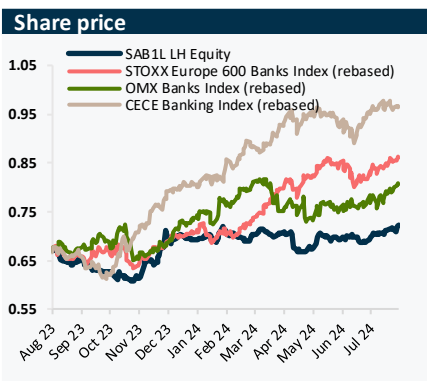


## Šiaulių Bankas

Key share data	
Sector	Financials
Reuters	SAB1L.VL
Bloomberg	SAB1L:LH
Market Cap (EURm)	478
Free float (EURm)	282
Issued shares, m	662
Avg. daily value traded 3M	178,085



Upcoming events	
3Q24 report	October 31, 2024

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

### Analysts

**Justė Subatavičiūtė**  
 (+370) 60582 527  
[juste.subataviciute@norne.no](mailto:juste.subataviciute@norne.no)

**Žilvinas Jusaitis, CFA**  
 (+370) 606 88 919  
[zilvinas.jusaitis@norne.no](mailto:zilvinas.jusaitis@norne.no)

## 2024 ROE target should be well exceeded based on solid 1H

Šiaulių Bankas reported its 2Q24 results on July 29<sup>th</sup>. Adjusted for non-recurring costs items, the adj. ROE landed stronger than estimated at 16.4%. The bank's earnings growth was mitigated by significant cost inflation. Still, with the YTD adj. ROE of 16.2%, the bank should exceed its target of 13.7% for 2024 by a good margin. In addition, the asset quality remains solid with low loan losses in 2Q. Our somewhat reduced estimates were outweighed by slightly increased peer multiples, and our valuation range was increased by ~3% and now stands at EUR 0.91-1.11 per share.

### Šiaulių Bankas 2Q24 results:

- 2Q NII was delivered at EUR 41.1m, roughly 3% above our estimate or 4% up QoQ. The quarterly volume growth was sustained at a similar rate as in the previous quarter – at around 4% (+14% YoY)
- Fee income ended stronger than expected, with a 4% deviation from our estimates, partially driven by contributions from asset management income
- Total costs exceeded our estimate by 30%. Adjusted for the non-recurring expense item of EUR 2.2m related to the 2023 windfall tax, costs were nearly 20% higher than expected. The increase in other expenses was the primary driver of this cost growth
- Loan losses were recorded at EUR 1.7m, compared to our estimate of EUR 3.4m, indicating a reduction in the loss rate to 24bps of gross lending, an 8 bps decrease QoQ. Stage 3 exposure as a % of total exposure was at 228bps, slightly down QoQ
- Pressured by the excess costs, the ROE turned out weaker than expected at 15.1% and also down both QoQ (16.8%) and YoY (20.0%). When adjusted for non-recurring expense items, the ROE stood at 16.4%.

2Q/24 results	2Q/23	1Q/24	2Q/24	2Q/24e	Deviation
EURm			Reported	Norne	
<b>Net interest income</b>	<b>40.0</b>	<b>39.6</b>	<b>41.1</b>	<b>40.0</b>	<b>2.5%</b>
Net commission income	5.1	6.5	7.3	7.0	4.2%
Net other operating income	3.5	11.4	6.7	4.3	56.0%
Total costs*	15.8	27.4	25.8	21.6	19.5%
<b>Core earnings before loan losses</b>	<b>32.8</b>	<b>30.0</b>	<b>27.0</b>	<b>29.7</b>	<b>-9.0%</b>
Write-downs on loans	2.6	2.2	1.7	3.4	-49.6%
<b>Core earnings</b>	<b>30.2</b>	<b>27.8</b>	<b>25.3</b>	<b>26.3</b>	<b>-3.8%</b>
Pre-tax profit	30.2	27.8	25.3	26.3	-3.8%
<b>EPS (EUR)</b>	<b>0.037</b>	<b>0.034</b>	<b>0.031</b>	<b>0.033</b>	<b>-5.6%</b>
EPS adjusted (EUR)	0.037	0.034	0.034	0.035	-3.3%
<b>CET1 ratio, %</b>	<b>17.1%</b>	<b>18.6%</b>	<b>17.5%</b>	<b>19.3%</b>	<b>-1.8%p</b>
<b>ROE (annualised)</b>	<b>20.0%</b>	<b>16.8%</b>	<b>15.1%</b>	<b>16.0%</b>	<b>-0.9%p</b>
<b>Adj. ROE (annualised)*</b>	<b>20.0%</b>	<b>16.8%</b>	<b>16.4%</b>	<b>16.0%</b>	<b>0.4%p</b>

\*Adjusted for EUR 2.2m one-off expense related to the windfall tax for 2023

## Slightly reduced estimates yet a solid upside remains

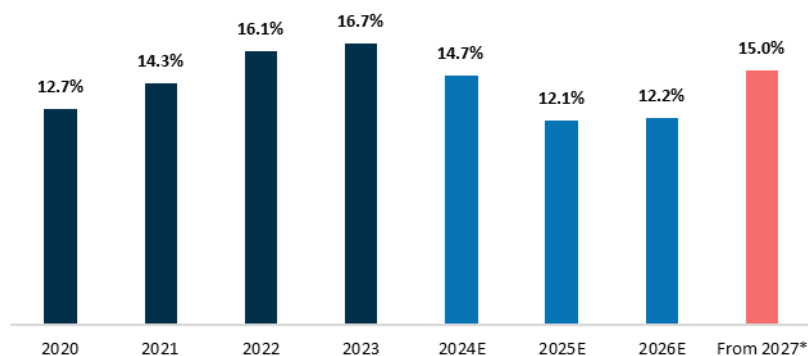
Following 2Q24 report, we have made mixed changes to our model estimates. The interest rate outlook for the 2024-2025 period has slightly shifted, leading to a modest upward revision in our NII forecasts. Other income projections were also lifted. However, the quarter revealed significantly higher-than-anticipated costs, including inflated expenditures even after adjusting for non-recurring expenses. This development leads to an upward revision of our total cost projections across the forecast period, anticipating somewhat increased expenditures for 2024-2026. Consequently, we have adjusted our EPS expectations downward by approximately 4% for the same period.

