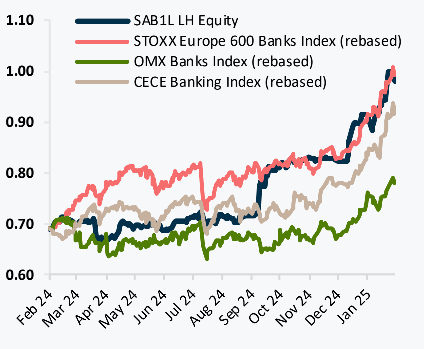
4Q24 Preview (report due February 26th)
February 21st, 2025
Share price: EUR 0.98
Valuation range: EUR 1.03-1.28/sh.
Prev: (EUR 0.96-1.20)

Šiaulių Bankas

Key share data	
Sector	Financials
Reuters	SAB1L.VL
Bloomberg	SAB1L:LH
Market Cap (EURm)	641
Free float (EURm)	380
Issued shares, m	654
Avg. daily value traded 3M	268,859

Share price



Upcoming events	
4Q24 report	February 26, 2025
Annual report	March 31, 2025
1Q25 report	April 28, 2025
2Q25 report	July 30, 2025
3Q25 report	October 29, 2025

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

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Rallying on dividends but cost pressure in 4Q

Šiaulių Bankas will report its 4Q24 results on February 26th. The bank's earnings are expected to improve YoY, though elevated year-end costs will likely weigh on core earnings. We see room for further share price appreciation with total returns bolstered by an expected dividend offering, improving geopolitical landscape and sound macro picture in Lithuania. Hence, we maintain a positive outlook on the stock with a revised valuation range at EUR 1.03-1.28/sh.

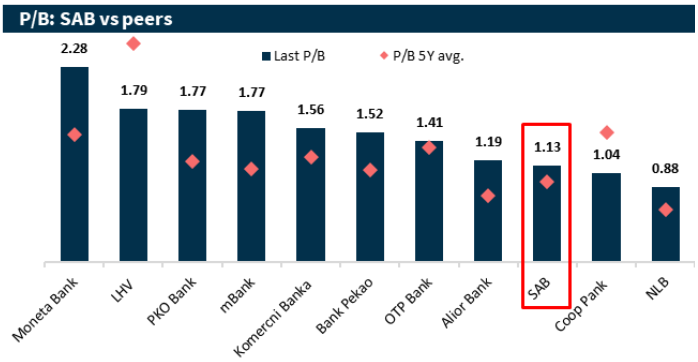
Šiaulių Bankas 4Q24 results preview:

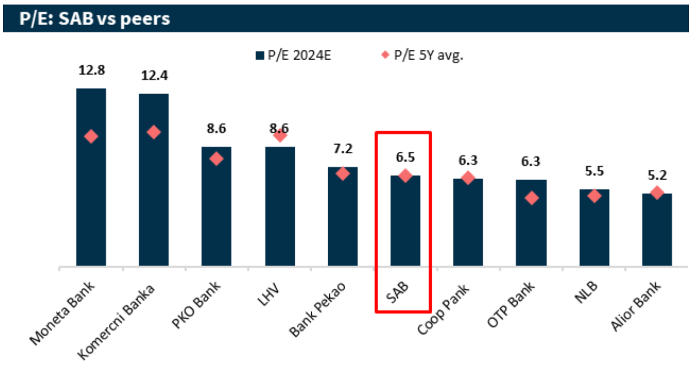
- NII is expected to remain flat QoQ as NIM pressure from the ECB's interest rate cut is somewhat offset by moderating funding costs. Loan portfolio growth is likely to slow, with gross lending volume rising ~3% QoQ in 4Q, down from ~8% in 3Q, reflecting a rather unsustainable 9M trend in our view
- Fee income is expected to sustain strong momentum, up 43% YoY, driven by renovation fees and capital markets activities
- Total costs are estimated at EUR 32.9m, or EUR 31.2m when adjusted for non-recurring IT development expenses. This still represents a ~6% YoY rise, mainly due to higher personnel costs and other OPEX
- We expect no large deterioration in the bank's asset quality in 4Q but in general remain cautious on individual impairments which have gradually risen YTD. Overall, we forecast EUR 3.6m, slightly up from EUR 3.0m in 3Q24. Annual comparisons are difficult, as the EUR 6.8m in 4Q23 was driven by model-based provision changes rather than actual asset quality changes
- Dividend is estimated at EUR 0.06/sh. under 50% payout yielding 7.3% for 2024
- Adj. ROE is forecasted above the 4Q23 figure (11.8%) at 12.8% albeit down QoQ (14.9%).

4Q/24 results EURm	4Q/23	3Q/24	4Q/24e Norne
Net interest income	**40.8**	**40.4**	**40.2**
Net commission income	5.7	7.3	8.1
Net other operating income	7.5	6.8	8.2
Total costs	36.1	26.1	32.9
Adj. total costs	29.5	26.1	31.2
Core earnings before loan losses	**17.9**	**28.4**	**23.5**
Write-downs on loans	6.8	3.0	3.6
Core earnings	**11.1**	**25.4**	**19.9**
Pre-tax profit	11.1	25.4	19.9
EPS (EUR)	**0.015**	**0.031**	**0.023**
EPS adjusted (EUR)	0.023	0.031	0.027
Dividend per share (EUR)	**0.049**	**-**	**0.060**
CET1 ratio, %	**19.9%**	**17.7%**	**17.6%**
ROE (annualised)	**7.4%**	**14.9%**	**11.0%**
Adj. ROE (annualised)	**11.8%**	**14.9%**	**12.8%**

