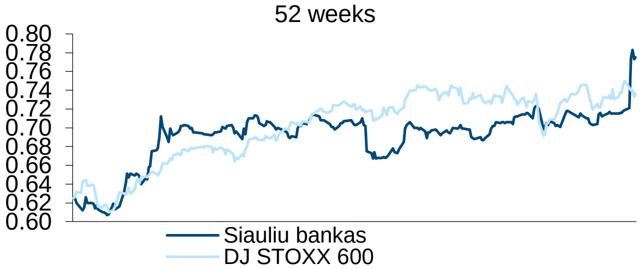
COMPANY REPORT

Šiaulių Bankas

Initiated with Buy

EUR mn	2023	2024e	2025e	2026e
Net interest Income	156.9	160.7	170.0	181.3
Net fee/com. inc.	20.3	27.3	29.3	31.2
Total Income	183.9	201.7	213.7	227.6
EBT	95.7	100.4	97.5	116.7
Net result after min.	75.4	80.3	78.0	93.4
EPS (EUR)	0.13	0.12	0.12	0.15
BVPS (EUR)	0.82	0.97	1.03	1.12
Tang. BVPS (EUR)	0.81	0.97	1.03	1.11
Div./share (EUR)	0.05	0.06	0.06	0.08
ROE (%)	15.29	13.70	12.08	13.54
P/E (x)	5.5	6.3	6.4	5.3
P/BV(x)	0.8	0.8	0.7	0.7
Dividend Yield	7.0%	7.9%	7.8%	9.9%



Performance	12M	6M	3M	1M
in EUR	24.0%	10.2%	10.4%	9.9%

Share price (EUR) close as of 04/10/2024	0.7750
Number of shares (mn)	660.7
Market capitalization (EUR mn)	512.1
Enterprise value (EUR mn)	

Reuters	SAB1L.VL	Free float	48.9%
Bloomberg	SAB1L LH	Shareholders	Invalda INVL (19.6%)
Div. Ex-date			Willgrow (8.97%)
Target price	**1.0000**	Homepage:	www.sb.lt

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Aspiring to become Lithuania's local banking champion

We initiate our coverage of Šiaulių Bankas with a Buy recommendation and target price of EUR 1.00. Our valuation method is a three-stage dividend discount model, based on our estimates.

The positive recommendation is confirmed by the peer group, where we see **Šiaulių Bankas trading at discounts to peers** with a P/E ratio of 6x and P/BV multiple of 0.8x. The dividend yield is attractive and ~8%, slightly above the peer group's average.

For 2024, we forecast net profit to arrive at EUR 80mn and we anticipate a slight decrease next year to EUR 78mn, mainly due to a temporarily growing cost base and only slowly advancing revenues. The ROE thus is below the mid-term target of at least 15%, estimated at 14.1% in 2024 and 12.4% in 2025 (excluding AT1). From 2027, the ROE reaches and then exceeds 15% in our forecasts.

Our dividend forecasts are based on a payout ratio of 50%, reflecting the bank's new dividend policy. For this year, we incorporated the planned share buybacks, which will be executed soon, and have a smaller round of buybacks included in our forecasts for 2025. The capital ratios remain broadly stable in our forecast horizon, with capital generation, solid organic growth and capital returns to shareholders largely balanced.

Investment story

Well positioned in attractive market segments

Šiaulių Bankas is the oldest operating bank and largest independently owned financial institution in Lithuania. It operates the widest branch network in the country and serves corporate as well as retail clients, with an especially strong presence in higher risk and margin market segments such as SME and consumer finance and market niches such as renovation financing. In the recent merger with Invalda INVL's (now the largest shareholder) retail operation, Šiaulių Bankas added a highly complementary asset management franchise to the core banking operations and thus materially expanded its product offering. Šiaulių Bankas is supervised by the ECB, is rated Baa1 by Moody's and has been listed on the Nasdaq Baltic Stock Exchange since 1994.

Ambitious strategy and financial targets

In early 2024, management rolled out a strategy program with the lofty goal of becoming the best bank in Lithuania by 2029, the bank of choice for its stakeholders. A key element in this strategy is the implementation of a new core banking platform, which is planned to be operational in 2026. Necessary investments in the execution process of the new strategy are expected to weigh on the cost/income ratio and earnings until 2026. In the following year, Šiaulių Bankas expects to reach its mid-term ROE goal of above 15% on a sustainable basis.

Lithuanian banking market with substantial growth potential

Šiaulių Bankas has grown substantially organically as well as by selectively acquiring assets on the Lithuanian market. In recent years, the loan book expanded by 15% annually (CAGR 2019-23), with retail business and particularly mortgages as the main driver. The new financial targets show that Šiaulių Bankas plans to continue on its growth path, and, in our view, the Lithuanian banking market has the growth potential to realize such a strategy, as the debt to GDP levels in Lithuania are among the lowest in the EU. Market share gains are also in the cards for a bank aiming to provide the best client experience in Lithuania and to have the best known and most beloved brand name on the banking market. This, however, is unlikely to be an easy task, as the bank is the number four in a market dominated by three major players.

Funding based on local deposits, costs to peak

Šiaulių Bankas' balance sheet is very solid and prepared for future growth, with capital ratios comfortably above target levels. The bank's funding is largely based on local deposits and increasingly supplemented with bonds placed on the local and international debt capital markets. Rising funding costs halted the sharp increase in the bank's net interest income in 2022 and especially 2023, as a result of the ECB's rate hikes and very high share of floating rate loans in Šiaulių Bankas' portfolio. Funding costs should peak in 2H24, which is expected to ease the current pressure on the net interest margin in 2025. Šiaulių Bankas' asset quality showed a long-term improving trend and has remained stable throughout the period of strong interest rate moves.

New dividend policy with 50% payout ratio, SBB soon to be launched

The commitment to attractive shareholder returns is also an important element of the bank's strategy and this is reflected in the new dividend policy announced recently. Based on the bank's robust capitalization, management increased the minimum dividend payout ratio to 50% and plans to commence with share buybacks in the near future. The share price jumped as a reaction to the new dividend policy, reducing the discounts Šiaulių Bankas is trading at compared to its CEE and Nordic peers.

SWOT analysis

Strengths / opportunities

- Operating in a structurally attractive Lithuanian economy; banking market with significant growth potential
- Strategic focus on selected lending segments allows generation of above-average margins and returns
- Dividends and SBBs: Solid capitalization as basis for increase in dividend payout ratio (to a minimum of 50% in new policy) and share buybacks
- Track record of high growth and strong profitability
- New core banking system to offer new growth opportunities, efficiency gains from 2026
- New strategy with ambitious goals, commitment to continuous improvement and transformational change

Weaknesses / threats

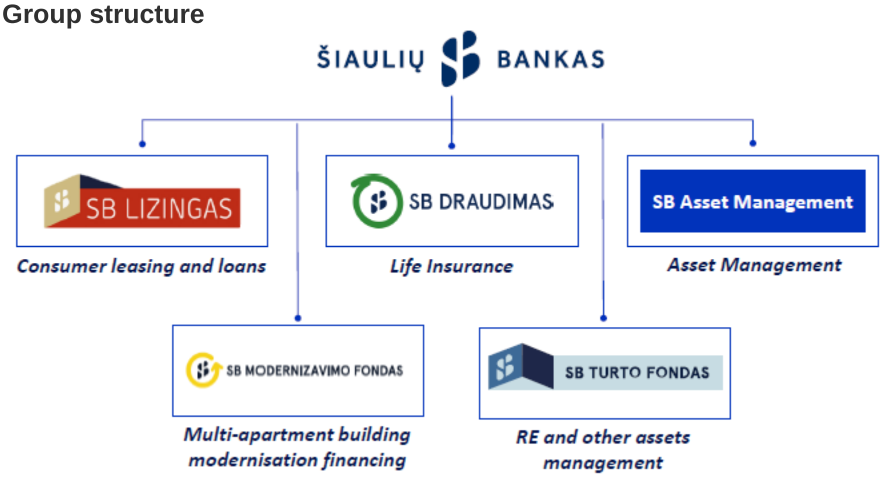
- Geopolitical situation in Russia and Belarus, war in Ukraine, pose an economic risk to the Baltic region, although Šiaulių Bankas' specific exposures to Russia, Ukraine and Belarus are low
- Competitive banking market in Lithuania, dominated by three major players, Šiaulių Bankas is number four
- Economic slowdown could cause asset quality to deteriorate
- Extra taxes for banks: Higher income tax for banks in Lithuania plus solidarity tax
- Real estate risk: Biggest sector exposure in corporate loan book is to real estate (29%)
- Lithuanian banking market has very high share of floating rate loans

Company profile

Largest independently owned bank in Lithuania, widest branch network

Šiaulių Bankas is the oldest operating bank in Lithuania and among the Baltic state's largest financial institutions. It is independently owned and specializes in business financing as well as consumer financing solutions. It operates and is committed to the widest branch network in Lithuania, serving its clients in 54 branches across 36 cities and towns throughout the country. Through its subsidiaries, Šiaulių Bankas Group's business extends into the fields of leasing, asset management, real estate and life insurance. The group's life insurance arm SB Draudimas operates own branches in Latvia and Estonia as well. At the end of June 2024, the bank's workforce has grown by 6% YTD to 1,039 employees, compared to 1,194 for the whole group (up 5% from the end of 2023).

Group structure



Source: Šiaulių Bankas

Supervised by the ECB

Founded in 1992, Šiaulių Bankas was first listed on the Nasdaq Baltic Market in 1994 and was included on the main list of Nasdaq Vilnius in 2006. As a Euro Area bank, Šiaulių Bankas is supervised by the European Central Bank (ECB) since 2020 and it has the status of a significant Lithuanian financial institution.

History of acquisitions, retail business merger with INVL in 2023

Among the milestones in Šiaulių Bankas' history are multiple acquisitions, which supplemented solid organic growth to reach above EUR 5.0bn in total assets reported in 1H24. In 2013, a total of EUR 789mn in assets and insured liabilities were transferred to Šiaulių Bankas, which was followed by the acquisition of Bank Finasta in 2015 and the purchase of a private client loan portfolio from the Lithuanian branch of Danske Bank. The most significant transaction to bolster its activities beyond the core banking operations was the **acquisition of and merger with parts of Invalda INVL's retail business** at the end of 2023.

Acquisition boosts asset management, life insurance activities

Invalda INVL is a leading asset management group in the Baltics and, in the transaction, which was effective December 1, 2023, Šiaulių Bankas Group acquired the management of second- and third-pillar pension funds and retail investment funds, now combined under and managed by the newly established entity SB Asset Management. In addition, Šiaulių Bankas significantly expanded its life insurance business in the Baltic countries. In total, the transaction involved more than 210,000 clients and over EUR 1.2bn of client assets under management. The transaction price was EUR 41.8mn, of which Šiaulių Bankas paid EUR 40.2mn by issuing 62.27mn new shares (9.39% of share capital), while the remaining EUR 1.6mn was settled in cash.

Shareholder structure

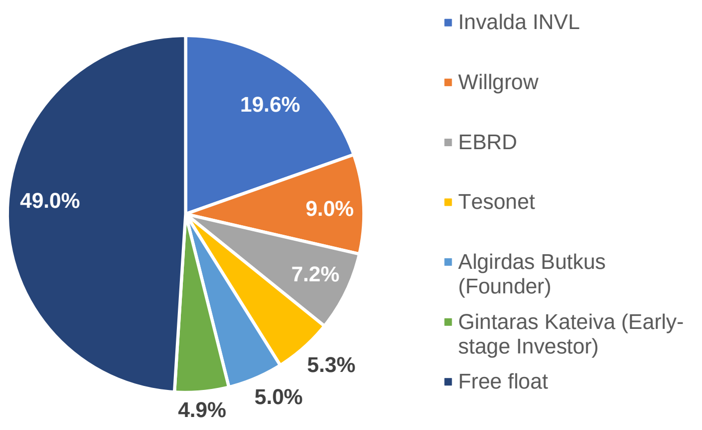
Invalda INVL now largest shareholder

As a consequence of the transaction, Šiaulių Bankas' share capital increased to EUR 192mn, comprising 663mn ordinary registered shares with a par value of EUR 0.29 each, and Invalda INVL became the largest shareholder with a holding of 18.45%, which increased to 19.6% at the end of June 2024.

EBRD entered in 2005, recently reduced its stake

The European Bank for Reconstruction and Development (EBRD) has been a major shareholder of Šiaulių Bankas since 2005, growing its stake to as high as 26.0%. In 2021, the EBRD announced a series of planned transactions with Invalda INVL and Tesonet Global (business accelerator and investor) and Willgrow (holding company that manages Girteka Logistics), which resulted in a decrease of the EBRD's stake to 7.2% at the end of June 2024. Willgrow is now the second largest shareholder with an 8.97% holding, while Tesonet's stake grew to 5.3%. Algirdas Butkus, as founder, and Gintaras Kateiva, as early stage investor, still hold 5.0% and 4.9% stakes in the bank, respectively.