Estimate changes (EURm)	3Q/24e			2024E			2025E			2026E		
	New	Old	Change	New	Old	Change	New	Old	Change	New	Old	Change
<b>Net interest income</b>	<b>41.0</b>	<b>39.9</b>	<b>2.9%</b>	<b>162.3</b>	<b>159.2</b>	<b>2.0%</b>	<b>164.0</b>	<b>160.7</b>	<b>2.0%</b>	<b>173.3</b>	<b>172.9</b>	<b>0.2%</b>
Net commission income	7.1	6.9	2.4%	27.4	27.4	-0.1%	29.4	30.2	-2.9%	33.4	33.3	0.3%
Net other operating income	5.9	4.4	33.6%	29.0	23.9	21.5%	26.8	24.1	11.0%	26.7	25.1	6.2%
Total costs	29.7	21.8	36.0%	110.4	100.2	10.2%	115.4	105.1	9.8%	120.1	114.0	5.4%
Write-downs on loans	3.5	3.5	0.9%	7.0	8.6	-19.1%	15.5	15.5	0.0%	14.6	14.7	-0.8%
<b>Core earnings</b>	<b>20.7</b>	<b>25.8</b>	<b>-19.8%</b>	<b>101.4</b>	<b>101.7</b>	<b>-0.2%</b>	<b>89.3</b>	<b>94.5</b>	<b>-5.6%</b>	<b>98.6</b>	<b>102.6</b>	<b>-4.0%</b>
Pre tax profit	20.7	25.8	-19.8%	95.8	96.6	-0.9%	80.5	85.8	-6.1%	97.4	101.4	-4.0%
<b>EPS (EUR)</b>	<b>0.03</b>	<b>0.03</b>	<b>-20.0%</b>	<b>0.12</b>	<b>0.12</b>	<b>-1.5%</b>	<b>0.10</b>	<b>0.11</b>	<b>-6.2%</b>	<b>0.12</b>	<b>0.13</b>	<b>-4.1%</b>
EPS adjusted (EUR)	0.03	0.03	-18.8%	0.12	0.13	-0.9%	0.11	0.12	-5.7%	0.13	0.13	-4.1%
CET1 ratio	17.2%	0.0%	17.2%p	18.4%	21.1%	-2.7%p	19.3%	20.6%	-1.4%p	20.5%	20.7%	-0.2%p
Dividend per share (EUR)	-	-	-	0.04	0.04	-1.5%	0.03	0.03	-6.2%	0.04	0.04	-4.1%
<b>Adj. ROE (annualised)</b>	<b>12.4%</b>	<b>15.5%</b>	<b>-3.1%p</b>	<b>14.7%</b>	<b>14.8%</b>	<b>-0.1%p</b>	<b>12.1%</b>	<b>12.7%</b>	<b>-0.7%p</b>	<b>12.2%</b>	<b>12.7%</b>	<b>-0.4%p</b>

## ROE target for 2024 should be exceeded unless 2H comes weaker than estimated

Although our estimates have been slightly lowered, we believe that the bank will surpass its 2024 target of 13.7%, especially given the YTD-adjusted ROE of 16.2%. However, we expect a somewhat weaker 2H for ROE due to the guided peak of funding costs and operating expenses.

### Long-term ambition of delivering ROE above 15%



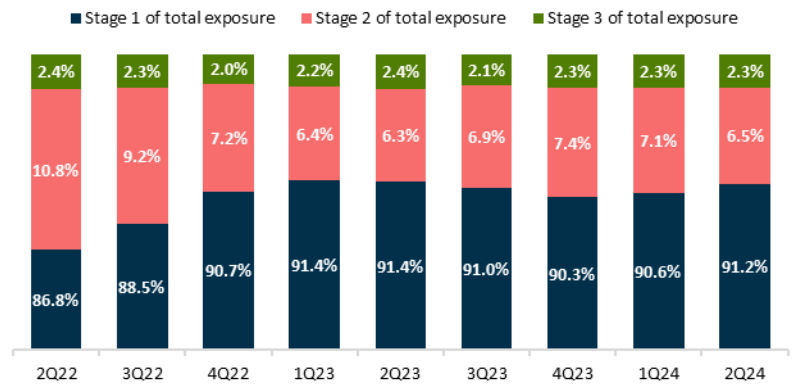
\*2027-2029 strategic target of above 15%

Source: Šiaulių Bankas, Norne Securities estimates

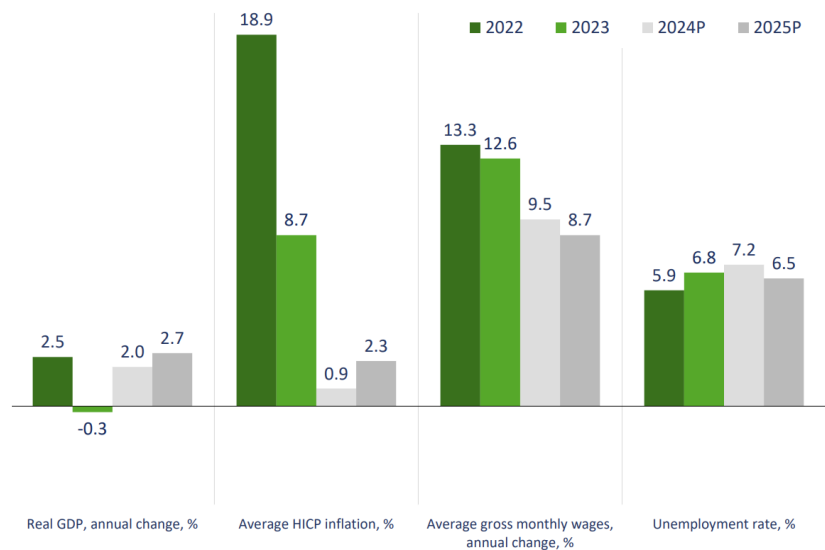
## Resilient asset quality thanks to solid economy

In terms of asset quality, write-downs on loans are expected to remain low in 2024 and beyond. This expectation is based on the absence of observable increases in loan book risk, the resilience of the Lithuanian economy as economic activities continue to grow, and the reduced stage 3 exposures reported in 2Q. We still believe there might be some lag effects on credit risk in the bank, but if loan losses remain low in 2H, that should give upside potential in ROE.

## IFRS 9 ECL

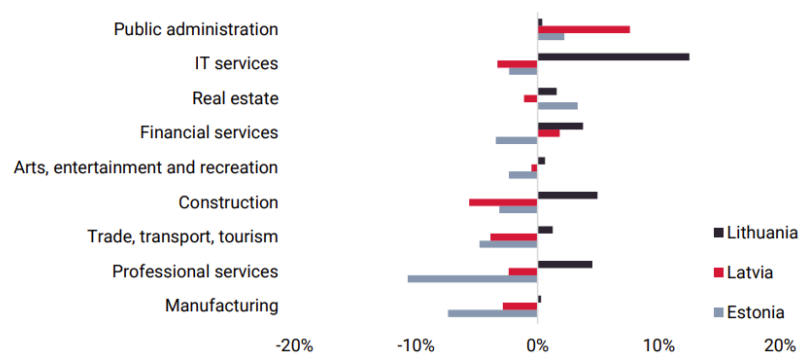


## Lithuania's macroeconomic forecasts (%)



Source: Šiaulių Bankas

## GDP in constant prices (% , 1Q24 vs 1Q23)

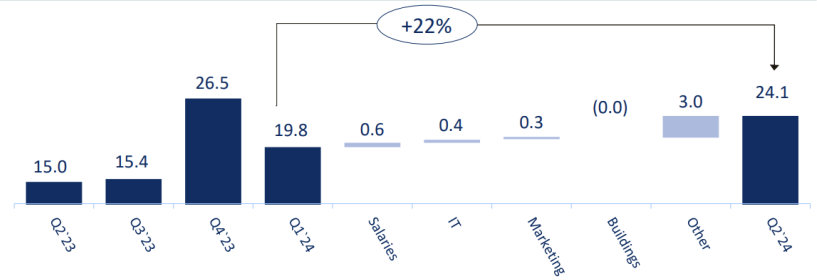


Source: Eurostat, DG ECFIN

## No disclosure on spending in the new IT platform, but cost pressure is anticipated to pertain to 2H due to ongoing strategic changes

