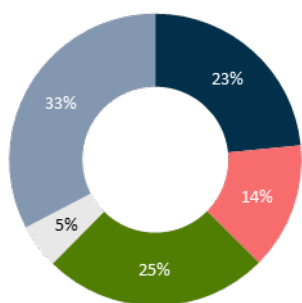
Source: Šiaulių Bankas, Norne Securities for estimates

Net fee income sources have shifted in 1Q24 relative to 1Q23, with considerable addition of asset management fees. Based on 1Q data, over 80% of NFCI is comprised of daily banking activities (33%), renovation services (26%), and asset management (23%), with lesser earnings in capital markets (14%) and other service segments (5%). It is expected that fees from renovation services will continue to grow, along with the launch of the second SB modernization fund in February 2024.

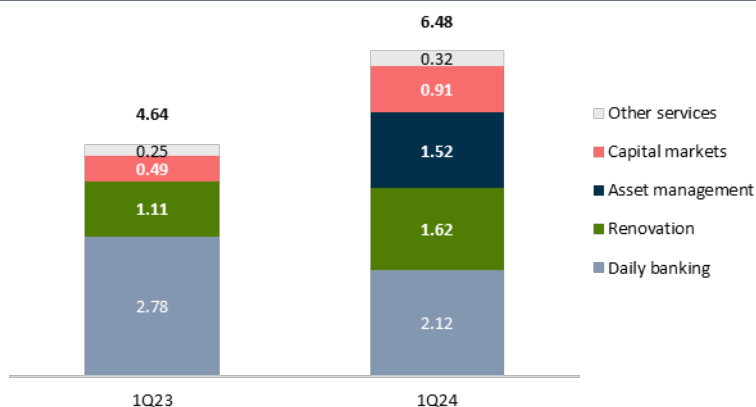
This fund, with an approximate value of EUR 200m, aims to finance the renovation of around 300 apartment buildings in Lithuania.

The bank's strategic initiative aligns with the national aim to have most of the old multi-apartment buildings renovated by 2050. Relating to the initiative, Šiaulių Bankas will earn base management (0.5%) and performance fee (1.0%). Šiaulių Bankas will also generate interest income by investing EUR 27.5m in the platform. Notably, Šiaulių Bankas is a pioneer of financing instruments for multi-apartment building renovation and currently is the market leader with a 65% market share.

NFCI structure 1Q24



NFCI structure

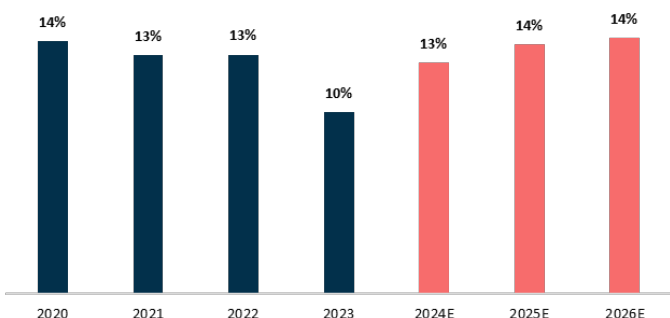


Source: Šiaulių Bankas

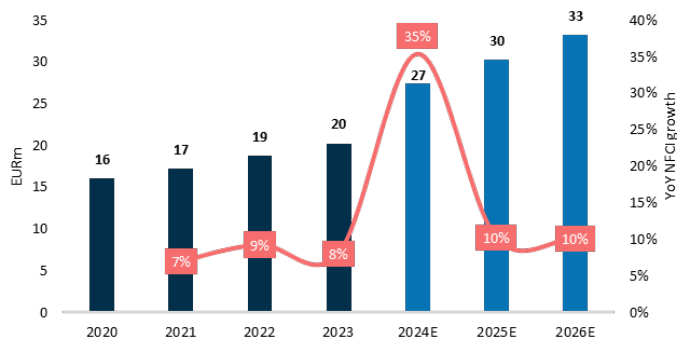
Asset management income has totalled EUR 1.5m in 1Q24, driven by strong investment returns and new client inflows in Pillar II funds. Continuously, this area of fee income is expected to grow in the upcoming periods as SB Asset Management intends to launch a new alternative investment fund later this quarter, in turn potentially increasing the contracts.

It is worth noting that the share of net commission income has decreased from 14% in 2020 to 10% in 2023. This decline can be attributed to the rise in net interest income from higher interest rates. Additionally, the bank has implemented certain measures, such as restrictions on cash transactions by non-EU citizens introduced from July 2023, which have significantly reduced income from cash operations.

Fee income as percentage of total income



Fee income development



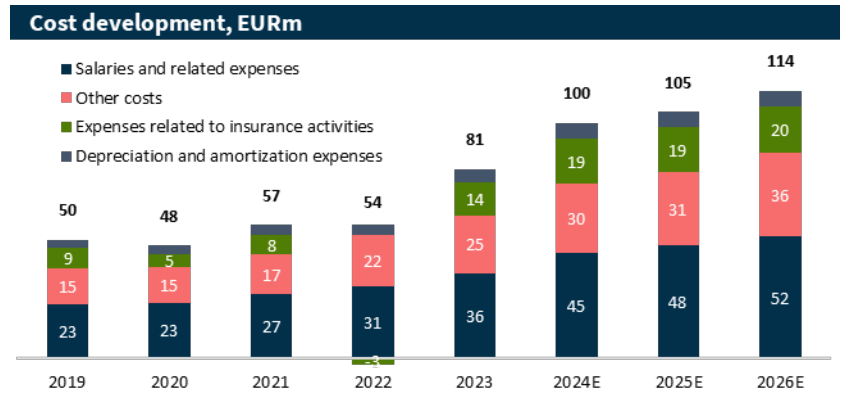
Source: Šiaulių Bankas, Norne Securities for estimates

However, we expect fee income to increase in the coming period and account for 14% of the total income by 2025. One of the main contributing factors is the completion of the merger with INVL Retail. The positive effect was already noticeable in 1Q24, where fee income increase was partially driven by INVL Retail.

Furthermore, cross-selling initiatives are also expected to contribute to the growth of net fee income. Given that less than 30% of the bank's clients have two or more products from the group company, the bank sees plenty of opportunities in this area. The strong market position makes the bank well-placed to capture a larger part of this business among its existing customers, especially following the merger of its retail business with Invalda. We therefore expect the bank to be able to grow faster than the market by increasing its share-of-wallet and market share.

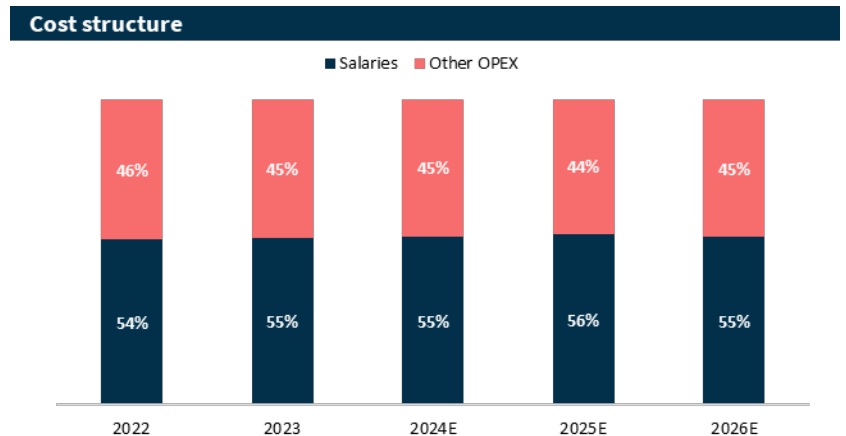
Cost development

Total costs have surged in 2023, advancing by 43% YoY. While salaries have increased by 15% YoY, the most significant cost growth has been observed in other OPEX and insurance-related expenses, which in total inflated by roughly 84% YoY. This increase can be partly attributed to the merger with INVL retail but also to higher IT investment needs and some other temporary effects.



Source: Šiaulių Bankas, Norne Securities for estimates

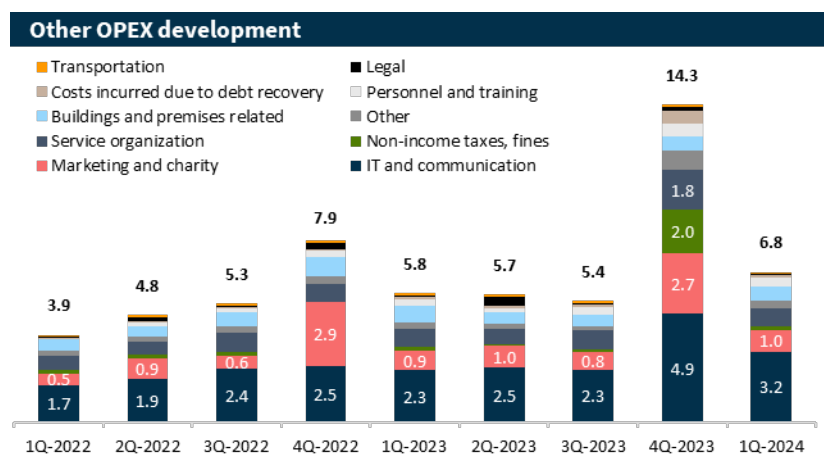
The bank's cost structure is fairly balanced with an approximate 50/50 split between salaries and other OPEX (incl. depreciation; excl. expenses related to insurance activities) observed in 2023. In 1Q24 salaries grew by nearly 30% YoY largely due to increased headcount and general wage inflation. Salaries are estimated to amount to around 55% of total OPEX going forward.



Source: Šiaulių Bankas, Norne Securities for estimates

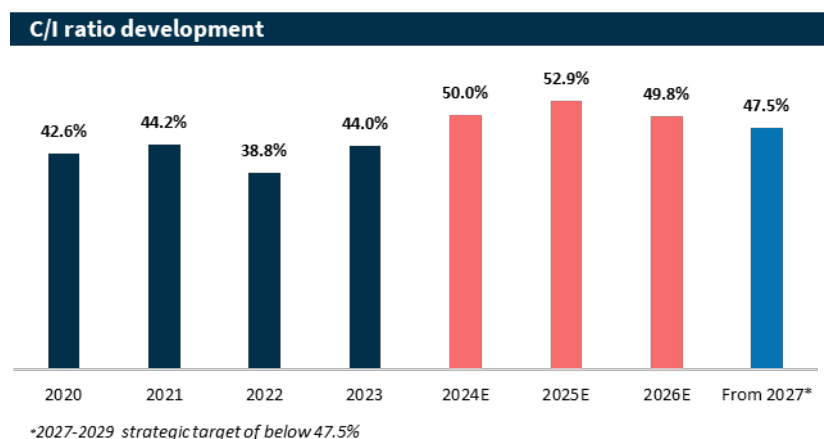
The primary drivers of other OPEX (excl. depreciation; excl. expenses related to insurance activities) in 2023 were IT and communication expenses, constituting around 40% of total other OPEX, followed by marketing and service organization expenses at around 17%.

In 1Q24 other OPEX (excl. depreciation; excl. expenses related to insurance activities) rose by 17% YoY vs the 81% growth observed in 4Q23, implying the bank continues to record double-digit growth in other OPEX and costs are likely to continue to be inflated in the upcoming periods yet stabilize at current levels.



Source: Šiaulių Bankas, Norne Securities for estimates

Cost-to-income ratio increased from 38.8% in 2022 to 40.7% (adjusted for a one-off expense of EUR 6.6m) in 2023. The unadjusted cost-to-income figure for 2023 stood at 44% vs approximately 39% recorded in the previous year.

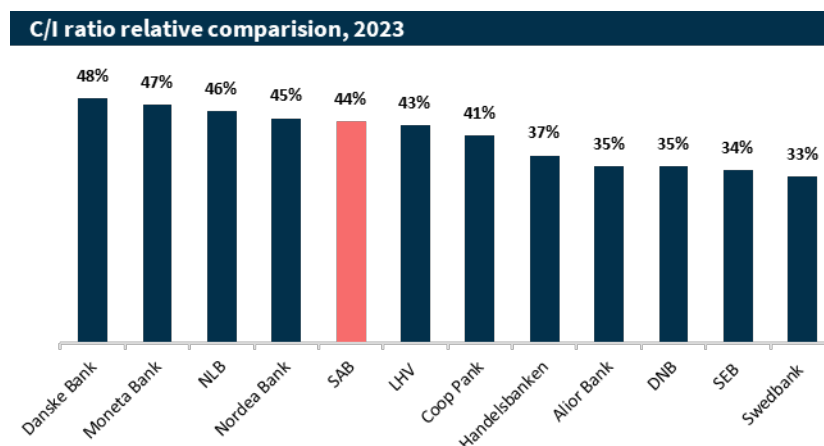


Source: Šiaulių Bankas, Norne Securities for estimates

Looking ahead, the bank plans to incur temporary cost increases associated with the change of the core banking platform. Although the total costs are not specified, the transition is expected to take two years, with a projected launch in 1H26. While the switch into the core system should be finished by around 2028, we see a risk in underestimation of costs due to a long process and in general seeing a high increase in IT expenses in the last years accompanied by somewhat elevated inflation.

We also see the potential for increased costs due to general digitization initiatives (e.g., improvements to internet banking and mobile app) and continued wage growth as the company seeks to attract talent.

Ultimately, although Šiaulių Bankas recorded elevated costs in 2023, the bank's cost-to-income ratio relative to its peers stood in the mid-range suggesting a comparatively good bank's cost control.



Source: Bank reports, Norne Securities

More about the core banking platform change

One of the main messages conveyed during the bank's strategy update in early 2024 was the plan to switch the core banking platform to Temenos. Temenos is a widely recognized global supplier utilized by over 3,000 financial institutions in more than 150 countries. This transition aligns with the bank's expanding business requirements and the urgent need for a more flexible and reliable solution. The timing is opportune as it coincides with the conclusion and integration of the INVL Retail business. Although the exact costs were not disclosed, there will be a significant cost impact over the next two years until the new platform is fully integrated and operational.