Shareholder structure



Source: Šiaulių Bankas, Erste Group Research

Management team

Experienced management team

The management board of Šiaulių Bankas' in aggregate hold approx. 0.6% of shares in the company, with the largest stake held by CEO Vytautas Sinius (0.3% of shares). In the two-tier management system consisting of the supervisory council, management board and CEO as head of administration, the management board is responsible for, amongst others, the strategic management of Šiaulių Bankas. The management board currently has eight members, elected for a term of four years, all beginning in the first half 2024.

Members of the management board

		Professional experience	
		at Šiaulių Bankas	Financial industry
Vytautas Sinius	Chief Executive Officer Chairman of the Management Board	12 years	25 years
Donatas Savickas	Deputy Chief Executive Officer Head of Finance Division	25 years	25 years
Daiva Šorienė	Deputy Chief Executive Officer Head of Corporate Clients Division	25 years	30 years
Mindaugas Rudys	Head of Service Development Division	13 years	23 years
Algimantas Gaulia	Chief Risk Officer	11 years	22 years
Agnė Duksienė	Chief Compliance Officer	2 years	15 years
Laura Križinauskienė	Head of Private Clients Former CEO of INVL Asset Management	1 year	20 years
Tomas Varenbergas	Head of Investment Clients Charmain of the Board of SB Asset Management	8 years	16 years

Source: Šiaulių Bankas, Erste Group Research

New strategy, business segments and financial targets

New strategy with ambition to become best bank in Lithuania

In January 2024 and after completion of the merger of the retail businesses with of Invalda INVL, Šiaulių Bankas announced a strategy update for 2024-29. At its center is the **ambition to become the best bank in Lithuania by 2029**. While there are no quantitative and measurable criteria to be met to achieve this goal, management's vision is to become the bank of choice for its key stakeholders (clients, employees and shareholders) and the best known and beloved brand in the Lithuanian banking market.

Total return target of 20+% for shareholders

For its clients, the bank plans to deliver an exceptional customer experience, which should establish Šiaulių Bankas as top-of-mind choice for financial services in Lithuania and allow the customer base as well as the loan portfolio to expand at an above-market-average pace. For its shareholders, Šiaulių Bankas plans to deliver superior and sustainable returns with a targeted rate of return of 20+% (total return). For its staff and to attract talent in the future, Šiaulių Bankas aims to rank among the top three employers in the financial services sector.

Key initiatives and priorities in strategy update:

- **Upgrading to new core banking platform**. For its next generation core banking platform, Šiaulių Bankas chose temenos, which is a global supplier used by 3,000 financial institutions in more than 150 countries. Šiaulių Bankas expects the cloud-based platform, which is anticipated to be fully implemented by 2026, to support the bank's growth plans, improve efficiency and resilience, allow scalability and enable the bank to react to changing client needs more swiftly.
- **Rebranding.** Šiaulių Bankas is currently analyzing its rebranding needs and aims to create a new, more contemporary bank brand to accelerate client acquisition, leverage cross-selling opportunities and increase the bank's visibility.
- **Compliance.** Šiaulių Bankas reaffirmed its commitment to strong compliance and risk management. The focus is on investments in anti-money laundering, anti-fraud and sanctions screening, technology-based and data-driven systems and enhanced customer risk assessment.
- **ESG with heightened focus**, prioritizing tangible products, partnerships and projects with transformative impact.
- **Customer-centricity remains a key priority.** Under the new organizational structure, three divisions were established: Corporate, Private and Investment (see details below).
- **“Phygital” banking:** Šiaulių Bankas remains committed to its physical branch network, especially for expert consultation to support clients in complex financial decisions. At the same time, the bank is focused on advancing its digital offering for seamless daily banking services.

New business segments

Building on strong position in SME

In the new organizational structure, small and medium enterprises (SME) and corporates are served in the Corporate Clients segment. Šiaulių Bankas already established itself as one of the market leaders in SME and mid-sized corporate lending and seeks to build on this position with ambitious growth plans. By 2029, the lender aims to double the number of clients in the segment to 40,000 and thus grow its market share to 20%, from 13% in 2023.

Doubling of retail clients to 1mn targeted

In the Private Clients segment, similarly, Šiaulių Bankas aspires to double its client base by 2029, growing it to 1mn customers with at least one product of the bank's product offering. Of this expanded private client base, the goal is for a share of 35% of its customers to use Šiaulių Bankas as primary bank (2023: 18%).

Aiming for leadership on domestic debt capital markets

With its third segment, Investment Clients, Šiaulių Bankas aims to become a leader on the Lithuanian domestic debt capital market by offering its services to a wider range of companies. The specific goal for 2029 is to raise at least EUR 500mn annually for its clients on the capital markets. The number of investment clients is targeted to grow threefold, allowing investment services fees to expand at a rate of 20% (CAGR).

Financial targets

ROE >15% as mid-term goal

Šiaulių Bankas defined the following key financial targets for the period 2024-26 and beyond, based on management's expectation for organic growth in the coming years. The increase in the cost/income ratio for this as well as the following two periods largely reflects the impact of the implementation of the new core banking system.

Key financial targets

	2023	2024	2025	2026	2027-2029
Loan book	EUR 2.93bn	EUR 3.3bn	EUR 3.7bn	EUR 4.1bn	**CAGR: ~8%**
Deposits	EUR 3.16bn	EUR 3.3bn	EUR 3.6bn	EUR 4.0bn	**CAGR: ~10%**
Total operating income	EUR 196mn	EUR 202mn	EUR 211mn	EUR 243mn	**CAGR: ~10%**
Net fee income	EUR 20mn	EUR 27mn	EUR 29mn	EUR 33mn	**CAGR: ~20%**
Cost / Income ratio	43.5%*	49.7%	53.2%	48.8%	below **47.5%**
Return on Equity	15.5%*	13.7%	13.1%	15.0%	above **15.0%**

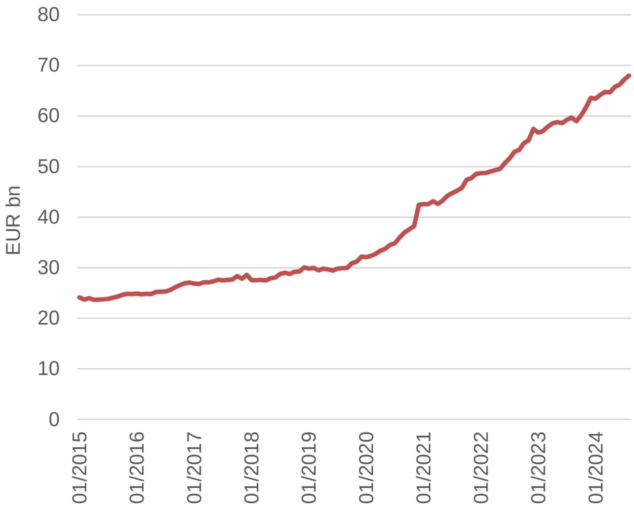
** Reported ratios*
Source: Šiaulių Bankas, Erste Group Research

Lithuanian banking market, competitive landscape

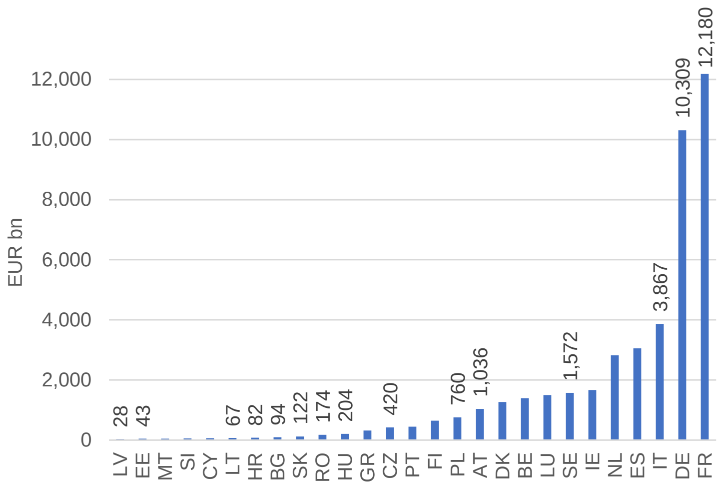
Lithuania's total asset growth at 13% annually since 2015

The Lithuanian banking sector is a stable and well-developed market with a strong regulatory framework, in line with EU standards. Banks operate under the supervision of the Bank of Lithuania (BoL), the country's central bank. Total assets on the Lithuanian banking market reached EUR 68.0bn at the end of August 2024. Assets have thus grown by 7% YTD in 2024, maintaining a similar growth rate as in previous years, when total assets expanded with a CAGR of 13% between 2015 and 2023. The Lithuanian banking market is small compared to other EU member states, ranking as the sixth smallest banking market, but it is larger than those of Latvia and Estonia.

Total assets Lithuania 2015-2024



Total assets – EU comparison

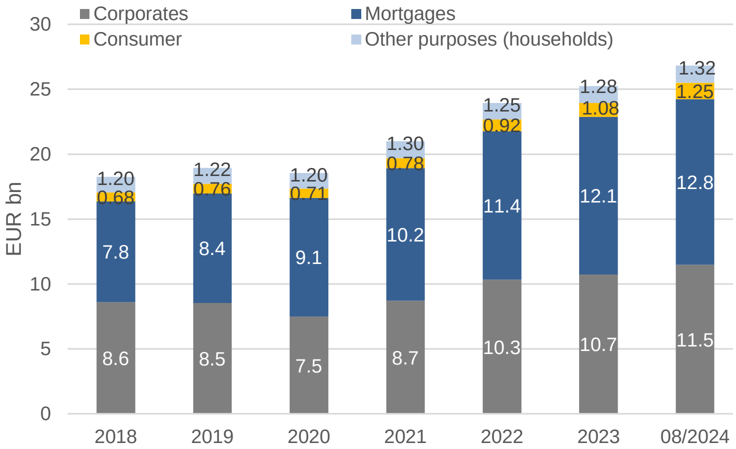


Source: Bank of Lithuania, ECB, Erste Group Research

Good loan growth especially in retail

Loans to households in Lithuania amounted to EUR 15.3bn at the end of August 2024, after having grown by +5.7% YTD. The growth rate in 2023 was just slightly below the CAGR of 2014-23 (+7.8%) at 6.6%, despite the high interest rate environment. On the corporate side, the long-term growth rate (CAGR 2014-23) is considerably lower, at 4.2%. In the current year, however, corporate loans have recorded good growth with +7.1% (YTD).

Loans to households and corporates 2018-24

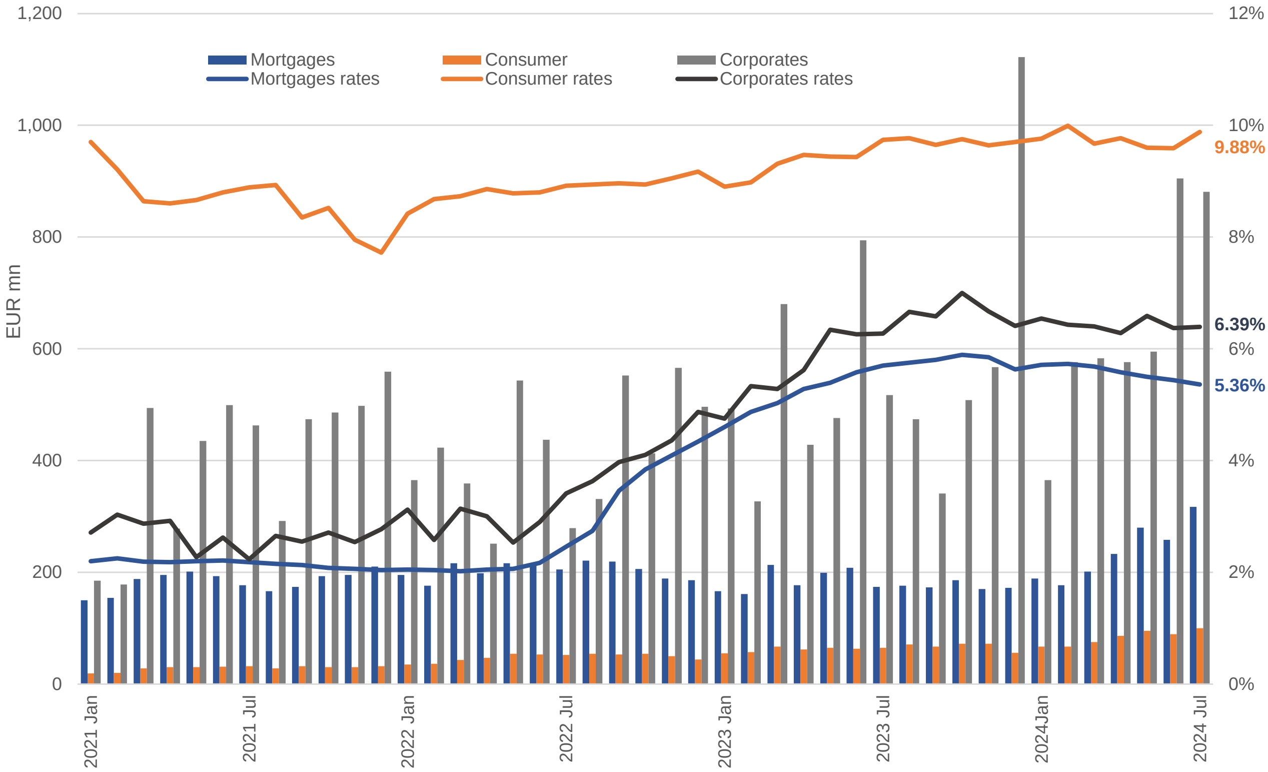


Source: Bank of Lithuania, Erste Group Research

Pick-up in new volumes

Declining interest rates led to a pick-up in new business loan volumes in the first half of 2024, especially in corporates and mortgages. In consumer loans, new business volumes remained stable in recent months, with interest rates only slightly below 10%. Overall, loan rates remain clearly above the EU and Euro Area average.