Despite the low write-downs, the financial outlook suggests that rising expenses will slightly pressure profitability metrics, assuming all other factors remain constant. Additionally, the bank has not disclosed the spending on the IT platform so far; thus, our second-quarter costs are not adjusted, except for the windfall tax. Notably, increased operating expenses also reflect an enlarged organization, ongoing investment in the business, and the general impact of inflation.

### Operating expenses dynamics, EURm



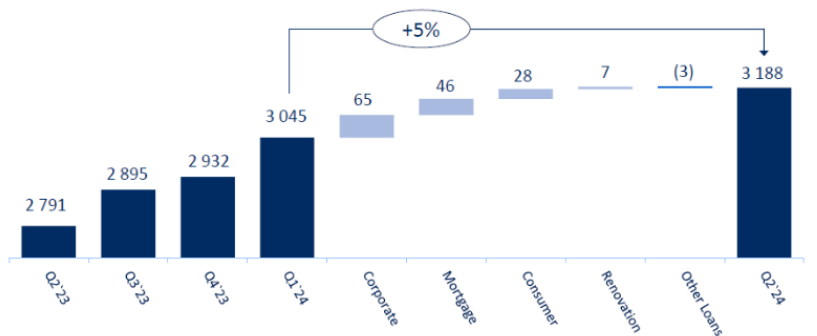
Notes: (1) Operating expenses analysis on this page excludes expenses related to insurance activities.

Source: Šiaulių Bankas

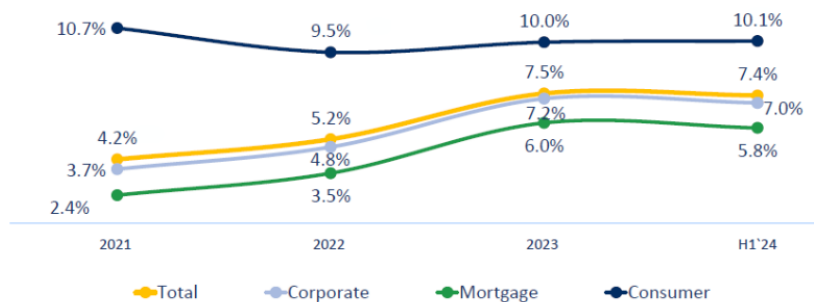
### Lending growth continued to be fueled by corporate lending

Following 4% quarterly loan book growth (13% YoY) in 1Q, the bank seasonally improved volumes in 2Q by increasing 5% on a QoQ basis (14%). As in the previous quarter, the volumes were mostly driven by corporate lending where it increased by EUR 65m vs EUR 73m in 1Q, but mortgage and consumer lending seasonally picked up in 2Q compared to the start of the year. However, loan yields slightly decreased in both corporate and mortgages, though not materially.

### Loan book development



### Loan yields

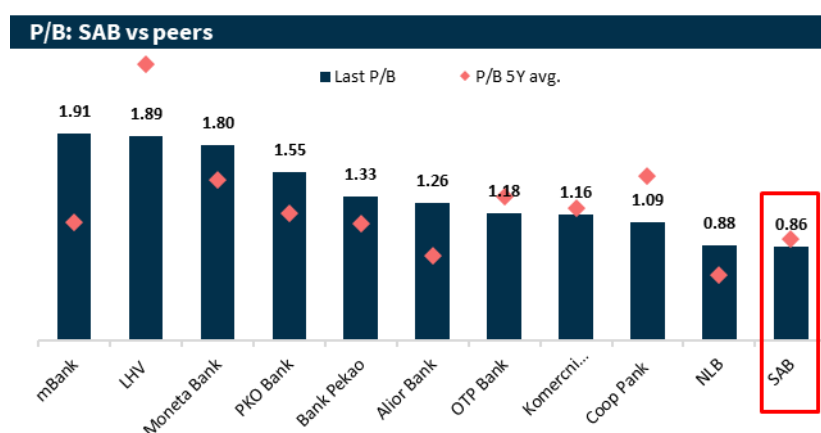
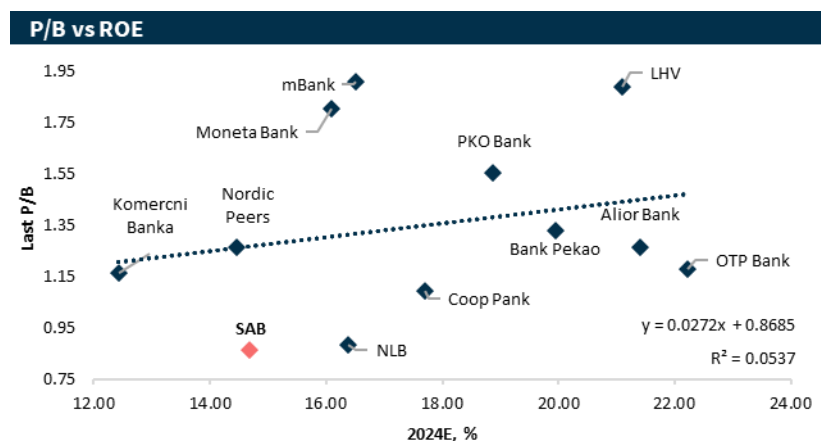


Source: Šiaulių Bankas

### Valuation remains attractive and our valuation range is increased by ~3% after the 2Q report

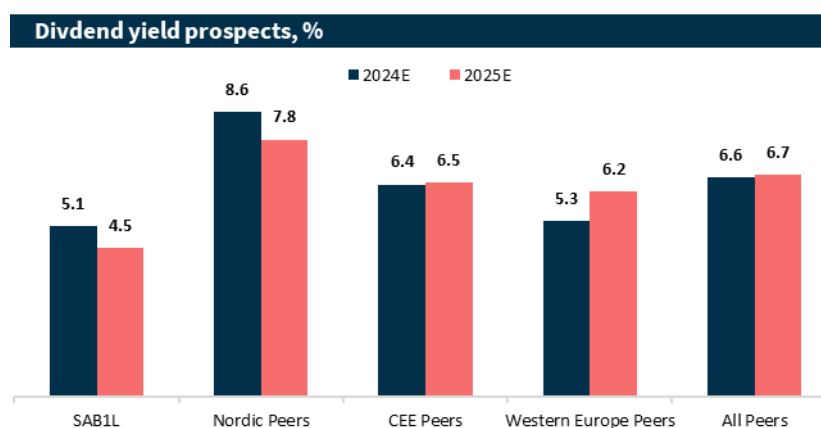
Despite slightly negative estimate changes, our valuation range has been adjusted upwards, primarily due to increased valuation multiples of peers. The bank's P/B stands at 0.86x, with ROE prospects around 14.7% for 2024.