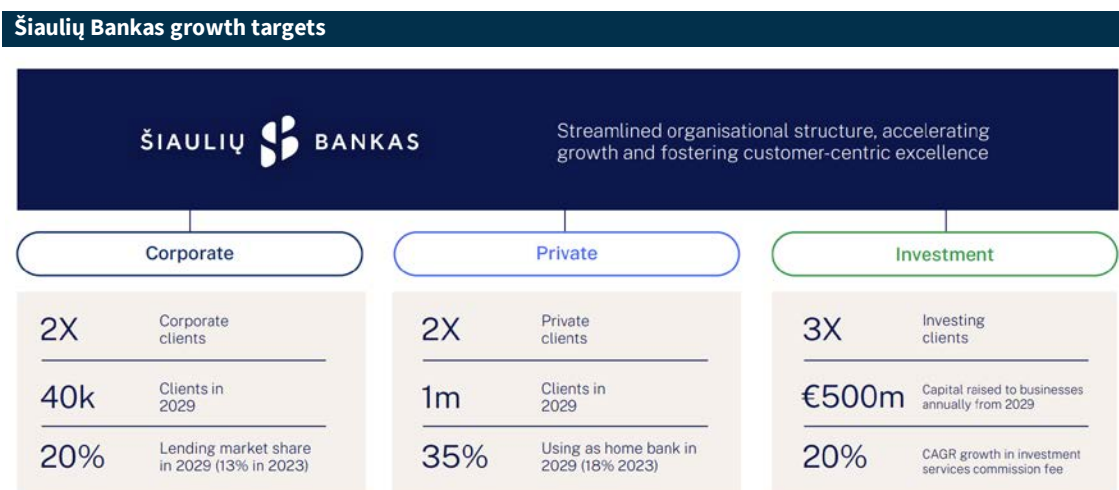
Strategy and ROE guidance

Šiaulių Bankas presented its 2024-2029 strategy earlier this year. The new strategic direction comes following a few key developments last year, such as the completion of the merger with INVL Retail and changes in the shareholder structure.

The bank has set an ambitious goal for 2029 – to become the best bank in Lithuania. This includes achieving significant growth in lending and capturing a larger market share in both the retail and corporate sectors.

To achieve these goals, Šiaulių Bankas has introduced a new organizational structure focused on corporate, private, and investment clients.

Within the corporate segment, the bank aims to double the total number of clients and increase its market share from 13% to 20% by 2029. This growth will be achieved through a deeper focus on specific corporate segments, such as renewable energy, wholesale and retail, manufacturing, and agriculture.



Source: Šiaulių Bankas

The plans for the private segment are also ambitious, intending to double the number of clients and increase the percentage of retail market clients using Šiaulių Bankas as their primary bank from 18% to 35%. Key initiatives within the retail segment include becoming a more customer-centric bank and effectively utilizing cross-selling opportunities within the core bank areas.

In terms of the investment client base, the bank aims to triple the number of recurring investment clients and raise a total business capital of EUR 500m annually. Key initiatives in this segment include:

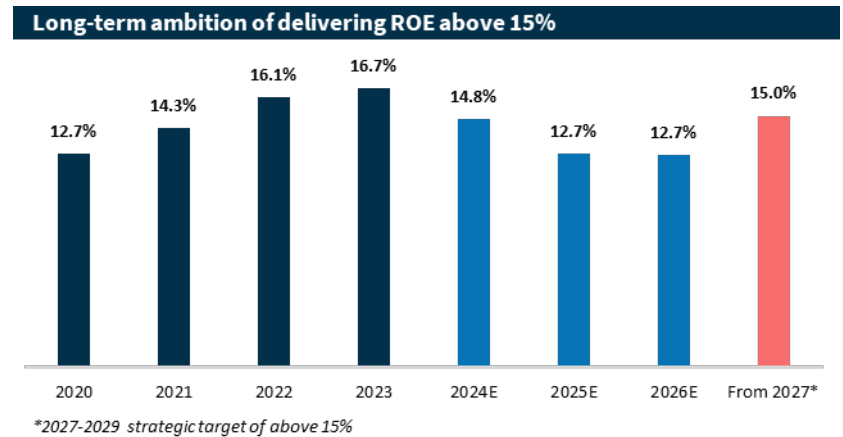
- DCM offering for all client segments
- Securities trading platform upgrade (white-label solution, partner integration)
- Full-service depository services
- Developing financial derivatives capabilities and offering

The bank has provided detailed financial targets for the 2024-2029 period as presented below:

Šiaulių Bankas financial targets					
Focus Areas		2024	2025	2026	2027-2029
Growth	Loan Book	€3.3bn	€3.7bn	€4.1bn	CAGR: ~8%
	Deposits	€3.3bn	€3.6bn	€4.0bn	CAGR: ~10%
	Total Operating Income	€202m	€211m	€243m	CAGR: ~10%
	Net Fee Income	€27m	€29m	€33m	CAGR: ~20%
Efficiency	C/I ratio	49.7%	53.2%	48.8%	Below 47.5%
Profitability	RoE	13.7%	13.1%	15.0%	Above 15.0%

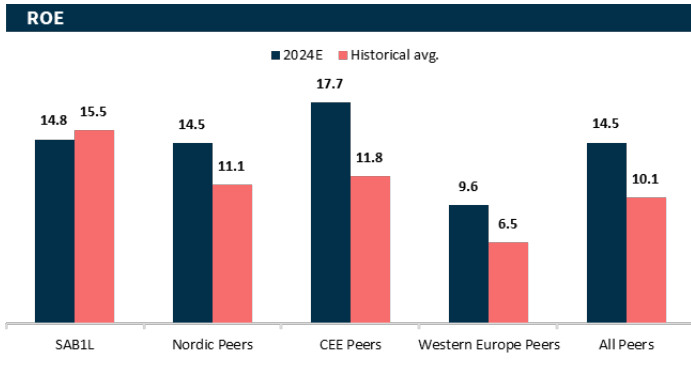
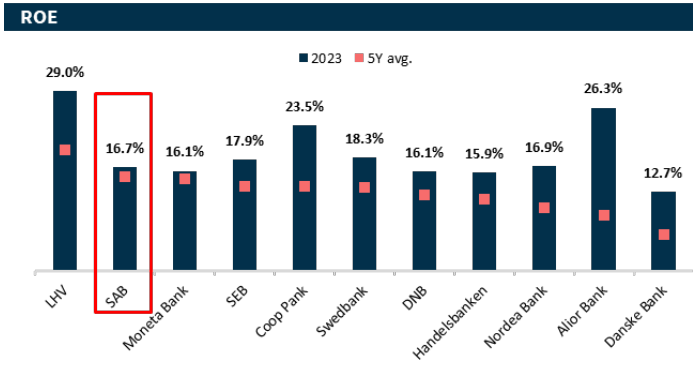
Source: Šiaulių Bankas

Overall, once the needed investments are incurred and taken through P&L, the key initiatives translate into ROE ambitions of 15% and above from 2026 onwards. Although we perceive this as rather an ambitious long-term target, the continuously expanding capabilities enabling cross-selling to secure a larger customer base potentially provide headroom for growth and enable the bank to uncover further expansion possibilities. We envisage the Cost/Income target somewhat elevated compared to peers, thus we see more room to lower the Cost/Income ratio, which might potentially make it easier to deliver on the overriding ROE target.



Source: Šiaulių Bankas, Norne Securities for estimates

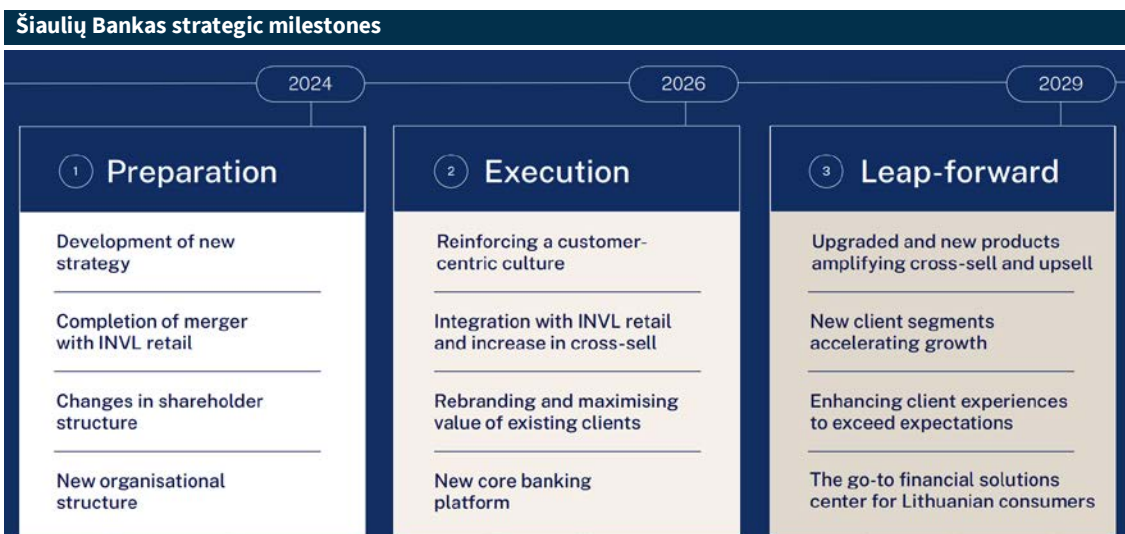
Among peers, Šiaulių Bankas records one of the highest historical ROEs (last five-year average) at 15.5% providing relatively attractive returns. Considering consistently higher ROE vs peers and a P/B ratio below 1x, we believe this is quite an interesting investment case in Šiaulių Bankas, considering that new initiatives might provide an additional upside potential in valuation and dividends.



Source: Bloomberg, Norne Securities

Lastly, the bank has formulated and provided three major milestones on its strategy execution timeline:

- 2023-2024 period being preparation for initial stages of strategic transformation, including the new strategy development, merger of INV L businesses, and core changes in shareholder and organisational structure;
- Subsequently, the 2024-2026 period is dedicated to the execution of the strategy, involving such actions as the integration of INV L retail business and active promotion of/cross-selling of the bank's products. The 24/26 period also signifies a key operational transition, i.e., the shift to a new core banking platform along with the brand's image change. The bank notes that rebranding aligns with the shifting business focus, translating into an adoption of a customer-centric approach;
- Finally, the 2026-2029 period, assuming the successful execution of prior strategy stages, is anticipated to be primarily dedicated to all-around product basket strengthening and improvement, which in turn is expected to aid with the augmentation of the client base.



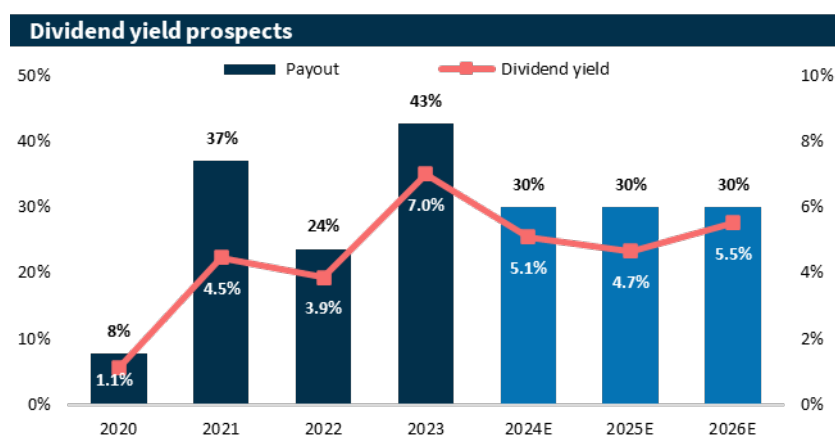
Source: Šiaulių Bankas

Shareholder remuneration

The bank's dividend policy stands at a minimum of 25% of net annual earnings. The policy was introduced in 2018. In 2020 the profit distribution was retained, however, dividends were resumed in 2021 and the bank decided to distribute 8% of 2020 net profit, followed by the resumption of the bank's dividend policy and payout of 37% of net earnings in 2021.

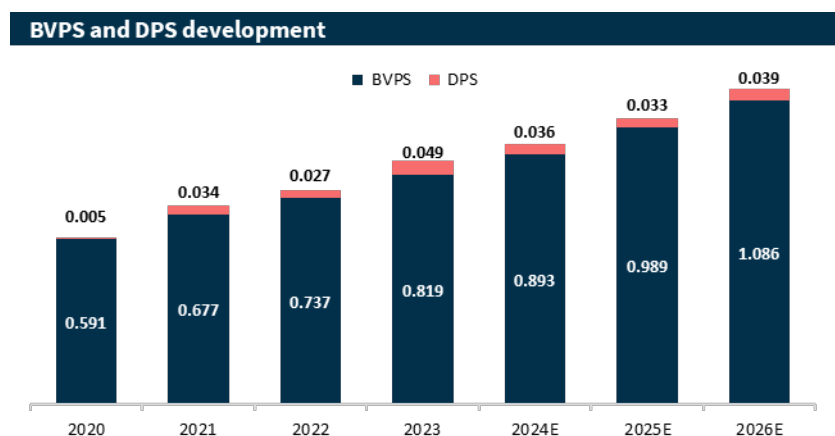
For 2023, Šiaulių Bankas has proposed paying a dividend of EUR 0.0485/sh which represents a record-high payout of 43% and implies a dividend yield of 7%. Notably, the record-high 43% payout was an exceptional occurrence and should not be regarded as a baseline for future periods.

For 2024-2026 we expect a generous payout of around 30% equating to a yield in a range between approximately 5.00-6.00%.



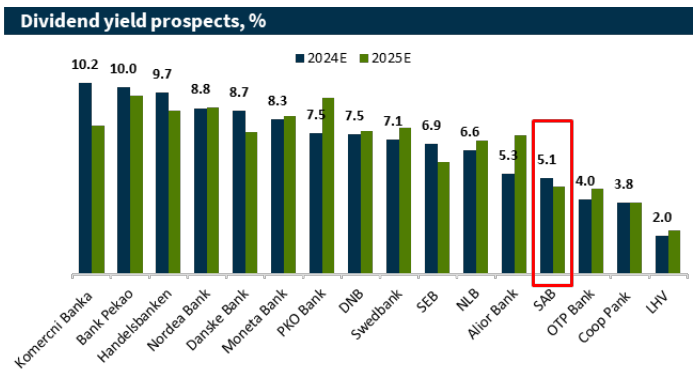
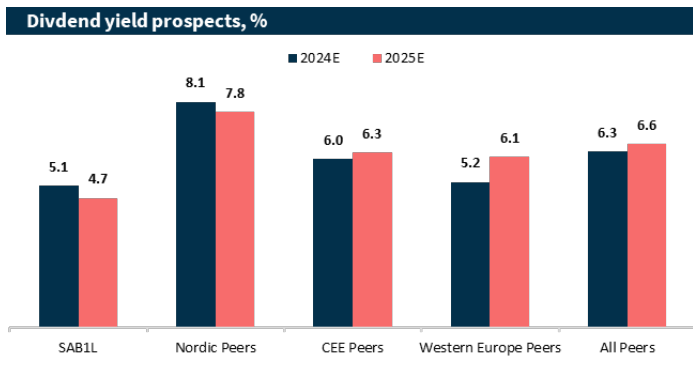
Source: Šiaulių Bankas, Norne Securities for estimates

Solid dividend prospects among other aspects of shareholder value proposition so far have been and are foreseen to continue being a core element of the bank's shareholder value creation strategy. Accordingly, a steady DPS growth is estimated, with prospects of around EUR 0.0390/sh for 2026e.