New business volumes (lhs, bars) and prices (rhs, lines)

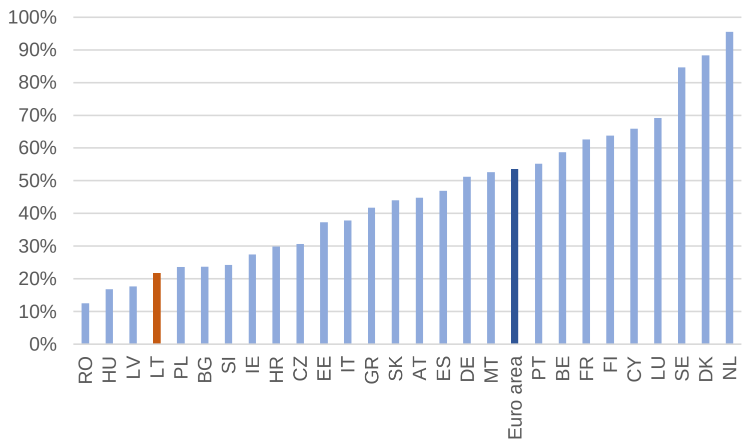


Source: ECB, Erste Group Research

Banking penetration very low, high growth potential

Looking into the future, there is clearly more room for further growth, as banking penetration (debt as a percentage of GDP) remains very low in comparison to other EU countries. For household loans, it was 22% in Lithuania at the end of 2023, compared to 54% on aggregate for the Euro Area.

Household loans as ratio of GDP (EU countries, 2023)

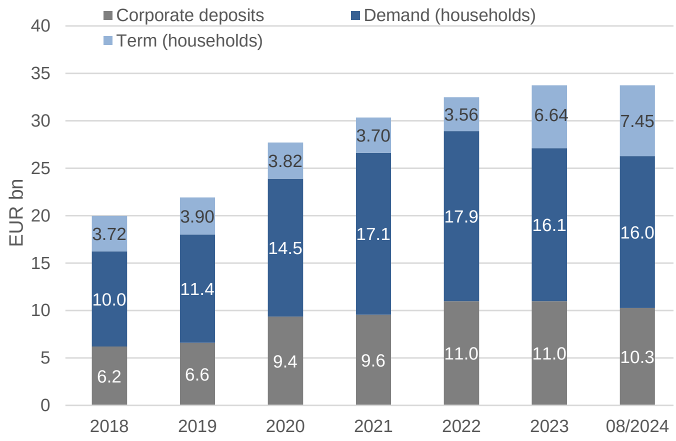


Source: ECB, Erste Group Research

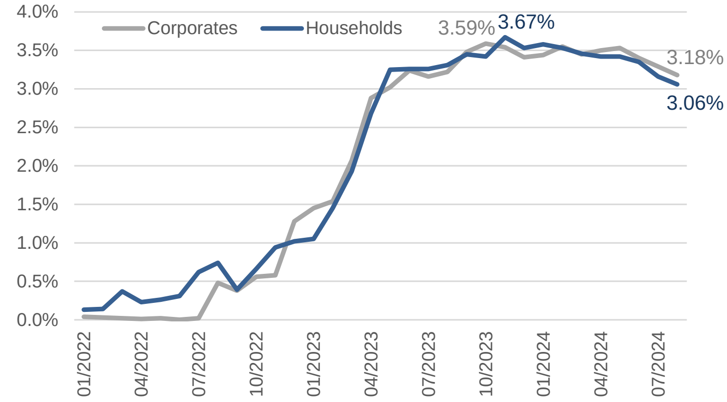
Shift from demand to term deposits clearly visible

Household deposits on the Lithuanian banking market have risen substantially over the last decade, recording a CAGR of 9.7% from 2014 to 2023 (year-end). In the period of low interest rates, inflows from households were largely registered in demand deposits. This changed in 2023, when higher interest rates on term deposits were offered by banks and the share of these deposits grew significantly. Growth in corporate deposits has been similarly strong since 2014, but levelled off in 2023 and even declined in 2024 (YTD to the end of August).

Deposit volumes



Deposit volumes, prices – corporates and households
Term deposit rates



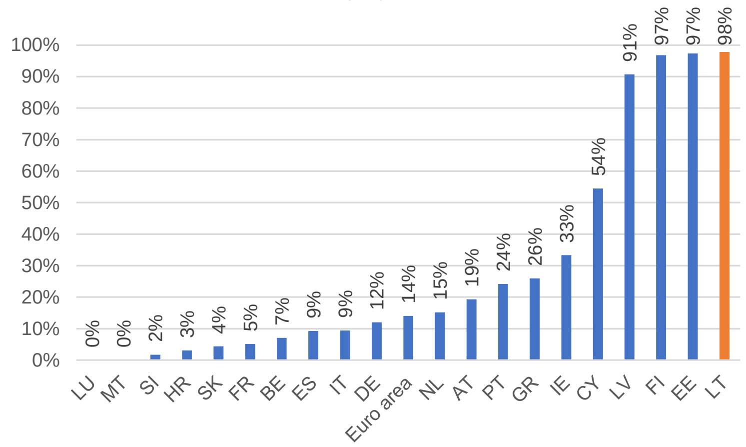
Source: Bank of Lithuania, Erste Group Research

High share of floating rate loans as risk

Highest share of floating rate loans in euro area

A risk factor for the Baltic and Scandinavian banking markets is a very high share of variable loans. In the Euro Area comparison, Lithuania has the highest share of variable rate loans for house purchases with 98%. In our view, this is a risk factor, especially in the scenario of rising interest rates, as was the case in 2022 and 2023.

Share of variable rate mortgages (Euro Area, July 2024)

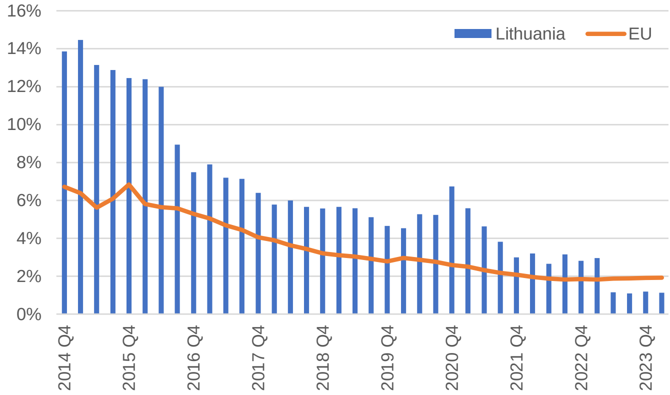


Source: ECB, Erste Group Research

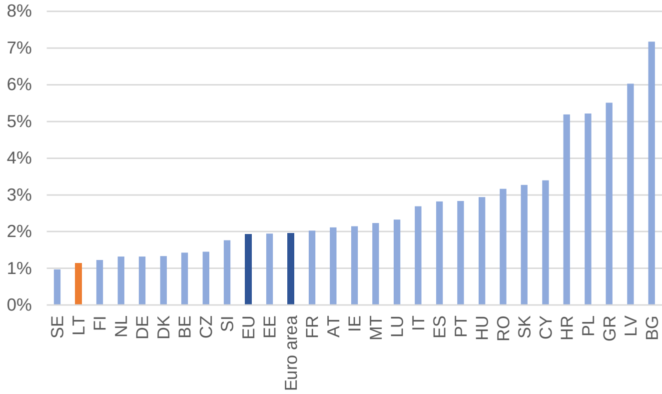
NPL ratio the second lowest in EU, after strong downtrend

The development of the NPL ratio shows that the variable rate loan risk did not materialize and impact the asset quality on the Lithuanian banking sector negatively in the period of sharply rising interest rates. In contrast, Lithuania's NPL ratio declined considerably in 2023 and thus showed a remarkable improvement from above 14% in 2015 to 1.1% in 1Q24, the second lowest level of any banking market in the EU.

NPL ratio development Lithuania vs. EU (4Q14-1Q24)



NPL ratio – EU comparison (1Q24)



Source: ECB, Erste Group Research

Profitability

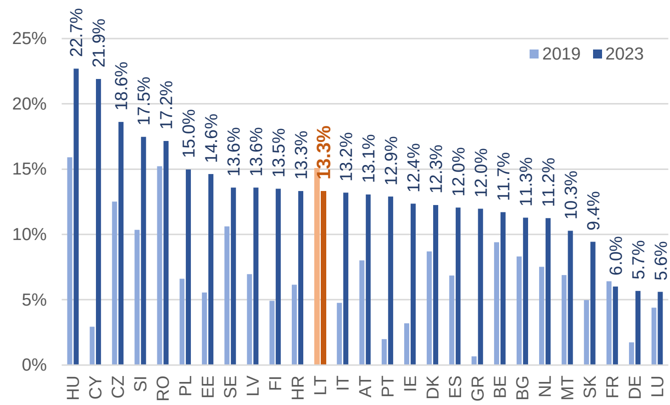
ROE now average in EU, other markets benefitted more from rate hikes

In terms of profitability, the Lithuanian banking market shows a return on equity that is about average among EU markets, based on 2023 data. Most EU countries recorded a significant improvement of earnings last year on the back of substantially higher interest rates, which is evident in the chart below (ROEs in pre-covid 2019 vs. 2023). This is confirmed by the expansion of the net interest margin (NIMs) in 2023 compared to 2019 in most markets. Some CEE countries as well as Lithuania did not see the NIMs increase sizably and thus also the ROEs did not improve materially, or even decreased in 2023 compared to 2019. In part, we assume this is due to convergence trends to Western markets as well as rising competitive pressures on these banking markets, erasing parts of the benefits on profits that most EU banking markets saw in 2023.

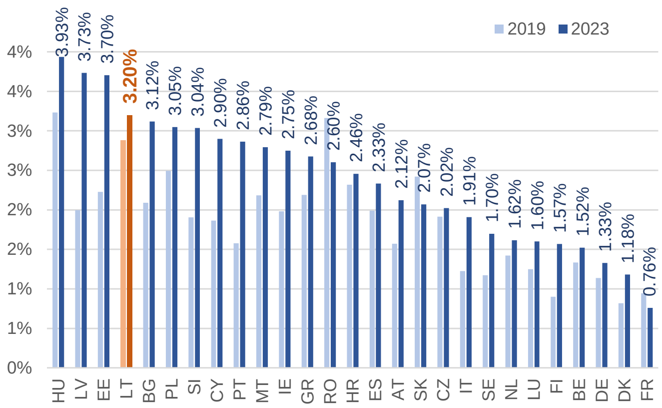
Windfall tax introduced in 2023

Another factor weighing on profitability in 2023 for several EU banking markets, including Lithuania's, was the implementation of extra taxes on bank profits. In 2023, the **government of Lithuania introduced a windfall (solidarity) tax on bank earnings**, which amounted to an aggregate contribution of EUR 250mn last year.