This is undemanding compared to peer pricing of 1.14x and an ROE of 14.6% for the same period. Similarly, a P/E of 5.5x versus peer pricing of 7.3x suggests a significant discount to the bank's shares.



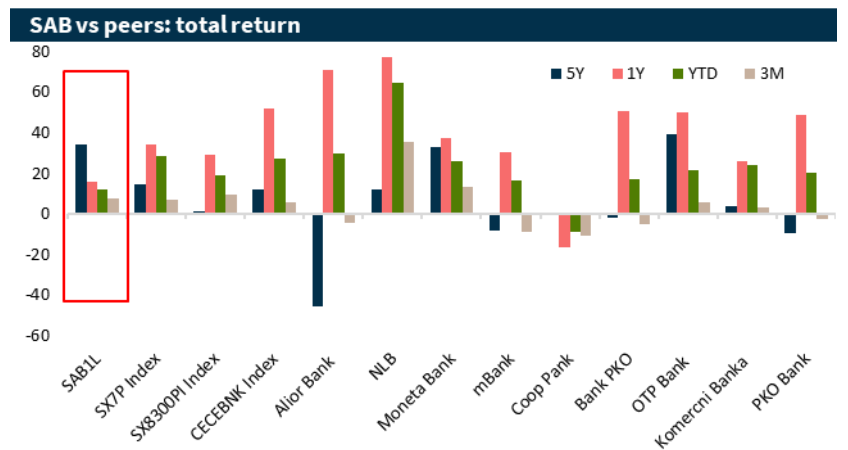
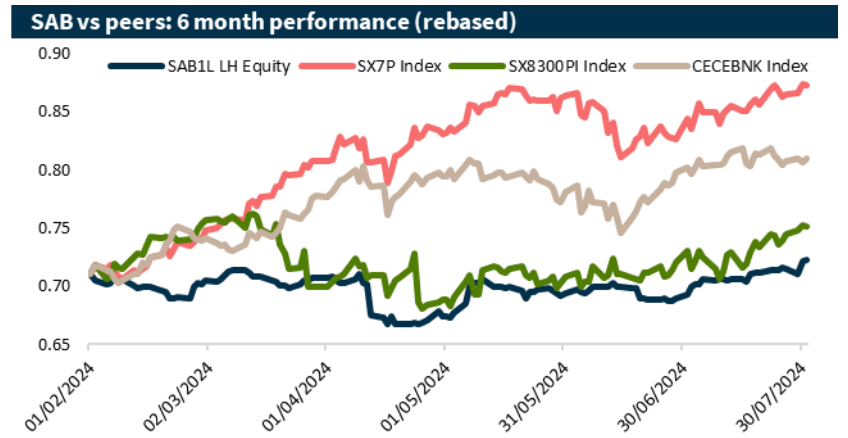
Source: Bloomberg, Norne Securities

However, the bank is projected to offer a relatively less appealing dividend yield of around 5% for this and the next year, compared to the peer average of approximately 7% for the respective periods, which partly justifies some discount relative to peers, but we think it is too excessive. Additionally, the bank's capital buffer narrowed by 1.1%p in 2Q, with the CET1 ratio falling QoQ to 17.49%. Nevertheless, a 5.4%p surplus remains, indicating a comfortable capital position.



Source: Bloomberg, Norne Securities

Overall, we consider this an attractive investment case characterized by limited loan book risk, relatively solid return prospects, and undemanding pricing metrics. The valuation range was increased by ~3% and now stands at EUR 0.91-1.11 per share. For more information on valuation calculations, please see the next pages in the report.



Source: Bloomberg, Norne Securities

# Valuation

## Assumptions

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

\*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**	11.4%

\*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	78	66	80	91	94
Dividends paid	23	20	24	27	28
Payout ratio (Group)	30%	30%	30%	30%	40%
Share buybacks	12.4	0.0			
<b>PV of dividends</b>	<b>22</b>	<b>17</b>	<b>19</b>	<b>19</b>	
Capital Adequacy ratio, %	20.8%	21.5%	22.5%	23.7%	
Capital Adequacy ratio target, %	17.8%	17.8%	17.8%	17.8%	
RWA	2,731	3,013	3,294	3,530	
Excess capital to shareholders	83	110	155	207	

Valuation (EURm)	Share
NPV of dividends paid, forecasted period	78
NPV of excess capital to shareholders	162
NPV of share buybacks	12
NPV of dividends paid, TV	257
<b>Total NPV of dividends</b>	<b>509</b>
Number of shares (mill.)	662
<b>Value per share (EUR)</b>	<b>0.77</b>

Sensitivity (EUR/share)		Cost of equity				
		8.3%	9.3%	10.3%	11.3%	12.3%
Long term growth	0.5%	0.80	0.74	0.68	0.64	0.60
	1.5%	0.87	0.79	0.72	0.67	0.63
	2.5%	0.95	0.85	0.77	0.71	0.66
	3.5%	1.08	0.93	0.83	0.75	0.69

## Residual Income Valuation (RIV)

Estimates (EURm)	2024E	2025E	2026E	2027E	Base year
Equity to shareholders (start of year)	543	591	634	694	761
ROE	14.7%	12.1%	12.2%	12.6%	11.4%
Cost of Equity	10.3%	10.3%	10.3%	10.3%	10.3%
Residual income	24	11	13	16	9
PV of residual income	23	9	10	11	

Valuation (EURm)	Share
Opening equity to shareholders	543
PV of residual income, forecasted period	53
PV of residual income, TV	80
<b>Total value to shareholders</b>	<b>676</b>
Number of shares (mill.)	662
<b>Value per share (EUR)</b>	<b>1.02</b>

Sensitivity (EUR/share)		Cost of equity				
		8.3%	9.3%	10.3%	11.3%	12.3%
Long term growth	0.5%	1.21	1.09	1.00	0.92	0.85
	1.5%	1.24	1.11	1.01	0.92	0.85
	2.5%	1.29	1.14	1.02	0.93	0.85
	3.5%	1.36	1.17	1.04	0.94	0.85

## 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	0.70	1.06	0.96	0.91
Base Case	0.77	1.02	1.08	0.96
High Case	0.87	1.32	1.13	1.11

\*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	0.87	1.31	1.20	1.13
Base Case	0.96	1.27	1.34	1.19
High Case	1.08	1.64	1.41	1.38

Adj. P/E multiple under target price				
	DDM	RIV	Peers-based	Average
Low Case	5.59	8.46	7.70	7.25
Base Case	6.15	8.18	8.61	7.65
High Case	6.97	10.54	9.06	8.86

Our base case valuation range stands at EUR 0.77-1.08/share with a mid-point of EUR 0.96/share, which values Šiaulių Bankas at P/B of 1.19x and adj. P/E of 7.7x for 2024E. As for the Low-High case, our blended approach implies a valuation range at EUR 0.91-1.11/share, which suggests an upside potential to the current share price of 25-53% respectively for the Low/High case.



