

# Šiaulių Bankas (future Artea)

## Small but strong

We initiate coverage of Lithuanian Šiaulių Bankas with a BUY rating and a Fair Value estimate of EUR 1.2 per share, which implies 28% upside potential over the current market price. The bank is focused on retail clients and specifically on SME companies that are underserved by large dominant names due to their risk-averse policies. Rebranding, implementation of new software platform and still falling interest rates will result in a fall in net profit this year but it should not blur broad prospects for the bank. Earnings growth will resume already in 2026 (full recovery) and thus we expect the bank to deliver solid 14% earnings CAGR in 2025-2030E. This will be supported by several factors such as rising volumes in a relatively favorable macro environment, stabilized NIM in 2026E, growing F&C income, growing number of clients (post-integration effects of Invalda funds) and improved cost efficiency after IT cloud platform is implemented in 2025-2026E.

**New banking platform to enable scaling.** With the introduction of the cloud IT platform (SaaS), which will be expensed in 2025 and 2026, the bank is taking steps towards a “phygital” model which will effectively scale operations and enable the C/I ratio to settle in the mid-40s by 2027. Cost pressure in 2025 and 2026 will be temporary.

**Macro environment to support growing volumes.** The Lithuanian economy will grow much faster than the EU average (3% over the next 3 years on average), which combined with falling rates, rising wages and low indebtedness, will enable strong demand for both corporate and retail loans. We expect the bank’s loan book to grow 8.5% on average over the next 5 years.

**Banking solidarity tax is not an issue.** Given the increased needs for defense spending, a banking tax is probably to be extended over the next few years but we stick to the management guidance that Šiaulių particularly will not be affected materially in years to come.

**Capital surplus with rising earnings after 2025 to enable higher dividends.** TCR is 500bp in surplus and earnings growth will resume already next year; thus, we project the bank to maintain payout in the range of 50-60%, with DPS rising from EUR 0.061 in 2025 to EUR 0.093 in 2030E (6.5% yield in 2025E to jump to 9.7% in 2030E, while buybacks, which we do not include, may bring additional 0.6% to 1.0% over this yields).

**Stable asset quality.** Even while being focused on SME, we have not seen deterioration in asset quality during the period of elevated interest rates, and thus we believe there will be no changes going forward as the trend in rates has reversed. The retail segment is supported by rising wages and this should not be an issue as well. We project CoR in the range of 40-35bp for 2025-2030E.

Figure 1. SAB financial data, (EUR m)

	2022	2023	2024	2025E	2026E	2027E
Operating income (EURm)	127.2	177.1	190.1	187.8	209.4	233.8
Net profit (EUR m)	67.4	75.4	78.8	65.3	79.8	98.6
ROE	15.9%	15.3%	14.0%	10.9%	12.5%	14.3%
EPS	0.11	0.11	0.12	0.10	0.12	0.15
BPS	0.7	0.8	0.9	0.9	1.0	1.1
DPS	0.034	0.027	0.049	0.061	0.061	0.065
Payout ratio	37.0%	23.6%	42.6%	50.5%	60.6%	52.5%
Dividend yield	5.4%	4.0%	6.3%	6.5%	6.5%	6.9%
P/E	5.6	5.9	6.5	9.4	7.6	6.1
P/BV	0.8	0.8	0.9	1.0	0.9	0.8

Source: Company, IPOPEMA Research

Banks & financials

## Šiaulių Bankas

BUY

FV EUR 1.2

28.0% upside

Price as of 14 March 2025 EUR 0.94

Coverage initiation



### Share data

Number of shares (m)	662.9
Market cap (EUR m)	623.2
12M avg daily volume (k)	299.8
12M avg daily turnover (EUR m)	0.2
12M high/low (EUR)	0.67/1.00
Reuters	SAB1L.VL
Bloomberg	SAB1L LH

### Total performance

1M	-5.6%
3M	+13.4%
12M	+32.7%

### Shareholders (preferred class)

Invalda	19.9%
Willgrow	9.0%
EBRD	7.3%
Tesonet	5.3%
Algirdas Butkus	5.1%
Minorities (of which foreign 21.1%)	53.5%

### Analyst

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## Šiaulių Bankas

BUY

FV 1.2 EUR

Mkt Cap EUR 623.2m

Upside/downside 27.7%

Valuation multiples	2023	2024	2025E	2026E	2027E
P/E (x)	5.9	6.5	9.4	7.7	6.2
P/E (x) adjusted*	5.9	6.5	7.2	6.5	6.2
P/BV (x)	0.8	0.9	1.0	0.9	0.9
DY (%)	4.0%	6.3%	6.5%	6.5%	6.9%
Total distr. yield %	4.0%	7.0%	7.1%	7.0%	7.6%
Payout ratio	23.6%	42.6%	50.5%	60.9%	53.1%

Per share data	2023	2024	2025E	2026E	2027E
No. of shares (k)	663.0	663.0	652.4	652.4	652.4
EPS (EUR)	0.11	0.12	0.10	0.12	0.15
EPS (EUR) adj.*	0.11	0.12	0.13	0.15	0.15
BVPS (EUR)	0.82	0.88	0.94	1.01	1.10
DPS (EUR)	0.03	0.05	0.06	0.06	0.07

P&L ratios	2023	2024	2025E	2026E	2027E
NIM	3.5%	3.3%	3.1%	3.2%	3.1%
Net F&C yield	0.5%	0.6%	0.6%	0.6%	0.6%
C/I	43.5%	52.2%	56.2%	51.8%	47.7%
CoR (in bps)	53.9	33.5	39.0	41.6	36.1
L/D	92.7%	97.1%	104.4%	94.9%	93.8%
Tax rate	21.3%	18.3%	21.0%	21.0%	21.0%

Leverage and return	2023	2024	2025E	2026E	2027E
ROA (%)	1.7%	1.6%	1.3%	1.4%	1.6%
Assets / Equity (x)	8.9	8.4	8.3	9.1	9.1
ROE (%)	15.3%	14.0%	10.9%	12.5%	14.4%

Capital	2023	2024	2025E	2026E	2027E
RWA (EUR m)	2,439	2,707	2,798	3,269	3,563
RWA / Assets	50.7%	55.0%	55.0%	55.0%	55.0%
TCR	22.4%	22.8%	23.5%	21.4%	21.2%
CET1	19.9%	17.3%	18.2%	16.8%	17.1%

Change y/y (%) P&L	2023	2024	2025E	2026E	2027E
Net interest income	46.9%	2.1%	-3.1%	12.0%	12.2%
Net commission income	8.0%	43.6%	10.0%	9.7%	8.9%
Total revenues	34.3%	13.9%	-1.1%	10.4%	10.3%
OPEX	40.2%	36.1%	6.6%	1.7%	1.7%
Provisions	207.3%	-28.5%	32.5%	17.9%	-4.4%
Net profit	11.8%	4.5%	-17.1%	22.1%	23.6%

Change y/y (%) BS	2023	2024	2025E	2026E	2027E
Assets	15.0%	2.4%	3.3%	16.8%	9.0%
Loans	10.6%	17.9%	10.3%	11.8%	9.4%
Deposits	13.6%	11.9%	3.3%	22.7%	10.5%

Asset quality	2023	2024	2025E	2026E	2027E
Stage 1	90.5%	91.9%	91.0%	91.0%	91.0%
Stage 2	7.2%	6.4%	7.0%	7.0%	7.0%
Stage 3	2.2%	1.7%	2.0%	2.0%	2.0%
NPL %	2.9%	2.2%	2.3%	2.2%	2.2%

P&L (EUR m)	2022	2023	2024	2025E	2026E	2027E
<b>Total income</b>	<b>146.3</b>	<b>196.5</b>	<b>223.7</b>	<b>221.2</b>	<b>244.3</b>	<b>269.4</b>
Net interest income	106.8	156.9	160.2	155.2	173.8	195.0
Net F&C income	18.7	20.3	29.1	32.0	35.1	38.2
Trading result	10.8	11.9	19.4	18.4	19.0	19.0
Insurance revenues	6.4	5.7	13.1	14.8	15.5	16.3
Other income	3.5	1.7	1.9	0.9	0.9	0.9
Salaries and related expenses	-30.7	-36.2	-49.5	-53.3	-55.3	-58.3
Depreciation and amortization e:	-4.6	-5.5	-8.0	-9.1	-9.4	-9.7
Expenses related to insurance ac	-4.0	-12.5	-20.7	-20.9	-21.7	-22.8
Other operating expenses	-21.6	-31.2	-38.1	-40.7	-39.8	-37.5
<b>Total operating costs</b>	<b>-61.0</b>	<b>-85.5</b>	<b>-116.4</b>	<b>-124.1</b>	<b>-126.2</b>	<b>-128.3</b>
Net provisioning	-5.0	-15.2	-10.9	-14.4	-17.0	-16.3
<b>Pre-tax profit</b>	<b>80.4</b>	<b>95.7</b>	<b>96.4</b>	<b>82.7</b>	<b>101.0</b>	<b>124.8</b>
Tax	-12.9	-20.4	-17.7	-17.4	-21.2	-26.2
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net result</b>	<b>67.4</b>	<b>75.4</b>	<b>78.8</b>	<b>65.3</b>	<b>79.8</b>	<b>98.6</b>
Net result adjusted*	67.4	75.4	78.8	85.3	94.8	98.6

BALANCE SHEET (EUR m)	2022	2023	2024	2025E	2026E	2027E
<b>Total assets</b>	<b>4,182.7</b>	<b>4,809.3</b>	<b>4,922.6</b>	<b>5,087.2</b>	<b>5,943.5</b>	<b>6,477.5</b>
Cash and balances at CB	384.8	751.5	395.1	300.0	250.0	250.0
Securities	58.3	207.7	235.1	230.0	240.0	240.0
Loans to banks	2.7	3.0	3.1	3.0	3.0	3.0
<b>Net loans to customers</b>	<b>2,391.6</b>	<b>2,645.1</b>	<b>3,117.7</b>	<b>3,438.9</b>	<b>3,843.0</b>	<b>4,203.5</b>
Corporate	1,195.0	1,318.3	1,616.2	1,765.0	1,906.2	2,039.6
Retail	1,114.0	1,258.2	1,431.5	1,646.2	1,860.2	2,083.4
Other	82.7	68.6	70.0	27.7	76.7	80.5
<b>Leases</b>	<b>242.4</b>	<b>286.5</b>	<b>316.9</b>	<b>379.4</b>	<b>413.8</b>	<b>446.4</b>
Investment securities at fair valu	90.2	74.5	43.9	60.0	60.0	60.0
Investment securities at amortize	969.0	751.2	726.9	583.5	1,041.2	1,181.2
Investments in subsidiaries and c	0.1	0.1	0.3	0.2	0.2	0.2
Intangible assets	8.3	45.1	43.6	45.0	46.0	47.0
Property, plant and equipment	16.2	15.8	15.3	15.9	14.9	14.9
Investment property	1.8	1.0	0.0	0.0	0.0	0.0
Other	17.2	27.8	24.7	31.4	31.3	31.4