Potential triggers for the investment case

- Improving geopolitical landscape with prospects of ending the war in Ukraine would improve confidence in the CEE region and potentially reduce/remove discount to European peers
- Market leader position and scaling renovation initiative may lead to an increased commission
- Growing bank with an increasing market share: the bank has so far increased its market share in retail and corporate segments, implying a strong management ambition to focus on growth. The bank has set ambitious strategic targets to double its corporate and private customer segments by 2029
- Rebranding and changing its core system may make it a more attractive bank in the market, enhance client experiences and amplify cross-selling and upsell
- Current P/E and P/B suggest undemanding pricing relative to industry peers relative to ROE, implying the possibility of further re-ratings





Potential downsides for the investment case

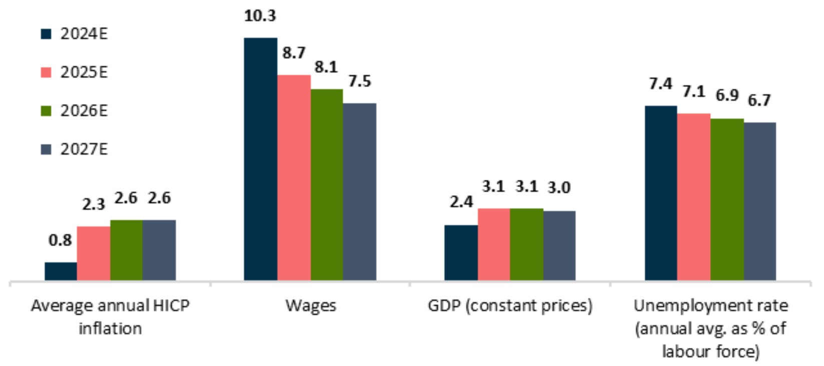
- Economic downturn might lead to increased NPLs and deteriorating asset quality as well as lower credit demand and commission fees related products such as savings, insurance, etc.
- Capital risk. Failure to meet capital requirements, leading to a risk of equity issues or dividend reductions
- Interest 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.
- Due to the increased focus on defence and aim to allocate more income to defence, it increases the probability that windfall tax might be extended, despite falling interest rates/excess NII

Lithuania's economy overview

Lithuania's economy remains primarily fueled by the services sector, which contributed to around 40% of economic growth in the first 9M24. Growth in private consumption was largely driven by increased demand for non-durable goods and services. Manufacturing sector has shown improvement. Labor market is stable, with a moderate decline in employment mainly in transport; without this, employment levels are steady. The unemployment rate has remained relatively unchanged.

Real GDP is expected to grow by 3.1% this year, after a 2.4% increase estimated in 2024. Future economic growth is forecasted to continue at a similar but slower pace than the pre-shock rates of the last decade, constrained by labour inefficiencies, ageing demographics, and slower growth in trade partner markets. Labour costs are expected to remain a primary driver of inflation with significant wage growth. Improving global economy, higher prices for some energy commodities and tax increases are also expected to contribute to inflation. After settling at 0.8% for 2024, average annual headline inflation is expected to rise to 2.3% this year and settle at 2.6% in 2026-2027.

Lithuania's macroeconomic projections (annual % change)

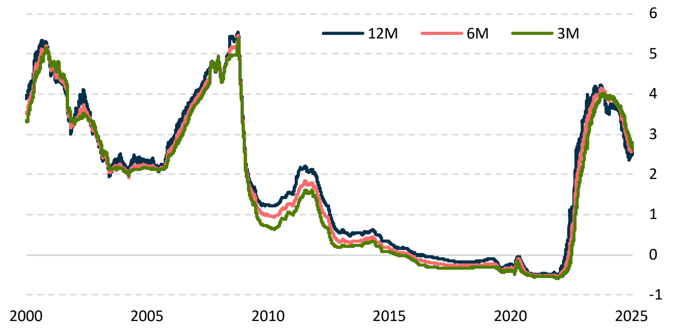


Data source: Bank of Lithuania

In January 2025, the ECB lowered its key interest rates by 25bps, as expected, reducing the deposit facility rate to 2.75%, the main refinancing rate to 2.90%, and the marginal lending rate to 3.15%. This marks the fifth rate cut since the easing cycle began in June 2024, aligning with the ECB's inflation outlook as price pressures subside. However, the ECB notes that inflation remains elevated due to a lag in wage and price adjustments after the previous inflation shock. At its next meeting in March, the ECB is widely expected to implement another 25bps rate cut. Further reductions are anticipated, with key interest rates projected to approach 2% by year-end.

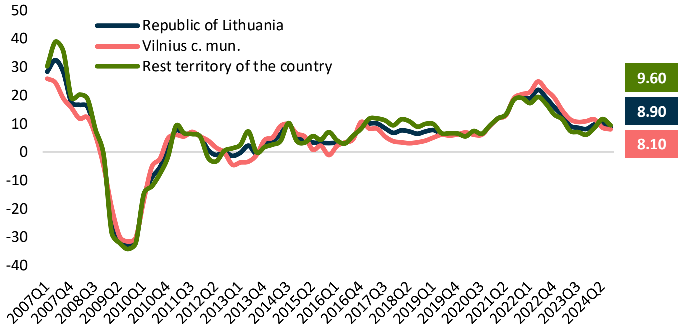
In Lithuania, retail and corporate lending accelerated at end-2024, growing 10% and 13% YoY, respectively. Mortgage loans, constituting >80% of retail lending, grew 9% YoY, up from 6% the previous year. Housing prices cooled, while mortgage rates fell by 1.3%p YoY, improving affordability. Despite the reduced interest rates, the interest rate spread widened in December as retail lending rates rose slightly MoM, while deposit rates fell throughout 2024. This pushed the lending-deposit spread to 3.2%, up 27bps MoM. The household loan-to-deposit ratio edged lower by year-end.