ROE in 2019 and 2023 – EU comparison



NIMs in 2019 and 2023 – EU comparison



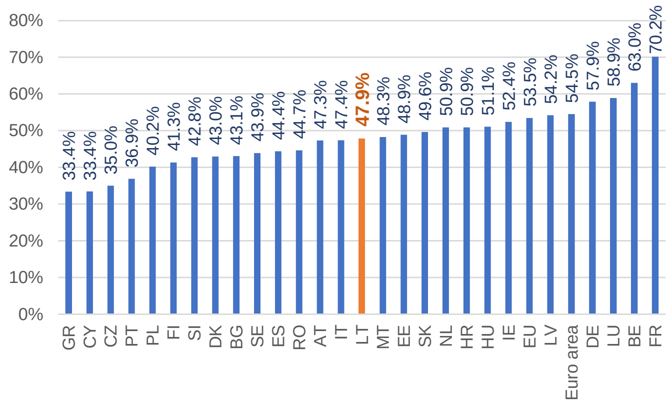
Source: ECB, Erste Group Research

Cost-to-income ratio below 50%

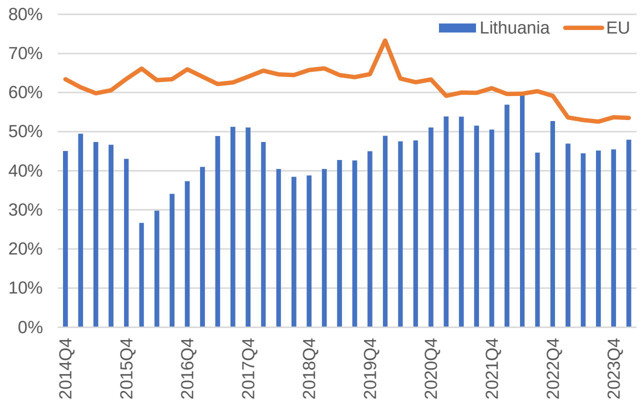
On the cost-to-income ratio, Lithuania also ranks middle of the pack in a comparison of EU banking markets, with a ratio of 47.9% in 1Q24. The development on the Lithuanian market has been bumpy, with no significant improvement visible between 2015 and the four most recent quarters. Over the same period, the EU average for the cost/income ratio decreased from

61% in 2015 to 53% in the four most recent quarters on average, aided by higher revenues as a result of the increased interest rate environment.

Cost income ratio – EU comparison (1Q24)



Cost/income ratio by quarter



Source: ECB, Erste Group Research

Competitive landscape

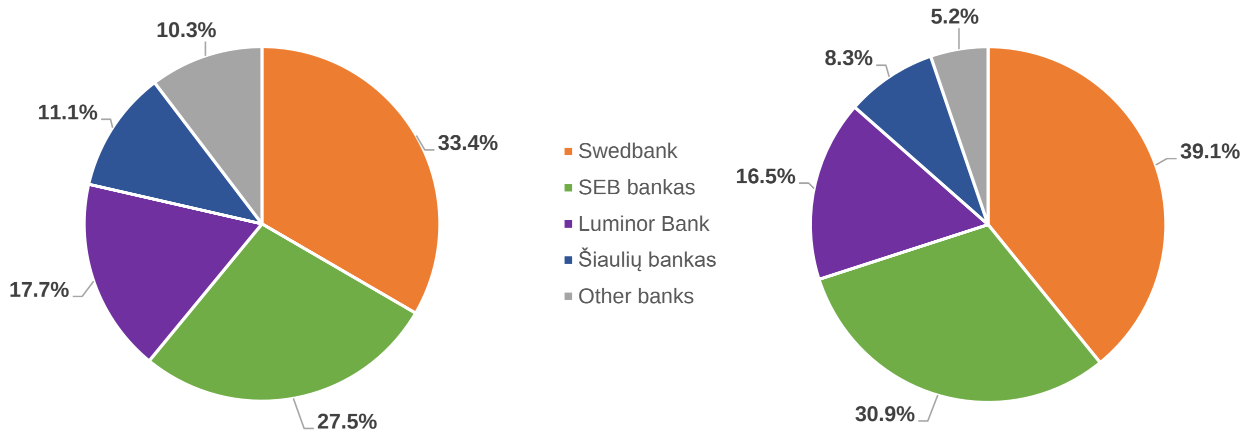
Top 3 banks on market dominate

The Lithuanian banking market is dominated by three major players, the Swedish banking groups Swedbank and SEB, as well as Luminor. The latter operates across the Baltics, is owned by alternative asset manager Blackstone, and could be sold in the near future (reported interest from UniCredit and Hungarian banking group OTP). Šiaulių Bankas is the number four on the Lithuanian banking market with a share of 11.1% in customer loans and 8.3% in customer deposits (excluding Revolut). All other banks' market shares are below 5%.

Stronger competitive pressure in recent years

Competition has increased in recent years with the entry of new players and the growth of fintech companies. Similarly to other European banking markets, the focus has increasingly been on digital innovation, the development of online and mobile banking platforms, digital payment solutions, and other technological advancements to enhance customer experience.

Market share (3Q23) – by customer loan **by customer deposit**



Customer loans and deposits include non-financial corporations and households Revolut is excluded from customer deposits due to its significant share of non-resident deposits
Source: Lithuanian Banking Association, Erste Group Research

Loan portfolio, asset quality

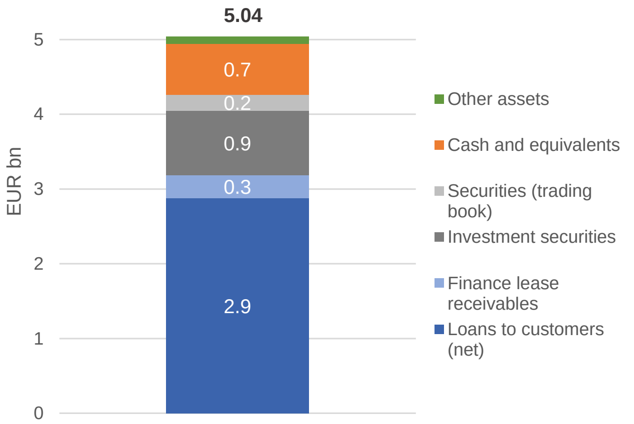
Largely loans and liquid assets

Šiaulių Bankas' asset side of the balance sheet is dominated by its loan portfolio and finance lease receivables, making up 63% of total assets at the end of 1H24. The share of investment securities in total assets was 17% (EUR 0.86bn), which largely consists of government bonds (91%) and a smaller share of corporate bonds. These debt securities are nearly entirely rated investment grade (99%). In the trading book (4% of total assets), Šiaulių Bankas holds debt as well as equity securities (72% of the trading book in 1H24). The category "other assets" in the chart below (lhs) also includes intangibles, which amounted to EUR 45mn in 1H24 (goodwill of EUR 5.6mn).

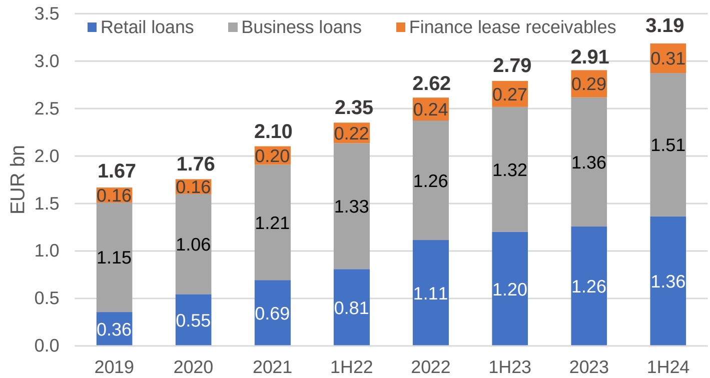
Total assets growing materially

Total asset growth was significant in recent years, with a CAGR of 18% between 2019 and 2023, including acquisitions. Growth did not slow down materially in the first half of 2024, with organic additions of 5% (YTD).

Total assets (1H24)



Customer loans, lease receivables (2019-1H24)



Source: Šiaulių Bankas, Erste Group Research

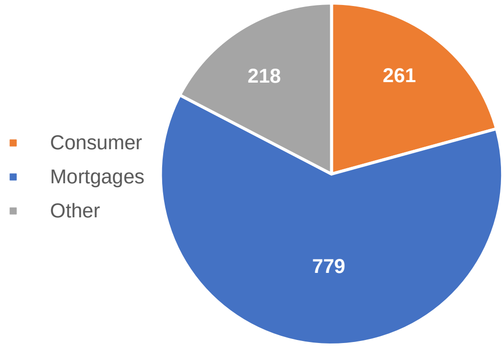
Strong loan growth, driven by retail

Customer loan growth was similarly strong, as the loan book expanded by 15% (CAGR) between 2019 and 2023, and another 10% YTD in 1H24, to reach EUR 2.9bn. The driver of this growth was clearly the retail loan book. While loans to individuals had a share of only 24% in the loan portfolio in 2019, this share increased to 48% in 1H24. Finance lease receivables also showed strong growth, nearly doubling from EUR 0.16bn in 2019 to EUR 0.31bn in 1H24.

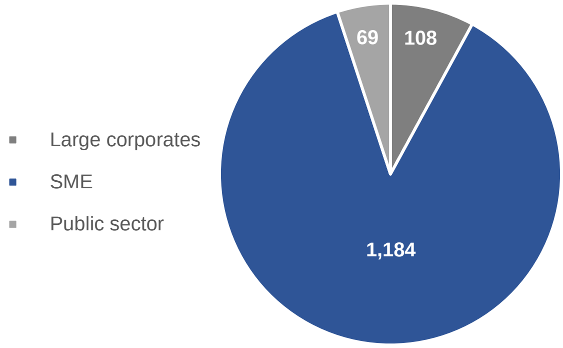
Mortgage volumes expanded rapidly

A more granular view of the growth drivers in Šiaulių Bankas' loan book reveals the lender's strategic focus areas. On the retail side, solid growth was recorded in consumer loans (CAGR of +18% for 2019-23), while mortgage volumes expanded rapidly, from EUR 102mn in 2019 to EUR 779mn at the end of 2023. In business loans, where SME exposures had a share of 87% at the end of 2023, growth was much weaker. While Šiaulių Bankas continued to build on its strong position in SME financing with a CAGR of 6% (2019-23), volumes in large corporates and the public sector even declined over the same period.

Retail loan book split (2023, EUR mn)



Corporate loan book split

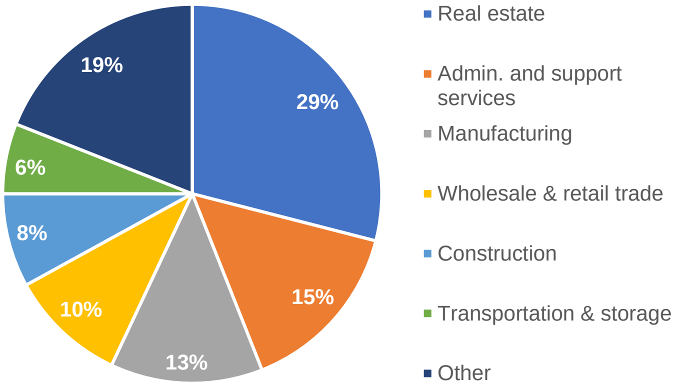


Source: Šiaulių Bankas, Erste Group Research

Real estate as biggest exposure in corporate loan book

Within the corporate loan book, the biggest sector exposure is to real estate (29%), followed by administrative and support services (15%) and manufacturing (13%).

Corporate loan book - sector exposure (1H24)



Source: Šiaulių Bankas, Erste Group Research

Dominant position in multi-apartment building renovation financing

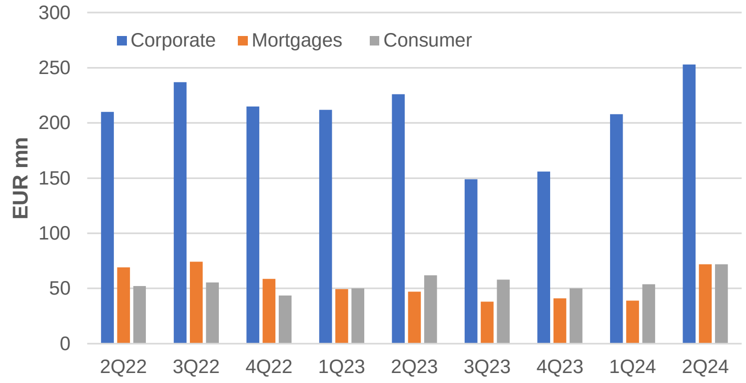
One of Šiaulių Bankas' competitive advantages is its dominant position in renovation financing. With a 65% share, Šiaulių Bankas is the undisputed market leader on the Lithuanian multi-apartment building modernization financing market and the bank has been involved in multi-apartment building renovation programs in cooperation with the European Investment Bank (EIB) for over 12 years. In 4Q23, Šiaulių Bankas reached the milestone of more than EUR 1bn multi-apartment building renovation loans and more than 2,800 projects financed. The purpose of these projects is to increase the energy efficiency of multi-apartment buildings by at least 40%.