<b>Liabilities &amp; equity</b>	<b>4,182.7</b>	<b>4,809.3</b>	<b>4,922.6</b>	<b>5,087.2</b>	<b>5,943.5</b>	<b>6,477.5</b>
Due to banks and other fin.	685.1	570.0	65.9	70.0	50.0	50.0
Derivatives	7.2	1.0	0.1	1.0	1.0	1.0
<b>Deposits from customers</b>	<b>2,785.0</b>	<b>3,162.7</b>	<b>3,538.0</b>	<b>3,656.2</b>	<b>4,487.2</b>	<b>4,957.0</b>
Corporate	1,533.6	1,912.1	2,187.9	2,193.7	2,692.3	2,974.2
Retail	950.9	965.4	1,067.4	1,096.8	1,346.2	1,487.1
Other	300.5	285.2	282.6	365.6	448.7	495.7
Special and lending funds	14.2	15.7	23.0	12.0	12.0	12.0
Debt securities in issue	171.2	276.5	448.2	450.0	450.0	450.0
Current income tax liabilities	4.4	6.4	0.3	3.0	3.0	3.0
Deferred income tax liabilities	1.5	6.1	6.1	6.2	6.2	6.2
Liabilities related to insurance ac	36.2	179.3	198.4	214.8	219.1	223.5
Other	35.1	48.4	57.4	58.0	59.0	60.0
Share capital	174.2	192.3	192.3	189.2	189.2	189.2
Retained earnings	213.2	262.0	295.5	321.0	361.0	419.8
<b>Total equity</b>	<b>442.9</b>	<b>543.1</b>	<b>585.2</b>	<b>616.0</b>	<b>656.0</b>	<b>714.8</b>

Source: Company data, IPOPEMA Research; \*adjusted for non-recurring items (cloud platform, rebranding)

## Bank's description

Siaulių Bankas (Šiaulių Bankas) is the largest domestic bank in Lithuania (excluding foreign Swedbank and SEB, as well as Luminor). The bank was established in 1992 and is headquartered in Šiauliai, Lithuania, and operates a network of branches and offices across the country. It operates a branch network of 54 client service units in 36 cities and towns throughout Lithuania. Since it is a universal bank it offers a wide range of banking services, including personal and business banking, loans, mortgages, savings accounts, investment products, and insurance. What distinguishes the bank from others on the market is that it is the biggest bank with a strong focus on serving small and medium-sized enterprises (SMEs), providing tailored financial solutions to support their growth and development. Šiaulių Bankas Group includes subsidiaries which operate in the fields of asset management (SB Asset Management), leasing (SB lizingas), renovation (SB modernizavimo fondas I and II), life insurance (SB draudimas) and real estate (SB turto fondas). The core income for the bank arrives from net interest income. It provides almost 80% of operating income; therefore, the category is very much impacted by lending volumes and interest rates. An additional 10% is generated through different fees and commissions charged for payments, ATM, cards, asset under management services, pension fund services, brokerages and similar items. The remaining 10% is generated from trading and through insurance service fees.

Figure 2. Operating income breakdown (2024)

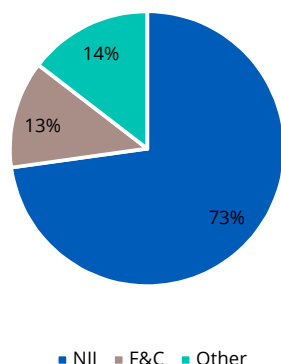
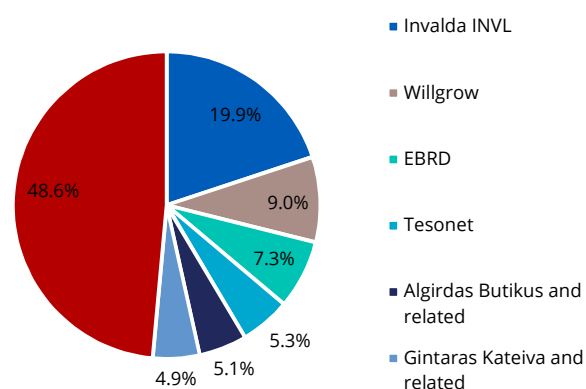


Figure 3. Shareholders structure (end of 2024)



Source: Company, IPOPEMA Research

The largest shareholders of Šiaulių Bankas after the completion of the transactions between the European Bank for Reconstruction and Development (EBRD) and Invalda INVL, Tesonet Global and Willgrow, are: Invalda INVL – 19.9%, Willgrow – 9.0%, EBRD – 7.3%, Tesonet Global – 5.3%, Algirdas Butkus and related parties – 5.0%, Gintaras Kateiva and related parties – 4.9%. The remaining 48.5% of the shares have been acquired by institutional and retail investors. On 30 November 2023, Invalda INVL and Šiaulių Bankas formally completed the EUR 41.8m merger of their retail businesses. To finalise the transaction, Šiaulių Bankas was issued shares that were acquired by the Invalda INVL Group at the price of EUR 0.645 per share. As a result, Invalda INVL received 9.39% of the shares and became the largest shareholder of the bank.

## Lithuanian banking sector outlook

### Introduction

There are 13 banks operating in Lithuania, with specialised licences and an additional five that operate as foreign bank branches. The market is relatively small with total assets amounting to EUR 66bn at the end of September 2024, while Scandinavian Swedbank and SEB are dominant players. These two banks hold 53% of total assets in the sector. The Lithuanian banking system's substantial dependence on Scandinavian banks is obvious and this is due to the fact that these were among the first to enter the market after the country gained independence, providing much-needed capital and expertise. Also, Lithuania has strong economic ties with Scandinavian countries, including trade and investment and is part of the broader Nordic-Baltic financial ecosystem, which facilitates cross-border banking and investment. Apart from Swedbank and SEB, it is notable that Revolut Bank (a fintech challenger) has substantial assets but it is active only in consumer financing and has yet to enter mortgages. Sailu's market position is virtually between the group of the two dominant names and the remainder of the market which is highly fragmented – many small players, each with less than 5%.

Figure 4. Total banking loans in Lithuania market shares (9M24)

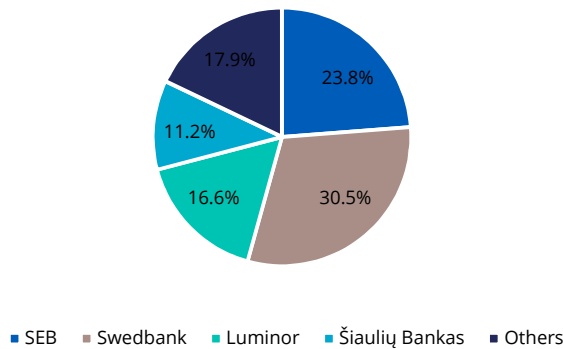
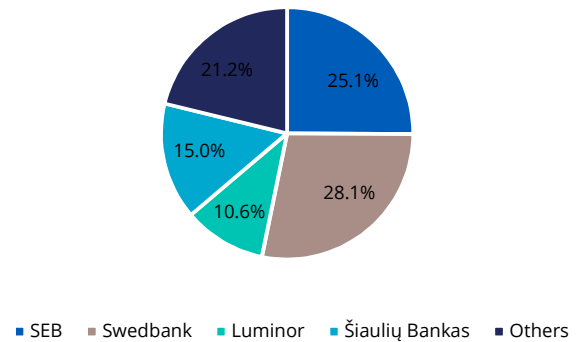


Figure 5. Corporate loans market shares (9M24)



Source: Company, IPOPEMA Research

The banking sector in Lithuania is well capitalized with ample liquidity buffers, while profitability remains at a record high, despite lower interest rates and the temporary levy on banks introduced in 2023. Given the large capital buffers, increasing deposits and high profitability and low NPLs, the balance sheet risk seems fairly low. Customer deposits were the largest component in the bank's financing structure. As of 30 September 2024, they accounted for 83.1% of bank liabilities. Lending is focused on households and corporations. Loans to households are at only 21% of GDP while loans to corporations (non-financial corporations) are even lower at 15% of GDP, which leaves a lot of the room for further convergence towards EU averages at over 70%.

Figure 6. Mortgage loans in Lithuania market shares (9M24)

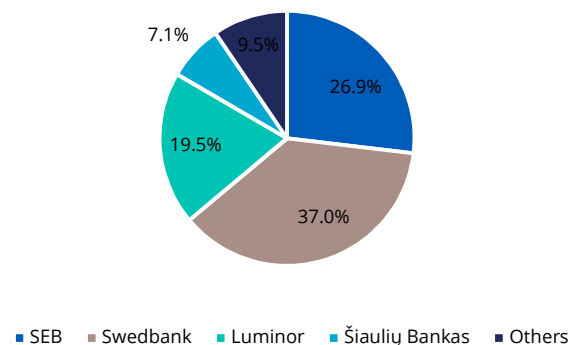
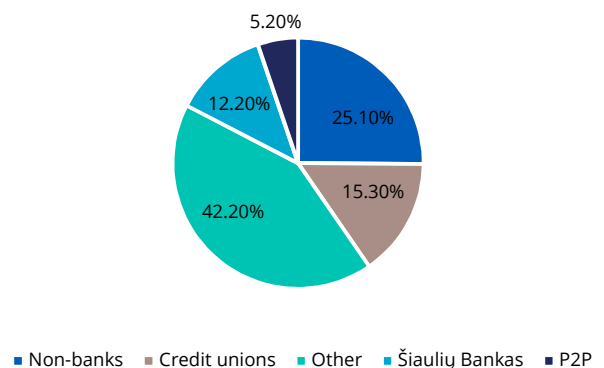


Figure 7. Consumer loans in Lithuania market shares (9M24)



Source: Company, IPOPEMA Research

### Macro backdrop is of key importance – positive catalyst

The outlook for the sector is tightly connected with the overall macro expectations in Lithuania. To assess that picture we have used guidance provided by the National Bank of Lithuania and the Ministry of Finance. As these two institutions explain, after Lithuania's economy got back on the path of economic growth in 2024, this growth is expected to strengthen further this year supported by external demand recovery. Inflation will accelerate to 2.5% in 2025, but this is tolerable and will be favourable to economic growth. The labour market remains sufficiently resilient and the average national wage will grow at a relatively fast pace and significantly exceed the impact of inflation. This will lead to a further increase in purchasing power of the population and stimulate domestic consumption. The Ministry of Finance sees the growth rate accelerating to 2.8% this year and in 2026–2027, up to 2.9% on average per year. The unemployment rate is expected to fall to 7.1% in 2025, while employment growth will reach 0.3%. In the following medium-term years, the unemployment rate is expected to gradually decline. The scenario projects that the average gross monthly wage growth this year will remain strong and reach 10.1%. Next year, the average monthly gross wage growth rate is expected to reach 7.9%.