Euribor benchmark 3m, 6m, 12m rates



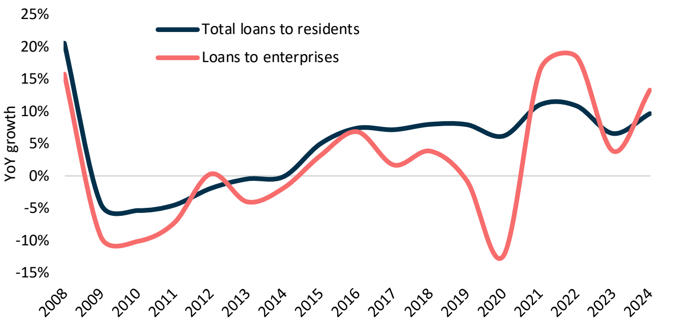
Source: Bloomberg

House price changes, YoY, %



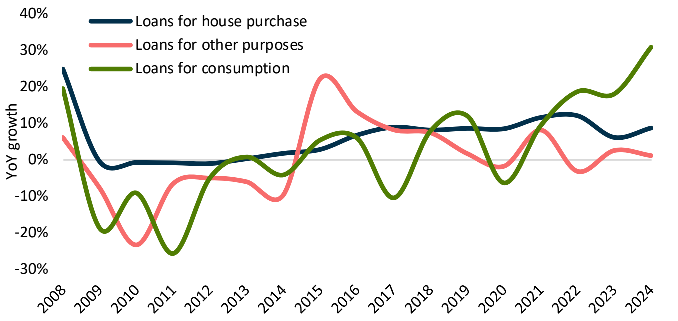
Data source: Statistics Lithuania

LT MFI loans to households and non-financial corporations (EOY)



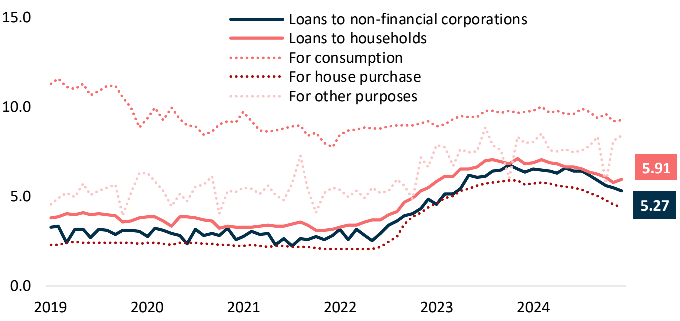
Data source: Bank of Lithuania

LT MFI loans to households (EOY)



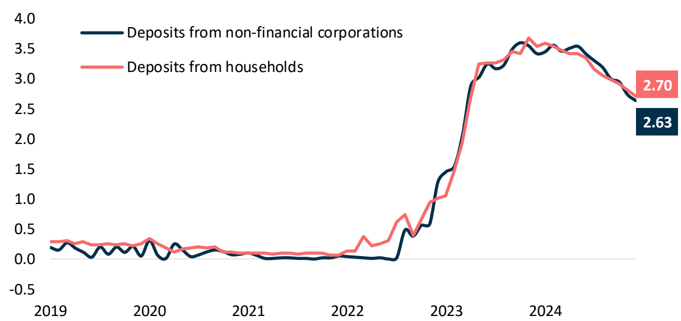
Data source: Bank of Lithuania

Lending rates, %



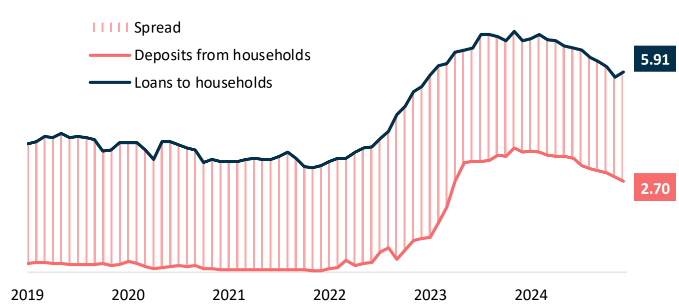
Data source: Bank of Lithuania

Deposit rates, %



Data source: Bank of Lithuania

Lending - deposit rate spread, %



Data source: Bank of Lithuania

Households loan-to-deposit ratio, %

Data source: Bank of Lithuania

Revised P2R

Following the SREP ECB set a P2R of 2.56% for Šiaulių Bankas effective from 1 January 2025, i.e. 0.51 p.p. increase relative to the previous assessment. Pillar 2 guidance (P2G) is unchanged from the previous assessment (1.75%). This implies that the current total CET1 requirement (incl. P2G) for Šiaulių Bankas stands at 12.4% or 30bps up from the previous requirement (12.1%). This still leaves a 5.3pp buffer over the 3Q24 reported CET1 ratio.

Capital requirements

	Requirements 2025.01.01
Minimum Tier 1 Capital Requirements	4.5%
Capital Conservation Buffer (CCoB)	2.5%
Systematic Risk Buffer (SyRB)	0.2%
Counter-cyclical Buffer (CCyB)	1.0%
O-SII Buffer	1.0%
Pillar-2 Requirement (P2R)	1.4%
CET1 Requirements	**10.6%**
Pillar-2 Guidance (P2G)	1.75%
CET1 Requirements incl. P2G	**12.4%**

EUR 50m AT1 issue completed

Šiaulių Bankas has placed EUR 50m issue of Fixed Rate Reset Perpetual AT 1 Temporary Write Down Notes (ISIN XS2922133363). The annual fixed rate coupon on the notes up to the reset date is set at 8.75% (the nearest reset date being 5 years after settlement, i.e., 17 October 2029). The bank plans to use the proceeds for general corporate purposes, including funding structure, capital position improvement, and MREL compliance. The notes, rated Ba3 by Moody's, were listed on Euronext Dublin and began trading on 8 November 2024.

Results of the share buy-back program

On 15 August 2024, the Bank received authorisation from the ECB to buy back up to 13,745,114 of its own shares. The bank has already purchased ~80% of shares based on this authorization totalling EUR ~9.3m cash amount. 6m shares were bought via tender offer at EUR 4.9m, and ~5m treasury shares were acquired at EUR 4.3m via a buyback programme carried out from 4 November 2024 to 24 January 2025. The bank aims to fully utilize the remaining unused share buyback limit before the authorization expires considering market value and other factors.