Loan yields and new business volumes

New loan volumes rising

In line with the market development, Šiaulių Bankas recorded an increase in new business volumes in the two most recent quarters. New retail volumes picked up particularly in 2Q24, while in the corporate segment, volumes bounced back in 1H24 from a slump in the second half of 2023.

New business volumes - by quarter (EUR mn)



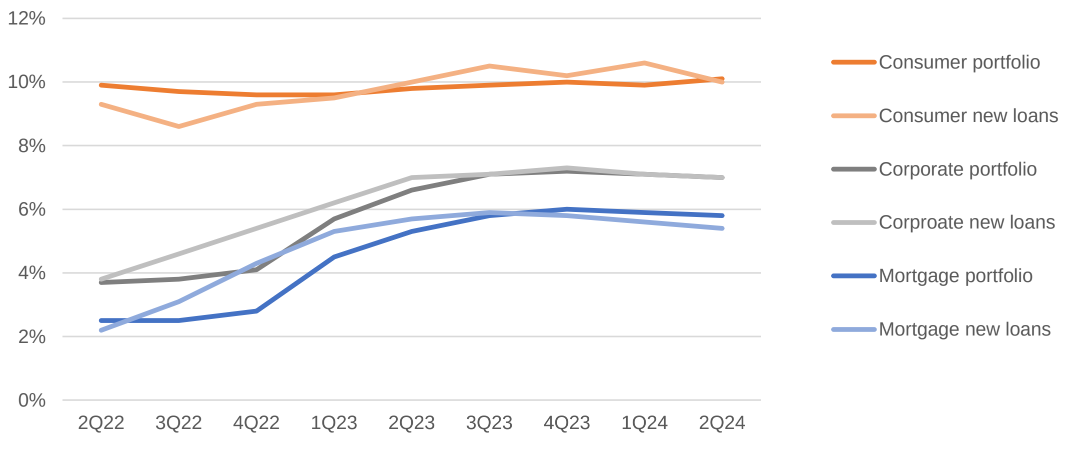
Source: Šiaulių Bankas, Erste Group Research

High share of floating rate loans also at Šiaulių Bankas

A characteristic of the Lithuanian banking market is a very high share of floating rate loans (see section "Lithuanian banking market, competitive landscape") and this is also reflected in Šiaulių Bankas' loan portfolio, with the share of variable rate loans currently at 79% of the total loan portfolio. The mortgage portfolio consists almost entirely of floating rate loans (99%), while the share is only slightly lower in the corporate loan book (87%).

Loan portfolio yields can change rapidly

As a result of this composition of floating rate vs. fixed rate loans in the portfolio, yields in the overall loan book react quickly to changes in interest rate and follow the path of new business yields closely, which is different from the vast majority of banks in our CEE coverage. In the phase of rising interest rates (ECB rate hikes), the loan yields in the mortgage and corporate (mostly SME) portfolios rose swiftly, peaking in 4Q23. With rate cuts now implemented by the ECB and further decreases expected, we anticipate these yields to begin declining more significantly in the coming quarters. In the consumer portfolio, yields have remained stable at a high level since mid-2022.



Source: Šiaulių Bankas, Erste Group Research

Asset quality

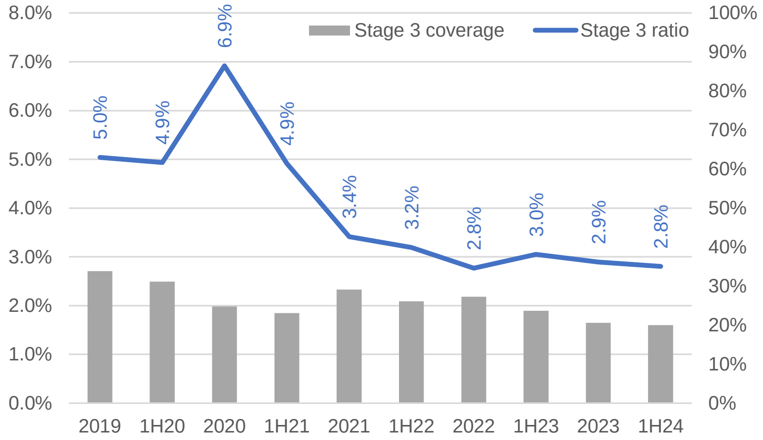
Asset quality not showing signs of deterioration

Despite the strong movements in loan yields and pressure of higher interest rate payments on customers, Šiaulių Bankas' asset quality did not show any signs of material deterioration in recent quarters. The NPL (stage 3) ratio, however, also did not improve further since the end of 2022, while it was in a clear downtrend in the years prior to that. Šiaulių Bankas' NPL ratio thus remains above the average level on the Lithuanian banking market. This, in our view, is explained by a higher exposure to SME and consumer loans, and it is justified by Šiaulių Bankas' above-average yields and net interest margin.

NPL coverage at 20%, clearly below CEE peers

The specific NPL coverage ratio for Šiaulių Bankas is low compared to peers in our CEE coverage, at 20% in 1H24. While we consider the coverage level a risk factor, Šiaulių Bankas' management is comfortable with the situation, in line with its NPE management strategy. The main goals of the strategy are to ensure sufficient outflow of NPL, properly address new NPLs and apply adequate NPL prevention measures.

NPL (Stage 3) ratio and coverage



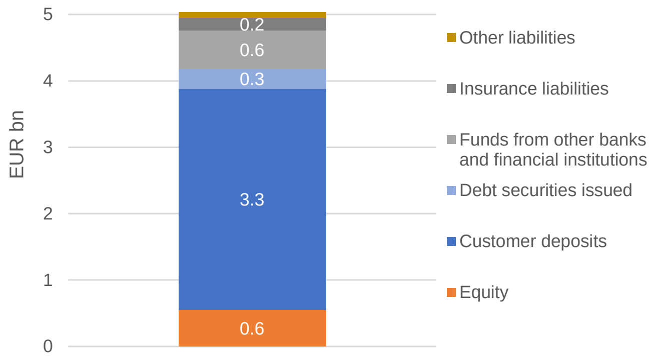
Source: Šiaulių Bankas, Erste Group Research

Funding

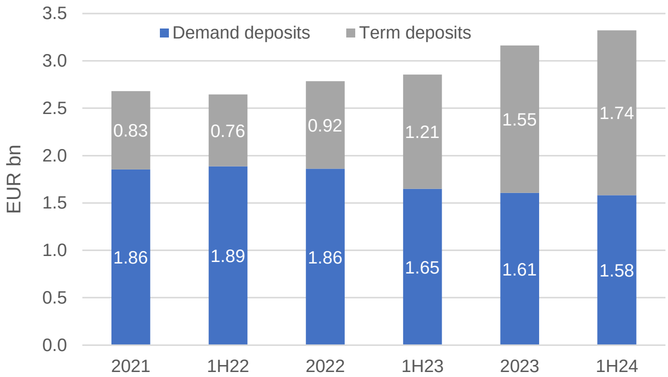
Largely funded by client deposits

Šiaulių Bankas' balance sheet is largely funded by client deposits, mainly consisting of current and savings accounts (74% of total liabilities in 1H24). Wholesale funding has become increasingly important, with Šiaulių Bankas (7% of total liabilities in 1H24) recently tapping local and international debt capital markets to fulfil regulatory requirements (MREL) and improve the balance sheet structure. The largest share of funds from other banks and financial institutions (13% of total liabilities in 1H24) is liabilities from the ECB's TLTRO program, which were repaid at the end of September.

Total liabilities and equity (1H24)



Deposit split, development 2021-1H24



Source: Šiaulių Bankas, Erste Group Research

Dynamic deposit growth

Šiaulių Bankas' customer deposits grew dynamically in recent years, with a CAGR of 12% between 2019 and 2023, a trend that continued in 1H24 (+6% YTD). From 2H22, with interest rates rising, the split of demand and term deposits changed markedly in favor of the latter, as clients took advantage of higher deposit rates. This trend continued in 1H24, exerting upward pressure on the bank's cost of funds.

Active on debt capital markets with bonds issued

Šiaulių Bankas' investment grade rating (Moody's Baa1 LT deposit rating, stable outlook) allowed the Lithuanian lender to be active on the debt capital markets and thus diversify its funding base. Most recently, the bank very successfully placed EUR 300mn in senior preferred bonds on the international market. As announced in the new dividend policy, Šiaulių Bankas will remain active on the debt capital markets with further subordinated bonds planned to be issued in 2024 and 2025.

Capital and dividends

Solid capital ratios

Šiaulių Bankas’ CET1 ratio stood at a strong 19.9% (transitional) and 19.4% (fully loaded) at the end of 2023. The transitional ratio decreased to 17.5% at the end of 2024, mainly due to higher risk-weighted assets and omission of the interim profits of the first half-year. With interim profits included and despite the assumption of a higher dividend payout ratio alongside the announced share buyback program, we assume a recovery in the CET1 ratio to a very solid 18.3% at year-end 2024.

AT1 issue expected for 4Q23

The total capital ratio was 22.4% (transitional) and 21.9% (fully loaded) at year-end 2023. In line with the decrease of the CET1 ratio, the total capital ratio weakened to 20.0% in 1H24. For the second half of 2024, we expect a stronger recovery than for the CET1 ratio, back to 22.3% at the end of this year. Šiaulių Bankas announce its plan to issue AT1 instruments in the amount of EUR 50mn in 4Q24 and this was reflected in our estimates.

Capital requirements

Capital ratios comfortably above requirements

Šiaulių Bankas is subject to supervision by the ECB through the single supervisory mechanism and is subject to prudential regulatory requirements. The requirement for the capital adequacy ratio currently stands at 17.75% (June 2024), compared to a reported CAR of 20.0% in 1H24 (2023: 20.7%). The CAR requirement consists of the pillar I and pillar II requirements of 8% and 2.05% (the P2R was last increased in January 2023, from 1.6%), respectively, while the additional buffer requirements total 4.70% as well as the pillar 2 guidance and management buffer of 3.0% (P2G set at 1.75%). The P2R and P2G are subject to an annual review as part of the supervisory review and evaluation process (SREP). The combined buffer requirement of 4.70% consists of a capital conservation buffer of 2.50%, other systemically important institution buffer (O-SII) of 1.0%, a systemic risk buffer of 0.2% and countercyclical capital buffer of 1.0%. The Bank of Lithuania increased the countercyclical buffer for Lithuanian banks from 0.02% to 1.0%, effective from October 2023.

MREL ratio to get boost from new EUR 300mn bonds

The MREL requirement increased significantly in 1H24. Šiaulių Bankas’ new target rose to 27.8% (which includes a management buffer of 0.43%). This compares to a reported MREL ratio of 29.22% at the end of June 2024. For end-2024, we anticipate a considerable improvement of the MREL ratio, providing a bigger cushion above the requirement, with further capital generated and especially the recently issued EUR 300mn senior preferred notes, and despite the announced plan to fully redeem the outstanding amounts of the EUR 210mn senior preferred notes.

The liquidity coverage ratio stood at 199% in 1H24, down from 217% at the end of 2023, but comfortably above the 100% requirement as well as the 150% target.

New dividend policy

Minimum dividend payout ratio raised to 50%

Šiaulių Bankas recently presented an update of its dividend policy, **raising the minimum dividend payout ratio from 25% to 50% of net earnings**, based on the bank’s very solid capitalization. The dividend distribution will remain the primary tool for capital returns to shareholders, with share buybacks as another option. The use of buybacks will depend on the share price and they are planned to be utilized to address valuation discounts.

SBB: Tender offer to be followed by open market purchases

With the currently planned share buyback program, which was approved by the ECB, Šiaulių Bankas aims to reduce the discount to the stock’s fair P/B multiple, according to management. The bank has permission to buy back up to 13.75mn shares, 12mn of which are planned to be bought back for up to EUR 10mn to reduce the bank’s capital.

The remaining 1.75mn shares are intended to be used for employees as part of the deferred variable remuneration. For the execution of the SBB, **Šiaulių Bankas plans a tender offer (EUR ~5mn), followed by open market purchases of up to 25% of daily trading volume (EUR 5-6mn),** which should boost the stock's liquidity. The expected timing of the tender offer is October 2024, the open market purchases will commence after the tender offer and the publication of Šiaulių Bankas' 3Q24 results scheduled for October 31.

In our estimates for 2024, we incorporated the higher dividend payout ratio and assume a dividend distribution of EUR 0.06 per share, or 50% of projected net profit. We also factored soon to be launched share buybacks and expect the program to be completed in 4Q24.