In a context of rising household disposable income and low inflation, the purchasing power of the population will further strengthen. In 2025-2027 household consumption expenditures are expected to grow 3.5%, as the financial situation of the population continues to improve.

Expenditures on gross fixed capital formation (GFCF) are expected to grow up to 5.5% per annum, supported by stronger growth in external and domestic demand, increased investment in national security and the need to invest in green technologies and measures to increase labour productivity. The scenario foresees an annual change in exports of goods and services (at constant prices) of 3.9% in 2025 and 4.2% in 2026-2027 due to more favourable economic developments of the main trading partners. The scenario has been drafted in the context of still exceptionally high external instability and economic uncertainty, on-going active military actions in Ukraine and other geopolitical tensions.

**Overall, we find that the macro backdrop is largely supportive for the banking sector in Lithuania; therefore, if we account for a decline in interest rates as well, we believe that conditions for further growth of private loans to both households and corporations are very solid in the medium-term, with low risk of a material surge in delinquencies.**

**Figure 8. Lithuania Central Bank macro projections (September 2024)**

	2024	2025E	2026E
GDP growth	2.2	3.1	3.3
CPI	1.0	2.5	2.6
Wages growth	9.8	8.5	8.1
Unemployment	7.4	7.1	6.9
CA balance % of GDP	3.2	1.6	1.1
Trade balance % of GDP	6.1	5.0	4.6

Source: Company, IPOPEMA Research

Nevertheless, among factors that can disrupt the promising macro picture, the Ministry of Finance lists the intensification of Russia's war against Ukraine and geopolitical tensions in the Middle East, negative repercussions of rising protectionism in international trade, price shocks of energy and other raw materials as well as food, less favourable developments in the euro zone and the global economy, fluctuations in global financial markets, an ageing society and shortage of workers. There are also positive risks to the baseline scenarios, such as stronger domestic and foreign demand, faster monetary policy easing, increased investment in security, faster implementation of the European Green Deal and other EU-funded projects, more favourable demographic trends and immigration of skilled workers, and a faster green energy transition, which could lead to more favourable economic development.

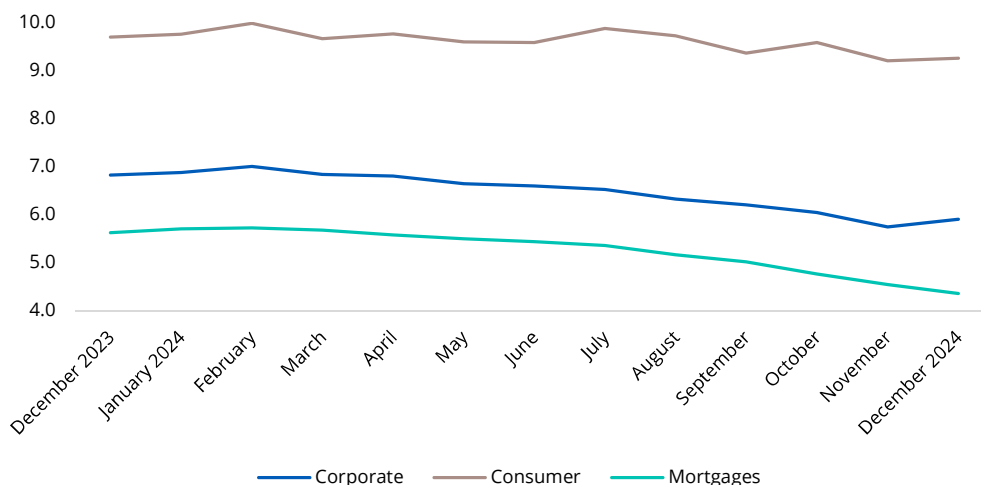
### Banking tax issue – 2025 and additional extension dilemma

Back in 2023 Lithuania introduced a so-called solidarity contribution tax for banks. It was payable on the surplus of the interest received in 2023 and 2024 from Lithuanian residents' loans. The tax base of the solidarity contribution is 50% of the net interest income which exceeds the average net interest income of the previous four years (i.e. 2018 - 2021 for 2023 and 2019 - 2022 for 2024). The contribution was levied at a rate of 60%. However, after taking into account the proposals and complaints received from banks, the Ministry of Finance and the Bank of Lithuania revised the draft law. Among other things, a clause was included with the aim of completely excluding new credit agreements concluded from 2023 onwards from the tax. The contribution will be reported annually until the 15th day of the sixth month following the end of the taxable year. The solidarity contribution of EUR 256m was reported by the Ministry of Finance). A similar amount for 2024 will be charged. The extension of the temporary solidarity contribution for 2025 and the application of the 2019-2022 comparative period for the calculation of the temporary solidarity contribution base will result in an additional EUR 50-60m. Finally, these proceeds are to be used primarily for defence infrastructure, while in the new reality it seems that the EU will be left alone to address a future Russian threat, without US support; therefore, additional funds for defence will be needed, especially in Lithuania which is at the front line. As a result we think that there is a chance that this solidarity tax will be extended even after 2025 although banks cannot count on excessive NII as in 2022 or 2023. Lithuania also increased the corporate income tax for banks by one percentage point to 21%.

### Interest rates outlook – stabilising at the end of 2025 or by mid-2026.

Taking into account the latest statement from the European Central Bank President that the euro zone economy "is set to remain weak in the near term", as well as the latest survey (ECB) related to GDP in EU which suggests a fragile macro environment (growth expectations stood at 0.9% for 2025 and 1.2% for 2026 and 1.35 for 2027), we assume that the rate-cutting cycle in 2025 will continue. The latest official ECB survey shows that forecasters expected the ECB's deposit facility rate to fall below 2.75% in the first quarter of 2025 and to decrease further, to 2.00%, by the third quarter of 2026 and into 2027 before increasing to 2.25%, on average, by 2029. This will impact rates in Lithuania as well. Tariff risks and trade wars are significant uncertainties for 2025, while for the purpose of our forecast assume at this point, 2.0% will be the level reached at the end of 2025 or by mid-2026 at the latest, with a neutral rate at 2.2% in 2027 and beyond. The ECB recently cut its deposit facility rate, to 2.5%, but also updated the language in its decision to say monetary policy was becoming "meaningfully less restrictive." This change from the ECB's January comments, when the central bank was still characterizing monetary policy as "restrictive", may be interpreted as a hawkish shift.

Figure 9. Interest rates in Lithuania (in %)



Source: Ib.lt, IPOPEMA Research

**New caps on fees for basic services – this should not result in huge pressure towards F&C income**

A payment card, cash withdrawals from ATMs, and access to online banking tools are some of the basic services that commercial banks operating in Lithuania must provide for their customers at a fixed price. The bundle of basic banking services was introduced by the central bank in 2017. It also set a price at which this basic plan has to be provided, EUR 1.45 a month. This year, the Bank of Lithuania has reviewed the package and is introducing some changes. According to new rules, banks will have to raise the sum of cash withdrawals provided for free. At the moment, the limit is EUR 550 a month, while the main change is that people who have opted for the regulated basic bundle of payment services will be able to withdraw EUR 800 per month (for free). In addition, clients will be able to make 15 online transfers without additional fees, instead of 10. The most important part is however that the price banks can charge for this bundle of basic services will decrease from EUR 1.45 to EUR 1.0. All these changes will remain in place for three years, meaning that they will expire in 2028. According to the Banking Association, around 3% of all customers have signed up for the basic plan that is mandated by the central bank and all the other clients use different plans at unregulated prices, thus it is unlikely that this may put serious pressure on F&C income in the sector. Nevertheless, the problem that may emerge is higher awareness towards banking offers and plans. That said, most people are not aware of which plan they are on and how much their bank charges them but now it can change as they find it attractive to choose the price-regulated plan.

**New mortgage loan regulation – cheaper refinancing and more competition**

A new mortgage loan refinancing procedure came into effect in February. This will simplify, accelerate, and make the process cheaper: people who want to refinance their loans will only need to contact a new bank, which will carry out most of the related procedures. The Bank of Lithuania assures us that residents will have more bargaining power when negotiating with banks for housing loans, which they have lacked until now. As of February, the bank that issued the loan will be required to provide data to another bank free of charge, and people will be able to refinance the loan essentially at any time without paying an early repayment fee. Even before the new procedure came into effect, people began to take an active interest in refinancing loans at their own bank. According to the Bank of Latvia, until now, refinancing a mortgage loan has been expensive – the average cost has reached up to EUR 1,000. Residents will also no longer need to revalue real estate - the new bank will do it with its own funds, it will not be able to charge any fees, and people will not have to pay a notary or the Center of Registers: all of this will be paid for by the new bank. Creditors will also have to provide customers with the option to choose fixed-interest rate mortgages for at least five years. The majority of mortgages in Lithuania now have variable, and therefore less predictable, interest rates. Families buying their first home will also see a change in the state support scheme. The basic subsidy rate for the maximum loan amount of 87,000 euros will go up to 12.5 percent for families with two children and 15 percent for those with three kids. The maximum value of the real estate will now stand at 120,000 euros. Banks in Lithuania will have to offer their customers the opportunity to select the type of interest rate on mortgages, presenting them with both variable and fixed rate options. Seimas obliged banks to provide people with at least two alternatives of choosing a mortgage with a fixed rate for at least 5 years or a variable interest rate. Banks that could not offer a 5-year fixed rate would have to propose ways to reduce or manage the risk of fluctuations in variable interest rates for at least 5 years. The new rules will apply to financial institutions with a mortgage portfolio exceeding EUR 50m. It seems that simplification of the refinancing of housing loans is well accepted by new entrants, and thus Revolut Bank has already announced its entry to the mortgage segment. At the same time this should support a pickup in production of new mortgage loans although banks will experience higher costs due to the obligation to take on additional administrative activities (with regard to the notary or the Center of Registers).