## Relative valuation

### Peer comparison

EURm	Source	Market Cap.	P/B	P/E			Dividend Yield, %			ROE, %			ROE, %	P/E	P/B
				2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	5Y avg.	5Y avg.	5Y avg.
SAB1L	Norne	478	0.86	5.5	6.0	5.5	5.1	4.5	5.4	14.7	12.1	12.2	15.5	6.6	0.94
SAB1L	Consensus*	-	-	6.0	6.6	5.2	4.8	4.8	5.5	13.4	12.2	13.4	15.2	5.8	0.94
<b>Nordic Peers</b>															
DNB Bank ASA	Consensus*	28,560	1.41	8.7	9.4	9.3	7.4	7.5	7.5	15.4	13.7	13.4	12.2	8.2	1.27
Svenska Handelsbanken AB	Consensus*	18,493	1.09	8.4	9.6	9.7	9.5	8.8	8.3	12.3	10.8	10.5	11.6	7.9	1.08
Nordea Bank Abp	Consensus*	37,738	1.27	7.5	7.8	7.7	8.9	8.9	9.0	16.0	14.8	14.4	10.2	7.8	1.11
Swedbank AB	Consensus*	22,119	1.27	8.1	8.6	8.6	7.0	7.6	7.8	15.2	13.9	13.3	13.5	7.8	1.14
Skandinaviska Enskilda Banken AB	Consensus*	29,753	1.54	9.5	9.9	9.7	6.9	6.0	6.0	15.6	14.4	14.2	13.6	8.8	1.25
Danske Bank A/S	Consensus*	24,296	1.00	8.0	8.0	7.8	11.6	7.5	7.9	12.3	11.7	11.6	5.9	8.3	0.66
<b>Average</b>			<b>1.26</b>	<b>8.4</b>	<b>8.9</b>	<b>8.8</b>	<b>8.6</b>	<b>7.8</b>	<b>7.8</b>	<b>14.5</b>	<b>13.2</b>	<b>12.9</b>	<b>11.1</b>	<b>8.1</b>	<b>1.08</b>
<b>Median</b>			<b>1.27</b>	<b>8.3</b>	<b>9.0</b>	<b>8.9</b>	<b>8.2</b>	<b>7.6</b>	<b>7.8</b>	<b>15.3</b>	<b>13.8</b>	<b>13.3</b>	<b>11.9</b>	<b>8.0</b>	<b>1.13</b>
<i>Premium/discount</i>			-32%	-34%	-33%	-39%	-3.0%p	-3.1%p	-2.4%p	-0.6%p	-1.7%p	-1.1%p	3.6%p	-18%	-16%
<b>CEE Peers</b>															
Alior Bank SA	Consensus*	2,891	1.26	5.6	6.3	7.1	5.5	7.7	6.8	21.4	16.5	13.5	8.9	5.3	0.78
LHV Group AS	Consensus*	1,123	1.89	8.9	9.1	8.7	2.3	2.3	2.6	21.1	18.0	16.8	19.6	9.5	2.55
Nova Ljubljanska Banka dd	Consensus*	2,680	0.88	5.3	5.8	7.1	8.5	7.4	7.1	16.4	14.4	13.3	15.9	5.1	0.61
Moneta Money Bank AS	Consensus*	2,149	1.80	10.2	9.7	9.4	8.6	8.7	8.9	16.1	16.1	16.7	14.8	9.4	1.48
mBank SA	Consensus*	6,256	1.91	5.2	5.9	6.8	2.8	2.9	6.2	16.5	20.9	19.3	-1.2	7.2	1.09
Coop Pank AS	Consensus*	213	1.09	6.1	6.1	5.6	3.9	3.9	4.3	17.7	15.5	15.0	13.5	6.4	1.51
Bank Polska Kasa Opieki SA	Consensus*	9,801	1.33	6.6	7.0	7.9	10.8	9.7	9.3	19.9	18.0	15.5	11.0	6.7	1.08
OTP Bank Nyrt	Consensus*	13,246	1.18	5.2	5.4	5.5	4.0	4.7	5.5	22.2	17.9	15.9	16.9	4.9	1.33
Komerčni Banka AS	Consensus*	5,885	1.16	9.6	9.3	8.8	10.5	8.2	7.6	12.4	12.4	13.1	11.9	9.6	1.22
PKO Bank Polski SA	Consensus*	17,221	1.55	7.4	6.9	7.0	7.5	9.4	9.9	18.9	18.1	17.7	7.8	7.7	1.17
Erste Group Bank AG	Consensus*	20,145	0.96	7.4	7.5	7.1	6.1	6.2	6.6	13.4	11.9	11.8	11.0	7.0	0.84
<b>Average</b>			<b>1.37</b>	<b>7.0</b>	<b>7.2</b>	<b>7.4</b>	<b>6.4</b>	<b>6.5</b>	<b>6.8</b>	<b>17.8</b>	<b>16.3</b>	<b>15.3</b>	<b>11.8</b>	<b>7.2</b>	<b>1.24</b>
<b>Median</b>			<b>1.26</b>	<b>6.6</b>	<b>6.9</b>	<b>7.1</b>	<b>6.1</b>	<b>7.4</b>	<b>6.8</b>	<b>17.7</b>	<b>16.5</b>	<b>15.5</b>	<b>11.9</b>	<b>7.0</b>	<b>1.17</b>
<i>Premium/discount</i>			-32%	-16%	-12%	-23%	-1.0%p	-2.9%p	-1.4%p	-3.0%p	-4.4%p	-3.3%p	3.5%p	-7%	-20%
<b>Western Europe Peers</b>															
Deutsche Bank AG	Consensus*	28,608	0.45	7.0	5.4	4.9	4.6	6.8	7.7	5.4	7.2	7.4	1.8	na	0.35
Raiffeisen Bank International AG	Consensus*	6,089	0.33	3.3	3.4	3.5	7.4	8.0	8.6	10.3	9.5	8.5	13.0	3.1	0.48
KBC Group NV	Consensus*	29,779	1.30	9.3	9.3	8.4	6.6	6.3	6.9	14.1	13.2	12.1	12.3	8.7	1.29
Commerzbank AG	Consensus*	17,693	0.61	7.6	6.4	5.6	3.7	5.2	6.3	7.8	8.7	9.2	0.8	na	0.34
Societe Generale SA	Consensus*	18,348	0.27	5.5	4.4	3.8	4.4	6.0	7.2	5.4	6.6	7.3	3.0	6.4	0.32
Banco Santander SA	Consensus*	67,787	0.71	6.0	5.6	5.4	4.5	4.8	5.9	12.3	11.7	11.7	5.9	na	0.58
ING Groep NV	Consensus*	54,321	1.02	8.6	8.0	7.0	5.8	6.2	6.9	12.3	12.3	13.0	8.8	8.5	0.78
<b>Average</b>			<b>0.67</b>	<b>6.8</b>	<b>6.1</b>	<b>5.5</b>	<b>5.3</b>	<b>6.2</b>	<b>7.1</b>	<b>9.6</b>	<b>9.9</b>	<b>9.9</b>	<b>6.5</b>	<b>6.7</b>	<b>0.59</b>
<b>Median</b>			<b>0.61</b>	<b>7.0</b>	<b>5.6</b>	<b>5.4</b>	<b>4.6</b>	<b>6.2</b>	<b>6.9</b>	<b>10.3</b>	<b>9.5</b>	<b>9.2</b>	<b>5.9</b>	<b>7.5</b>	<b>0.48</b>
<i>Premium/discount</i>			42%	-21%	7%	2%	0.5%p	-1.7%p	-1.5%p	4.4%p	2.6%p	3.1%p	9.6%p	-12%	95%
<b>Average all peers</b>			<b>1.14</b>	<b>7.3</b>	<b>7.3</b>	<b>7.2</b>	<b>6.6</b>	<b>6.7</b>	<b>7.1</b>	<b>14.6</b>	<b>13.7</b>	<b>13.1</b>	<b>10.1</b>	<b>7.4</b>	<b>1.01</b>
<b>Median all peers</b>			<b>1.17</b>	<b>7.4</b>	<b>7.2</b>	<b>7.1</b>	<b>6.8</b>	<b>7.1</b>	<b>7.2</b>	<b>15.3</b>	<b>13.8</b>	<b>13.3</b>	<b>11.3</b>	<b>7.8</b>	<b>1.09</b>
<i>Premium/discount</i>			-26%	-26%	-17%	-23%	-1.6%p	-2.6%p	-1.7%p	-0.6%p	-1.7%p	-1.1%p	4.2%p	-16%	-13%