Profitability, income and costs

Earnings up 4% y/y in 1H24

In 1H24, Šiaulių Bankas generated net profit of EUR 43mn, up 4% y/y. The core income lines continued to grow, with net interest income (NII) increasing 7% to EUR 80.6mn, while net fee & commission income (NFCI) jumped 41% y/y to EUR 13.7mn. The merger of the retail businesses with Invalda INVL had a very positive impact especially on fees & commissions. Insurance revenues increased and also contributed earnings. The y/y improvement in operating income, however, was offset by a material increase in operating expenses (+59%), with the post-merger cost base growing and the bank incurring a EUR -2.2mn one-off adjustment to the windfall tax for 2023. In addition, we assume that the update of the core banking system, which will weigh on the cost base until its finalization in 2026, also factored into the rise in operating expenses.

Financial results and key indicators 2019-1H24

Consolidated, IFRS

(EUR, mn)	1H24	2Q24	1Q24	2023	4Q23	3Q23	1H23	2022	2021	2020	2019
Net interest income	80.6	41.1	39.6	156.9	40.8	40.7	75.4	106.8	80.9	75.7	72.4
Net fee & commission inc.	13.7	7.3	6.5	20.3	5.7	4.9	9.8	18.7	17.2	16.0	16.7
Trading result, net gains/losses on disposa	10.8	3.6	7.2	13.6	3.9	2.4	7.3	12.7	20.0	13.2	20.9
Insurance revenues	7.0	3.0	4.0	6	1.8	1.5	2.3	6	8	7	7.0
Operating income	112.5	55.0	57.4	196.5	52.2	49.2	95.0	146.3	127.6	113.0	118.5
Insurance expenses	-11.4	-3.9	-7.6	-13	-7.8	-0.7	-4.0	-4	-8	-5	-8.8
Operating expenses	-55.4	-28.0	-27.4	-85.5	-34.3	-16.2	-34.9	-61.0	-56.2	-48.2	-50.4
Operating profit	**57.1**	**27.0**	**30.0**	**111.0**	**17.9**	**33.0**	**60.1**	**85.3**	**71.3**	**64.8**	**68.1**
Risk costs	-3.9	-1.7	-2.2	-15.2	-6.8	-3.1	-5.3	-4.9	-4.1	-12.0	-8.4
Pre-tax profit	**53.1**	**25.3**	**27.8**	**95.7**	**11.1**	**29.9**	**54.8**	**80.4**	**67.3**	**52.8**	**59.8**
Net profit	**43.0**	**20.5**	**22.5**	**75.4**	**9.7**	**24.2**	**41.5**	**67.5**	**55.2**	**42.9**	**51.5**
Net interest margin (on TA, %)	3.28%	3.30%	3.25%	3.49%	3.53%	3.77%	3.59%	2.62%	2.31%	2.73%	
Net fee margin (on TA, %)	0.56%	0.58%	0.53%	0.45%	0.49%	0.45%	0.46%	0.46%	0.49%	0.58%	
Cost / income ratio (%)	49.3%	50.9%	47.7%	43.5%	65.8%	33.0%	37%	41.7%	44.1%	42.7%	
ROE (%)	15.7%	15.1%	16.7%	15.3%	7.5%	20.1%	18.2%	15.9%	14.5%	12.9%	
Risk costs (on avg. loans, %)	0.28%	0.24%	0.32%	0.60%	1.03%	0.49%	0.43%	0.23%	0.23%	0.77%	
CET1 ratio (transitional)	17.5%	17.5%	18.9%	19.9%	19.9%	18.8%	17.1%	18.1%	19.5%	19.7%	
Total capital ratio (transitional)	20.0%	20.0%	21.1%	22.4%	22.4%	21.3%	19.6%	19.0%	20.4%	20.7%	
Loan / deposit ratio (%; net)	87%	87%	85%	84%	84%	87%	88%	86%	71%	68%	
Customer loans (net)	2,874	2,874	2,759	2,645	2,645	2,610	2,519	2,392	1,909	1,606	
Finance lease receivables	314	314	285	287	287	285	272	242	195	155	
Customer deposits (net)	3,323	3,323	3,250	3,163	3,163	3,014	2,856	2,785	2,678	2,347	
Shareholders' equity	555	555	533	543	543	493	469	443	406	355	
Total assets	5,036	5,036	4,923	4,809	4,809	4,423	4,210	4,183	3,962	3,029	

Source: Šiaulių Bankas, Erste Group Research

Income lines

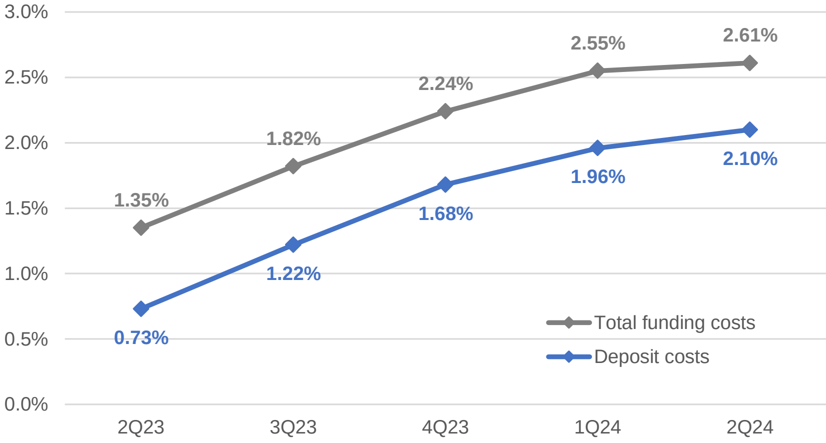
NII boosted by rate hikes in 2023, now stable

Šiaulių Bankas' net interest income jumped in 2023 (+47% y/y) and rose materially in 2022 (+32% y/y). Volume growth was a positively contributing factor, with the loan book expanding by 11% and 25% y/y in 2023 and 2022, respectively. The most important factor in the surge of the NII, however, was the rapid increase of the interest rate environment, with the ECB's rate hikes taking hold. This effect was evidenced by the expansion of the net interest margin in those periods, gaining more than 30bp in 2022 and nearly 90bp in 2023 (on total assets, own calculation). This rapid response to the change in the interest rate environment is a reflection of the loan portfolio structure, in our view, with a very high share of floating rate loans.

Funding costs expected to peak in 2H24

As the ECB's rate hikes ended in 2H23 and funding costs were on the rise, with higher deposit rates offered to clients, the NII levelled off in the last two quarters of 2023 and remained stable in 1Q and 2Q of 2024. Looking ahead, funding costs are expected to rise further and peak in 2H24. We therefore expect further pressure on NIM, which we forecast to decline by 30bp in 2024 and by another 10bp in 2025. In our estimates for the NII, the margin pressure is compensated for by continued strong volume growth (+12% y/y net loan growth in 2024, +11% y/y in 2025), and we thus project Šiaulių Bankas' top line to grow by 2% y/y in 2024 and 6% in 2025.

Funding costs

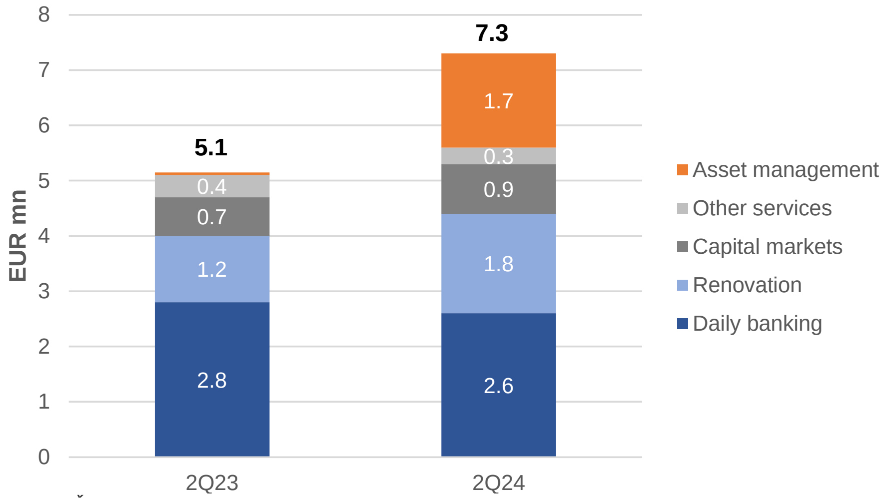


Source: Šiaulių Bankas, Erste Group Research

Fees & commissions benefit from retail business acquisition

Net fee & commission income showed stable and continuous growth in recent years. In 1H24 and 2Q24, NFCI grew by more than 40% y/y, driven primarily by the acquisition of the retail business from Invalda INVL, which added a substantial amount in asset management fees (see chart below). Excluding the acquisition impact, NFCI increased by 11% y/y in 2Q24 and this was mainly attributable to the strong increase in fees from renovation financing (+46% y/y), on the back of robust demand for multi-unit building renovation financing. For the second half of 2024, we expect a similarly strong outcome and thus project the NFCI line to grow by more than a third y/y in 2024, to EUR 27mn, followed by 7% y/y growth in 2025. This is in line with the company's guidance.

Net fee & commission income 2Q24 vs. 2Q23



Source: Šiaulių Bankas, Erste Group Research

Insurance result contributing positively to earnings

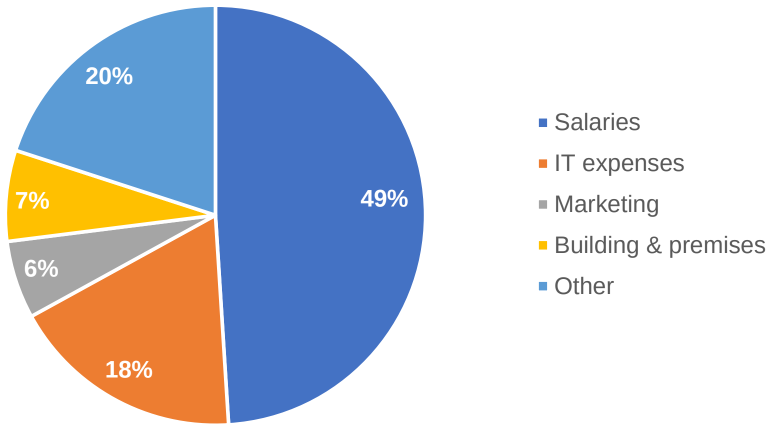
Another positive effect from the most recent acquisition was a boost to insurance revenues, which in 1H24 (EUR 7.0mn) already surpassed the level from full-year 2023. For Šiaulių Bankas' life insurance result, it is important to note that revenues are not only limited to the "insurance revenues" line. Additional income relating to unit-linked products is included in the trading result (EUR +7.0mn in 1H24) and a smaller amount was recorded in interest income (EUR +0.8mn). These revenues from unit-linked products are then largely eliminated in the insurance expenses line, but the overall life insurance net result is a positive earnings contribution, which amounted to EUR +3.5mn in 1H24.

Operating expenses and taxes

Costs inflated by one-offs in 4Q23 and 2Q24

The development of Šiaulių Bankas' operating costs clearly was also affected by the retail business acquisition and moved higher compared to prior periods. Excluding insurance expenses, the cost base was EUR 19.8mn in 1Q24 and EUR 24.1mn in 2Q24. As 2Q included a EUR -2.2mn one-off adjustment to the windfall tax for 2023, we regard the 1Q level as a better basis for cost projections for future periods. Similarly, the last quarter of 2023 included multiple one-offs, which amounted to nearly EUR -4mn.

Operating expenses composition (2Q24)



Source: Šiaulių Bankas, Erste Group Research

C/I ratio expected to be elevated in 2024-26

While strict cost discipline remains a priority for Šiaulių Bankas, the cost/income ratio in the period 2024-26 will be slightly elevated, according to management guidance, especially due to the expenses to be incurred from the implementation of the new core banking system. From 2027 onwards, however, management expects the cost/income ratio to be below 47%. According to our projections, the cost/income will fall to the low forties (%) from 2027.

Banks with higher income tax and windfall tax in Lithuania

With regards to taxes, banks in Lithuania are adversely affected by two measures. First, the income tax for banks currently is 20% and thus higher than the corporate income tax rate of 15% in Lithuania. Secondly, a solidarity contribution (windfall tax) payable by credit institutions operating in Lithuania was introduced last year and the levy was recently extended to the year 2025. While Šiaulių Bankas recorded a total of nearly EUR -4mn as the solidarity tax contribution for 2023, management does not expect any such charges for the years 2024 and 2025.

Cost of risk

Risk costs below through-the-cycle estimate

Risk costs remained moderate in 1H24, with 28bp (own calculation, on average loans) or EUR -3.9mn in provisioning recorded. In 2023, the provisioning ratio exceeded 50bp, due to the revision of the forward-looking parameters for the calculation of provisions in light of the updated macroeconomic forecasts. With the bank's asset quality not showing signs of material deterioration, we are comfortable forecasting a risk cost level below 50bp, which is management's through-the-cycle estimate, for 2024 as well as 2025.