### Country specific – Credit support for renovation of multi-apartment buildings

Renovation of multi-apartment buildings in Lithuania is a significant process aimed at improving the energy efficiency, structural integrity, and overall living conditions of residential buildings, many of which were constructed during the Soviet era. These buildings often suffer from poor insulation, outdated heating systems, and general wear and tear. The renovation process is supported by both national and European Union (EU) funding programs, making it more accessible for residents and building owners. The activity lasts since 2005. The long-term renovation strategy of Lithuania aims to transform the existing building stock so that it is energy efficient (complying with the conditions for conversion to near-zero energy buildings), decarbonised, and in line with the principles of universal design by 2050. The intended breakthrough in renovation will require significant investments. According to preliminary estimates, presented in European Commission study from 2021), to meet the LTRS milestones, the renovation of the building stock will require an average investment of EUR 1.1bn per year up to 2030; the investment needs will grow to up to EUR 3bn a year in subsequent periods all until 2050. Šiaulių bankas has been involved in the financing market for the modernization of multi-apartment buildings in Lithuania for more than 12 years. During this period, the Bank and its partners have financed the renovation of more than 3,000 projects total loan worth exceeding EUR 1.2bn. Given the number of objects that needs to be renovated (according the EC study - almost 500k until 2050), the amount of funds needed and bank’s involvement, we have no doubt that this part will be among growth drivers in the corporate loan book at the bank. Currently it account 13% of corporate loans portfolio.

**Figure 10. Building renovation projections EC study**

	2020	2030E	2040E	2050E
Number of renovated buildings	58,774	99,281	255,421	436,008
Share of renovated buildings %	8.0%	17.0%	43.0%	74.0%
Area of renovated buildings k m2	29,471	27,819	67,233	109,534
Area of renovated buildings %	15.0%	17.0%	41.0%	66.0%

Source: *energy.ec.europa.eu, IPOPEMA Research*

### Country specific – Fintech issue

Lithuania is well-known as the fintech hub for Europe. One of the main reasons Lithuania attracts so many fintech companies is because the country offers a strong government support system to these, as well as several initiatives, through organisations such as Startup Lithuania, part of Innovation Agency Lithuania, Invest Lithuania, Go Vilnius and Vilnius Techfusion. This includes connecting different startup founders, holding acceleration programs and workshops, as well as offering support schemes, consultations and much more. These agencies also provide all the information that businesses, relocating employees, founders, investors and visitors need to set up a company or move privately to Vilnius. Agencies such as Vilnius Techfusion also connect different parties in the fintech, life sciences, information technology, lasers and game development sectors. Nevertheless, a large number of fintech companies in Lithuania is not something that can seriously endanger domestic banks at this point. These companies provide services mainly to clients outside of Lithuania and are less involved in typical banking activities such as lending (only 12% of their core business). Payment services is a territory where these appear as real competition to local banks. Šiaulių Bankas has already been adapting to the fintech challenge since it has selected Temenos to modernize its core banking platform. The bank will migrate its retail and corporate banking including trade finance to the Temenos Banking Cloud, supporting the bank’s growing business needs. The move to Temenos core banking software-as-a-service (SaaS) is part of a strategic transformation, following the merger of its retail business with Invalda INVL. Powered by Temenos SaaS, the bank aims to double the number of business customers and private clients to reach 1 million customers by 2029. In recent years, Software as a Service (SaaS) solutions have emerged as a transformative force within the banking industry, revolutionising how institutions interact with customers and deliver services. By embracing SaaS development, banks can modernise customer service and achieve greater efficiency, and security and deliver personalised experiences. Through Temenos SaaS, Šiaulių Bankas benefits from a modern, cloud-native architecture and composable banking services to increase business agility and benefit from faster time to market. The core banking solution

includes Temenos banking capabilities for Product and Pricing, Data and Analytics, Servicing of Accounts, Deposits and SME Loans, as well as Anti Money Laundering (AML).

Figure 11. SaaS at banks explained (provided by Marketing Donut)

Use cases	Benefits	Future
<p><b>Flexibility and scalability:</b> SaaS solutions allow banks to scale their services according to demand. Banks can handle increased customer traffic during peak times without worrying about system overload, ensuring that customers' needs are consistently met.</p> <p><b>Cost savings:</b> SaaS operates on a pay-as-you-go model, eliminating the need for substantial upfront investments in IT infrastructure. This approach results in significant cost savings for banks, allowing them to allocate resources more strategically.</p> <p><b>Improved security:</b> Reputable SaaS providers prioritise data security and regulatory compliance. Banks can leverage these providers' expertise to protect customer data and ensure operations meet industry standards.</p> <p><b>Faster time to market:</b> SaaS solutions enable banks to implement new features and services quickly. This agility is essential in the fast-paced world of finance, where banks must continually innovate to keep up with changing customer expectations.</p> <p><b>Enhanced customer insights:</b> SaaS solutions often come with integrated analytics tools that give banks valuable insights into customer behaviour. These insights can inform banks' strategies, allowing them to tailor services and products to individual customers' needs.</p> <p><b>Regular updates and maintenance:</b> One of the key advantages of SaaS is that banks receive regular software updates and maintenance from the provider. This ensures that banks always have access to the latest technology and security features.</p>	<p><b>Digital banking platforms:</b> SaaS-based digital banking platforms encompass mobile banking, online banking, and digital wallets. These platforms provide customers with convenient and secure access to their accounts and financial services.</p> <p><b>Customer relationship management (CRM):</b> Banks use SaaS-based CRM systems to manage customer interactions, track service requests, and personalize experiences. These systems help banks deliver targeted marketing campaigns and efficiently respond to customer enquiries.</p> <p><b>Chatbots and AI-Powered assistants:</b> SaaS-enabled chatbots and AI-powered assistants offer customers immediate support and information around the clock. These intelligent tools handle routine inquiries, allowing human agents to focus on resolving complex issues.</p> <p><b>Fraud Detection and Prevention:</b> SaaS solutions aid banks in detecting and preventing fraud in real time. Banks can use machine learning and AI to mitigate fraud and identify suspicious transactions to take prompt action and safeguard customer accounts.</p> <p><b>Omni-channel customer experience:</b> SaaS solutions enable banks to deliver seamless customer experiences across multiple channels, including online, mobile, and in-branch.</p> <p><b>Lending and loan origination:</b> SaaS solutions streamline the lending and loan origination process by automating workflows and providing data-driven decision-making tools. This results in faster loan approvals and improved customer satisfaction.</p> <p><b>Wealth management:</b> SaaS tools facilitate wealth management services by offering personalized financial advice, portfolio management, and investment tracking.</p>	<p><b>Advanced personalisation:</b> SaaS solutions will enable banks to offer highly personalised experiences based on deep customer insights. This could include tailored financial products, targeted marketing campaigns, and customised recommendations.</p> <p><b>Integration with fintech:</b> Banks will increasingly partner with fintech companies to integrate innovative services and solutions into their existing SaaS platforms. This collaboration will help banks stay ahead of the competition and offer cutting-edge services to their customers.</p> <p><b>Voice and biometric authentication:</b> As customers become more comfortable with voice and biometric technologies, SaaS solutions will integrate these features into banking services. This will enhance security and improve the overall customer experience.</p> <p><b>Cloud-native banking:</b> This shift would enable banks to operate more efficiently and provide services at scale.</p> <p><b>Open banking:</b> Allowing customers to securely share their financial data with third-party providers, enhancing customer choice and promoting competition in the financial services industry.</p> <p><b>Regulatory compliance:</b> The banking industry is heavily regulated, so SaaS providers will continue to focus on compliance with regulations such as GDPR and PSD2. This focus on compliance gives banks peace of mind and allows them to offer services that adhere to legal and ethical standards.</p> <p><b>Sustainability and social responsibility:</b> SaaS can help banks adopt more sustainable and socially responsible practices. Cloud-based services are generally more energy-efficient than traditional on-premises systems, contributing to banks' efforts to reduce their carbon footprint.</p>

Source: <https://www.marketingdonut.co.uk>

## Valuation

Our valuation approach for Šiaulių Bankas uses the DDM model and targeted P/BV, and thus we derive the Fair Value as an average of these two methods. We derived our dividend per share projection from the bank's most recent announcements (payout ratio of a minimum of 50%), our forecast for net results in 2025-2030 and projected capital ratios. Our assumption is that due to high capital ratios, in reality, the bank will have room to maintain its pay-out ratio in the range of 50-60%, so a short-term fall in net profit in 2025 will not be an issue when considering the absolute per share amount. In our DPS we have not included buyback amounts. In a theory, these may range from 0.006 per share to 0.008 per share and will improve total distribution yield by 0.7-1.0% (70-100bp) on average. We use a risk-free rate of 3.5% for Lithuania and we add a 6.5% risk premium. For the long-term long growth rate we use 2%.

Figure 12. DDM valuation

Assumptions		DDM	2025E	2026E	2027E	2028E	2029E	TV	Target P/BV model	
RFR	3.5%	DPS	0.06	0.06	0.07	0.08	0.08	1.1	Target P/B	1.57
Risk premium	6.5%	discount factor	0.91	0.83	0.75	0.68	0.62		2028-29 BVPS	1.30
Beta	1.0	discounted DPS	0.06	0.05	0.05	0.05	0.05	0.66	Implied value as of 2029E	2.05
CoE	10.0%								PV of implied value	1.27
g	2.0%	<b>FV per share</b>	<b>0.92</b>						PV of discounted DPS until 2029E	0.26
TV payout ratio	50.0%								<b>FV per share</b>	<b>1.53</b>
Terminal ROE	14.6%									
NOSH	652,398									
<b>Valuation summary</b>										
<b>FV per share</b>	<b>1.20</b>									

Source: Company, IPOPEMA Research,

Figure 13. Sensitivity analysis 1. (g rate vs. Risk premium)

		Risk premium				
		5.5%	6.0%	6.5%	7.0%	7.5%
g rate	0.0%	1.30	1.20	1.10	1.10	1.00
	0.5%	1.30	1.20	1.10	1.10	1.00
	2.0%	1.40	1.30	<b>1.20</b>	1.20	1.10
	1.5%	1.40	1.30	1.20	1.10	1.10
	2.0%	1.40	1.30	1.20	1.20	1.10

Source: IPOPEMA Research

Figure 14. Sensitivity analysis 2. (g rate vs. Risk Free Rate)

		RFR				
		2.5%	3.0%	3.5%	4.0%	4.5%
g rate	0.0%	1.30	1.20	1.10	1.10	1.00
	1.0%	1.30	1.30	1.20	1.10	1.00
	2.0%	1.40	1.30	<b>1.20</b>	1.20	1.10
	3.0%	1.60	1.40	1.30	1.20	1.10
	4.0%	1.70	1.60	1.40	1.30	1.20

Source: IPOPEMA Research

Figure 15. Sensitivity analysis 3. (g rate vs. Terminal RoE)

		Terminal ROE				
		13.5%	14.0%	14.5%	15.0%	15.5%
g rate	0.0%	1.10	1.10	1.10	1.10	1.20
	1.0%	1.10	1.10	1.20	1.20	1.20
	2.0%	1.20	1.20	<b>1.20</b>	1.30	1.30
	3.0%	1.30	1.30	1.30	1.40	1.40
	4.0%	1.40	1.40	1.40	1.50	1.50

Source: IPOPEMA Research

## Relative valuation

For the purpose of peer comparisons, we have selected several groups of banks – those from Scandinavia, then from Poland and those with SEE/CEE exposure. If looking at FWD PE in 2025-2027E, Šiaulių is cheaper than banks from Scandinavia and on the mid-term horizon it offers similar dividend yield and ROE. In the case of PB 2025-2027E it is also much cheaper (30-44% discount). We do have a slightly different picture if we watch overall medians for all three groups of selected banks. Initially, Šiaulių is more expensive and trades at a solid premium (2025E PE of 9.4x), but this turns into a small discount in 2026 (4%) and into a much bigger one in 2027 (20%), while it offers only a slightly lower dividend yield in 2025-2027E (6.6%-7.0%) than the peer group average (7.7%). On a 2025-2027E PB (1.0-0.8x), it is much cheaper although it will offer ROE in 2027E in line with the peer group average (14%). Nevertheless, if we observe adjusted PE in 2025-2027E (exuding one-off costs in 2025 and 2026) we see a discount vs. peers while ROE (adjusted.) is very similar for 2025-2027E.