\* 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	162	164	173	186	198
Net commission income	17	16	17	19	20	27	29	33	41	53
Other income/Gains on financial instruments	29	21	30	14	21	29	27	27	27	27
<b>Total income</b>	<b>119</b>	<b>113</b>	<b>128</b>	<b>139</b>	<b>198</b>	<b>219</b>	<b>220</b>	<b>233</b>	<b>254</b>	<b>277</b>
Salaries and related expenses	23	23	27	31	36	48	52	56	61	64
Depreciation and amortization expenses	4	4	4	5	5	7	7	7	7	8
Other costs	24	21	25	19	39	55	56	56	60	61
<b>Total costs</b>	<b>50</b>	<b>48</b>	<b>57</b>	<b>54</b>	<b>81</b>	<b>110</b>	<b>115</b>	<b>120</b>	<b>128</b>	<b>132</b>
Core earnings before loan losses	68	65	71	85	118	108	105	113	126	145
Write-downs on loans	8	12	4	5	15	7	15	15	15	16
<b>Core earnings</b>	<b>60</b>	<b>53</b>	<b>67</b>	<b>80</b>	<b>102</b>	<b>101</b>	<b>89</b>	<b>99</b>	<b>111</b>	<b>128</b>
Dividends/associated companies	-	-	-	-	-	-	-	-	-	-
One-offs	-	-	-	-	7	5.6	8.7	1.2	-	-
<b>Pre tax profit</b>	<b>60</b>	<b>53</b>	<b>67</b>	<b>80</b>	<b>95.7</b>	<b>96</b>	<b>81</b>	<b>97</b>	<b>111</b>	<b>128</b>
Taxes	-8	-10	-12	-13	-20	-18	-14	-17	-19	-22
Minority interest	-	-	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>52</b>	<b>43</b>	<b>55</b>	<b>67</b>	<b>75</b>	<b>78</b>	<b>66</b>	<b>80</b>	<b>91</b>	<b>106</b>
Adj. profit after taxes	52	43	55	67	81	83	74	81	91	106
<b>EPS</b>	<b>0.09</b>	<b>0.07</b>	<b>0.09</b>	<b>0.11</b>	<b>0.12</b>	<b>0.12</b>	<b>0.10</b>	<b>0.12</b>	<b>0.14</b>	<b>0.16</b>
<b>EPS (adj.)</b>	<b>0.09</b>	<b>0.07</b>	<b>0.09</b>	<b>0.11</b>	<b>0.13</b>	<b>0.12</b>	<b>0.11</b>	<b>0.13</b>	<b>0.14</b>	<b>0.16</b>
<b>Profitability</b>										
<b>ROE (adj.)</b>	<b>17.6%</b>	<b>12.7%</b>	<b>14.3%</b>	<b>16.1%</b>	<b>16.7%</b>	<b>14.7%</b>	<b>12.1%</b>	<b>12.2%</b>	<b>12.6%</b>	<b>13.2%</b>
<b>ROE (reported)</b>	<b>17.6%</b>	<b>12.7%</b>	<b>14.3%</b>	<b>16.1%</b>	<b>15.5%</b>	<b>13.9%</b>	<b>10.9%</b>	<b>12.1%</b>	<b>12.6%</b>	<b>13.2%</b>
ROA	2.1%	1.4%	1.4%	1.6%	1.6%	1.5%	1.2%	1.4%	1.5%	1.6%
RORWA	3.1%	2.2%	2.6%	2.8%	3.1%	2.9%	2.2%	2.4%	2.6%	2.8%
Core earnings ROE	19.2%	14.9%	16.5%	18.1%	18.8%	17.2%	14.1%	14.2%	14.5%	15.3%
Core earnings in % of RWA	3.6%	2.8%	3.2%	3.3%	4.2%	3.7%	3.0%	3.0%	3.1%	3.4%
Cost/Income ratio	42.5%	42.6%	44.2%	38.8%	44.0%	53.0%	56.4%	52.0%	50.4%	47.8%
Adjusted Cost/Income ratio	<b>42.5%</b>	<b>42.6%</b>	<b>44.2%</b>	<b>38.8%</b>	<b>40.7%</b>	<b>50.5%</b>	<b>52.4%</b>	<b>51.5%</b>	<b>50.4%</b>	<b>47.8%</b>
Costs in % of total assets	2.0%	1.6%	1.4%	1.3%	1.7%	2.2%	2.1%	2.1%	2.0%	2.0%
Tax rate	13.8%	18.7%	17.9%	16.1%	21.3%	18.4%	17.5%	17.5%	17.5%	17.5%
Loss ratio	0.55%	0.75%	0.21%	0.21%	0.58%	0.23%	0.46%	0.40%	0.38%	0.38%
<b>Net interest margin</b>	<b>3.20%</b>	<b>3.00%</b>	<b>2.99%</b>	<b>3.21%</b>	<b>4.05%</b>	<b>3.28%</b>	<b>3.12%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.05%</b>
Operating margin	4.7%	3.7%	3.2%	3.3%	4.1%	4.3%	4.0%	4.0%	4.1%	4.1%
Pretax margin	2.4%	1.7%	1.7%	1.9%	2.0%	1.9%	1.5%	1.7%	1.8%	1.9%
<b>Growth rates (YoY)</b>										
Core earnings	-	-11%	27%	19%	27%	-1%	-12%	10%	12%	16%
EPS (adj.)	-	-16%	28%	22%	18%	-6%	-9%	10%	12%	16%