Erste Group forecasts

ROE projected to dip in 2025, then rise steadily

Adding it all up, we arrive at our main assumptions for Šiaulių Bankas as shown in the table below. For 2024, we forecast net profit to arrive at EUR 80mn and we anticipate a slight decrease next year to EUR 78mn, mainly due to a temporarily growing cost base and only slowly advancing revenues. The ROE thus is below the mid-term target of at least 15%, estimated at 14.1% in 2024 and 12.4% in 2025 (excluding AT1). From 2027, the ROE reaches and then exceeds 15% in our forecasts.

50% dividend payout ratio, SBBs factored into estimates

Our dividend forecasts are based on a payout ratio of 50%. For this year, we incorporated the planned share buybacks and have a smaller round of buybacks included in our forecasts for 2025. The capital ratios remain broadly stable in our forecast horizon, with capital generation, solid organic growth and capital returns to shareholders largely balanced.

Main assumptions

(EUR, mn)	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
Net interest income	76	81	107	157	161	170	181	195	211
Net fee & commission inc.	16	17	19	20	27	29	31	33	35
Trading result, other op. income/expense	14	21	14	14	22	23	24	25	26
Operating income	113	128	146	196	224	237	252	270	289
Operating expenses	-43	-48	-57	-73	-89	-102	-94	-91	-93
Total expenses (incl. insurance expense	-48	-56	-61	-85	-111	-125	-118	-116	-119
Risk costs	-12	-4	-5	-15	-13	-14	-17	-19	-19
Pre-tax profit	53	67	80	96	100	97	117	135	151
Net profit after minorities	43	55	67	75	80	78	93	108	121
EPS (EUR)	0.07	0.09	0.11	0.13	0.12	0.12	0.15	0.17	0.19
DPS (EUR)	0.006	0.034	0.027	0.049	0.061	0.061	0.077	0.093	0.104
BVPS (EUR; incl. AT1)	0.59	0.68	0.74	0.82	0.97	1.03	1.12	1.21	1.31
Tangible BVPS (EUR)	0.58	0.67	0.72	0.75	0.90	0.96	1.04	1.13	1.22
Customer loans (net)	1,606	1,909	2,392	2,645	2,963	3,288	3,617	3,979	4,377
Growth	*6.0%*	*18.9%*	*25.3%*	*10.6%*	*12.0%*	*11.0%*	*10.0%*	*10.0%*	*10.0%*
Net interest margin (on avg. total assets)	2.73%	2.31%	2.62%	3.49%	3.18%	3.08%	3.02%	3.02%	3.01%
Cost / income ratio	-42.7%	-44.1%	-41.7%	-43.5%	-49.4%	-52.9%	-46.8%	-43.0%	-41.3%
Cost of risk (on avg. net loans)	-0.77%	-0.23%	-0.23%	-0.60%	-0.45%	-0.45%	-0.50%	-0.50%	-0.45%
ROE (on avg. equity)	12.9%	14.5%	15.9%	15.3%	13.7%	12.1%	13.5%	14.4%	15.0%
Return on equity (RoE, excl. AT1)					14.1%	12.4%	13.9%	14.9%	15.4%
ROTE (on avg. tangible common equity)	13.1%	14.7%	16.1%	16.2%	14.9%	13.1%	14.6%	15.6%	16.1%
NPL ratio (on gross loans)	6.9%	3.4%	2.8%	2.9%	3.4%	3.4%	3.2%	3.0%	2.8%
Loan / deposit ratio (net loans)	68%	71%	86%	84%	88%	90%	91%	92%	92%
CET1 ratio (group, transitional)	19.5%	19.5%	18.1%	19.9%	18.3%	18.1%	18.2%	18.4%	18.6%
Total capital ratio (group, transitional)	20.6%	20.4%	19.0%	22.4%	22.3%	21.9%	21.7%	21.6%	21.6%

Source: Šiaulių Bankas, Erste Group Research

Valuation

Three-stage dividend discount model used

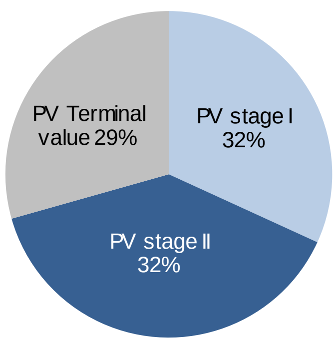
Our primary method to value banks is a three-stage dividend discount model. In the first stage, we explicitly forecast EPS up to 2028. The second stage comprises an additional ten years, where growth rates, profitability and the cost of equity tend toward more sustainable levels leading into the terminal value as the third stage. By discounting the three components back to October 2024 and using an appropriate cost of equity reflecting the country risk premium and the business model, we arrive at the current fair value, which we compound by using the cost of equity to arrive at our 12-month target price.

Initiate with Buy, target price of EUR 1.00

We derive a target price of EUR 1.00 per share from the dividend discount model. The upside to the current share price justifies a Buy recommendation, with which we initiate our coverage of Šiaulių Bankas.

Dividend Discount Model			Stage I			Stage II	TV
in EUR	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**	**2029e-2038e**	**2039ff**
ROE	12.7%	13.2%	13.9%	14.9%	15.4%	12.9%	12.0%
BVPS	**0.90**	**0.96**	**1.04**	**1.13**	**1.23**		
EPS	**0.12**	**0.11**	**0.14**	**0.16**	**0.18**		
EPS growth	-3.0%	-5.6%	21.6%	16.0%	12.5%	3.6%	3.5%
Payout ratio	50.3%	52.9%	55.0%	57.3%	57.0%	53.8%	50.0%
DPS	**0.06**	**0.06**	**0.08**	**0.09**	**0.10**		
Cost of equity	13.5%	13.5%	13.5%	13.5%	13.5%	13.3%	11.3%
PV stage I					**0.28**		
PV stage II						**0.34**	
PV Terminal value							**0.26**
Equity value - DDM	**0.88**						
Equity value - DDM (12m)	**1.00**						

Equity value breakdown



Sensitivity of equity value (12m)

Terminal value ROE

Cost of equity	**10.0%**	**11.0%**	**12.0%**	**13.0%**	**14.0%**
10.3%	0.93	0.99	1.05	1.11	1.18
10.8%	0.91	0.97	1.02	1.09	1.15
11.3%	0.89	0.95	**1.00**	1.06	1.12
11.8%	0.88	0.93	0.98	1.04	1.10
12.3%	0.87	0.91	0.97	1.02	1.08

Terminal value growth

Cost of equity	**2.5%**	**3.0%**	**3.5%**	**4.0%**	**4.5%**
10.3%	1.00	1.03	1.05	1.08	1.11
10.8%	0.99	1.00	1.02	1.05	1.07
11.3%	0.97	0.98	**1.00**	1.02	1.05
11.8%	0.95	0.97	0.98	1.00	1.02
12.3%	0.94	0.95	0.97	0.98	1.00

Source: Erste Group Research

Peer group

Peer group shows Šiaulių Bankas as undervalued

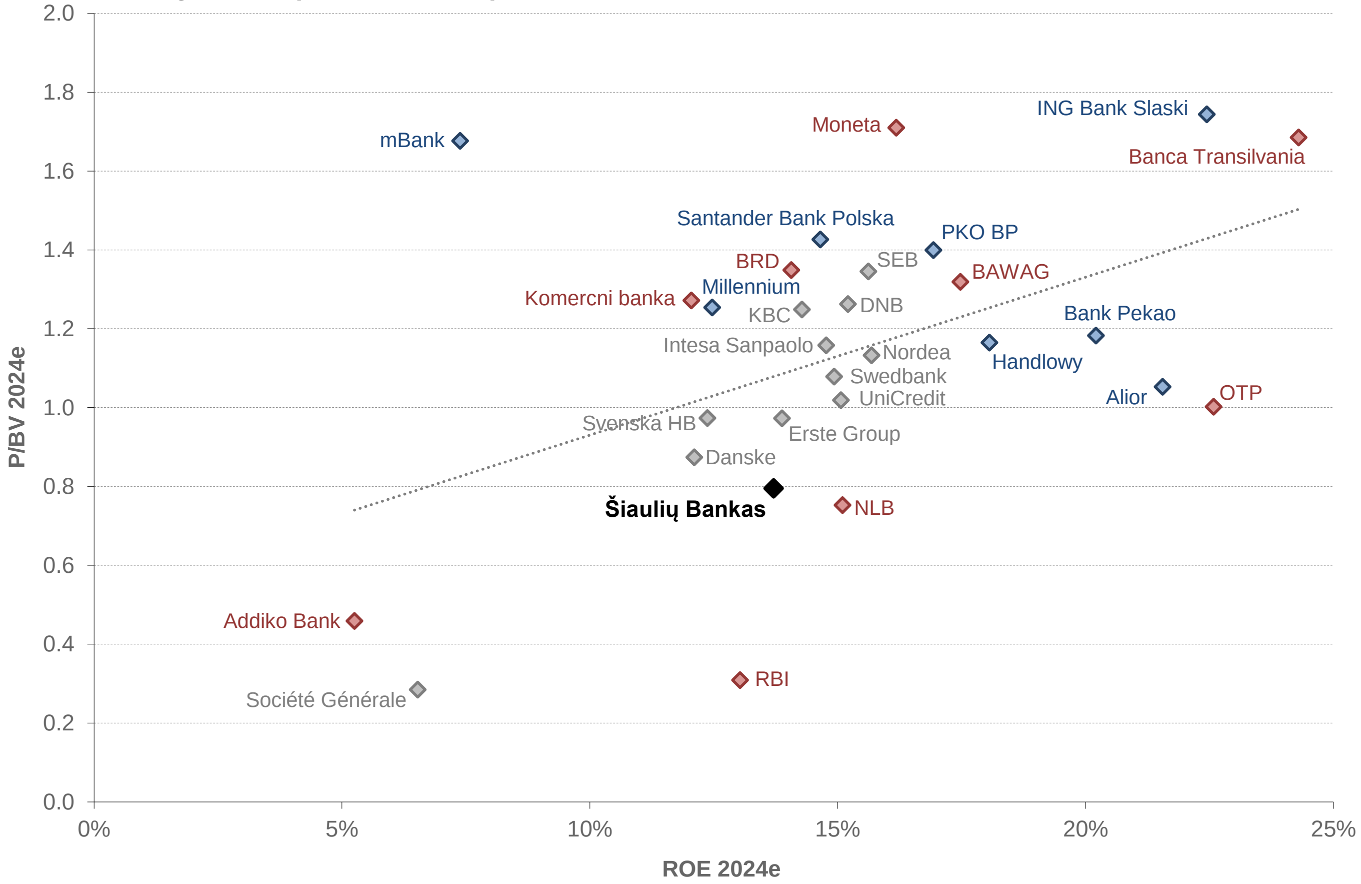
Our peer group for Šiaulių Bankas includes our CEE banking coverage, regional banks with significant exposure to CEE as well as the Nordic banks. Within this peer group and based on our estimates, we see Šiaulių Bankas trading at discounts to peers with a P/E ratio of 6x and a P/BV multiple of 0.8x. This is based on our year-end forecasts for Šiaulių Bankas' equity including the planned AT1 issue. This supports the book value, but depresses the ROE, which for Šiaulių Bankas is below the peer group average in 2024 and 2025. As described above, these periods are affected by higher costs and the expectation is for higher returns from 2026. The dividend yield is attractive and ~8%, slightly above the peer group's average. Overall, we see our positive recommendation for Šiaulių Bankas confirmed by the peer group comparison.