Estimate changes

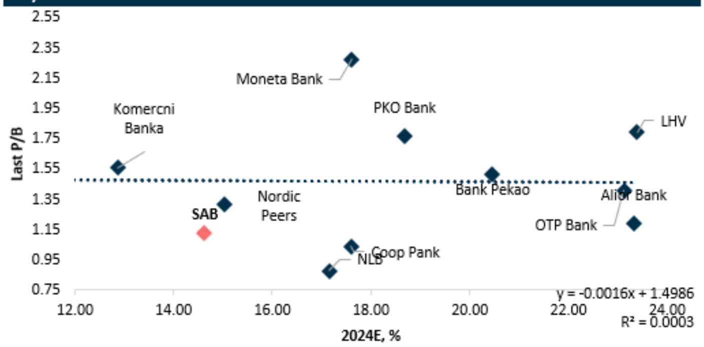
We made mixed adjustments to our model ahead of 4Q earnings, reflecting a slightly revised lending growth rate and updated interest rate forecast. On average our EPS expectations remain largely unchanged over the forecast period.

Estimate changes (EURm)	4Q/24e			2024E			2025E			2026E		
	New	Old	Change	New	Old	Change	New	Old	Change	New	Old	Change
Net interest income	**40.2**	**40.4**	**-0.4%**	**161.2**	**161.4**	**-0.1%**	**159.7**	**160.4**	**-0.4%**	**166.0**	**166.0**	**0.0%**
Net commission income	8.1	7.7	4.5%	29.1	28.8	1.2%	34.6	34.2	1.2%	37.6	37.6	0.1%
Net other operating income	8.2	6.5	25.9%	33.1	31.4	5.3%	24.4	24.2	0.8%	24.3	24.2	0.8%
Total costs	32.9	31.4	4.8%	110.5	109.0	1.4%	116.8	115.2	1.4%	118.1	117.7	0.4%
Write-downs on loans	3.6	3.0	17.8%	10.5	10.0	5.5%	16.1	16.3	-1.4%	15.4	15.7	-1.4%
Core earnings	**19.9**	**20.1**	**-0.9%**	**102.4**	**102.6**	**-0.2%**	**85.9**	**87.3**	**-1.6%**	**94.3**	**94.4**	**0.0%**
Pre tax profit	19.9	20.1	-0.9%	98.4	98.6	-0.2%	76.8	78.2	-1.8%	93.1	93.1	0.0%
EPS (EUR)	**0.02**	**0.02**	**0.4%**	**0.12**	**0.12**	**0.1%**	**0.09**	**0.09**	**-2.3%**	**0.11**	**0.11**	**-0.5%**
EPS adjusted (EUR)	0.03	0.03	0.6%	0.13	0.13	0.1%	0.11	0.11	-2.1%	0.12	0.12	-0.5%
CET1 ratio	17.6%	17.4%	0.2%p	17.6%	17.4%	0.2%p	17.5%	17.3%	0.2%p	18.0%	17.8%	0.2%p
Dividend per share (EUR)	0.06	0.06	1.2%	0.06	0.06	1.2%	0.05	0.05	-2.3%	0.06	0.06	-0.5%
Adj. ROE (annualised)	**12.8%**	**13.9%**	**-1.0%p**	**14.6%**	**14.8%**	**-0.1%p**	**12.0%**	**12.2%**	**-0.2%p**	**12.4%**	**12.4%**	**0.0%p**

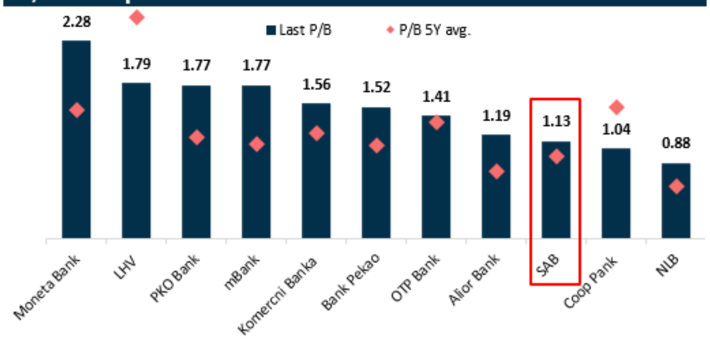
Valuation remains relatively undemanding despite share appreciation

Our valuation range has been revised upward, mainly due to a higher peer-based valuation. Despite strong share price appreciation (+18% 3m), we still view the bank's valuation relatively undemanding, with shares currently trading at P/B 1.13x under 14.6% ROE prospects for 2024e vs average pricing of all peers of 1.26x and ROE of 14.9% for the same period. Similarly, an adj. P/E of 6.5x versus peer pricing of 8.9x suggests a large discount. 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 and now stands at EUR 1.03-1.28/sh. For more information on valuation calculations, please see the next pages in the report.