Source: Šiaulių Bankas, Norne Securities for estimates

Relative to the average of all peers, Šiaulių Bankas is set to offer a relatively less attractive dividend yield for 2024/25e of ~5% vs ~7%, respectively.



Source: Bloomberg, Norne Securities

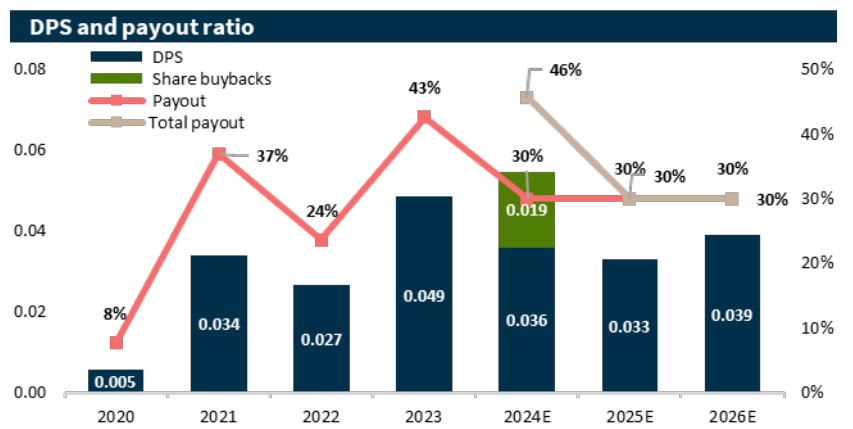
Besides dividend distribution, in January 2024 the bank launched an inaugural share buyback worth EUR 900k. Continuously, on 11 April 2024, Šiaulių Bankas submitted a request to the European Central Bank (ECB) to buy back shares of up to EUR 11.5 million. The aim is to increase shareholder value and to exercise options for the bank’s employees. ECB approval is expected to be received within the third quarter of 2024.

Šiaulių Bankas seeks permission to buy back its own ordinary shares (ISIN code LT0000102253):

- Up to 12,000,000 shares for no more than EUR 10.0m in value within one year from the receipt of permission, in order to reduce the bank’s capital by cancelling the shares acquired by the bank;
- Up to 1,745,114 shares for no more than EUR 1.5m in value, in order to grant shares to Šiaulių Bankas group employees as part of the deferred variable remuneration in 2025.

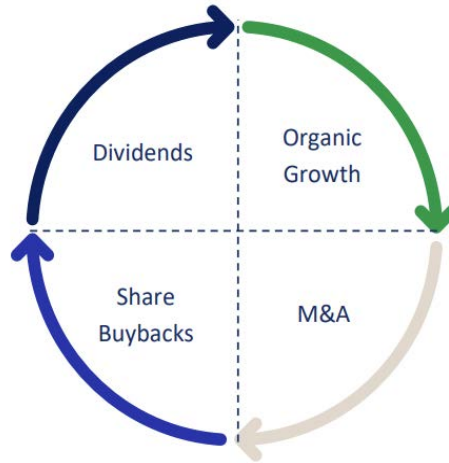
The total buyback value of up to EUR 11.5m equates to around 2.5% of the current market cap.

Šiaulių Bankas had already bought back 1,250,000 of its own shares for EUR 0.9m earlier this year and also applied to the ECB for permission to cancel them.



Source: Šiaulių Bankas, Norne Securities for estimates

Strategy for shareholder value creation



Source: Šiaulių Bankas

Ultimately, the bank sees share buybacks as an integral part of capital allocation in the periods to come.

Capital position

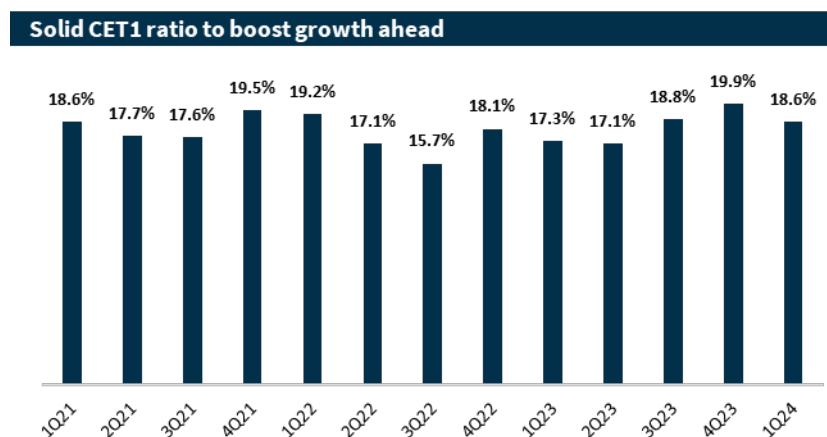
The current total CET1 requirement (incl. Pillar-2 guidance buffer) for Šiaulių Bankas stands at 12.1% and is comprised of the following components:

Requirements 2024.01.01	
Minimum Tier 1 Capital Requirements	4.5%
Conservation buffer	2.5%
Systematic Risk Buffer	0.2%
Counter-cyclical Buffer	1.0%
O-SII buffer	1.0%
Pillar-2 requirement	1.2%
CET1 requirements	10.3%
Pillar-2 Guidance	1.8%
CET1 requirements Incl. P2G	12.1%

Source: Šiaulių Bankas

The Supervisory Review and Evaluation Process (SREP) takes place annually and based on the latest evaluation, Pillar II requirement and P2G were kept unchanged at 1.20% and 1.75%, respectively. The bank also has a 1.00% buffer imposed as it is designated as an Other Systemically Important Institution.

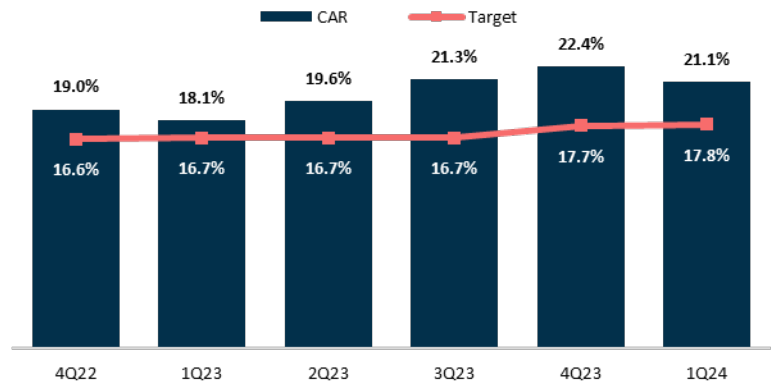
The CET1 ratio as of 1Q24 stands at 18.6%, implying a comfortable buffer of 6.5%p.



Source: Šiaulių Bankas

In the meantime, the capital adequacy ratio is at 21.1% as of 1Q24 or 3.3%p above the bank's internal target of 17.8%. Overall, we view the capital position as robust with solid profitability supporting internal capital generation. Solid capital headroom supports high lending growth ambitions and continued attractive levels of shareholder remuneration.

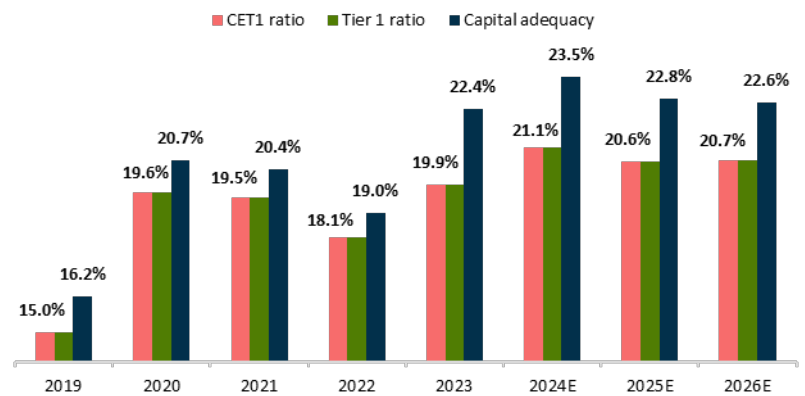
Capital Adequacy Ratio development



Source: Šiaulių Bankas

For 2024/26e we foresee the bank's capital position strengthening further in accordance with growing regulatory pressures.

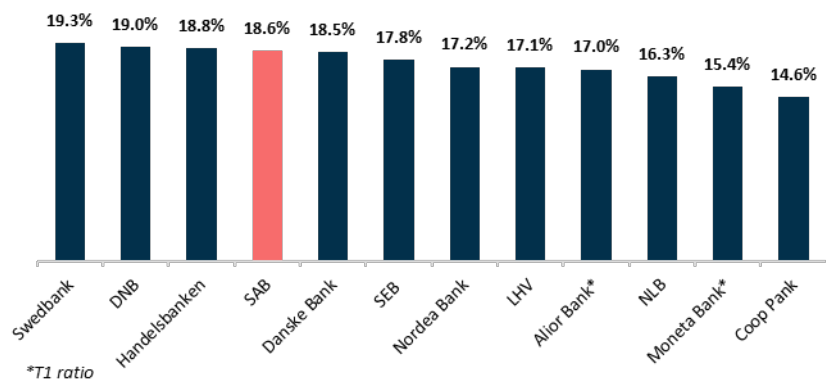
Strengthening capital position



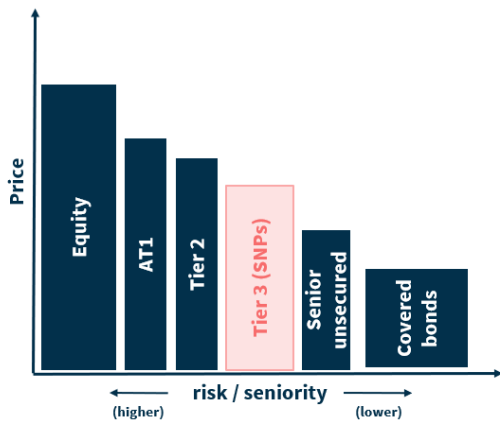
Source: Šiaulių Bankas, Norne Securities for estimates

It is worth noting that among peers, Šiaulių Bankas has one of the highest reported core equity tier-one ratios as of 1Q24.

CET1 ratio (1Q24)



Source: Bank reports, Norne Securities



MREL

Šiaulių Bankas is subject to the Minimum Requirement for own funds and Eligible Liabilities (MREL). The MREL requirement is composed in part of a loss absorption amount (LAA) calculated on the basis of prevailing minimum capital requirements and so-called Pillar 2 requirements.

The MREL requirement also consists of a recapitalisation amount (RCA), which corresponds to the resources needed to restore capital. The RCA is also calculated on the basis of prevailing minimum capital requirements and Pillar 2 requirements.

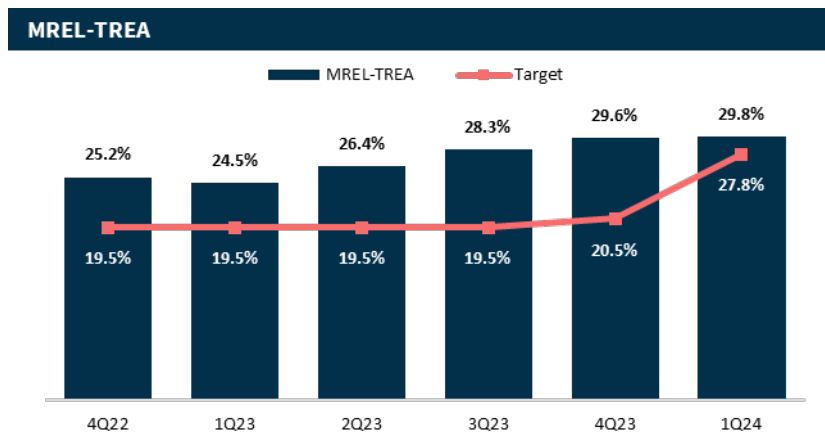
$$\text{MREL} = \underbrace{\text{Pillar1} + \text{Pillar2} + \text{Combined buffer}}_{\text{Loss absorption amount}} + \underbrace{\text{Pillar1} + \text{Pillar2} + \text{Combined buffer} - \text{CC buffer}}_{\text{Recapitalisation amount}}$$

MREL main principle – the double capital requirement plus buffer

The aim of MREL is to act as a buffer to absorb losses and provide new capital to the bank.

The MREL requirement can be met with own funds and liabilities that fulfil certain conditions (referred to as eligible liabilities). For eligible liabilities, this requires the issuance of subordinated liabilities with a lower priority than traditional senior bonds. The subordination requirement stems from the fact that those instruments are easier to bail in and less prone to litigation than other liabilities.

In February 2023, Šiaulių Bankas received an updated MREL requirement to be met by January 1st, 2024. The MREL requirement of total risk exposure (TREA) is at 21.49%, whereas the MREL of leverage ratio exposure (MREL-LRE) is set at 7.16%. Subordinated instruments shall comprise 13.50% of total risk exposure (MREL-TREA, subordinated) and 5.99% of leverage ratio exposures (MREL-LRE, subordinated). Combined buffer requirement (CBR) has to be included on top of MREL-TREA and MREL-TREA, subordinated requirements. The increased MREL requirements drove the target to 27.8% in 1Q24, reducing the bank's buffer to 200bps.



Source: Šiaulių Bankas

Potential bond offering in 2024

As of 1Q24, the bank's MREL stands at 29.8% of TREA. To further fulfil the MREL requirement, the bank is planning to have two bond offerings in 2024. In May of 2024, Šiaulių Bankas issued a new subordinated bond of EUR 25m. This is anticipated to be followed by a bond issue with a minimum value of EUR 250m (related to the redemption of EUR 210m bond issued in 2021) in 2H24. The funds raised from the potential bond issue could help the bank to comfortably comply with the rising MREL requirements set by supervisory authorities. Ultimately, additional funds could aid in optimizing the bank's capital structure and fulfilling the guided dividend policy.

Overview of the current bond portfolio

As of the date of this report, the bank has four outstanding bonds. A EUR 210m senior preferred bond was issued in 2021 (redemption of which is planned in 2H24) with a coupon of 1.047% and maturity on October 7, 2025. A EUR 20m subordinated bond was issued in 2019 with a coupon of 6.15% and maturity on December 23, 2029. The bank also holds a EUR 50m subordinated bond with a coupon of 10.75% and maturity on June 22, 2033. The latest issue is a EUR 25m subordinated bond with a coupon of 7.7% and maturity on May 22, 2034.