Peer group comparison

		P/BV			P/E			Dividend yield			ROE		
Sector	**Company**	2023	2024e	2025e	2023	2024e	2025e	2023	2024e	2025e	2023	2024e	2025e
Coverage - Banks CEE / Erste Sector Banks Poland	Alior Bank	1.1	1.1	1.0	4.9	5.3	5.7	0.0%	5.0%	9.5%	26.3%	21.6%	17.7%
	Bank Handlowy	1.4	1.2	1.1	5.9	6.6	7.1	8.9%	12.4%	11.4%	25.5%	18.1%	16.1%
	Bank Millennium	1.5	1.3	1.0	17.6	10.7	5.5	0.0%	0.0%	0.0%	9.3%	12.5%	20.4%
	Bank Pekao	1.3	1.2	1.2	6.1	6.0	6.9	3.6%	13.5%	12.6%	24.8%	20.2%	17.0%
	Santander Bank Polska	1.6	1.4	1.3	10.4	9.8	7.0	4.7%	10.0%	7.7%	16.1%	14.6%	19.3%
	ING Bank Slaski	2.0	1.7	1.5	7.9	8.4	9.0	0.0%	6.4%	6.0%	32.8%	22.4%	18.0%
	mBank	1.7	1.7	1.4	nm	23.5	8.5	0.0%	0.0%	2.1%	0.2%	7.4%	18.3%
	PKO BP	1.4	1.4	1.3	11.4	8.5	8.7	0.0%	7.2%	8.5%	13.6%	16.9%	15.8%
Coverage - Banks CEE / Erste Sector Banks CEE	Addiko Bank	0.3	0.5	0.4	6.3	8.8	8.7	9.5%	6.8%	6.9%	5.3%	5.3%	5.2%
	Banca Transilvania	1.5	1.7	1.8	6.7	7.3	9.0	5.2%	4.8%	3.9%	26.0%	24.3%	20.8%
	BRD Groupe SG	1.4	1.3	1.2	7.6	10.4	10.2	7.9%	5.8%	6.4%	20.9%	14.1%	12.7%
	Komercni banka	1.2	1.3	1.2	8.9	10.7	10.0	7.9%	6.5%	7.0%	13.1%	12.0%	12.4%
	Moneta	1.5	1.7	1.7	9.2	10.7	10.4	9.6%	8.4%	8.6%	16.4%	16.2%	16.3%
	Nova Ljubljanska Banka	0.6	0.8	0.7	3.1	5.2	5.1	12.9%	10.2%	11.0%	21.0%	15.1%	14.2%
	OTP	1.0	1.0	0.9	4.3	4.9	5.2	3.4%	3.2%	3.5%	26.7%	22.6%	18.1%
	RBI	0.4	0.3	0.3	2.6	2.5	2.7	11.0%	8.0%	8.9%	14.4%	13.0%	10.8%
	Siauliu bankas	**0.8**	**0.8**	**0.7**	**5.5**	**6.3**	**6.4**	**7.0%**	**7.9%**	**7.8%**	**15.3%**	**13.7%**	**12.1%**
Banks with CEE exposure	BAWAG	1.0	1.3	1.2	5.7	7.5	7.2	10.4%	7.7%	7.9%	18.9%	18.1%	17.8%
	Erste Group	1.1	1.0	0.9	7.1	7.0	7.3	5.6%	6.2%	6.2%	15.1%	13.9%	12.4%
	Intesa Sanpaolo	1.2	1.2	1.1	9.2	7.8	7.4	8.0%	9.0%	9.6%	13.1%	14.8%	15.0%
	KBC Group	1.3	1.2	1.2	8.7	8.7	8.9	5.9%	7.1%	6.9%	15.0%	14.3%	13.3%
	Societe Generale	0.3	0.3	0.3	5.4	4.4	3.8	4.2%	5.8%	7.1%	5.6%	6.5%	6.9%
	UniCredit	1.1	1.0	0.9	8.2	6.8	6.6	4.5%	6.1%	7.1%	13.5%	15.1%	14.2%
Nordic banks	Danske Bank	0.9	0.9	0.8	7.7	7.2	7.1	7.6%	11.8%	8.5%	12.1%	12.1%	11.9%
	DNB A	1.3	1.3	1.2	8.7	8.3	8.9	7.4%	7.6%	7.8%	15.3%	15.2%	13.8%
	Nordea Bank	1.2	1.1	1.1	7.6	7.2	7.4	8.8%	9.2%	9.3%	15.8%	15.7%	14.7%
	Skandinaviska Enskilda Banken	1.4	1.3	1.3	8.3	8.6	9.3	7.7%	7.7%	6.4%	17.2%	15.6%	14.2%
	Svenska Handelsbanken	1.0	1.0	1.0	7.3	7.9	9.4	12.1%	11.0%	9.8%	14.2%	12.4%	10.3%
	Swedbank	1.2	1.1	1.0	6.8	7.2	8.1	7.4%	7.9%	8.4%	17.1%	14.9%	12.8%
	Mean	**1.17**	**1.15**	**1.08**	**7.54**	**8.14**	**7.54**	**6.2%**	**7.3%**	**7.5%**	**16.6%**	**15.2%**	**14.7%**

Source: FactSet, Erste Group Research
Prices as of 04/10/24

ROE, P/BV regression (2024 estimates)



Source: FactSet, Erste Group Research
Prices as of 04/10/24

Income Statement	**2021**	**2022**	**2023**	**2024e**	**2025e**	**2026e**
(IFRS, EUR mn, 31/12)	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026
Net interest Income	80.9	106.8	156.9	160.7	170.0	181.3
Risk provisions for loans and advances	-4.1	-4.9	-15.2	-12.6	-14.1	-17.3
Net interest Income (after risk prov.)	76.8	101.8	141.6	148.1	155.9	164.0
Net fees & commission income	17.2	18.7	20.3	27.3	29.3	31.2
Dividend income	0.0	0.0	0.0	0.0	0.0	0.0
Trading result	20.0	12.7	13.6	20.5	21.5	22.5
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	1.3	1.7	0.0	1.1	1.1	1.2
Total Income	**119.5**	**142.3**	**183.9**	**201.7**	**213.7**	**227.6**
Personnel expenses	-27.1	-30.7	-36.2	-45.1	-47.3	-47.8
Other administrative expenses	-16.6	-21.6	-31.2	-36.3	-47.2	-37.7
Depreciation and amortizaton	-4.4	-4.6	-5.5	-7.3	-7.6	-8.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Total expenses	**-48.2**	**-57.0**	**-73.0**	**-88.7**	**-102.2**	**-93.6**
Operating profit	**67.3**	**80.4**	**95.7**	**100.4**	**97.5**	**116.7**
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Profit / loss before taxes	**67.3**	**80.4**	**95.7**	**100.4**	**97.5**	**116.7**
Income taxes	-12.0	-12.9	-20.4	-20.1	-19.5	-23.3
Profit / loss after taxes	**55.2**	**67.5**	**75.4**	**80.3**	**78.0**	**93.4**
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net result after minorities	**55.2**	**67.5**	**75.4**	**80.3**	**78.0**	**93.4**
Adjusted profit/loss before taxes						
Adjusted net profit/loss						

Balance sheet	**2021**	**2022**	**2023**	**2024e**	**2025e**	**2026e**
(IFRS, EUR mn, 31/12)						
Cash and balances with central banks	965.7	384.8	751.5	801.4	832.4	842.1
Loans and advances to banks (net)	966.9	387.5	754.5	804.6	835.7	845.6
Loans and advances to customers (net)	1,908.7	2,387.5	2,638.7	2,962.5	3,288.4	3,617.2
Interest-earning financial assets	836.6	1,117.6	1,033.4	1,085.1	1,139.3	1,196.3
Interest-earning assets	**3,712.2**	**3,892.6**	**4,426.6**	**4,852.2**	**5,263.4**	**5,659.2**
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	0.0	0.1	0.1	0.1	0.1	0.1
Intangible assets	4.8	8.3	45.1	47.4	49.8	52.3
Tangible assets	17.0	18.0	16.8	17.6	18.5	19.4
Other assets	228.5	263.7	320.7	373.0	434.6	496.7
TOTAL ASSETS	**3,962.5**	**4,182.7**	**4,809.3**	**5,290.3**	**5,766.4**	**6,227.7**
Deposits from banks	698.6	685.1	570.0	554.7	586.0	620.8
Deposits from customers	2,678.3	2,785.0	3,162.7	3,352.4	3,654.1	3,983.0
Debt securities issued	101.9	185.4	292.2	500.3	597.9	627.8
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest -bearning liabilities	**3,478.8**	**3,655.5**	**4,024.8**	**4,407.4**	**4,838.1**	**5,231.7**
LT provisions	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	77.3	84.3	241.3	253.4	266.1	279.4
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	**3,556.1**	**3,739.8**	**4,266.2**	**4,660.8**	**5,104.1**	**5,511.1**
Shareholders'equity	**406.4**	**442.9**	**543.1**	**629.4**	**662.2**	**716.6**
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	**3,962.5**	**4,182.7**	**4,809.3**	**5,290.3**	**5,766.4**	**6,227.7**
--						
Other figures						
Tangible shareholders' equity	406.4	441.6	537.5	623.8	656.6	711.0
Off-balance sheet items	0.0	490.9	476.3	500.1	525.1	551.4
Year-end no. of shares outstanding (mn)	600.04	600.73	660.72	645.72	640.04	640.04
Average no. of shares outstanding (mn)	600.46	599.84	602.69	658.22	643.83	640.04
Fully diluted no. of shares outstanding (mn)	600.46	599.84	602.69	658.22	643.83	640.04
No. of employees (FTE)						
No. of branches						
Payout ratio	37.0%	23.6%	38.8%	50.0%	50.0%	52.5%

Margins & Ratios	2021	2022	2023	2024e	2025e	2026e
(IFRS, EUR mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	2.2%	2.5%	3.3%	0.0%	0.0%	0.0%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	0.3%	0.3%	0.6%	0.0%	0.0%	0.0%
Yield on assets - cost of funds (Interest spread)	2.5%	2.8%	3.8%	0.0%	0.0%	0.0%
Net. int. income/avg. assets (Net interest margin)	2.3%	2.6%	3.5%	3.2%	3.1%	3.0%
Net fee and commission margin (avg. total assets)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
ROE	14.5%	15.9%	15.3%	13.7%	12.1%	13.5%
ROA	1.6%	1.7%	1.7%	1.6%	1.4%	1.6%
Operating margin	1.9%	2.0%	2.1%	2.0%	1.8%	1.9%
Efficiency						
Cost/Income ratio	40.3%	40.0%	39.7%	44.0%	47.8%	41.1%
Cost/avg. Assets ratio	1.4%	1.4%	1.6%	1.8%	1.8%	1.6%
Personnel expenses/total income	-22.7%	-21.6%	-19.7%	-22.4%	-22.2%	-21.0%
Avg. staff costs (EUR)						
Balance sheet structure						
Loans deposit ratio	72.6%	87.0%	84.9%	90.1%	91.7%	92.6%
Loans/total assets	49.1%	57.9%	55.8%	57.1%	58.1%	59.2%
Deposits/total assets	67.6%	66.6%	65.8%	63.4%	63.4%	64.0%
Capital adequacy						
Equity ratio	10.3%	10.6%	11.3%	11.9%	11.5%	11.5%
Capital adequacy ratio	20.4%	19.0%	22.4%	22.3%	21.9%	21.7%
Asset quality						
Non-performing loans ratio	3.4%	2.8%	2.9%	3.4%	3.4%	3.2%
Non-performing loans coverage ratio	53.8%	51.0%	56.0%	53.5%	53.5%	56.0%
Risk provisions/loans to customers (gross)	1.8%	1.4%	1.6%	1.8%	1.8%	1.8%
Risk povisions/avg. customer loans (Risk costs)	0.2%	0.2%	0.6%	0.4%	0.4%	0.5%
Risk earnings ratio	5.0%	4.6%	9.7%	7.9%	8.3%	9.5%
Income statement structure						
Net interest income / total income	67.7%	75.0%	85.3%	79.7%	79.5%	79.6%
Net fee and commission income / total income	14.4%	13.2%	11.0%	13.5%	13.7%	13.7%
Net trading result / total income	16.8%	8.9%	7.4%	10.1%	10.0%	9.9%
Non-interest income / total income	32.3%	25.0%	14.7%	20.3%	20.5%	20.4%
Personnel expenses / total operating expenses	56.2%	53.9%	49.6%	50.9%	46.3%	51.1%
Effective tax rate	-17.9%	-16.1%	-21.3%	-20.0%	-20.0%	-20.0%

Growth Rates	2021	2022	2023	2024e	2025e	2026e
(IFRS, EUR mn, 31/12)						
Loans and advances to customers (net)	18.9%	25.1%	10.5%	12.3%	11.0%	10.0%
Deposits from customers	14.1%	4.0%	13.6%	6.0%	9.0%	9.0%
Total assets	30.8%	5.6%	15.0%	10.0%	9.0%	8.0%
Total liabilities	33.0%	5.2%	14.1%	9.3%	9.5%	8.0%
Shareholders'equity	14.5%	9.0%	22.6%	15.9%	5.2%	8.2%
Net interest Income	6.9%	32.0%	46.9%	2.5%	5.8%	6.6%
Net fees & commission income	6.9%	9.3%	8.0%	34.8%	7.5%	6.4%
Total Income	11.2%	19.1%	29.3%	9.7%	6.0%	6.5%
Operating profit	27.4%	19.5%	19.1%	4.9%	-2.9%	19.7%
Net result after minorities	28.7%	22.2%	11.7%	6.6%	-2.9%	19.7%

Source: Company data, Erste Group estimates

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