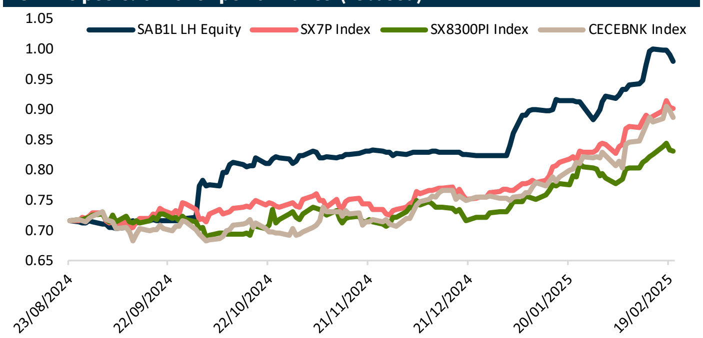
P/B vs ROE



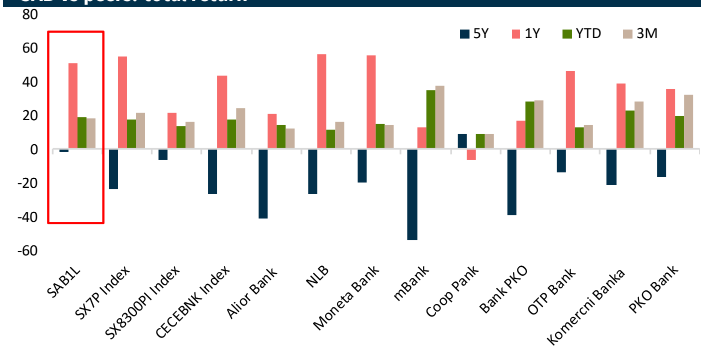
P/B: SAB vs peers



SAB vs peers: 6 month performance (rebased)



SAB vs peers: total return



Source: Bloomberg, Norne Securities

Valuation

Assumptions

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

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

Terminal value (TV) assumptions	
Long term growth rate for DDM*	2.5%
Long term growth rate for RIV	2.5%
Long term ROE**	11.5%

*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	80	63	77	85	87
Dividends paid	39	29	36	40	41
Payout ratio (Group)	49%	47%	47%	47%	50%
Share buybacks	8.4	1.8			
PV of dividends	**39**	**26**	**29**	**29**	
Capital Adequacy ratio, %	22.9%	22.4%	22.5%	23.0%	
Capital Adequacy ratio target, %	17.8%	17.8%	17.8%	17.8%	
RWA	2,765	2,990	3,199	3,340	
Excess capital to shareholders	141	136	151	175	

Valuation (EURm)		*Share*
NPV of dividends paid, forecasted period	123	*19%*
NPV of excess capital to shareholders	140	
NPV of share buybacks	8	
NPV of dividends paid, TV	386	*59%*
Total NPV of dividends	**657**	*77%*
Number of shares (mill.)	654	
Value per share (EUR)	**1.00**	

Sensitivity (EUR/share)

		Cost of equity				
		8.3%	**9.3%**	**10.3%**	**11.3%**	**12.3%**
	0.5%	1.04	0.95	0.87	0.81	0.76
Long term growth	**1.5%**	1.14	1.02	0.93	0.86	0.80
	2.5%	1.27	1.12	1.00	0.92	0.84
	3.5%	1.46	1.25	1.10	0.99	0.90

Residual Income Valuation (RIV)

Estimates (EURm)	2024E	2025E	2026E	2027E	Base year
Equity to shareholders (start of year)	543	635	662	705	749
ROE	14.6%	12.0%	12.4%	12.6%	11.5%
Cost of Equity	10.3%	10.3%	10.3%	10.3%	10.3%
Residual income	24	11	14	17	9
PV of residual income	23	10	11	12	

Valuation (EURm)		*Share*
Opening equity to shareholders	543	*79%*
PV of residual income, forecasted period	57	*8%*
PV of residual income, TV	84	*12%*
Total value to shareholders	**683**	*100%*
Number of shares (mill.)	654	
Value per share (EUR)	**1.05**	

Sensitivity (EUR/share)

		Cost of equity				
		8.3%	**9.3%**	**10.3%**	**11.3%**	**12.3%**
	0.5%	1.24	1.12	1.02	0.94	0.86
Long term growth	**1.5%**	1.27	1.14	1.03	0.94	0.87
	2.5%	1.32	1.17	1.05	0.95	0.87
	3.5%	1.39	1.20	1.06	0.96	0.87

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	**0.90**	**1.14**	**1.06**	**1.03**
Base Case	**1.00**	**1.05**	**1.19**	**1.08**
High Case	**1.16**	**1.37**	**1.32**	**1.28**

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

***Low/High assuming 5YR min. ROE of 11.5% 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	**1.08**	**1.36**	**1.26**	**1.23**
Base Case	**1.20**	**1.25**	**1.42**	**1.29**
High Case	**1.38**	**1.64**	**1.57**	**1.53**

Adj. P/E multiple under target price	DDM	RIV	Peers-based	Average
Low Case	**7.16**	**9.03**	**8.38**	**8.19**
Base Case	**7.98**	**8.30**	**9.43**	**8.57**
High Case	**9.17**	**10.90**	**10.47**	**10.18**

Our base case valuation range stands at EUR 1.00-1.19/sh. with a mid-point of EUR 1.08/sh., which values Šiaulių Bankas at P/B of 1.29x and adj. P/E of 8.57x for 2024E. As for the Low-High case, our blended approach implies a valuation range of EUR 1.03-1.28/sh., which suggests an upside potential to the current share price of 5-31% respectively for the Low/High case.