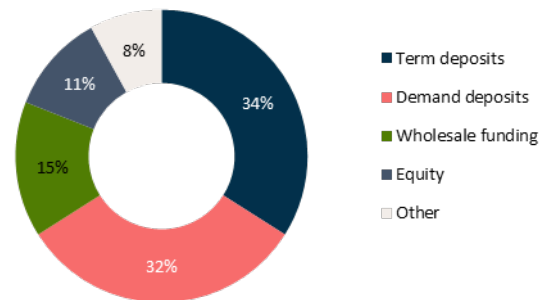
Outstanding bond issues				
	2019 issue	2021 issue	2023 issue	2024 issue
ISIN-code	LT0000404287	LT0000405771	LT0000407751	LT0000409013
Currency	EUR	EUR	EUR	EUR
Nominal amount	20,000,000	210,000,000	50,000,000	25,000,000
Coupon	6.15	1.047	10.75	7.70
Maturity	23 December 2029	07 October 2025	22 June 2033	22 May 2034
Maturity type	At maturity	Callable	Callable	Callable

Source: Bloomberg, Norne Securities

Funding and liquidity

The financial funds of Šiaulių Bankas are primarily driven by customer deposits, covering approximately 66% of total funding, with a nearly equal split between the fixed and demand deposits. Whereas wholesale funding totals 15% and equity funding totals only around 11%. Hence, the bank's funding requirements are largely covered by customer deposits, as further discussed in the following segments of the report.

Funding portfolio structure

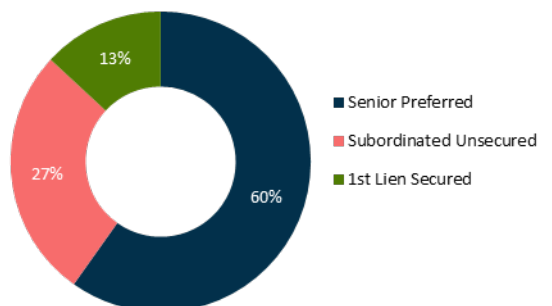


Source: Šiaulių Bankas

Based on Bloomberg's data, roughly 60% of Šiaulių Bankas capital market funding is backed by senior preferred debt, seconded by subordinate unsecured debt at 27% and 1st lien secured at 13% of the total funding mix.

As noted prior, as of the date of the report, the bank has four outstanding bond issues amounting to EUR 305m. Also, the bank holds three loans of an outstanding total of EUR 46m.

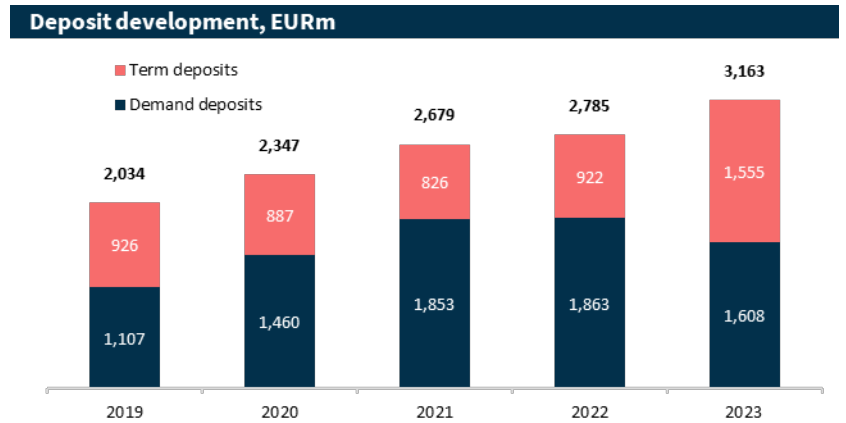
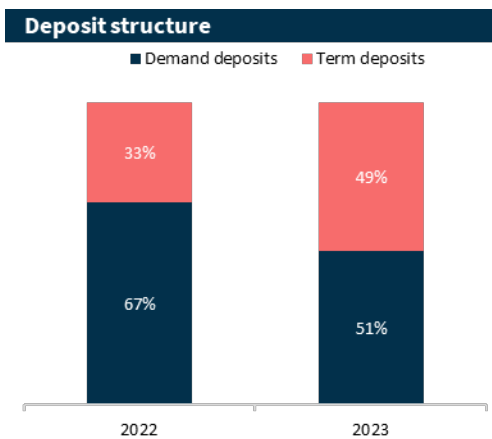
Capital market funding split



Source: Bloomberg

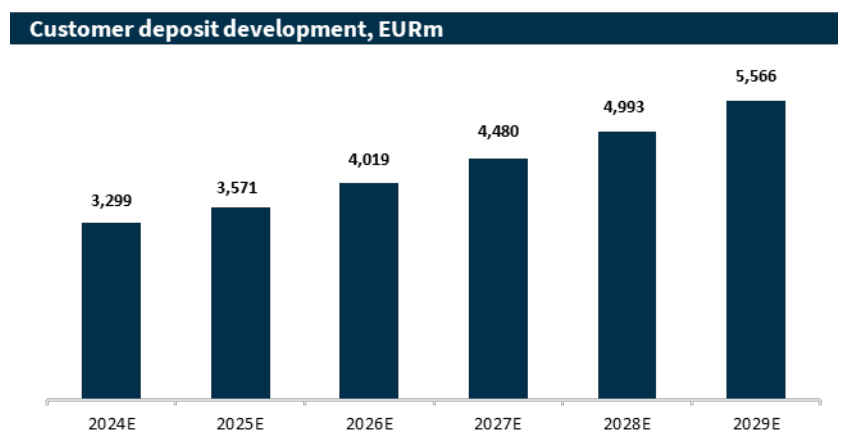
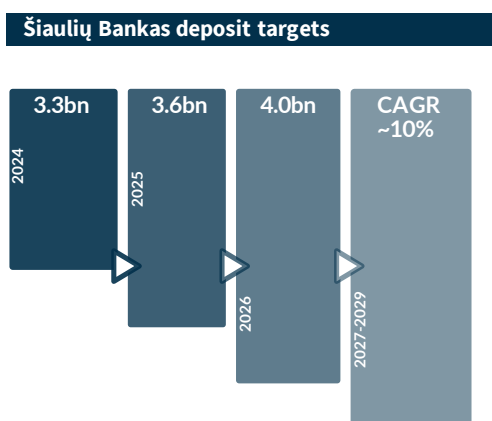
Deposits

During 2023, total deposits grew by roughly 14% YoY, being in line with the deposit growth rate observed during the 2020-2021 period. Moreover, with demand deposits declining by 14% YoY, and term deposits increasing by nearly 70% YoY, the total customer deposit structure shifted to a close to half-split between the two sources of funding in 2023. Thus, an increased proportion of fixed deposits implies the bank has been able to secure a share of more stable and potentially higher interest-yielding sources of financing. In 1Q24, the proportion of term deposits to total deposits equated to 51%, indicating further augmentation of relatively more secure and stable funding. Overall, the customer transition towards fixed deposits provides potentially more favourable financing rate terms for the bank.



Source: Šiaulių Bankas

Considering the short/mid-term deposit development, we anticipate the deposits to advance in line with the bank's guidance, as provided below.



Source: Šiaulių Bankas, Norne Securities for estimates

LCR and NSFR

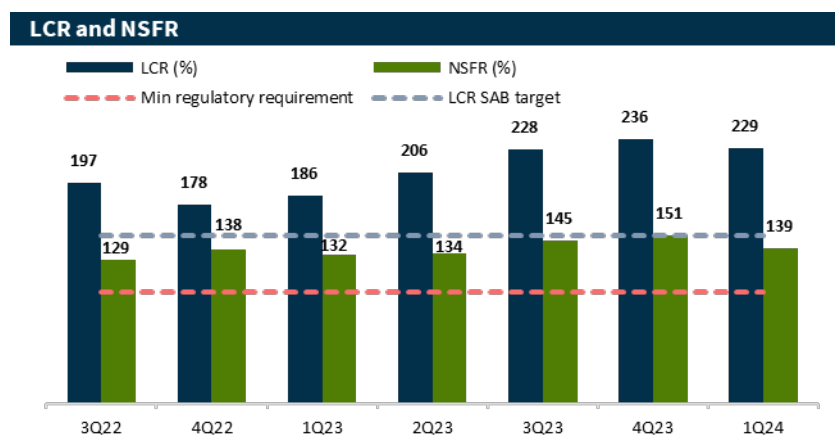
Starting from 2015, the Šiaulių Bankas is subject to regulatory Liquidity coverage ratio (LCR). The main factors affecting Šiaulių Bankas Group's LCR are changes in the liquidity buffer, which is largely composed of highly liquid government securities and funds held with the central bank, and cash outflows, primarily related to unsecured wholesale funding.

As of 1Q24 LCR of Šiaulių Bankas Group stood at 229% (186% in 1Q23) signifying the bank complied with a cushion well above the standard minimum regulatory requirement of 100%, as well as sufficed the bank's internal target of 150%. This indicates that the bank's liquidity buffer comfortably exceeds the funding needs, i.e., the bank holds a sufficient reserve of high-quality liquid assets (HQLA) that can be easily converted into cash without any restrictions and with minimal losses since Šiaulių Bankas Group possesses considerable highly liquid debt securities portfolio.

Considering that Šiaulių Bankas Group does not have significant derivative positions consisting of forward foreign exchange contracts and derivatives linked to the prices of financial instruments since their share constitutes only around 0.48% of total assets. Also, the inherent risk of currency mismatch in the LCR is perceivably limited and can be considered stable as 100% of the Group's assets and 98% of liabilities are accounted for in euros.

Similarly, the bank runs an NSFR of 139% as of 1Q24 (132% in 1Q23) implying a stable funding portfolio considering the ratio being over the minimum required ratio of 100%.

Šiaulių Bankas uses retail deposits as the main source of financing. The bank's available stable funding (ASF) is mostly comprised of retail deposits constituting roughly 66% share of the total ASF. A large proportion of the bank's ASF retail deposits are stable. Moreover, solely retail deposits cover a high level of Required Stable Funding (RSF) at approximately 90% and somewhat exceed the required funding for the largest category in RSF (performing loans and securities).



Source: Šiaulių Bankas

Overall, we view Šiaulių Bankas Group's liquidity buffer to comfortably exceed the funding needs. The bank's funding needs are largely covered by retail deposits, mostly consisting of stable deposits. This also implies the liquidity risk is low and the bank would be able to undergo potential short-term financial stress exposures with the ASF reserves.

Valuation

As a general case with the banks, we value Šiaulių Bankas Group using Dividend Discount Model (DDM) due to their relatively high and consistent dividends over different cycles and Residual Income Valuation (RIV) approaches. We also look at pricing multiples, dividends sustainability, asset quality, capitalization level vs requirements and growth as well as other important metrics in order to determine the bank's attractiveness relatively to closest peers and relatively to historical levels.

We are using the following assumptions in our valuation methods:

Cost of equity

- Risk-free rate of ~3.66%, i.e., the approximate yield of a Lithuanian 10-year Government Bond;
- Equity risk premium of 6.00%;
- Beta of 1.10. The actual adjusted beta of Šiaulių Bankas Group stock is 1.081 (unadjusted 1.122) vs. OMX Baltics All Share Price Index (weekly returns since 01/01/2005).

Terminal value

- Long-term growth rate of 2.5% in a stable period for DDM and RIV: this is derived as an average last forecasted year 2027E GDP growth of Lithuania forecasted by the Ministry of Finance of Lithuania and IMF
- Long-term ROE** of 11.6%. Our terminal cost of equity assumes a partial convergence to the cost of equity over time
- As for DDM model, we estimate dividend payout in the forecasted period at ~30%, but for the terminal value, we set payout at 40%. The reason for this is that we believe the bank's above-market lending growth should mature and converge towards market growth in the long term. This means that the reduction in lending growth should lead to improved dividend capacity due to lower required capital for growth, thus the excess capital might be used for dividends/share buybacks
- In the DDM model, we have also defined capital above 17.8% in Capital Adequacy Capital (equivalent to the current Capital Adequacy Ratio Capital target) as excess capital, with the assumption that this will be distributed to shareholders as dividends in the last year before terminal value in 2027. This amount is then discounted to the Present Value as of today.

***Average of last explicit year ROE and cost of equity, assuming a gradual convergence to cost of equity over time*

As noted previously, our terminal ROE is lower than estimated for 2028E as we assume a partial convergence to the cost of equity over time. The following table represents Šiaulių Bankas Group's RIV value under different combinations of ROE and cost of equity, assuming 2.5% terminal growth.

Our ROE sensitivity shows that if assuming terminal ROE as the current estimated of 14.8% for 2024E – the fair value would be at around EUR 1.27/sh or justified P/B at ~1.58x.

Sensitivity P/B vs ROE and Cost of equity

		ROE				
		12.8%	13.8%	14.8%	15.3%	15.8%
Cost of equity	8.8%	1.64	1.80	1.96	2.04	2.12
	9.3%	1.52	1.67	1.82	1.89	1.97
	10.3%	1.33	1.46	1.58	1.65	1.71
	10.8%	1.25	1.37	1.49	1.55	1.61

* Assuming 2.5% terminal growth

Sensitivity Fair value vs ROE and Cost of equity

		ROE				
		12.8%	13.8%	14.8%	15.3%	15.8%
Cost of equity	8.8%	1.32	1.45	1.58	1.64	1.71
	9.3%	1.22	1.34	1.46	1.52	1.58
	10.3%	1.07	1.17	1.27	1.33	1.38
	10.8%	1.00	1.10	1.20	1.25	1.29

* Assuming 2.5% terminal growth

Assumptions

Cost of equity	
Risk free rate*	3.7%
Equity risk premium	6.0%
Beta	1.10
Cost of equity	10.3%

*Lithuania 10Y govt. bond yield (approx.)