Figure 16. Relative valuation

Region	PRICE (LCU)	Ticker	NAME	P/E			DY%			PB			ROE		
				2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
<b>Scandinavia</b>															
	263.70	SWEDA SS	Swed Bank	10.3	10.2	9.9	7.4	7.6	8.6	1.4	1.4	1.4	13.1	12.9	12.8
	178.15	SEBA SS	SEB	11.3	10.6	10.1	5.3	5.5	6.2	1.6	1.6	1.6	13.6	13.9	13.9
	235.60	Danske DC	Danske Bank	9.0	8.8	8.5	7.7	7.8	7.6	1.1	1.1	1.1	12.2	12.0	11.9
	263.70	DNB NO	DNB Banka SA	9.9	10.0	9.9	6.6	6.7	6.8	1.5	1.5	1.5	14.7	13.7	13.4
			<b>MEDIAN</b>	<b>10.1</b>	<b>10.1</b>	<b>9.9</b>	<b>7.0</b>	<b>7.2</b>	<b>7.2</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>13.3</b>	<b>13.3</b>	<b>13.1</b>
<b>Polish banks</b>															
	168.75	PEO PW	PEKAO	7.1	8.0	7.7	9.0	8.6	8.2	1.4	1.4	1.4	18.7	15.7	14.7
	71.02	PKO PW	PKOBP	7.9	7.9	7.7	7.7	7.9	8.1	1.8	1.8	1.8	19.2	18.6	18.8
	95.86	ALR PW	ALIOR SA	5.8	6.5	6.7	9.0	9.0	8.6	1.1	1.1	1.1	18.0	14.8	14.0
	11.99	MIL PW	MILLENNIU M	13.1	6.8	n.a.	0.0	1.1	4.8	1.9	1.9	1.9	22.4	20.1	19.5
	109.2	BHW PW	HANDLOWY	7.9	9.2	10.3	11.8	11.6	10.7	1.5	1.5	1.5	17.2	15.1	13.9
			<b>MEDIAN</b>	<b>7.9</b>	<b>7.9</b>	<b>7.7</b>	<b>9.0</b>	<b>8.6</b>	<b>8.2</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>18.7</b>	<b>15.7</b>	<b>14.7</b>
<b>SEE/CEE</b>															
	65.24	EBS AV	Erste Bank	9.2	8.7	7.9	5.0	5.5	5.9	1.3	1.3	1.3	13.7	13.1	13.5
	25.64	RBI AV	Raiffeisen	4.4	4.9	4.4	6.6	7.3	7.7	0.5	0.5	0.5	11.0	9.7	9.0
	24230	OTP HB	OTP	6.5	6.3	6.0	4.4	4.6	5.9	1.3	1.3	1.3	19.6	17.5	16.8
	4.777	ISP IM	Intesa Sp.	9.2	8.9	8.4	7.7	8.0	8.4	1.5	1.5	1.5	14.9	14.9	15.1
	28.8	TLV RO	B.Transilvan ia	8.4	7.7	6.8	8.4	5.9	7.1	1.5	1.4	1.3	19.0	18.5	19.2
	18.2	BRD RO	BRD-GSG	7.7	7.7	6.7	7.0	7.7	7.7	1.1	1.1	1.0	15.0	14.0	14.2
	138.0	NLBR SV	NLB	5.4	5.4	5.3	8.8	9.2	9.6	0.8	0.7	0.7	14.6	13.6	12.9
			<b>MEDIAN</b>	<b>7.7</b>	<b>7.7</b>	<b>6.7</b>	<b>7.0</b>	<b>7.3</b>	<b>7.7</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>14.9</b>	<b>14.0</b>	<b>14.2</b>
			<b>TOTAL MEDIAN</b>	<b>7.9</b>	<b>7.9</b>	<b>7.7</b>	<b>7.0</b>	<b>7.3</b>	<b>7.7</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>14.9</b>	<b>14.0</b>	<b>14.2</b>
	0.94	SAB1L		9.4	7.6	6.1	6.6	6.6	7.0	1.0	0.9	0.8	10.9	12.5	14.3
			Prem./disc.	19.71%	-4.43%	-20.59%	-5.71%	-9.21%	-9.09%	-29.89%	-36.90%	-43.91%	-26.65%	-10.71%	0.70%
	0.94	SAB1L adj.		7.2	6.4	6.1	6.6	6.6	7.0	1.0	0.9	0.8	14.1	14.8	14.3
			Prem./disc.	-8.86%	-18.64%	-19.92%	-5.71%	-9.21%	-9.09%	-29.89%	-36.90%	-43.91%	-5.12%	5.71%	0.70%

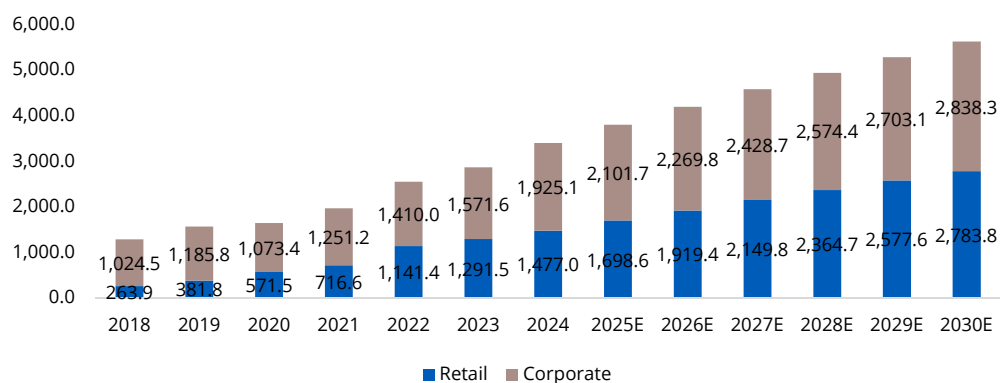
Source: Bloomberg, IPOPEMA Research

## Financial outlook

### Volumes

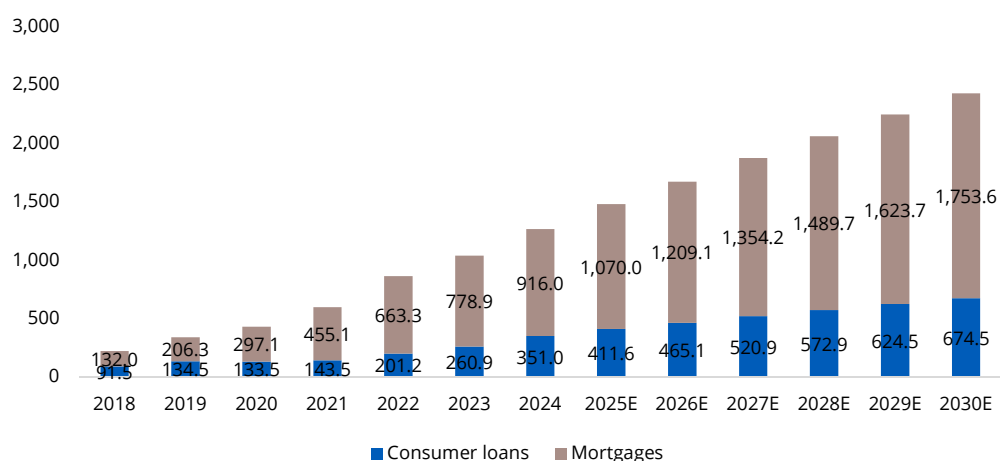
We forecast the bank's lending activity to expand at an average CAGR of 8.5% in 2025-2030E, which is broadly in line with the bank's strategic objectives. We expect that such growth will be supported by favourable macro conditions, such as rising GDP and a stable labour market, falling interest rates and rising number of customers due to activation of the SaaS platform (cooperation with Temenos) and integration with the Invlada retail network. We also count on higher subsidies for families who want to buy houses. Interest rates in Lithuania are to decrease in 2025, likely drawing increased attention from investors, particularly in residential real estate, while wages will grow by approximately 7% over the next three years (Lithuania faces a scenario where demand for labour far exceeds supply), boosting consumption and demand for consumer loans. Also, the bank is focused on SME in corporate lending and these entities are usually avoided by the two largest banks due to low risk appetites and other banks are too small to support them significantly. As falling rates will motivate such companies to seek new loans to expand operation further or refinance older debts, we assume that at least mid-single digit growth in corporate lending will be achievable. Overall, we forecast the retail segment to grow at an average rate of 10.4% in 2025-2030 and the corporate segment at an average rate of 6.2% in the same period.