Relative valuation

Peer comparison

EURm	Source	Market Cap.	P/B	P/E 2024E	P/E 2025E	P/E 2026E	Dividend Yield, % 2024E	Dividend Yield, % 2025E	Dividend Yield, % 2026E	ROE, % 2024E	ROE, % 2025E	ROE, % 2026E	ROE, % 5Y avg.	P/E 5Y avg.	P/B 5Y avg.
SAB1L	**Norne**	**641**	**1.13**	**6.5**	**9.0**	**8.2**	**7.3**	**4.6**	**5.7**	**14.6**	**12.0**	**12.4**	**15.5**	**6.6**	**0.94**
SAB1L	Consensus*	-	-	8.0	8.7	7.7	6.1	5.5	6.5	14.2	12.4	13.1	15.2	5.8	0.94
Nordic Peers															
DNB Bank ASA	Consensus*	31,919	1.42	9.1	9.4	9.7	6.7	6.9	7.1	16.2	14.5	13.5	12.2	8.2	1.27
Svenska Handelsbanken AB	Consensus*	23,495	1.24	9.8	11.4	11.6	9.8	8.4	7.5	12.9	11.2	10.9	11.6	7.9	1.08
Nordea Bank Abp	Consensus*	42,621	1.34	8.4	9.0	8.8	7.8	7.8	7.9	16.1	14.4	14.3	10.2	7.8	1.11
Swedbank AB	Consensus*	25,628	1.30	8.6	9.8	9.7	6.3	7.7	8.0	16.1	13.1	13.0	13.5	7.8	1.14
Skandinaviska Enskilda Banken AB	Consensus*	31,534	1.47	9.5	10.7	10.0	7.4	5.6	5.7	16.0	13.6	14.0	13.6	8.8	1.25
Danske Bank A/S	Consensus*	27,272	1.12	8.9	9.0	8.7	9.5	7.4	7.5	12.8	12.1	11.9	5.9	8.3	0.66
Average			**1.31**	**9.1**	**9.9**	**9.8**	**7.9**	**7.3**	**7.3**	**15.0**	**13.2**	**12.9**	**11.1**	**8.1**	**1.08**
Median			**1.32**	**9.0**	**9.6**	**9.7**	**7.6**	**7.6**	**7.5**	**16.0**	**13.4**	**13.2**	**11.9**	**8.0**	**1.13**
Premium/discount			*-15%*	*-27%*	*-6%*	*-15%*	*-0.3%p*	*-3.0%p*	*-1.8%p*	*-1.4%p*	*-1.3%p*	*-0.8%p*	*3.6%p*	*-18%*	*-16%*
CEE Peers															
Alior Bank SA	Consensus*	3,087	1.19	5.2	6.0	6.6	6.9	8.8	8.8	23.3	17.9	14.9	8.9	5.3	0.78
LHV Group AS	Consensus*	1,199	1.79	8.6	10.0	8.2	2.4	2.4	3.0	23.4	16.8	17.8	19.6	9.5	2.55
Nova Ljubljanska Banka dd	Consensus*	2,840	0.88	5.5	5.8	5.8	8.0	8.3	8.5	17.2	14.6	13.8	15.9	5.1	0.61
Moneta Money Bank AS	Consensus*	2,895	2.28	12.8	12.6	12.0	8.4	7.0	7.1	17.6	17.4	17.8	14.8	9.4	1.48
mBank SA	Consensus*	7,533	1.77	17.4	7.5	7.3	0.0	0.0	5.2	10.9	21.7	19.8	-1.2	7.2	1.09
Coop Pank AS	Consensus*	220	1.04	6.3	6.9	6.3	3.7	3.7	4.2	17.6	14.3	14.0	13.5	6.4	1.51
Bank Polska Kasa Opieki SA	Consensus*	11,155	1.52	7.2	7.5	8.4	10.5	8.5	8.0	20.5	18.1	15.3	11.0	6.7	1.08
OTP Bank Nyrt	Consensus*	17,085	1.41	6.3	6.6	6.4	3.6	4.2	4.5	23.1	19.5	17.5	16.9	4.9	1.33
Komercni Banka AS	Consensus*	7,924	1.56	12.4	12.4	11.7	8.2	7.4	6.1	12.9	12.7	13.1	11.9	9.6	1.22
PKO Bank Polski SA	Consensus*	21,454	1.77	8.6	7.9	8.0	5.9	7.6	7.9	18.7	18.5	18.6	7.8	7.7	1.17
Erste Group Bank AG	Consensus*	27,069	1.29	8.8	9.3	8.7	4.9	5.1	5.4	15.4	13.7	13.2	11.0	7.0	0.84
Average			**1.50**	**9.0**	**8.4**	**8.1**	**5.7**	**5.7**	**6.3**	**18.2**	**16.8**	**16.0**	**11.8**	**7.2**	**1.24**
Median			**1.52**	**8.6**	**7.5**	**8.0**	**5.9**	**7.0**	**6.1**	**17.6**	**17.4**	**15.3**	**11.9**	**7.0**	**1.17**
Premium/discount			*-26%*	*-24%*	*20%*	*3%*	*1.4%p*	*-2.4%p*	*-0.5%p*	*-3.0%p*	*-5.4%p*	*-2.9%p*	*3.5%p*	*-7%*	*-20%*
Western Europe Peers															
Deutsche Bank AG	Consensus*	37,738	0.58	9.4	6.9	6.2	3.4	5.1	5.9	5.8	8.1	8.4	1.8	na	0.35
Raiffeisen Bank International AG	Consensus*	7,881	0.46	4.9	4.3	4.4	4.9	6.8	7.6	8.0	10.5	9.4	13.0	3.1	0.48
KBC Group NV	Consensus*	33,838	1.43	10.3	10.3	9.4	5.7	5.6	6.4	14.1	13.4	13.8	12.3	8.7	1.29
Commerzbank AG	Consensus*	23,249	1.00	10.1	8.8	7.0	2.7	4.4	5.9	8.0	7.9	9.6	0.8	na	0.34
Societe Generale SA	Consensus*	29,988	0.42	8.8	7.1	5.8	3.1	3.6	4.3	6.0	6.8	7.5	3.0	6.4	0.32
Banco Santander SA	Consensus*	88,172	0.89	7.7	7.2	6.6	3.3	3.7	4.6	12.3	11.7	11.6	5.9	na	0.58
ING Groep NV	Consensus*	51,743	1.01	8.1	8.3	7.2	6.8	6.5	7.2	12.8	11.7	12.7	8.8	8.5	0.78
Average			**0.83**	**8.5**	**7.6**	**6.7**	**4.3**	**5.1**	**6.0**	**9.6**	**10.0**	**10.4**	**6.5**	**6.7**	**0.59**
Median			**0.89**	**8.8**	**7.2**	**6.6**	**3.4**	**5.1**	**5.9**	**8.0**	**10.5**	**9.6**	**5.9**	**7.5**	**0.48**
Premium/discount			*26%*	*-26%*	*26%*	*25%*	*3.9%p*	*-0.4%p*	*-0.3%p*	*6.6%p*	*1.5%p*	*2.8%p*	*9.6%p*	*-12%*	*95%*
Average all peers			**1.26**	**8.9**	**8.5**	**8.1**	**5.8**	**5.9**	**6.4**	**14.9**	**13.9**	**13.6**	**10.1**	**7.4**	**1.01**
Median all peers			**1.30**	**8.7**	**8.6**	**8.1**	**6.1**	**6.7**	**6.7**	**15.7**	**13.7**	**13.6**	**11.3**	**7.8**	**1.09**
Premium/discount			*-13%*	*-25%*	*5%*	*1%*	*1.2%p*	*-2.0%p*	*-1.1%p*	*-1.1%p*	*-1.6%p*	*-1.2%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	161	160	166	172	176
Net commission income	17	16	17	19	20	29	35	38	40	43
Other income/Gains on financial instruments	29	21	30	14	21	33	24	24	26	27
Total income	**119**	**113**	**128**	**139**	**198**	**223**	**219**	**228**	**238**	**246**
Salaries and related expenses	23	23	27	31	36	50	55	57	59	61
Depreciation and amortization expenses	4	4	4	5	5	8	8	8	8	8
Other costs	24	21	25	19	39	53	54	53	53	49
Total costs	**50**	**48**	**57**	**54**	**81**	**111**	**117**	**118**	**120**	**118**
Core earnings before loan losses	68	65	71	85	118	113	102	110	118	128
Write-downs on loans	8	12	4	5	15	10	16	15	16	16
Core earnings	**60**	**53**	**67**	**80**	**102**	**102**	**86**	**94**	**103**	**112**
Dividends/associated companies	-	-	-	-	-	-	-	-	-	-
One-offs	-	-	-	-	7	4	9	1	-	-
Pre tax profit	**60**	**53**	**67**	**80**	**96**	**98**	**77**	**93**	**103**	**112**
Taxes	-8	-10	-12	-13	-20	-18	-13	-16	-18	-20
Minority interest	-	-	-	-	-	-	-	-	-	-
Net profit	**52**	**43**	**55**	**67**	**75**	**80**	**63**	**77**	**85**	**92**
Adj. profit after taxes	52	43	55	67	81	83	71	78	85	92
EPS	**0.09**	**0.07**	**0.09**	**0.11**	**0.12**	**0.12**	**0.09**	**0.11**	**0.12**	**0.13**
EPS (adj.)	**0.09**	**0.07**	**0.09**	**0.11**	**0.13**	**0.13**	**0.11**	**0.12**	**0.13**	**0.14**
Profitability										
ROE (adj.)	**17.6%**	**12.7%**	**14.3%**	**16.1%**	**16.7%**	**14.6%**	**12.0%**	**12.4%**	**12.6%**	**12.9%**
ROE (reported)	**17.6%**	**12.7%**	**14.3%**	**16.1%**	**15.5%**	**13.9%**	**10.0%**	**11.5%**	**12.0%**	**12.3%**
ROA	2.1%	1.4%	1.4%	1.6%	1.6%	1.6%	1.2%	1.4%	1.4%	1.4%
RORWA	3.1%	2.2%	2.6%	2.8%	3.1%	2.9%	2.1%	2.4%	2.5%	2.6%
Core earnings ROE	19.2%	14.9%	16.5%	18.1%	18.8%	16.1%	13.0%	13.4%	13.7%	14.0%
Core earnings in % of RWA	3.6%	2.8%	3.2%	3.3%	4.2%	3.7%	2.9%	2.9%	3.1%	3.2%
Cost/Income ratio	42.5%	42.6%	44.2%	38.8%	44.0%	51.2%	57.6%	52.4%	50.4%	48.0%
Adjusted Cost/Income ratio	**42.5%**	**42.6%**	**44.2%**	**38.8%**	**40.7%**	**49.5%**	**53.4%**	**51.8%**	**50.4%**	**48.0%**
Costs in % of total assets	2.0%	1.6%	1.4%	1.3%	1.7%	2.3%	2.2%	2.1%	2.0%	1.8%
Tax rate	13.8%	18.7%	17.9%	16.1%	21.3%	18.7%	17.5%	17.5%	17.5%	17.5%
Loss ratio	0.55%	0.75%	0.21%	0.21%	0.58%	0.33%	0.47%	0.42%	0.40%	0.40%
Net interest margin	**3.20%**	**3.00%**	**2.99%**	**3.21%**	**4.05%**	**3.33%**	**3.16%**	**3.04%**	**2.93%**	**2.80%**
Operating margin	4.7%	3.7%	3.2%	3.3%	4.1%	4.6%	4.2%	4.0%	3.9%	3.8%
Pretax margin	2.4%	1.7%	1.7%	1.9%	2.0%	2.0%	1.5%	1.6%	1.7%	1.7%
Growth rates (YoY)										
Core earnings	-	-11%	27%	19%	27%	0%	-16%	10%	9%	9%
EPS (adj.)	-	-16%	28%	22%	18%	-5%	-14%	10%	9%	9%