Terminal value (TV) assumptions	
Long term growth rate for DDM*	2.5%
Long term growth rate for RIV	2.5%
Long term ROE**	11.6%

*g - 2027 Lithuanian GDP growth (average of Ministry of Finance and IMF)

**Average of last explicit year ROE and cost of equity, assuming convergence to cost of equity

Dividend Discount Model (DDM)

Estimates (EURm)	2024E	2025E	2026E	2027E	Base year
Net profit	79	71	84	95	97
Dividends paid	24	21	25	28	29
Payout ratio (Group)	30%	30%	30%	30%	40%
Share buybacks	12.4	0.0			
PV of dividends	22	18	19	20	
Capital Adequacy ratio, %	23.5%	22.8%	22.6%	22.8%	
Capital Adequacy ratio target, %	17.8%	17.8%	17.8%	17.8%	
RWA	2,670	2,963	3,259	3,501	
Excess capital to shareholders	152	147	157	175	

Valuation (EURm)	Share
NPV of dividends paid, forecasted period	79 16%
NPV of excess capital to shareholders	134
NPV of share buybacks	12
NPV of dividends paid, TV	261 54%
Total NPV of dividends	485 70%
Number of shares (mill.)	662
Value per share (EUR)	0.73

Sensitivity (EUR/share)		Cost of equity				
		8.3%	9.3%	10.3%	11.3%	12.3%
Long term growth	0.5%	0.77	0.70	0.65	0.60	0.56
	1.5%	0.83	0.75	0.69	0.63	0.59
	2.5%	0.92	0.82	0.73	0.67	0.62
	3.5%	1.05	0.90	0.80	0.72	0.65

Residual Income Valuation (RIV)

Estimates (EURm)	2024E	2025E	2026E	2027E	Base year
Equity to shareholders (start of year)	543	590	637	700	769
ROE	14.8%	12.7%	12.7%	12.9%	11.6%
Cost of Equity	10.3%	10.3%	10.3%	10.3%	10.3%
Residual income	25	15	15	19	10
PV of residual income	23	12	12	13	

Valuation (EURm)	Share
Opening equity to shareholders	543 78%
PV of residual income, forecasted period	60 9%
PV of residual income, TV	91 13%
Total value to shareholders	694 100%
Number of shares (mill.)	662
Value per share (EUR)	1.05

Sensitivity (EUR/share)		Cost of equity				
		8.3%	9.3%	10.3%	11.3%	12.3%
Long term growth	0.5%	1.24	1.12	1.02	0.94	0.87
	1.5%	1.27	1.14	1.03	0.95	0.87
	2.5%	1.33	1.17	1.05	0.95	0.88
	3.5%	1.40	1.21	1.07	0.96	0.88

Relative valuation

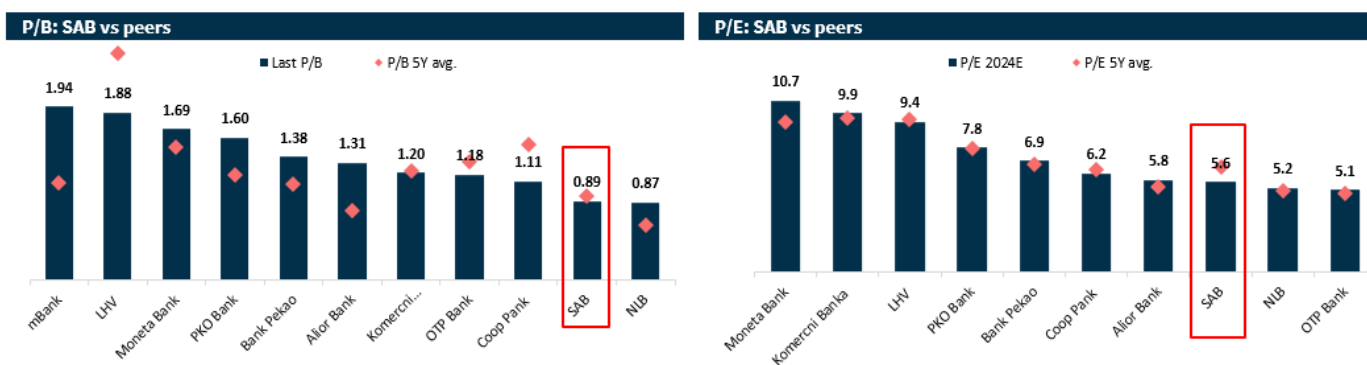
Historically, the bank's pricing has been largely undemanding relative to peers considering a consistent discount relative to the sector. The discount to CEE peers is significant, but compared to Nordic peers the discount is even larger despite that Šiaulių Bankas offers superior ROE. That might be attributed to the liquidity of the shares, development of local capital markets (e.g., the market capitalization of listed domestic companies in % of GDP) and perceived equity risk premiums in different markets (e.g. Lithuania as a frontier market vs developed Nordics/Europe).

Peer comparison

EURm	Source	Market Cap.	P/B	P/E			Dividend Yield, %			ROE, %			ROE, % 5Y avg.	P/E 5Y avg.	P/B 5Y avg.
				2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E			
SAB1L	Norne	471	0.89	5.6	5.8	5.4	5.1	4.7	5.5	14.8	12.7	12.7	15.5	6.6	0.94
SAB1L	Consensus*	-	-	6.0	6.5	5.1	4.9	4.9	5.6	13.6	12.2	13.4	15.2	5.8	0.94
Nordic Peers															
DNB Bank ASA	Consensus*	27,746	1.38	8.6	9.3	9.1	7.5	7.6	7.7	15.3	13.7	13.4	12.2	8.2	1.27
Svenska Handelsbanken AB	Consensus*	18,363	1.09	8.5	9.6	9.8	9.7	8.7	8.3	12.3	10.9	10.6	11.6	7.9	1.08
Nordea Bank Abp	Consensus*	37,966	1.28	7.6	7.8	7.8	8.8	8.9	9.0	16.0	14.8	14.4	10.2	7.8	1.11
Swedbank AB	Consensus*	21,634	1.25	8.0	8.5	8.4	7.1	7.8	7.9	15.3	13.8	13.2	13.5	7.8	1.14
Skandinaviska Enskilda Banken AB	Consensus*	29,468	1.54	9.5	9.9	9.7	6.9	6.0	5.9	15.6	14.3	14.2	13.6	8.8	1.25
Danske Bank A/S	Consensus*	24,022	0.99	8.0	8.0	7.7	8.7	7.6	7.9	12.3	11.6	11.5	5.9	8.3	0.66
Average			1.26	8.4	8.9	8.8	8.1	7.8	7.8	14.5	13.2	12.9	11.1	8.1	1.08
Median			1.27	8.2	8.9	8.8	8.1	7.7	7.9	15.3	13.8	13.3	11.9	8.0	1.13
<i>Premium/discount</i>			<i>-30%</i>	<i>-32%</i>	<i>-34%</i>	<i>-39%</i>	<i>-3.0%p</i>	<i>-3.0%p</i>	<i>-2.4%p</i>	<i>-0.5%p</i>	<i>-1.0%p</i>	<i>-0.7%p</i>	<i>3.6%p</i>	<i>-18%</i>	<i>-16%</i>
CEE Peers															
Alior Bank SA	Consensus*	3,011	1.31	5.8	6.5	7.4	5.3	7.4	6.5	21.4	16.5	13.5	8.9	5.3	0.78
LHV Group AS	Consensus*	1,125	1.88	9.4	9.1	8.3	2.0	2.3	na	20.0	18.1	17.4	19.6	9.5	2.55
Nova Ljubljanska Banka dd	Consensus*	2,640	0.87	5.2	5.8	7.3	6.6	7.1	6.8	16.4	14.4	13.4	15.9	5.1	0.61
Moneta Money Bank AS	Consensus*	2,242	1.69	10.7	10.3	10.0	8.3	8.4	8.4	16.0	16.0	16.6	14.8	9.4	1.48
mBank SA	Consensus*	6,388	1.94	5.3	6.0	6.9	2.8	2.8	6.1	16.5	20.9	19.3	-1.2	7.2	1.09
Coop Pank AS	Consensus*	216	1.11	6.2	6.2	5.7	3.8	3.8	4.3	17.7	15.5	15.0	13.5	6.4	1.51
Bank Polska Kasa Opieki SA	Consensus*	10,216	1.38	6.9	7.5	8.3	10.0	9.5	9.1	19.8	17.9	15.3	11.0	6.7	1.08
OTP Bank Nyrt	Consensus*	13,498	1.18	5.1	5.4	5.5	4.0	4.6	5.3	22.3	18.0	15.9	16.9	4.9	1.33
Komercni Banka AS	Consensus*	6,126	1.20	9.9	9.6	9.1	10.2	7.9	7.3	12.4	12.4	13.1	11.9	9.6	1.22
PKO Bank Polski SA	Consensus*	17,809	1.60	7.8	7.3	7.5	7.5	9.4	9.8	19.2	18.0	17.5	7.8	7.7	1.17
Erste Group Bank AG	Consensus*	19,728	0.94	7.2	7.4	7.0	6.1	6.2	6.7	13.4	11.9	11.9	11.0	7.0	0.84
Average			1.37	7.2	7.4	7.5	6.0	6.3	7.0	17.7	16.3	15.3	11.8	7.2	1.24
Median			1.31	6.9	7.3	7.4	6.1	7.1	6.7	17.7	16.5	15.3	11.9	7.0	1.17
<i>Premium/discount</i>			<i>-33%</i>	<i>-19%</i>	<i>-20%</i>	<i>-27%</i>	<i>-1.0%p</i>	<i>-2.4%p</i>	<i>-1.2%p</i>	<i>-2.9%p</i>	<i>-3.7%p</i>	<i>-2.7%p</i>	<i>3.5%p</i>	<i>-7%</i>	<i>-20%</i>
Western Europe Peers															
Deutsche Bank AG	Consensus*	30,702	0.47	7.4	5.8	5.2	4.3	6.3	7.1	5.1	7.2	7.5	1.8	na	0.35
Raiffeisen Bank International AG	Consensus*	5,773	0.33	3.2	3.2	3.2	7.7	8.5	9.3	10.4	9.9	9.1	13.0	3.1	0.48
KBC Group NV	Consensus*	28,619	1.25	8.9	8.9	8.1	6.8	6.5	7.2	14.1	13.2	13.7	12.3	8.7	1.29
Commerzbank AG	Consensus*	18,428	0.63	7.9	6.7	5.8	3.6	5.0	6.0	7.8	8.7	9.2	0.8	na	0.34
Societe Generale SA	Consensus*	19,223	0.28	5.8	4.7	4.0	4.1	5.7	6.8	5.5	6.6	7.4	3.0	6.4	0.32
Banco Santander SA	Consensus*	70,119	0.74	6.1	5.9	5.6	4.4	4.7	5.8	11.7	11.3	11.3	5.9	na	0.58
ING Groep NV	Consensus*	56,376	1.06	8.9	8.3	7.3	5.8	6.2	7.0	12.2	12.3	13.0	8.8	8.5	0.78
Average			0.68	6.9	6.2	5.6	5.2	6.1	7.0	9.6	9.9	10.1	6.5	6.7	0.59
Median			0.63	7.4	5.9	5.6	4.4	6.2	7.0	10.4	9.9	9.2	5.9	7.5	0.48
<i>Premium/discount</i>			<i>40%</i>	<i>-24%</i>	<i>-1%</i>	<i>-3%</i>	<i>0.7%p</i>	<i>-1.5%p</i>	<i>-1.5%p</i>	<i>4.3%p</i>	<i>2.8%p</i>	<i>3.5%p</i>	<i>9.6%p</i>	<i>-12%</i>	<i>95%</i>
Average all peers			1.14	7.4	7.4	7.3	6.3	6.6	7.2	14.5	13.7	13.2	10.1	7.4	1.01
Median all peers			1.19	7.7	7.5	7.4	6.7	6.8	7.1	15.3	13.8	13.4	11.3	7.8	1.09
<i>Premium/discount</i>			<i>-26%</i>	<i>-27%</i>	<i>-22%</i>	<i>-27%</i>	<i>-1.6%p</i>	<i>-2.1%p</i>	<i>-1.6%p</i>	<i>-0.5%p</i>	<i>-1.0%p</i>	<i>-0.7%p</i>	<i>4.2%p</i>	<i>-16%</i>	<i>-13%</i>

* Bloomberg

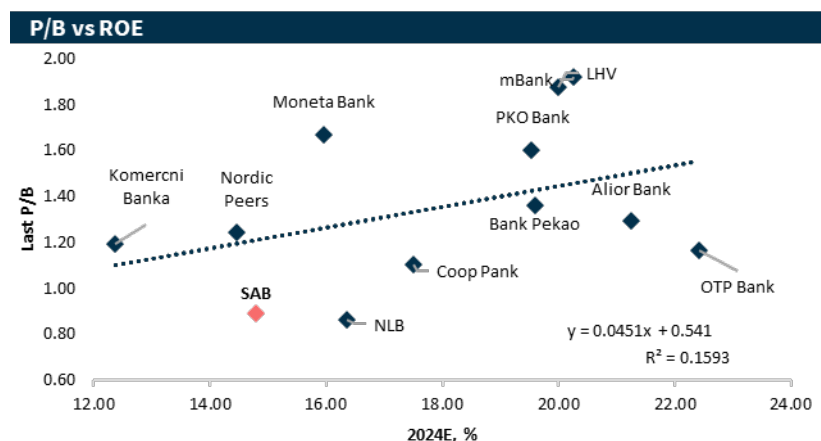
Currently, the bank's shares continue trading at double-digit pricing multiple discounts, with P/B below 1.0x. Šiaulių Bankas Group currently trades at a P/B of 0.89x along with an adj. ROE of 14.8% 2024E vs all peer pricing P/B of 1.14x along with ROE prospects of 14.5% for the same period. This represents over 20% discount on the bank's shares. Likewise, the bank trades at an adj. P/E multiple of 5.6-5.8x for 2024/25E, implying also considerable (over 20% on average) discount to all peers for the same period. Ultimately, Šiaulių Bankas Group is set to offer a relatively fair dividend yield of ~5% for 2024/25E vs. the peer average of ~7% for the respective period.



Source: Norne Securities, Bloomberg

Noteworthy, we are likely to observe improving returns from 2026 onwards nearing 15%, similar to the historical (five-year average) ROE recorded by the bank. Whereas the forward multiples imply pricing of the bank's shares is foreseen to continue to carry a large discount relative to peers. Thus, we perceive an appeal to Šiaulių Bankas Group's investment case, supported by relatively solid return prospects along with strongly discounted pricing of the bank's shares.

When regressing last P/B vs 12 m. fwd adj. ROE for Šiaulių Bankas and its closest CEE peers, we arrive at a justified P/B value of 1.15x. However, when deriving value on the peers-based method, we believe that some discount should be warranted for Šiaulių Bankas valuation vs CEE peers due to previously mentioned reasons: the size of the bank and liquidity of the shares, penetration/size of the country's capital markets, and perceived equity risks premiums in different markets (Lithuania as a frontier market).



Source: Norne Securities, Bloomberg

Valuation range of blended approach

We have used a blended approach using three different valuation methodologies, where we give equal weight to each method. The summary of our valuation under all three methods and Low/Base/High cases is presented below.