Figure 17. Loan book development in EUR m



Source: Company, IPOPEMA Research

Figure 18. Retail loan book (consumer and mortgages in EUR m)

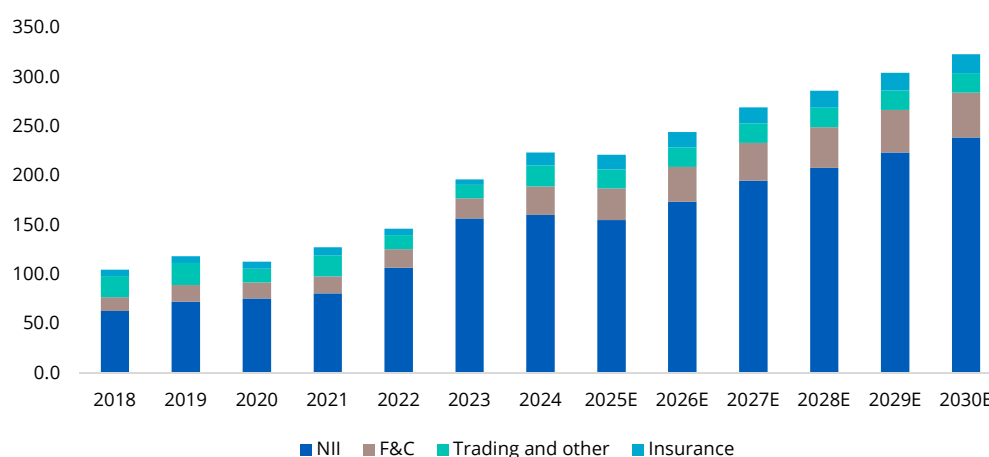


Source: Company, IPOPEMA Research

### Operating income (NII, F&C and other)

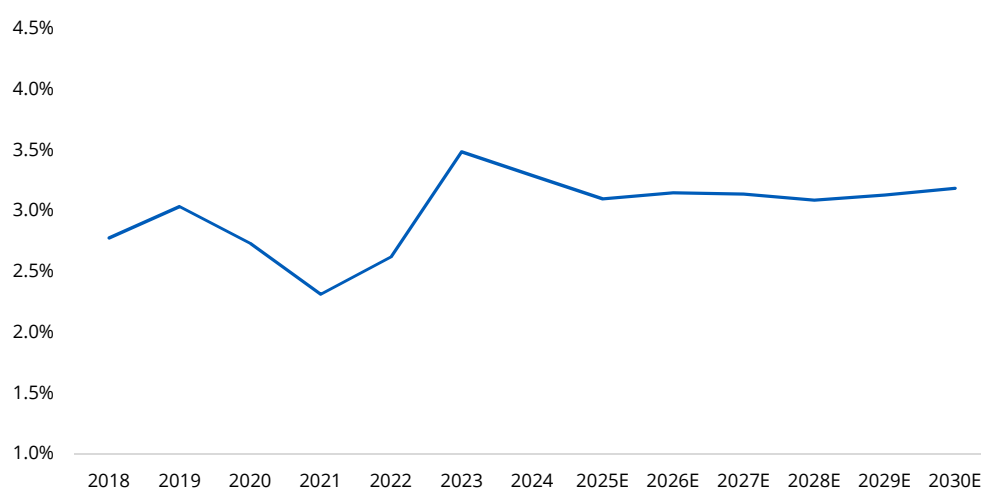
We forecast the bank’s operating income to grow at a CAGR of 7.9% for the period 2025-2030. Growth will be driven first by NII and net F&C income expansion and partly supported by other operating revenues (trading income and insurance). In this year we expect that falling interest rates will place pressure to NII; thus, it will be lowered by 3% versus 2024 but with stabilised rates by the end of the year and growing volumes it should restore growth in 2026 already. Overall, we expect NII to come in at EUR 155m in 2025, down 3% y/y and then keep growing towards EUR 240m in 2030. Growth after 2025 will be driven primarily by higher volumes, while we also expect NIM stabilising at around 3.1%. As for net F&C income, we expect growth momentum to continue without interruption. We assumed that this growth will be supported by a higher volume of payments and customer transaction (new client activation via SaaS), growing AUM and different cross-selling opportunities/activities due to Invalda (retail network) integration. Trading income may be volatile but we took the assumption that it will be in the fixed range of 18-19m a year while for insurance revenues we use the simple assumption that these will grow by 3% a year given the slowly growing life insurance market in Lithuania.

Figure 19. Operating income developments in EUR m



Source: Company, IPOPEMA Research

Figure 20. NIM development in %

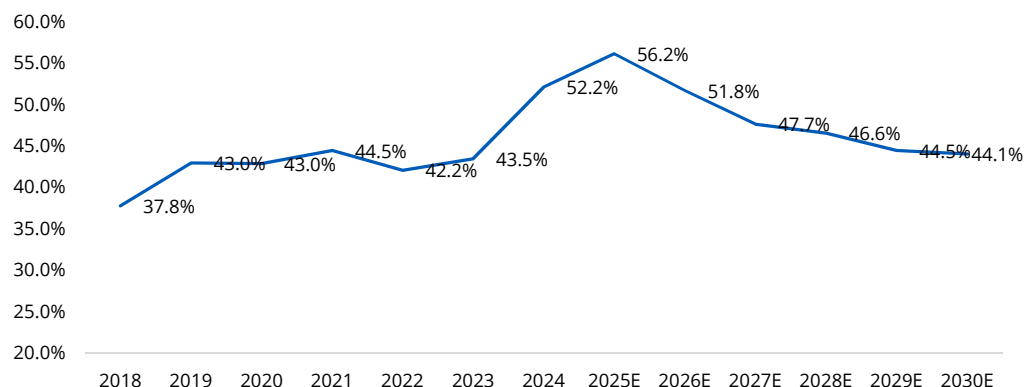


Source: Company, IPOPEMA Research

### Operating costs

We expect the bank's operating costs to be lifted in 2025, then stabilise in 2026 and enter into calm water afterwards. First of all, the bank will experience pressure from wages, since these are widely expected to rise in the country in general in 2025-2027, while retaining a talent pool will be of crucial importance. The second item is increased spending on digitalisation since the Temenos platform will be implemented by 2026. In addition, rebranding will also push marketing spend higher. Overall, we forecast the C/I ratio will be lifted to 56% (we include insurance inside as well) in 2025, before it moves lower to 52% in 2026. Finally, we expect C/I to keep declining further towards 45% until 2030 as the new operational model (going "phygital") will enable scaling of operations.

Figure 21. Cost to income ratio evolution at SAB in %

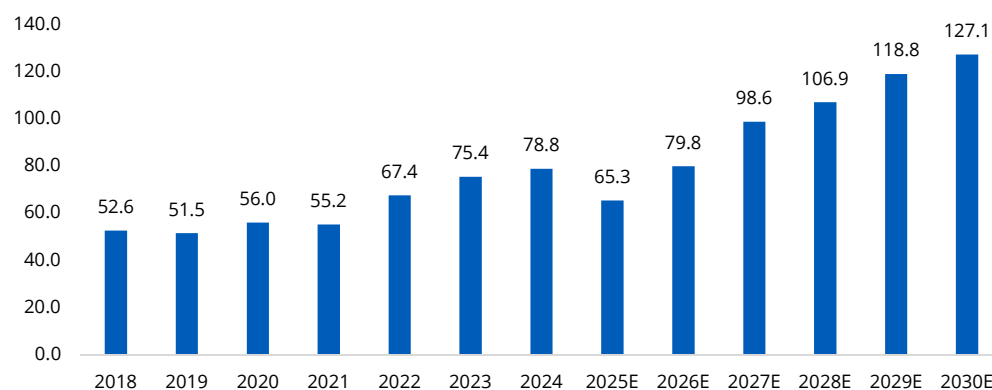


Source: Company, IPOPEMA Research

### Earnings

We expect the bank's net profit to grow at a CAGR of 15% in 2025-2030. We see a temporary decline in 2025 by 17% y/y but a fast recovery in 2026 (+23% y/y) and extended growth momentum towards 2030. The bank is reliant on variable interest rates, and thus declines in NII, elevated operating costs and higher tax rates will result in a net profit decline in 2025 (if we exclude one-off for cloud platform and rebranding costs there is a growth of 8%). We believe a recovery will be seen already in 2026 as volumes keep growing in a more stable rate environment, supporting NII growth, while in parallel we should see rising F&C income and less intense pressure on operating costs and stable CoR. Finally, once operations are scaled in 2027, as all re-platforming activities are completed (costs related to the core banking system upgrade, rebranding, the new office building, INVL acquisition related costs), we expect to see an additional 23% jump in earnings in related years and average annual earnings growth of 9% until 2030.

Figure 22. Net profit developments at SAB in EUR m

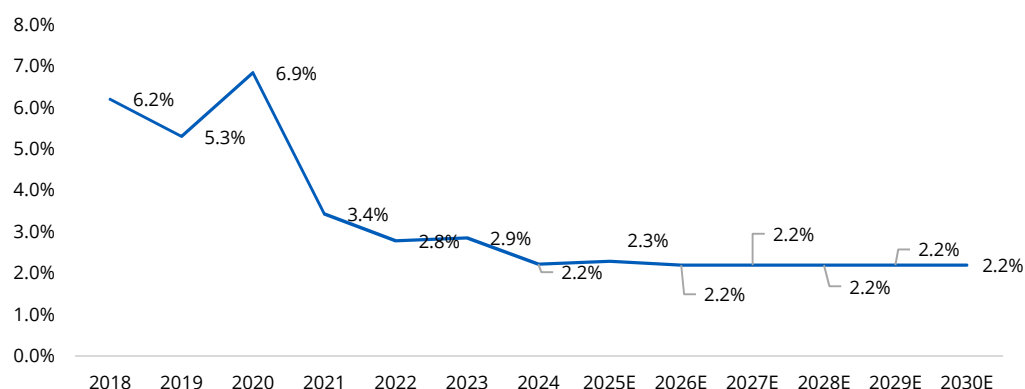


Source: Company, IPOPEMA Research

### Asset quality and capital buffers

Even though the bank is focused on SMEs that are more risky by definition, we have not seen material deterioration in asset quality during the peak of the current interest rate cycle. NPLs are low at 2.2% and given the ongoing fall in interest rates and supportive macro environment, it is unlikely that this may escalate, unless some bigger turbulence appears. The primary effects of the increase in US tariffs on Lithuania’s economy are expected to be limited given relatively weak industry-concentrated trade relations with the US. In case of retail clients, we do not expect to see any issues with the loan portfolio due to the strong labour market in Lithuania and rise in nominal wages across the country. We take the assumption that CoR will be at around 40-35bp in 2025-2030. TCR has a lofty surplus of 500bp while Tier1 is 345bp above requirements. Given the expected earnings growth, recent issuance of AT1 notes will be more than enough to support a pay-out ratio in the range of 50-60% in coming years. Also, as announced by the bank, the capital structure will be supported by a new EUR 30m subordinated bond issue in late 2025.