Balance sheet (EURm)	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Cash and receivables	343	590	1,162	630	1,041	391	478	542	700	876
Net lending to customers	1,515	1,606	1,909	2,392	2,645	3,191	3,426	3,680	3,867	4,064
Total securities	601	781	839	1,118	1,034	1,194	1,255	1,340	1,407	1,478
Associated companies	-	-	-	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Tangible assets	12	16	15	16	16	14	14	14	14	14
Other assets	37	36	38	26	74	76	76	76	77	77
Total assets	**2,508**	**3,029**	**3,962**	**4,183**	**4,809**	**4,867**	**5,250**	**5,653**	**6,066**	**6,510**
Total equity	311	355	406	443	543	635	662	705	749	796
Minority interest	-	-	-	-	-	-	-	-	-	-
Total deposits	2,108	2,575	3,377	3,470	3,733	3,552	3,842	4,155	4,494	4,861
Debt securities in issue	20	20	95	171	276	406	472	518	547	575
Other liabilities	69	79	84	98	257	273	274	275	276	277
Equity and liabilities	**2,508**	**3,029**	**3,962**	**4,183**	**4,809**	**4,867**	**5,250**	**5,653**	**6,066**	**6,510**
Growth of loans	-	6.0%	18.9%	25.3%	10.6%	20.6%	7.4%	7.4%	5.1%	5.1%
Growth of deposits	-	22.2%	31.1%	2.8%	7.6%	-4.8%	8.2%	8.2%	8.2%	8.2%
Equity ratio	**12.4%**	**11.7%**	**10.3%**	**10.6%**	**11.3%**	**13.0%**	**12.6%**	**12.5%**	**12.3%**	**12.2%**
CET1 ratio	**15.0%**	**19.6%**	**19.5%**	**18.1%**	**19.9%**	**17.6%**	**17.5%**	**18.0%**	**18.7%**	**19.3%**
Core capital (EURm)	247	377	410	439	485	538	573	625	674	723
Tier 1 ratio	**15.0%**	**19.6%**	**19.5%**	**18.1%**	**19.9%**	**19.5%**	**19.2%**	**19.5%**	**20.2%**	**20.7%**
Capital base (EURm)	267	397	430	459	547	633	668	720	769	818
Capital adequacy	16.2%	20.7%	20.4%	19.0%	22.4%	22.9%	22.4%	22.5%	23.0%	23.4%
RWA	1654	1917	2106	2421	2439	2765	2990	3199	3340	3497