Fair value range (EUR per share)				
	DDM*	RIV**	Peers-based***	Average
Low Case	0.66	1.07	0.92	0.88
Base Case	0.73	1.05	1.03	0.94
High Case	0.84	1.33	1.08	1.08

*Low/High case as variables for lower/higher terminal growth/cost of equity

**Low/High assuming 5YR min. ROE of 11.7% vs guided ROE >15%

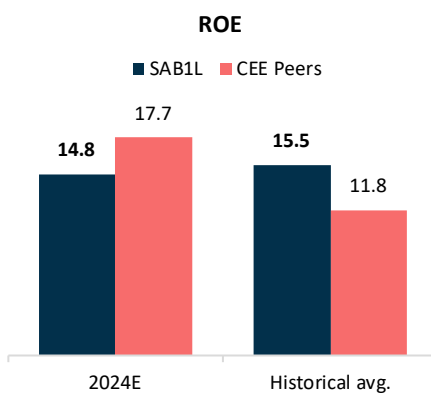
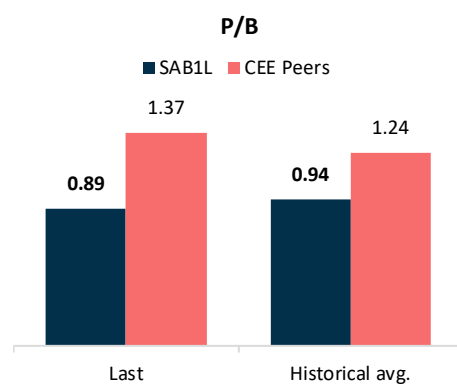
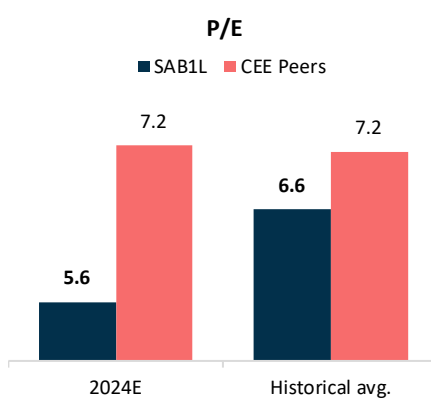
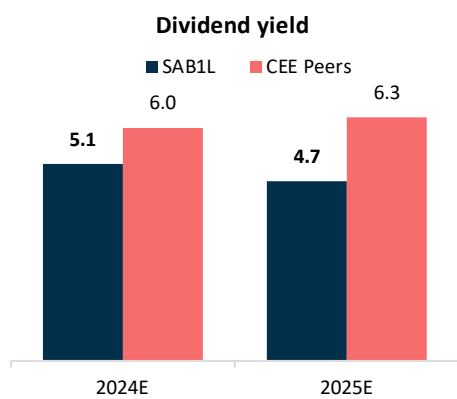
***Low/High case assuming larger discount to peers/no discount

P/B multiple under target price				
	DDM	RIV	Peers-based	Average
Low Case	0.82	1.33	1.14	1.10
Base Case	0.91	1.30	1.27	1.16
High Case	1.04	1.65	1.34	1.34

Adj. P/E multiple under target price				
	DDM	RIV	Peers-based	Average
Low Case	5.25	8.46	7.28	7.00
Base Case	5.82	8.32	8.13	7.43
High Case	6.65	10.52	8.56	8.58

Our base case valuation range stands at EUR 0.73-1.05/share with a mid-point of EUR 0.94/share, which values Šiaulių Bankas at P/B of 1.16x and adj. P/E of 7.4x for 2024E. As for the Low-High case, our blended approach implies a valuation range at EUR 0.88-1.08/share, which suggests an upside potential to the current share price of 24-52% respectively for the Low/High case.

Peer comparison



Source: Norne Securities, Bloomberg

Annual financial data

Profit & Loss (EURm)	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Net interest income	72	76	81	107	157	159	161	173	189	204
Net commission income	17	16	17	19	20	27	30	33	39	48
Other income/Gains on financial instruments	29	21	30	14	21	24	24	25	26	28
Total income	119	113	128	139	198	210	215	231	254	279
Salaries and related expenses	23	23	27	31	36	45	48	52	56	59
Depreciation and amortization expenses	4	4	4	5	5	7	7	7	7	7
Other costs	24	21	25	19	39	49	50	55	61	68
Total costs	50	48	57	54	81	100	105	114	124	134
Core earnings before loan losses	68	65	71	85	118	110	110	117	130	145
Write-downs on loans	8	12	4	5	15	9	15	15	15	17
Core earnings	60	53	67	80	102	102	95	103	115	129
Dividends/associated companies	-	-	-	-	-	-	-	-	-	-
One-offs	-	-	-	-	7	5.1	8.7	1.2	-	-
Pre tax profit	60	53	67	80	95.7	97	86	101	115	129
Taxes	-8	-10	-12	-13	-20	-17	-15	-18	-20	-23
Minority interest	-	-	-	-	-	-	-	-	-	-
Net profit	52	43	55	67	75	79	71	84	95	106
Adj. profit after taxes	52	43	55	67	81	83	78	85	95	106
EPS	0.09	0.07	0.09	0.11	0.12	0.12	0.11	0.13	0.15	0.17
EPS (adj.)	0.09	0.07	0.09	0.11	0.13	0.13	0.12	0.13	0.15	0.17
Profitability										
ROE (adj.)	17.6%	12.7%	14.3%	16.1%	16.7%	14.8%	12.7%	12.7%	12.9%	13.1%
ROE (reported)	17.6%	12.7%	14.3%	16.1%	15.5%	14.1%	11.6%	12.5%	12.9%	13.1%
ROA	2.1%	1.4%	1.4%	1.6%	1.6%	1.6%	1.3%	1.4%	1.4%	1.5%
RORWA	3.1%	2.2%	2.6%	2.8%	3.1%	3.0%	2.4%	2.6%	2.7%	2.8%
Core earnings ROE	19.2%	14.9%	16.5%	18.1%	18.8%	17.2%	14.8%	14.7%	15.0%	15.2%
Core earnings in % of RWA	3.6%	2.8%	3.2%	3.3%	4.2%	3.8%	3.2%	3.1%	3.3%	3.4%
Cost/Income ratio	42.5%	42.6%	44.2%	38.8%	44.0%	50.0%	52.9%	49.8%	48.7%	47.9%
Adjusted Cost/Income ratio	42.5%	42.6%	44.2%	38.8%	40.7%	47.6%	48.9%	49.3%	48.7%	47.9%
Costs in % of total assets	2.0%	1.6%	1.4%	1.3%	1.7%	2.0%	1.9%	1.9%	1.9%	1.9%
Tax rate	13.8%	18.7%	17.9%	16.1%	21.3%	18.0%	17.5%	17.5%	17.5%	17.5%
Loss ratio	0.55%	0.75%	0.21%	0.21%	0.58%	0.29%	0.46%	0.40%	0.38%	0.38%
Net interest margin	3.20%	3.00%	2.99%	3.21%	4.05%	3.23%	3.07%	3.03%	3.01%	2.97%
Operating margin	4.7%	3.7%	3.2%	3.3%	4.1%	4.2%	4.0%	3.9%	3.9%	3.9%
Pretax margin	2.4%	1.7%	1.7%	1.9%	2.0%	1.9%	1.6%	1.7%	1.8%	1.8%
Growth rates (YoY)										
Core earnings	-	-11%	27%	19%	27%	-1%	-7%	9%	12%	12%
EPS (adj.)	-	-16%	28%	22%	18%	-5%	-4%	9%	12%	12%

Balance sheet (EURm)	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Cash and receivables	343	590	1,162	630	1,041	810	701	729	878	1,055
Net lending to customers	1,515	1,606	1,909	2,392	2,645	2,995	3,340	3,726	4,034	4,366
Total securities	601	781	839	1,118	1,034	1,159	1,285	1,431	1,549	1,676
Associated companies	-	-	-	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Tangible assets	12	16	15	16	16	15	15	15	16	16
Other assets	37	36	38	26	74	77	77	77	78	78
Total assets	2,508	3,029	3,962	4,183	4,809	5,056	5,419	5,980	6,553	7,191
Total equity	311	355	406	443	543	590	637	700	769	847
Minority interest	-	-	-	-	-	-	-	-	-	-
Total deposits	2,108	2,575	3,377	3,470	3,733	3,868	4,151	4,611	5,084	5,609
Debt securities in issue	20	20	95	171	276	299	330	367	397	430
Other liabilities	69	79	84	98	257	299	301	302	303	304
Equity and liabilities	2,508	3,029	3,962	4,183	4,809	5,056	5,419	5,979	6,553	7,191
Growth of loans	-	6.0%	18.9%	25.3%	10.6%	13.2%	11.5%	11.6%	8.2%	8.2%
Growth of deposits	-	22.2%	31.1%	2.8%	7.6%	3.6%	7.3%	11.1%	10.2%	10.3%
Equity ratio	12.4%	11.7%	10.3%	10.6%	11.3%	11.7%	11.8%	11.7%	11.7%	11.8%
CET1 ratio	15.0%	19.6%	19.5%	18.1%	19.9%	21.1%	20.6%	20.7%	21.0%	21.1%
Core capital (EURm)	247	377	410	439	485	564	612	674	736	797
Tier 1 ratio	15.0%	19.6%	19.5%	18.1%	19.9%	21.1%	20.6%	20.7%	21.0%	21.1%
Capital base (EURm)	267	397	430	459	547	627	675	737	799	860
Capital adequacy	16.2%	20.7%	20.4%	19.0%	22.4%	23.5%	22.8%	22.6%	22.8%	22.8%
RWA	1654	1917	2106	2421	2439	2670	2963	3259	3501	3774

Share data	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Shares outstanding, year end (mill.)	601	601	601	601	663	660	644	644	644	644
Share price, year end (EUR)	0.51	0.50	0.76	0.69	0.69	0.71	0.71	0.71	0.71	0.71
Market cap (EURm)	304	299	457	412	459	467	455	455	455	455
EPS	0.09	0.07	0.09	0.11	0.12	0.12	0.11	0.13	0.15	0.17
EPS (adj.)	0.09	0.07	0.09	0.11	0.13	0.13	0.12	0.13	0.15	0.17
Book value per share (EUR)	0.52	0.59	0.68	0.74	0.82	0.89	0.99	1.09	1.19	1.32
Dividends per share (EUR)	-	0.01	0.03	0.03	0.05	0.04	0.03	0.04	0.04	0.05
Share buybacks (EUR)	-	-	-	-	-	0.019	-	-	-	-
Dividend payout ratio (Group)	-	8%	37%	24%	43%	30%	30%	30%	30%	30%
Total Dividend payout ratio (incl. buybacks)	-	0.08	0.37	0.24	0.43	46%	30%	30%	30%	30%

Valuation	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
P/E	5.9	7.0	8.3	6.1	5.6	5.9	6.4	5.4	4.8	4.3
P/E (adj.)	5.9	7.0	8.3	6.1	5.2	5.6	5.8	5.4	4.8	4.3
P/B (excl. goodwill)	0.98	0.84	1.12	0.93	0.85	0.79	0.71	0.65	0.59	0.54
Dividend yield	-	1.1%	4.5%	3.9%	7.0%	5.1%	4.7%	5.5%	6.3%	7.0%

Growth (YoY)	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Growth of loans	-	6.0%	18.9%	25.3%	10.6%	13.2%	11.5%	11.6%	8.2%	8.2%
Growth of deposits	-	22.2%	31.1%	2.8%	7.6%	3.6%	7.3%	11.1%	10.2%	10.3%
EPS (adj.)	-	-16.5%	28.3%	22.1%	18.2%	-5.0%	-4.0%	8.6%	12.1%	12.0%

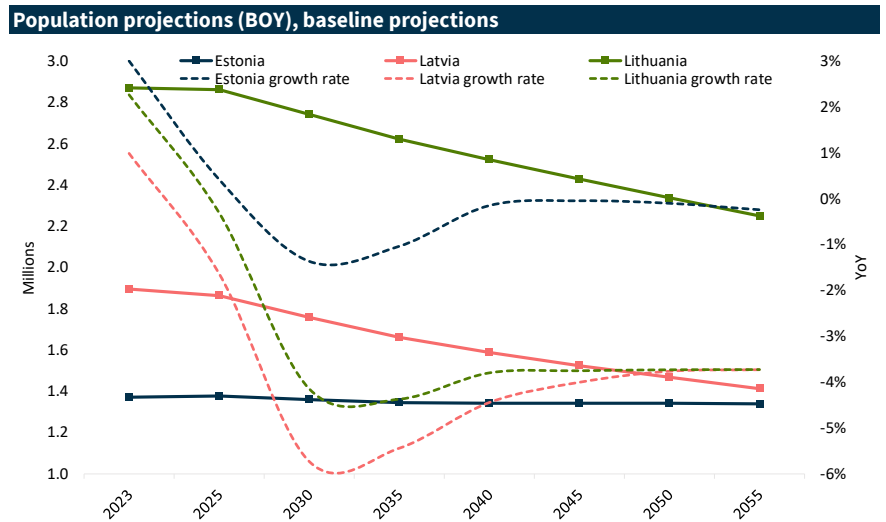
Capital ratios	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Equity ratio	12.4%	11.7%	10.3%	10.6%	11.3%	11.7%	11.8%	11.7%	11.7%	11.8%
CET1 ratio	15.0%	19.6%	19.5%	18.1%	19.9%	21.1%	20.6%	20.7%	21.0%	21.1%
Tier 1 ratio	15.0%	19.6%	19.5%	18.1%	19.9%	21.1%	20.6%	20.7%	21.0%	21.1%
Capital adequacy	16.2%	20.7%	20.4%	19.0%	22.4%	23.5%	22.8%	22.6%	22.8%	22.8%

Profitability	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
ROE (adj.)	17.6%	12.7%	14.3%	16.1%	16.7%	14.8%	12.7%	12.7%	12.9%	13.1%
ROE (reported)	17.6%	12.7%	14.3%	16.1%	15.5%	14.1%	11.6%	12.5%	12.9%	13.1%
ROA	2.1%	1.4%	1.4%	1.6%	1.6%	1.6%	1.3%	1.4%	1.4%	1.5%
Costs/Income ratio	42.5%	42.6%	44.2%	38.8%	44.0%	50.0%	52.9%	49.8%	48.7%	47.9%
Adjusted Costs/Income ratio	42.5%	42.6%	44.2%	38.8%	40.7%	47.6%	48.9%	49.3%	48.7%	47.9%
Costs in % of total assets	2.0%	1.6%	1.4%	1.3%	1.7%	2.0%	1.9%	1.9%	1.9%	1.9%
Loss ratio	0.55%	0.75%	0.21%	0.21%	0.58%	0.29%	0.46%	0.40%	0.38%	0.38%
Net interest margin	3.20%	3.00%	2.99%	3.21%	4.05%	3.23%	3.07%	3.03%	3.01%	2.97%

Lithuania macroeconomic overview

Population

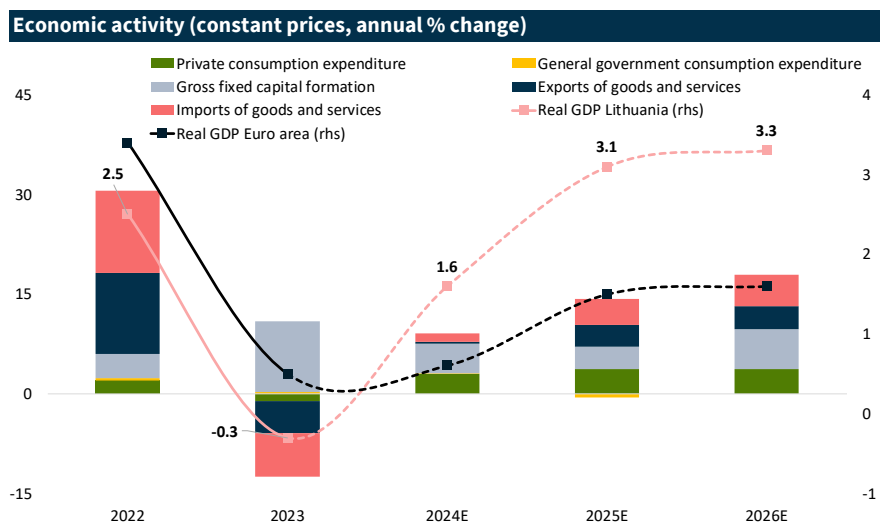
Although the Baltic region's population has marginally grown on an annual basis in 2023 (beginning of the year data), the upcoming decade is likely to be defined by a downward trend in population development. Based on Eurostat projections, Lithuania's population will shrink to 2.74 million by 2030.