Figure 23. NPL development at the bank

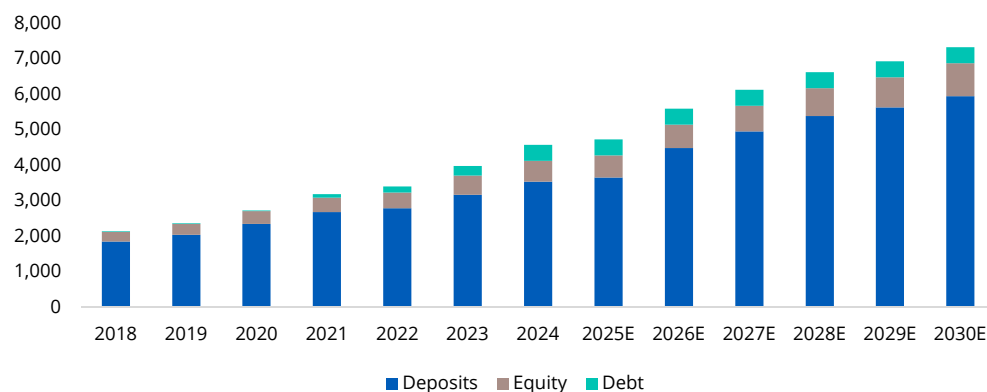


Source: Company, IPOPEMA Research

### Funding

Most of the funding at the bank is based on deposits since these account for 83% of liabilities and we do not expect changes in this field. In order to strengthen its capital base, the bank initiated several issuances of debt instruments (AT1, subordinated at senior preferred notes), in an aggregated amount of EUR 440m (2019-2024). As a result, the funding structure has been slightly altered over the last five years but even so, deposits have remained the dominant source. Half of these are under term agreements while rates have peaked in 3Q24 (2.2%) and given the falling benchmark rates, these should also follow the trend. Wholesale funding is more expensive (4.8%-10.7%) but cannot affect total funding costs materially as it holds a low share in the total structure and the bank is also about to redeem EUR 20m in bonds soon (6.15% coupon rate, due in 2029).

Figure 24. Funding developments in EUR m

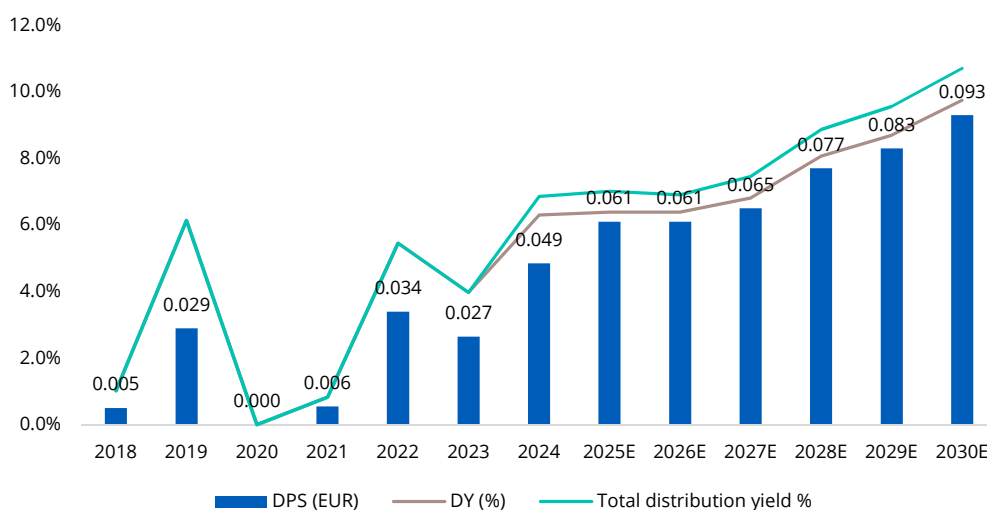


Source: Company, IPOPEMA Research

### Dividend and buybacks

The bank has recently announced that its dividend policy will imply a pay-out ratio of at least 50% of its reported net earnings. In this respect and due to capital ratios that are in surplus over the required thresholds and our expectations that net profit will keep rising after 2025, we believe that the bank will maintain a real pay-out ratio in the range of 50% to 60%. As a result, the absolute amount of DPS should no fall below the proposed EUR 0.061 for 2025 (ex-dividend date is on 11 April). Going forward, we forecast DPS at 0.061 for 2026E, EUR 0.065 in 2027E, EUR 0.077 in 2028E, EUR 0.083 in 2029E and EUR 0.093 in 2030E. This will imply a dividend yield jump from 6.5% in 2025E to 9.7% in 2030E. On top of this we expect the buyback to be continued, which in a theory can add 0.6% to maximal 1.0% over the projected dividend yield, so the total distribution yield will potentially move from 7.1% in 2025 to 10.7% in 2030E.

Figure 25. DPS with yield % and total distribution yield %



Source: Company, IPOPEMA Research

### Name change and rebranding

The Management Board has submitted a draft decision to approve a new version of the Articles of Association of Šiaulių Bankas, which, among other things, proposes a change of the bank's name to Artea Bankas, to the Ordinary General Meeting of Shareholders to be held on 31 March 2025. If approved by the General Meeting of Shareholders, the Articles of Association will be deemed to be amended as of the date of registration of the new version in the Register of Legal Entities of Lithuania – expected by this summer. The rebranding will bring all the group's companies together under one brand, Artea (the asset management company SB Asset Management, the life insurance company SB draudimas and the leasing company SB lizingas).

## 4Q24 figures review and 1Q25 preview

The bank reported EUR 15.2m in 4Q24 net profit, up 56% y/y mainly on lower other operating costs, lower net provisioning and higher operating income. Operating income came in at EUR 56.7m, up 5.2% y/y and it was supported in first position by higher F&C income and higher other income where trading and insurance income are classified. NII was down 4% y/y due to lower interest rates. Operating costs were 3.5% lower vs. a year ago primarily due to a lower amount of other costs – here the major impact arrived from lower non-income taxes, lower legal costs, lower cost of debt recovery and lower other costs. Credit activity was strong, with corporate volumes growing 22%, while a jump in retail was at 14% y/y. Asset quality was stable and CoR stood at 46bp, which is lower than 90bp from 4Q23.

We expect the bank to report EUR 14.1m in 1Q25 net profit, down 37% y/y due to higher costs and lower operating income. As most of the bank's loans are issued at variable rates, we expect a contraction of NII of 7.8% y/y. We also count on lower trading income to the high level from 1Q24; hence, total operating income, in our view, will be lowered by 7.7%. We expect further growth in net F&C income due (+18% y/y) to a higher volume of payments, customer transactions and inflow of new funds into AUM but this is unlikely to offset the fall in NII.

For the cost base, we expect to see elevated levels. In first place due to the Temenos platform, which will be expensed in 2025 and 2026, but also due to higher wages and higher spending on marketing activities.

We also expect growth in volumes (+9.4% y/y) due to falling rates and a favourable macro environment as well as growth in the deposits base (+6.2% y/y). We expect CoR at around 40bp and net provisioning at EUR 3.3m.

Figure 26. Quarterly figures summary (group level)

P&L (EUR m)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25E	Y/Y	Q/Q
Net Interest Income	22.0	25.2	27.9	31.7	35.4	40.0	40.6	40.8	39.6	41.1	40.4	39.2	36.5	-7.8%	-6.8%
Net F&C income	4.5	4.6	4.9	4.7	4.5	5.1	5.0	5.7	6.5	7.3	7.3	8.1	7.6	17.7%	-5.5%
Other income	3.0	2.3	4.5	4.0	6.6	3.5	3.5	7.5	11.4	6.7	6.8	9.5	8.9	-22.0%	-6.9%
<b>Total net operating income</b>	<b>29.5</b>	<b>32.0</b>	<b>37.3</b>	<b>40.4</b>	<b>46.5</b>	<b>48.6</b>	<b>49.1</b>	<b>53.9</b>	<b>57.4</b>	<b>55.0</b>	<b>54.5</b>	<b>56.7</b>	<b>53.0</b>	<b>-7.7%</b>	<b>-6.6%</b>
Staff costs	-7.5	-6.5	-8.6	-8.1	-8.8	-8.0	-8.7	-10.7	-11.3	-11.9	-12.2	-14.1	-12.1	7.6%	-13.9%
Depreciation and amortization	-1.1	-1.1	-1.2	-1.2	-1.3	-1.3	-1.3	-1.5	-1.8	-1.9	-2.1	-2.2	-2.2	24.4%	1.0%
Other costs	-3.8	-1.5	-5.0	-8.3	-9.1	-6.5	-6.1	-23.8	-14.3	-14.2	-11.8	-18.5	-16.9	17.8%	-8.7%
<b>Total operating costs</b>	<b>-12.4</b>	<b>-9.2</b>	<b>-14.8</b>	<b>-17.6</b>	<b>-19.2</b>	<b>-15.8</b>	<b>-16.1</b>	<b>-36.1</b>	<b>-27.4</b>	<b>-28.0</b>	<b>-26.1</b>	<b>-34.8</b>	<b>-31.3</b>	<b>14.0%</b>	<b>-10.2%</b>
<b>Result before impairments</b>	<b>17.1</b>	<b>22.9</b>	<b>22.6</b>	<b>22.7</b>	<b>27.3</b>	<b>32.8</b>	<b>33.0</b>	<b>17.9</b>	<b>30.0</b>	<b>27.0</b>	<b>28.4</b>	<b>21.9</b>	<b>21.7</b>	<b>-27.6%</b>	<b>-0.9%</b>
Net provisions	-2.7	0.8	-0.5	-2.5	-2.8	-2.6	-3.1	-6.8	-2.2	-1.7	-3.0	-4.0	-3.3	52.0%	-16.4%
Gains&losses on investments jv, asso, other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	nm	nm
<b>Pre-tax profit</b>	<b>14.5</b>	<b>23.7</b>	<b>22.0</b>	<b>20.2</b>	<b>24.6</b>	<b>30.2</b>	<b>29.9</b>	<b>11.1</b>	<b>27.8</b>	<b>25.3</b>	<b>25.4</b>	<b>17.9</b>	<b>18.4</b>	<b>-33.9%</b>	<b>2.6%</b>
Tax	-3.0	-3.4	-3.9	-2.6	-5.4	-7.9	-5.7	-1.4	-5.4	-4.8	-4.7	-2.8	-3.9	-27.8%	39.5%
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	nm	nm
<b>Net profit</b>	<b>11.5</b>	<b>20.3</b>	<b>18.1</b>	<b>17.6</b>	<b>19.2</b>	<b>22.3</b>	<b>24.2</b>	<b>9.7</b>	<b>22.5</b>	<b>20.5</b>	<b>20.6</b>	<b>15.2</b>	<b>14.5</b>	<b>-35.3%</b>	<b>-4.2%</b>