Share data	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Shares outstanding, year end (mill.)	601	601	601	601	663	654	652	652	652	652
Share price, year end (EUR)	0.51	0.50	0.76	0.69	0.69	0.82	0.98	0.98	0.98	0.98
Market cap (EURm)	304	299	457	412	459	539	639	639	639	639
EPS	0.09	0.07	0.09	0.11	0.12	0.12	0.09	0.11	0.12	0.13
EPS (adj.)	**0.09**	**0.07**	**0.09**	**0.11**	**0.13**	**0.13**	**0.11**	**0.12**	**0.13**	**0.14**
Book value per share (EUR)	0.52	0.59	0.68	0.74	0.82	0.97	1.02	1.08	1.15	1.22
Dividends per share (EUR)	-	0.005	0.034	0.027	0.049	0.060	0.045	0.056	0.062	0.067
Share buybacks (EUR)	-	-	-	-	-	0.013	0.003	-	-	-
Dividend payout ratio (Group)	-	8%	37%	24%	43%	50%	50%	50%	50%	50%
Total Dividend payout ratio (incl. buybacks)	-	8%	37%	24%	43%	61%	53%	50%	50%	50%

Valuation	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
P/E	5.9	7.0	8.3	6.1	5.6	6.9	10.8	8.8	8.0	7.3
P/E (adj.)	5.9	7.0	8.3	6.1	5.2	6.5	9.0	8.2	7.6	6.9
P/B (excl. goodwill)	0.98	0.84	1.12	0.93	0.85	0.85	0.97	0.91	0.85	0.80
Dividend yield	-	1.1%	4.5%	3.9%	7.0%	7.3%	4.6%	5.7%	6.3%	6.9%

Growth (YoY)	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Growth of loans	-	6.0%	18.9%	25.3%	10.6%	20.6%	7.4%	7.4%	5.1%	5.1%
Growth of deposits	-	22.2%	31.1%	2.8%	7.6%	-4.8%	8.2%	8.2%	8.2%	8.2%
EPS (adj.)	-	-16.5%	28.3%	22.1%	18.2%	-5.0%	-13.7%	9.9%	8.7%	8.9%

Capital ratios	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Equity ratio	12.4%	11.7%	10.3%	10.6%	11.3%	13.0%	12.6%	12.5%	12.3%	12.2%
CET1 ratio	**15.0%**	**19.6%**	**19.5%**	**18.1%**	**19.9%**	**17.6%**	**17.5%**	**18.0%**	**18.7%**	**19.3%**
Tier 1 ratio	15.0%	19.6%	19.5%	18.1%	19.9%	19.5%	19.2%	19.5%	20.2%	20.7%
Capital adequacy	16.2%	20.7%	20.4%	19.0%	22.4%	22.9%	22.4%	22.5%	23.0%	23.4%

Profitability	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
ROE (adj.)	**17.6%**	**12.7%**	**14.3%**	**16.1%**	**16.7%**	**14.6%**	**12.0%**	**12.4%**	**12.6%**	**12.9%**
ROE (reported)	**17.6%**	**12.7%**	**14.3%**	**16.1%**	**15.5%**	**13.9%**	**10.0%**	**11.5%**	**12.0%**	**12.3%**
ROA	2.1%	1.4%	1.4%	1.6%	1.6%	1.6%	1.2%	1.4%	1.4%	1.4%
Costs/Income ratio	42.5%	42.6%	44.2%	38.8%	44.0%	51.2%	57.6%	52.4%	50.4%	48.0%
Adjusted Costs/Income ratio	42.5%	42.6%	44.2%	38.8%	40.7%	49.5%	53.4%	51.8%	50.4%	48.0%
Costs in % of total assets	2.0%	1.6%	1.4%	1.3%	1.7%	2.3%	2.2%	2.1%	2.0%	1.8%
Loss ratio	0.55%	0.75%	0.21%	0.21%	0.58%	0.33%	0.47%	0.42%	0.40%	0.40%
Net interest margin	**3.20%**	**3.00%**	**2.99%**	**3.21%**	**4.05%**	**3.33%**	**3.16%**	**3.04%**	**2.93%**	**2.80%**

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
24/10/2024	0.95-1.16
07/11/2024	0.96-1.20
21/02/2025	1.03-1.28

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.

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