Source: Eurostat

Output

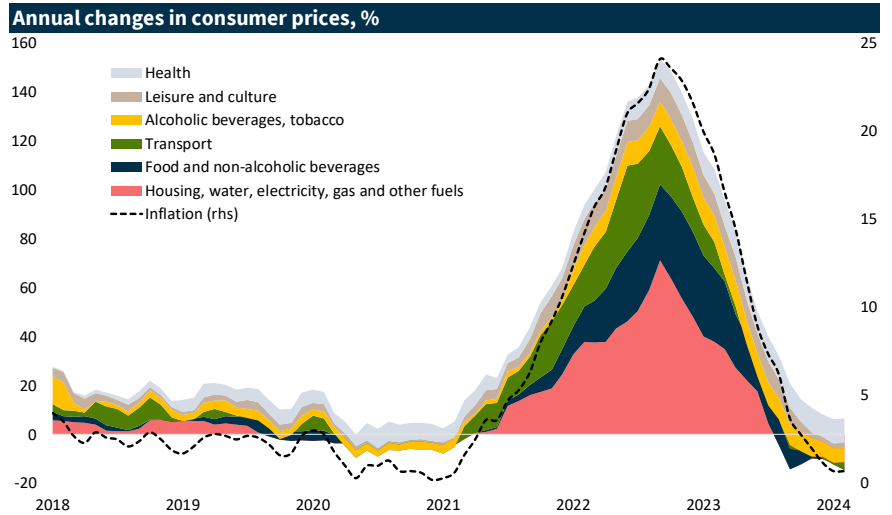
Lithuania's GDP experienced a slight contraction in 2023, but there was a notable rebound in the second quarter after a slow start. However, prospects for 2024 look promising as the economy is expected to rebound moderately, driven by a recovery in household consumption and supported by significant public investments. This indicates that the momentum from the previous year is likely to continue.



Source: Bank of Lithuania, ECB Data Portal

Inflation

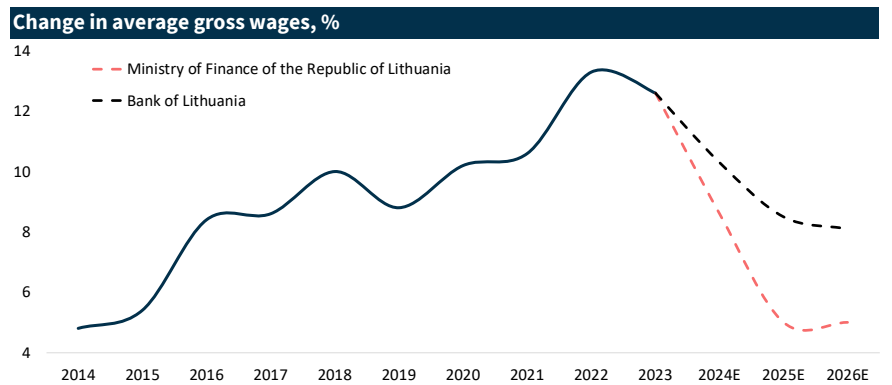
Inflationary pressures are easing due to stable energy prices and subdued external factors. Domestic economic trends, such as slower labor cost increases and shrinking consumption, also contribute to this trend. Forecasts indicate that while inflation may briefly fall to 1.5% in 2024, it is expected to rise again to approximately 2.5% in 2025, mainly driven by increasing costs of services and industrial goods.



Source: Statistics Lithuania

Labor market

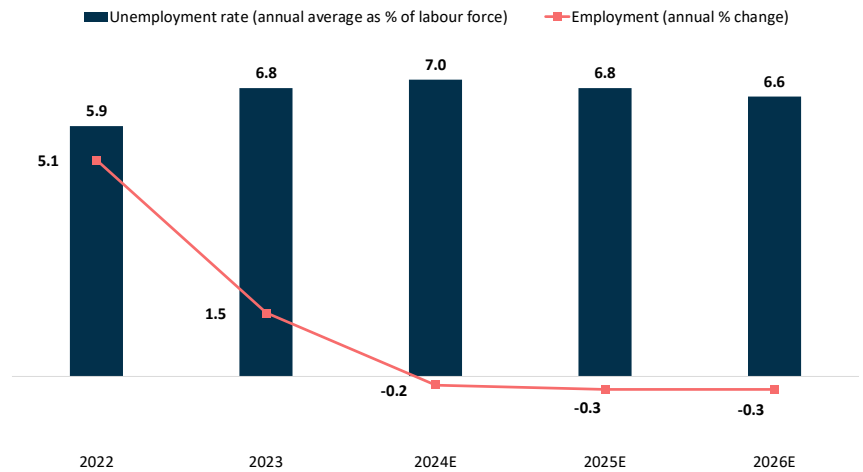
Wage growth remained strong, driven by higher minimum wages and public sector wage increases. It's also attributed to the consistently tight labor market. However, growth is expected to decelerate to approximately 8.5% in 2024, with additional easing anticipated in 2025. Although certain sectors, like exporters and real estate developers, encounter difficulties in increasing wages, overall consumer confidence remains strong.



Source: Statistics Lithuania, Bank of Lithuania, Ministry of Finance of Republic of Lithuania

The labor market in Lithuania is currently strong, with employment reaching its highest level since the global financial crisis, fueled by significant changes in migration patterns. Despite a small uptick in unemployment at the end of last year, the job vacancy rate remains high, signalling ongoing strains in the labor market.

Labour market



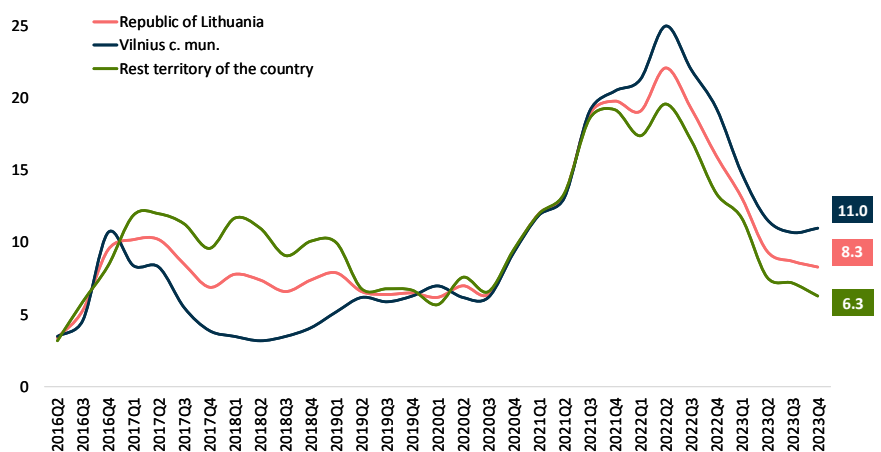
Source: Bank of Lithuania

Sustaining robust wage growth without a proportional rise in productivity presents sustainability challenges, especially if economic growth fails to rebound. This could potentially result in difficulties for companies in maintaining current levels of employment.

Households

Despite the significant increase in interest rates and minimal activity in the property market, there was no notable correction in home prices in 2023, which is somewhat surprising. If housing prices continue to remain stagnant in 2024 and interest rates decrease, this could improve housing affordability and potentially lead to a rise in home prices in 2025.

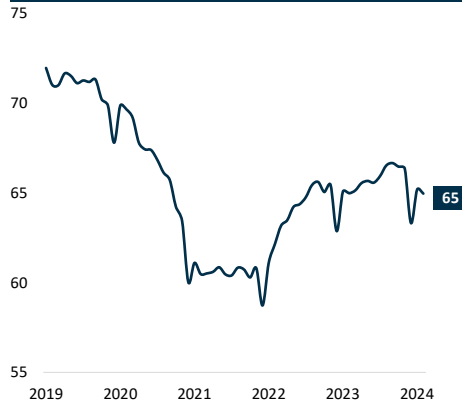
House price changes, YoY, %



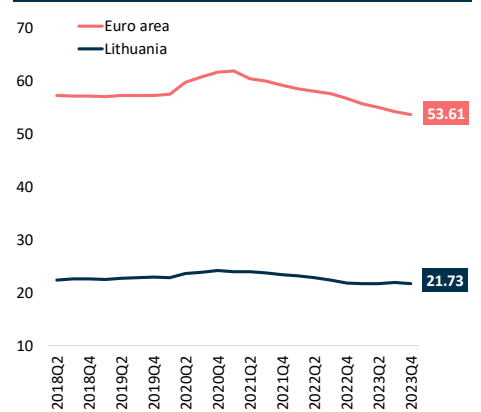
Source: Statistics Lithuania

Household debt in Lithuania increased to 21.91% of GDP in the third quarter of 2023, up from 21.75% in the second quarter of 2023. However, it remains significantly lower compared to the Euro area, where household debt decreased from 55.2% of GDP in the second quarter of 2023 to 54.4% in the third quarter of 2023.

Households loan-to-deposit ratio, %



Households debt as a % of GDP

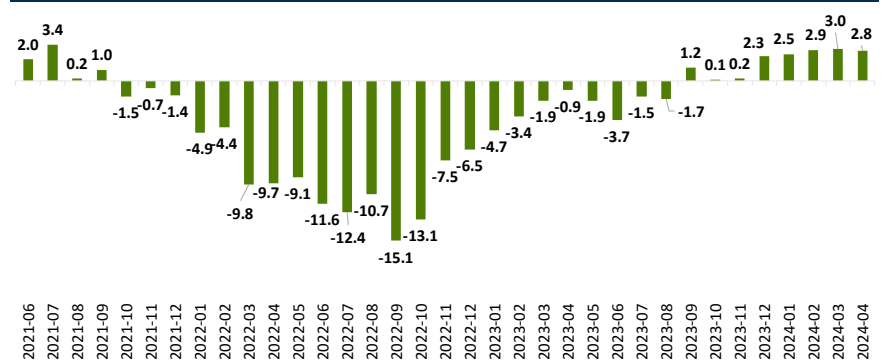


Source: Bank of Lithuania, ECB Data Portal

Economic and consumer sentiment

Considering the deterioration in consumer sentiment observed since the pandemic and intensified geopolitical tensions, consumer confidence has shown slow but steady signs of recovery during 2024. This can be taken as a positive signal of recovery, implying a consumer perception shift towards a more optimistic outlook on current and expected economic conditions throughout the rest of the year.

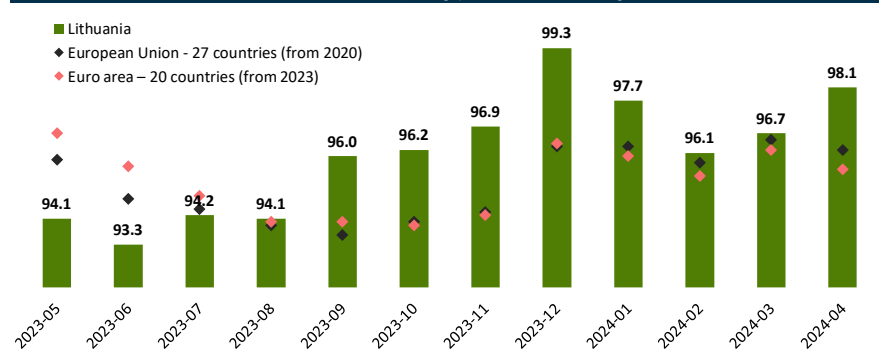
Consumer confidence indicator (seasonally adj., not calendar adj.)



Source: Eurostat

Likewise, economic sentiment in Lithuania has strengthened so far in 2024 relative to 2023 measurements. Along with improved consumer sentiment, data points to potentially more lively economic activity in the Lithuanian economy in 2024 relative to the previous year.

Economic sentiment indicator (seasonally adj., not calendar adj.)



Source: Eurostat

Appendix 1: Management and Board

Management and Board



Vytautas Sinius – *CEO and Chairman of the Board*

Joined Šiaulių Bankas in 2011 serving as a Head of Corporate Banking Division, and a group's Chief Executive Officer from 2014. Prior to starting career at Šiaulių Bankas worked at SEB Bank, where from 2006 until 2010, held the position of Deputy President of SEB Bank and Head of the Retail Banking Division, and was also a member of the Board of SEB Bank. A little earlier, worked at the then Lithuanian Savings Bank and the Lithuanian Joint Stock and Innovation Bank. Possess 25 years of experience working in the financial industry. Education: Bachelor's degree in Economics, Vilnius University; Master's degree from Vytautas Magnus University; Executive MBA degree, Baltic Management Institute. Chairman of the Board since 19/08/2022 (in the Bank's Management Board since 2011). Term of office expires: 2028. Under the right of ownership owns 0,27% of shares and voting rights, together with persons acting in collaboration – 0,27% shares and voting rights.



Donatas Savickas – *CFO and Deputy Chairman of the Board*

25+ years of working at Šiaulių Bankas. Currently working in the position of CFO, Head of Finance Division at Šiaulių Bankas. Education: Bachelor's degree from Vilnius University; Executive MBA degree, Baltic Management Institute. Deputy Chairman of the Management Board, Deputy CEO at Šiaulių Bankas AB since 1995. Term of office expires: 2028. Under the right of ownership owns 0.13 % of shares and voting rights, together with persons acting in collaboration – 0.13 % shares and voting rights.



Daiva Šorienė – *Deputy Chief Executive Officer, Head of Corporate Clients Division and Member of the Board*

Professional background of 30+ years in the financial industry, with over 25 years working at Šiaulių Bankas. Currently working as Head of Corporate Clients at Šiaulių Bankas. Education: Bachelor's degree in Economics, Vilnius University; Master's degree in Business Administration and Management, Vytautas Magnus University; Executive MBA degree, Baltic Management Institute. Member of the Board of Šiaulių Bankas AB since 2005. Term of office expires: 2028. Under the right of ownership owns 0,05 % of shares and voting rights, together with persons acting in collaboration – 0,05 % shares and voting rights.



Tomas Varenbergas, CFA – *Head of Investment Management Division and Member of the Board*

17+ years of experience working in the financial industry. Joined Šiaulių Bankas Group in 2015 working as a Head of Treasury & Markets and Head of Investment Management Division since 2023. Education: Bachelor's degree in Business Management, Vilnius Gediminas Technical University; Master's degree in International Business, Vilnius Gediminas Technical University; CFA holder. Member of the Board of Šiaulių Bankas AB since 2024. Term of office expires: 2028.