Balance sheet (EURm)	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Cash and receivables	343	590	1,162	630	1,041	806	726	636	639	647
Net lending to customers	1,515	1,606	1,909	2,392	2,645	3,022	3,340	3,693	3,997	4,326
Total securities	601	781	839	1,118	1,034	1,167	1,281	1,414	1,530	1,656
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	16	16	16
Other assets	37	36	38	26	74	76	77	77	77	78
<b>Total assets</b>	<b>2,508</b>	<b>3,029</b>	<b>3,962</b>	<b>4,183</b>	<b>4,809</b>	<b>5,086</b>	<b>5,439</b>	<b>5,835</b>	<b>6,259</b>	<b>6,723</b>
Total equity	311	355	406	443	543	591	634	694	761	840
Minority interest	-	-	-	-	-	-	-	-	-	-
Total deposits	2,108	2,575	3,377	3,470	3,733	3,907	4,184	4,483	4,807	5,158
Debt securities in issue	20	20	95	171	276	312	343	379	410	444
Other liabilities	69	79	84	98	257	277	278	279	280	281
<b>Equity and liabilities</b>	<b>2,508</b>	<b>3,029</b>	<b>3,962</b>	<b>4,183</b>	<b>4,809</b>	<b>5,086</b>	<b>5,439</b>	<b>5,835</b>	<b>6,259</b>	<b>6,723</b>
Growth of loans	-	6.0%	18.9%	25.3%	10.6%	14.2%	10.5%	10.6%	8.2%	8.2%
Growth of deposits	-	22.2%	31.1%	2.8%	7.6%	4.7%	7.1%	7.2%	7.2%	7.3%
<b>Equity ratio</b>	<b>12.4%</b>	<b>11.7%</b>	<b>10.3%</b>	<b>10.6%</b>	<b>11.3%</b>	<b>11.6%</b>	<b>11.7%</b>	<b>11.9%</b>	<b>12.2%</b>	<b>12.5%</b>
<b>CET1 ratio</b>	<b>15.0%</b>	<b>19.6%</b>	<b>19.5%</b>	<b>18.1%</b>	<b>19.9%</b>	<b>18.4%</b>	<b>19.3%</b>	<b>20.5%</b>	<b>21.8%</b>	<b>22.8%</b>
Core capital (EURm)	247	377	410	439	485	503	580	676	769	864
<b>Tier 1 ratio</b>	<b>15.0%</b>	<b>19.6%</b>	<b>19.5%</b>	<b>18.1%</b>	<b>19.9%</b>	<b>18.4%</b>	<b>19.3%</b>	<b>20.5%</b>	<b>21.8%</b>	<b>22.8%</b>
Capital base (EURm)	267	397	430	459	547	569	647	742	835	930
Capital adequacy	16.2%	20.7%	20.4%	19.0%	22.4%	20.8%	21.5%	22.5%	23.7%	24.5%
RWA	1654	1917	2106	2421	2439	2731	3013	3294	3530	3797

Share data	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Shares outstanding, year end (mill.)	601	601	601	601	663	662	645	645	645	645
Share price, year end (EUR)	0.51	0.50	0.76	0.69	0.69	0.69	0.69	0.69	0.69	0.69
Market cap (EURm)	304	299	457	412	459	456	444	444	444	444
EPS	0.09	0.07	0.09	0.11	0.12	0.12	0.10	0.12	0.14	0.16
<b>EPS (adj.)</b>	<b>0.09</b>	<b>0.07</b>	<b>0.09</b>	<b>0.11</b>	<b>0.13</b>	<b>0.12</b>	<b>0.11</b>	<b>0.13</b>	<b>0.14</b>	<b>0.16</b>
Book value per share (EUR)	0.52	0.59	0.68	0.74	0.82	0.89	0.98	1.08	1.18	1.30
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	5.8	6.7	5.5	4.9	4.2
P/E (adj.)	5.9	7.0	8.3	6.1	5.2	5.5	6.0	5.5	4.9	4.2
P/B (excl. goodwill)	0.98	0.84	1.12	0.93	0.85	0.77	0.70	0.64	0.58	0.53
Dividend yield	-	1.1%	4.5%	3.9%	7.0%	5.1%	4.5%	5.4%	6.2%	7.1%

Growth (YoY)	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Growth of loans	-	6.0%	18.9%	25.3%	10.6%	14.2%	10.5%	10.6%	8.2%	8.2%
Growth of deposits	-	22.2%	31.1%	2.8%	7.6%	4.7%	7.1%	7.2%	7.2%	7.3%
EPS (adj.)	-	-16.5%	28.3%	22.1%	18.2%	-5.8%	-8.6%	10.4%	12.4%	15.9%

Capital ratios	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Equity ratio	12.4%	11.7%	10.3%	10.6%	11.3%	11.6%	11.7%	11.9%	12.2%	12.5%
<b>CET1 ratio</b>	<b>15.0%</b>	<b>19.6%</b>	<b>19.5%</b>	<b>18.1%</b>	<b>19.9%</b>	<b>18.4%</b>	<b>19.3%</b>	<b>20.5%</b>	<b>21.8%</b>	<b>22.8%</b>
Tier 1 ratio	15.0%	19.6%	19.5%	18.1%	19.9%	18.4%	19.3%	20.5%	21.8%	22.8%
Capital adequacy	16.2%	20.7%	20.4%	19.0%	22.4%	20.8%	21.5%	22.5%	23.7%	24.5%