Balance Sheet (EUR m)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24	1Q25E	Y/Y	Q/Q
<b>Assets</b>	<b>3,948.7</b>	<b>3,952.6</b>	<b>4,003.3</b>	<b>4,182.6</b>	<b>4,230.8</b>	<b>4,210.5</b>	<b>4,422.7</b>	<b>4,809.3</b>	<b>4,923.0</b>	<b>5,036.1</b>	<b>4,943.7</b>	<b>4,922.6</b>	<b>4,860.7</b>	<b>-1.3%</b>	<b>-1.3%</b>
<b>Net loans to customers</b>	<b>2,010.8</b>	<b>2,135.7</b>	<b>2,281.6</b>	<b>2,391.6</b>	<b>2,440.8</b>	<b>2,519.0</b>	<b>2,609.8</b>	<b>2,645.1</b>	<b>2,759.5</b>	<b>2,874.5</b>	<b>3,100.0</b>	<b>3,117.7</b>	<b>3,019.8</b>	<b>9.4%</b>	<b>-3.1%</b>
Corporate	1,271.0	1,326.1	1,394.8	1,277.7	1,288.4	1,317.7	1,377.5	1,386.9	1,465.6	1,509.6	1,665.3	1,686.2	1,597.5	9.0%	-5.3%
Retail	739.8	809.6	886.8	1,114.0	1,152.4	1,201.3	1,232.3	1,258.2	1,293.9	1,364.8	1,434.7	1,431.5	1,462.1	13.0%	2.1%
<b>Leases</b>	<b>200.2</b>	<b>217.3</b>	<b>232.0</b>	<b>242.4</b>	<b>250.1</b>	<b>272.3</b>	<b>285.1</b>	<b>286.5</b>	<b>285.4</b>	<b>313.5</b>	<b>329.4</b>	<b>316.9</b>	<b>313.6</b>	<b>9.9%</b>	<b>-1.0%</b>
Securities	842.5	1,079.4	1,128.1	1,117.6	1,122.6	943.5	894.8	1,033.4	1,107.3	1,076.2	1,022.2	1,005.9	1,032.3	-6.8%	2.6%
Other	895.2	520.2	361.7	431.0	417.3	475.7	632.9	844.3	770.8	772.0	492.1	482.1	495.0	-35.8%	2.7%
<b>Deposits</b>	<b>2,636.4</b>	<b>2,645.4</b>	<b>2,707.5</b>	<b>2,785.0</b>	<b>2,804.1</b>	<b>2,856.0</b>	<b>3,014.4</b>	<b>3,162.7</b>	<b>3,250.1</b>	<b>3,322.7</b>	<b>3,407.3</b>	<b>3,538.0</b>	<b>3,450.0</b>	<b>6.2%</b>	<b>-2.5%</b>
Other	918.8	897.5	870.3	954.7	983.0	885.0	914.9	1,103.5	1,139.6	1,157.9	959.4	799.5	802.6	-29.6%	0.4%
<b>Equity</b>	<b>393.5</b>	<b>409.7</b>	<b>425.6</b>	<b>442.9</b>	<b>443.8</b>	<b>469.4</b>	<b>493.3</b>	<b>543.1</b>	<b>533.3</b>	<b>555.5</b>	<b>577.0</b>	<b>585.2</b>	<b>608.1</b>	<b>14.0%</b>	<b>3.9%</b>

Source: Company, IPOPEMA Research

## Risks to Fair Value

### War in Ukraine

This is in our view the biggest risk for the bank's operations at the moment as after the US changing its stance on Russia, EU may be left alone to deal with rising Russian appetites. As a result Lithuania may find itself couth at the first line of fire in some future in case that peace talks fail to deliver sustainable solution and conflict escalates further.

### Macro picture in Lithuania

The bank's operations are exposed to the Lithuanian macro environment. In case that economic activity is expanding less then we assumed that will impact lending activity at the bank or may result in worsening in asset quality.

### Interest rates

The big portion of loan book (82%) is connected with variable interest rates. These will keep falling and neutral rate may settle below 2%, depending on ECB decision and EU macro environment (growth and inflation trends).

### Competition and regulation

New refinancing rules for mortgages may attract new entrants. Revolut bank is already preparing. Also, cap on fees for basic services may motivate customer to reconsider which services use or whether they need additional services that result in higher costs.

### Labor costs

Lithuanian is facing decline in population and tight labour market thus labour costs at the bank in the future may be bigger then we anticipate now.

### Dividend policy

The bank said that will tend to pay at least 50% of reported net profit as cash dividend but there are no guaranties that pay-out ratios will follow our projected trajectory.

## Financials

Figure 27. P&amp;L in EUR k

	2022	2023	2024	2025E	2026E	2027E
Net Interest Income	106,781	156,853	160,209	155,166	173,767	195,042
Net F&C income	18,749	20,252	29,080	31,990	35,109	38,227
Other income	20,752	19,346	34,424	34,049	35,378	36,155
<b>Total net operating income</b>	<b>146,282</b>	<b>196,451</b>	<b>223,713</b>	<b>221,205</b>	<b>244,254</b>	<b>269,424</b>
Staff costs	-30,729	-36,226	-49,507	-53,334	-55,274	-58,298
Depreciation and amortization	-4,642	-5,490	-8,006	-9,100	-9,373	-9,654
Other costs	-25,590	-43,761	-58,858	-61,627	-61,584	-60,368
<b>Total operating costs</b>	<b>-60,961</b>	<b>-85,477</b>	<b>-116,371</b>	<b>-124,062</b>	<b>-126,231</b>	<b>-128,320</b>
<b>Result before impairments</b>	<b>85,321</b>	<b>110,974</b>	<b>107,342</b>	<b>97,143</b>	<b>118,023</b>	<b>141,103</b>
Net provisions	-4,956	-15,232	-10,896	-14,438	-17,027	-16,275
Gains&losses on investments jv, asso, other	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>80,365</b>	<b>95,742</b>	<b>96,446</b>	<b>82,705</b>	<b>100,995</b>	<b>124,829</b>
Tax	-12,916	-20,367	-17,659	-17,368	-21,209	-26,214
Minority interest	0	0	0	0	0	0
<b>Net profit</b>	<b>67,449</b>	<b>75,375</b>	<b>78,787</b>	<b>65,337</b>	<b>79,786</b>	<b>98,615</b>

Source: Company, IPOPEMA Research

Figure 28. Balance Sheet in EUR k

	2022	2023	2024	2025E	2026E	2027E
<b>Assets</b>	<b>4,182,656</b>	<b>4,809,321</b>	<b>4,922,619</b>	<b>5,087,167</b>	<b>5,943,475</b>	<b>6,477,547</b>
Cash and cash equivalents	384,758	751,499	395,136	300,000	250,000	250,000
Securities in the trading book	58,301	207,677	235,110	230,000	240,000	240,000
Due from other banks	2,733	3,013	3,121	3,000	3,000	3,000
Derivative financial instruments	897	251	1,093	300	300	300
<b>Gross loans to customers</b>	<b>2,425,862</b>	<b>2,688,660</b>	<b>3,167,425</b>	<b>3,484,182</b>	<b>3,887,037</b>	<b>4,247,527</b>
Impairments	-34,233	-43,556	-49,725	-45,294	-44,000	-44,000
<b>Net loans to customers</b>	<b>2,391,629</b>	<b>2,645,104</b>	<b>3,117,700</b>	<b>3,438,888</b>	<b>3,843,037</b>	<b>4,203,527</b>
<b>Leases (net)</b>	<b>242,448</b>	<b>286,533</b>	<b>316,897</b>	<b>379,360</b>	<b>413,834</b>	<b>446,393</b>
Investment securities at fair value	90,225	74,500	43,868	60,000	60,000	60,000
Investment securities at amortized cost	969,036	751,227	726,937	583,489	1,041,155	1,181,177
Investments in subsidiaries and associates	100	100	270	200	200	200
Intangible assets	8,283	45,138	43,617	45,000	46,000	47,000
Property, plant and equipment	16,151	15,781	15,261	15,881	14,900	14,900
Investment property	1,827	993	0	0	0	0
Current income tax prepayment	6	35	82	200	200	200
Deferred income tax asset	5,659	7,577	6,076	6,700	6,700	6,700
Inventories	0	0	0	0	0	0
Other	10,603	19,893	17,451	24,150	24,150	24,150
Due to other banks and financial institutions	685,075	569,994	65,860	70,000	50,000	50,000
Derivative financial instruments	7,152	1,041	123	1,000	1,000	1,000
<b>Due to customers</b>	<b>2,784,968</b>	<b>3,162,657</b>	<b>3,537,972</b>	<b>3,656,153</b>	<b>4,487,177</b>	<b>4,957,048</b>
Special and lending funds	14,184	15,718	23,037	12,000	12,000	12,000
Debt securities in issue	171,231	276,480	448,159	450,000	450,000	450,000
Subordinated loan	0	0	0	0	0	0
Current income tax liabilities	4,374	6,412	303	3,000	3,000	3,000
Deferred income tax liabilities	1,463	6,125	6,141	6,200	6,200	6,200
Liabilities related to insurance activities	36,185	179,318	198,432	214,789	219,085	223,467
Other liabilities	35,118	48,448	57,420	58,000	59,000	60,000
<b>Total Liabilities</b>	<b>3,739,750</b>	<b>4,266,193</b>	<b>4,337,447</b>	<b>4,471,142</b>	<b>5,287,462</b>	<b>5,762,715</b>
<b>Share capital</b>	<b>174,211</b>	<b>192,269</b>	<b>192,269</b>	<b>189,196</b>	<b>189,196</b>	<b>189,196</b>
Share premium	3,428	25,534	25,534	25,534	25,534	25,534
Treasury shares (-)	0	-1,500	0	0	0	0
Reserve capital	756	756	756	756	756	756
Statutory reserve	37,113	47,803	61,025	61,027	61,026	61,026
Financial instruments revaluation reserve	-8,111	-5,426	11,625	20,000	20,000	20,000
Reserve for acquisition of own shares	20,000	20,000	-2,989	-3,000	-3,000	-3,000
Other equity	2,355	1,697	1,480	1,500	1,500	1,500
Retained earnings	213,154	261,995	295,472	321,012	361,002	419,821
Non-controlling interest	0	0	0	0	0	0
<b>Total equity</b>	<b>442,906</b>	<b>543,128</b>	<b>585,172</b>	<b>616,025</b>	<b>656,014</b>	<b>714,832</b>
<b>Total liabilities and equity</b>	<b>4,182,656</b>	<b>4,809,321</b>	<b>4,922,619</b>	<b>5,087,167</b>	<b>5,943,475</b>	<b>6,477,547</b>

Source: Company, IPOPEMA Research

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The date and the time stated on the front page is the date of the preparation of this document. This document was first disseminated on 18 March 2025 at 7:00 CET. The price used throughout the recommendation to calculate adequate ratios is the "last" price stated on the front page of this document.

The definitions of terms used in the document include:

NII – Net interest income – interest income minus interest expense.

Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

#### IPOPEMA Research - Distribution by rating category (1 October – 31 December 2024)

	Number	%
Buy	48	62%
Hold	20	25%
Sell	10	13%
Total	78	100%

#### Rating History – Šiaulių Bankas

Date	Recommendation	Fair Value	Price at recommendation	Author
18/03//2025	BUY	EUR 1.2	EUR 0.094	Vladan Pavlovic