Laura Krizinauskiene – *Head of Private Clients Division and Member of the Board*

Professional with extensive management experience in asset management, capital markets, banking and energy sectors. Currently works in the position of Head of Private Clients Division at Šiaulių Bankas. Before the merger of retail businesses of Šiaulių Bankas and INVL Invalda headed INVL Asset Management. Education: Master's degree in Business Management, Vilnius Gediminas Technical University; Financial broker license issued by Bank of Lithuania. Member of the Board of Šiaulių Bankas AB since 2024. Term of office expires: 2028.



Mindaugas Rudys – *Head of Service Development Division and Member of the Board*

23+ years of experience working in the financial industry. Joined Šiaulių Bankas Group in 2011 working as a CEO of Šiaulių Banko Lizingas and Head of Business Development Division at Šiaulių Bankas since 2018. Education: Bachelor's degree in Mathematics, Vilnius University; Bachelor's degree in International Economics, Vilnius University; Master's degree in Economics, Mykolas Romeris University; Executive MBA degree, Baltic Management Institute. Member of the Board of Šiaulių Bankas AB since 2020. Term of office expires: 2028. Under the right of ownership owns 0.06 % of shares and voting rights, together with persons acting in collaboration – 0.06 % shares and voting rights.



Algimantas Gaulia – *CRO and Member of the Board*

Professional background of over 22 years in the financial industry. Joined Šiaulių Bankas in 2013. Prior joining Šiaulių Bankas worked for 10+ years at AB Ūkio bankas Finance and Risk Management Department. Currently is working as a Chief Risk Officer at Šiaulių Bankas. Education: Bachelor's degree in Finance, Kaunas University of Technology; Master's degree in Accounting and Audit, Kaunas University of Technology. Member of the Board of Šiaulių Bankas AB since July 30, 2021. Term of office expires: 2028. Under the right of ownership owns 0.01 % of shares and voting rights, together with persons acting in collaboration – 0.01 % shares and voting rights.



Agnė Duksienė – *CCO and Member of the Board*

Legal and compliance professional with 13+ years of extensive experience in different legal fields and compliance management. Joined Šiaulių Bankas in 2022 and currently serves as a Chief Compliance Officer. Education: Bachelor's degree in Law and Management, Mykolas Romeris University; Integrated studies: Bachelor's and Master's degree in Law, Commercial law in Vilnius University; LEWBEN Compliance Academy Certification: Compliance, AML-CTF prevention, Data Protection, Competition. Member of the Board of Šiaulių Bankas AB since May 8, 2023. Term of office expires: 2028. No shares owned by right of ownership.

Supervisory Council of the Bank



Valdas Vitkauskas – *Chairman of the Supervisory Council*

20+ years of International Banking and Corporate Finance experience. Member of Lithuanian Business Angels Network. Education: Bachelor's degree in Business Administration, Vytautas Magnus University; Master's degree in Economics, Southern Methodist University; Online Fintech Programme at Saïd Business School, University of Oxford. Independent member of the Supervisory Council of the Bank since 01 June 2022, Chairman of the Supervisory Council of the Bank since 05 August 2022. Does not own the shares under the right of ownership.



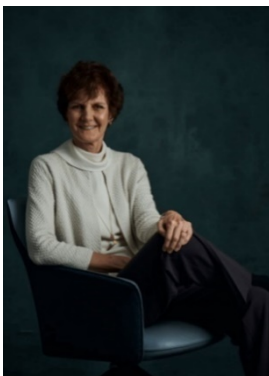
Gintaras Kateiva – *Member of the Supervisory Council*

Member of the Supervisory Council of the Bank since 2008
Entrepreneur and chairman of Litagra Group UAB. Under the right of ownership owns 4.87 % of shares and voting rights, together with persons acting in collaboration – 4.89 % shares and voting rights.



Darius Šulnis – *Member of the Supervisory Council*

20+ years of experience in establishing and managing businesses that are leaders in their respective sectors, as well as carrying out mergers, sales and acquisitions. Led the financial brokerage company Finasta for 8 years and the real estate company Inreal Valdymas for 4 years. Has also served on the boards and supervisory councils of numerous Polish, Ukrainian, Latvian and Lithuanian companies. Shareholder and president of the group of companies "Invalda INVL", Member of the Board at Litagra UAB, Chairman of the Supervisory Council at FERN group UAB. Education: Master's degree in Accounting and Audit, Vilnius University, Global Executive MBA, Duke University (USA); Financial broker's license (general) No A109. Member of the Supervisory Council of the Bank since 09 May 2016. Does not own the shares under the right of ownership.



Susan Gail Buyske – *Independent member of the Supervisory Council*

Non-executive director and banking consultant with extensive experience on the boards of directors of banks in over ten countries and on the advisory boards of private equity funds. Worked on a wide range of issues related to financial sector development for organizations including the World Bank, the IFC, the EBRD), Standard & Poor's, the Interamerican Development Bank, the Asian Development Bank, and the Center for Financial Inclusion. Education: Bachelor's degree from Middlebury College; MPA from the Woodrow Wilson School at Princeton University; PhD in political science from Columbia University. Independent member of the Supervisory Council of the Bank since 31 July 2020. Does not own the shares under the right of ownership.



Mindaugas Raila – *Member of the Supervisory Council*

Entrepreneur and investor, known as the founder and chairman of Girtėka Logistics, and chairman at Sirin Development and Willgrow. Education: Owner/President Management Program at Harvard Business School. Member of the Supervisory Council of the Bank since 18 January 2022. Does not own the shares under the right of ownership. Alongside with the persons acting together owns 7.07 % of shares and votes.



Tomas Okmanas – *Independent member of the Supervisory Council*

Entrepreneur and investor, best known as the co-founder of the business accelerator Tesonet and the company Nord Security, which develops cyber security solutions. Education: Bachelor's degree in History, Vilnius University; Master's degree in E-business Management, Mykolas Romeris University. Independent member of the Supervisory Council of the Bank since 2 February 2023. Does not own the shares under the right of ownership.

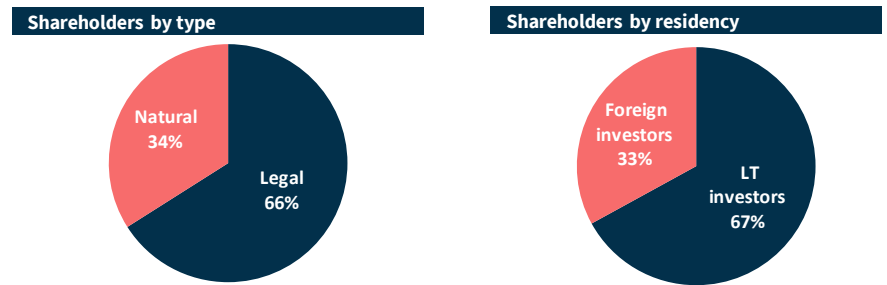


Monika Nachyla – *Independent member of the Supervisory Council*

Non-executive director with 25 years of international, C-suite experience in finance, private equity, banking, investor relations, management, strategy and development. Broad and diverse supervisory board experience. Expert in ESG and responsible investing programs integration for Private Equity. Private Equity Operating Partner, with broad experience in delivering shareholders strategies and stakeholders value creation. Senior executive with expertise in financial markets and the manufacturing, agriculture and food production sectors. Currently member of multiple supervisory boards, specializing in structuring and monitoring key performance indicators, audit committees, strategic projects and senior management coaching. Education: Master's degree in Foreign Trade, SGH Warsaw School of Economics. Independent member of the Supervisory Council of the Bank since 2024.

Appendix 2: Shareholders

As of 31 March 2024, the bank's shares were held mostly by Lithuanian residents (67%) and ownership is concentrated by legal persons (66%), the largest shareholder being Invalda INVL AB with a 19.93% stake.



Source: Šiaulių Bankas

Top shareholders		
	Shares Held (thousand)	Ownership
1 Invalda INVL AB	132,135	19.93% *
2 Willgrow UAB	59,471	8.97%
3 EBRD	48,067	7.25%
4 Tesonet Global	35,271	5.32%
5 Algirdas Butkus	33,548	5.06% **
6 Gintaras Kateiva	32,553	4.91%
Total	341,045	51.44%
Held by the rest	321,951	48.56%
Total	662,997	100.00%

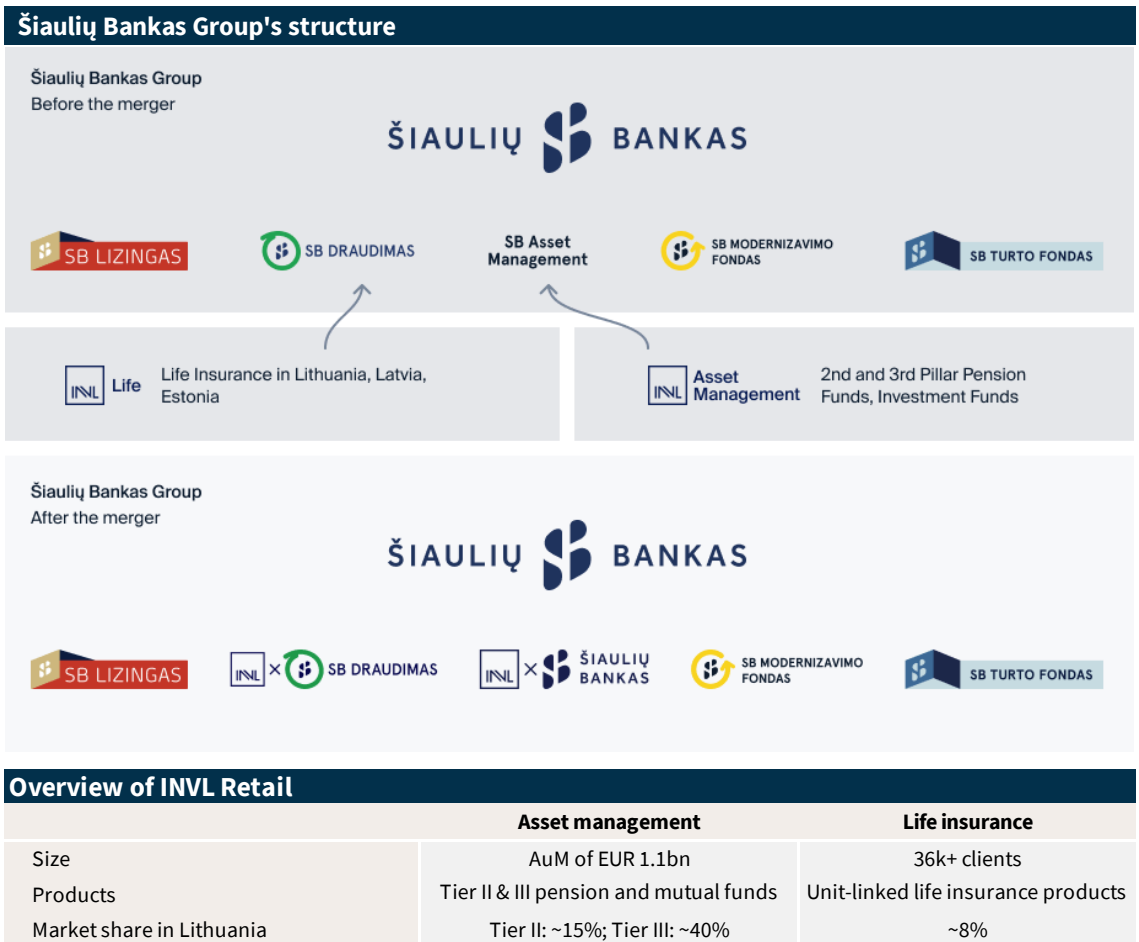
* Pursuant to the Law on Securities of the Republic of Lithuania, the shareholder's votes are counted together with the controlled company: INVL Asset Management UAB, c.c. 126263073 - 0.39% of the votes

Votes are counted together with controlled companies: Prekybos namai AIVA UAB, c.c. 144031190 – 1.81%, Mintaka UAB, c.c. 144725916 - 0.79%

Source: Šiaulių bankas, as of 31/05/2024

Appendix 3: Group's structure and merger with INVL Retail

On 22 November 2022, Šiaulių Bankas and Invalda INVL entered into an agreement to merge segments of their retail businesses. This merger allowed Šiaulių Bankas Group to enhance its financial services portfolio by incorporating the management of second and third-pillar pension funds in Lithuania and expanding its life insurance business across the Baltic States. The transaction was valued at EUR 40.2 million. As a result of the transaction, Invalda received an additional 9.39% of Šiaulių Bankas shares.



Source: Šiaulių Bankas

Valuation, risk and sources

Valuation

Any valuation range and/or discussion of valuation methodology and comparable analysis included in the report was not provided by or prepared in consultation with the Company. Any suggested valuation framework is based upon long-term analysis and is not linked to a near-term assessment of the likely performance of the Securities. The target prices for banks are based on a combination of a Dividend Discount Model (DDM) and Residual Income Valuation (RIV), and peers-multiple-based approaches, with a certain discount possible. We also look at the sustainability of dividends, asset quality, capitalization level vs. requirements and growth as well as other important metrics in order to determine the bank's attractiveness relative to other banks in our research coverage and relative to historical levels.

Risks

The main risks to our investment cases in Šiaulių Bankas are the following:

- The bank has **ambitious strategic targets** and our estimates partly reflect that. Failure to meet those targets might adversely affect the bank's ROE and financial position
- **Economic downturn** might lead to an increased **non-performing loan risk** and deteriorating asset quality (NPLs) as well as lower credit demand and commission fees related products such as savings, insurance, etc.
- **Capital risk.** Failure to meet capital requirements, leading to a risk of equity issues or dividend reductions
- **Interest rate risk.** A sharp reduction in future interest rates could potentially have an impact on the bank's interest rate spread (i.e., lending-deposit spread) in turn having an adverse impact on the bank's core business results. Similarly, a sharp interest rate downturn could result in a steeper than anticipated decline in NIM in turn weakening than foreseen NII earnings outlook.
- **Changes in regulatory requirements**, particularly related to capital levels (e.g. countercyclical buffer, MREL requirements) and/or revision in Pillar 2 requirements
- **Real estate market risk.** The bank is exposed to the real estate and construction sectors, which may experience potential reductions in market prices and transaction volumes. This could adversely affect the bank's debtors and reduce the value and liquidity of the collateral, thereby having a negative effect on the bank's financial position.
- **Geopolitical risk** and political uncertainty might adversely affect the general economic situation and financial market conditions in Lithuania.

Sources

The sources used in the preparation of this report were: Šiaulių Bankas, ECB, Bank of Lithuania, Statistics Lithuania, Ministry of Finance of Republic of Lithuania, IMF, LBA, Bank reports, Eurostat, EBA, Bloomberg, and Infront.

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