Profitability	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
<b>ROE (adj.)</b>	<b>17.6%</b>	<b>12.7%</b>	<b>14.3%</b>	<b>16.1%</b>	<b>16.7%</b>	<b>14.7%</b>	<b>12.1%</b>	<b>12.2%</b>	<b>12.6%</b>	<b>13.2%</b>
<b>ROE (reported)</b>	<b>17.6%</b>	<b>12.7%</b>	<b>14.3%</b>	<b>16.1%</b>	<b>15.5%</b>	<b>13.9%</b>	<b>10.9%</b>	<b>12.1%</b>	<b>12.6%</b>	<b>13.2%</b>
ROA	2.1%	1.4%	1.4%	1.6%	1.6%	1.5%	1.2%	1.4%	1.5%	1.6%
Costs/Income ratio	42.5%	42.6%	44.2%	38.8%	44.0%	53.0%	56.4%	52.0%	50.4%	47.8%
Adjusted Costs/Income ratio	42.5%	42.6%	44.2%	38.8%	40.7%	50.5%	52.4%	51.5%	50.4%	47.8%
Costs in % of total assets	2.0%	1.6%	1.4%	1.3%	1.7%	2.2%	2.1%	2.1%	2.0%	2.0%
Loss ratio	0.55%	0.75%	0.21%	0.21%	0.58%	0.23%	0.46%	0.40%	0.38%	0.38%
<b>Net interest margin</b>	<b>3.20%</b>	<b>3.00%</b>	<b>2.99%</b>	<b>3.21%</b>	<b>4.05%</b>	<b>3.28%</b>	<b>3.12%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.05%</b>

# Valuation, risk and sources

## Valuation range

Valuation range history for Šiaulių Bankas Group during the previous 12 months:

Date	Valuation range (EUR/share)
23/07/2024	0.88-1.08
02/08/2024	0.91-1.11

## 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, Bloomberg, and Infront.

## DISCLOSURES AND DISCLAIMER

### STANDARDS AND SUPERVISORY AUTHORITY

This report has been prepared by Norne Securities AS, which is supervised by The Financial Supervisory Authority of Norway (Finanstilsynet). Industry standards issued by The Norwegian Securities Dealers Association (Verdipapirforetakenes Forbund) ([www.vpff.no](http://www.vpff.no)) have been used in preparing this report.

### DISCLAIMER

This report is provided for information purposes only. It should not be used or considered as an offer to sell or a solicitation of an offer to buy any securities. This report is prepared for general circulation and general information only. It does not take into account the specific investment objectives, investment knowledge and experience and financial situation of any recipient. Investors seeking to buy or sell any securities discussed or recommended in this report, should seek independent financial advice relating thereto and make his/her own appraisal of the tax or other financial merits of the investment. Any opinions expressed are subject to change without prior notice. This report is based on information from various sources believed to be reliable. Although all reasonable care has been taken to ensure that the information herein is not misleading, Norne Securities AS makes no guarantee, representation or warranty, expressed or implied as to its accuracy, adequacy or completeness. Neither Norne Securities AS, its employees, nor any other person connected with it, accepts any liability whatsoever for any direct, indirect or incidental, special or consequential loss of any kind arising out of the use or reliance on the information in this report.

This report is intended for use only by those persons to whom it is made available by Norne Securities AS. This report may not be distributed, quoted from or reproduced, in full or in part, in any manner without written approval by Norne Securities AS.

### DISCLOSURE OF INTERESTS

Norne Securities AS may at any time perform investment banking or other services or solicit investment banking or other mandates from the company or companies covered in this report. Norne Securities AS may hold positions in securities covered in this report due to its own-account trading that is part of its investment services operations, such as market making. Norne Securities AS has appointed and may at any time appoint tied agents to provide investment services on behalf of Norne Securities AS. Tied agents are listed in the public registry of the Norwegian Financial Supervisory Authority, and an updated overview of appointed tied agents of Norne Securities AS can be found on [Compliance | Norne Securities](#).

### PREVENTING CONFLICTS OF INTEREST

Norne Securities AS has arrangements in place with the aim of preventing conflicts of interest. As part of these arrangements, Norne Securities AS has established information barriers between different parts of the company to restrict and control the exchange of sensitive information. No direct link exists between remuneration of the Norne Securities AS analysts and investment banking services provided by Norne Securities AS, but analysts may receive a bonus under the firm's general bonus scheme. Under our internal regulations, which have been prepared in accordance with applicable legislation and relevant industry standards, our analysts are not permitted to purchase new securities in the companies they cover.

### CAUTIONARY NOTE REGARDING RISK

An investment in the company involves risk, and several factors could cause the actual results, performance or achievements of the company to be materially different from future results, performance or achievements that may be expressed or implied by statements and information in this presentation. Including, among others, risk or uncertainties associated with the company's business segments, development, growth management, financing, market acceptance and relations with customer, and more generally, general economic and business conditions, changes in domestic and foreign laws and regulations, taxes, changes in competition and pricing environment, fluctuations in currency exchange rates and interest rates and other factors. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. Past performance is not a guide to future performance. Investing in securities may result in a loss of all or part of the investment.

### DISTRIBUTION RESTRICTIONS

This report is not intended for and must not be distributed to private customers in the UK or US. Norne Securities AS and its employees are not subject to the Rules of the Financial Industry Regulatory Authority (FINRA) governing research analyst conflicts. The research reports are intended for distribution in the United States solely to "major U.S. institutional investors" as defined in Rule 15a-6 under the United States Securities Exchange Act of 1934, as amended and may not be furnished to any other person in the United States. Each major U.S. institutional investor that receives a copy of a Norne Securities AS research report by its acceptance thereof represents and agrees that it shall not distribute or provide copies to any other person. Reports are prepared by Norne Securities AS and distributed to major U.S. institutional investors under Rule 15a-6(a)(2).

**VALUATION**

Due to the services being Paid Research, Norne Securities will, under current legislation, not provide a specific research recommendation with respect to the Company's shares, but will provide a fair value estimate range, from conservative to optimistic, in accordance with market practice for such research.

**POTENTIAL CONFLICTS OF INTEREST**

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

This report has been presented to the issuer before dissemination for a check of factual information. Amendments of factual information have been made following this.

Obligation to provide information about employees' own holdings, cf. Securities Regulations § 3-10 (2) and § 3-11 (1) lit. a and b. Information on holdings of listed financial instruments that the employees of Norne Securities AS own is provided on request.

**COPYRIGHT**

This report may not be duplicated, photocopied or otherwise reproduced, in full or in part, under applicable copyright laws.

THIS REPORT IS SUBJECT TO NORWEGIAN LAW, AND ANY DISPUTE ARISING IN RESPECT OF THIS REPORT IS SUBJECT TO THE EXCLUSIVE JURISDICTION OF NORWEGIAN COURTS.