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Portfolio Manager, Firebird Management



MOI Best Ideas 2018 Šiaulių Bankas (SAB1L LH)

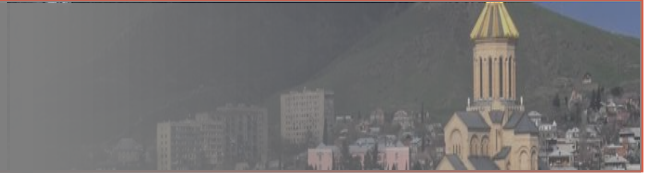
Presented by Steven Gorelik
Firebird Management



PRESENTATION INDEX



1. About Firebird Management



2. Investing in Eastern European Banks

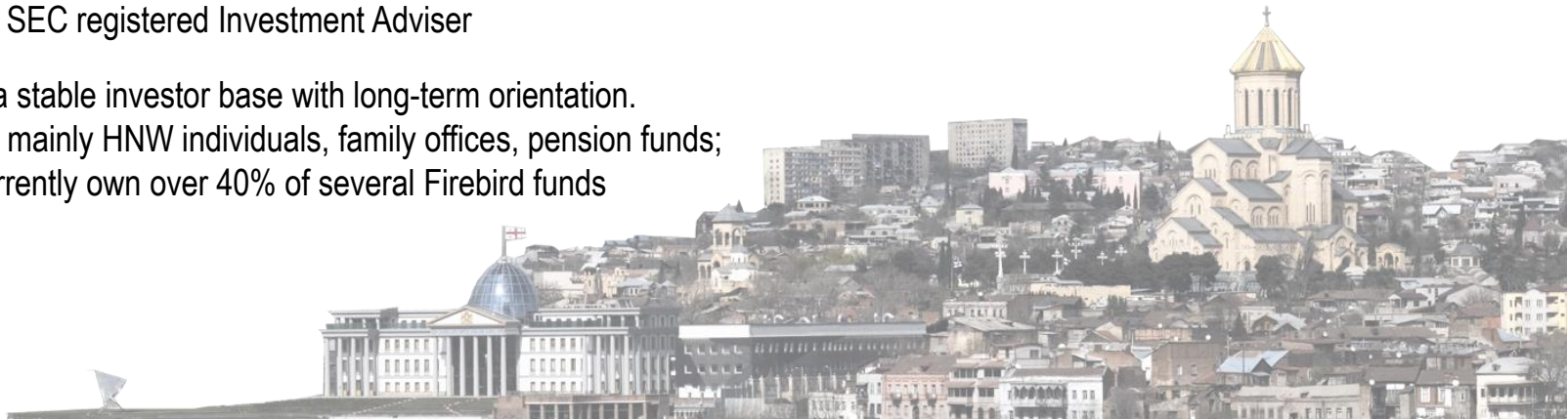


3. Investment Idea: Siauliu Bankas



FIREBIRD MANAGEMENT

- **Firebird Management LLC is based in New York City** and, through affiliates, maintains representative offices in Estonia, Lithuania, and Cyprus
- We manage approximately **US\$627 million** in various vehicles including Emerging Markets portfolios, U.S. Value, private equity, and hybrid funds
- Firebird has a track record of **25 years** and principals **Harvey Sawikin** and **Ian Hague** are among the few Russia and FSU focused managers that have invested in the region over several investment cycles
- Always close to regional markets, Firebird managers and analysts held 500+ company meetings in the last year, and, including our Amber private equity JV, serve on 7 Boards of Directors of the funds' portfolio companies
- Since inception in May 1994 Firebird Fund has delivered **17.4% net annualized returns** to investors*
- Firebird funds have created over US\$1.2 billion of value over the years, and distributed over US\$3.2 billion back to our investors**
- Firebird is an SEC registered Investment Adviser
- Firebird has a stable investor base with long-term orientation. Investors are mainly HNW individuals, family offices, pension funds; Principals currently own over 40% of several Firebird funds



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Why invest in Eastern European Banks

➤ **Broad Exposure**

- All activity in the economy flows through the banks
- Often times best regulated/managed businesses in the country.

➤ **Simpler Business Models**

- High net interest margins
- Profit is made from traditional banking activity, not derivative trading or excessive risk taking

➤ **Macroeconomic Environment**

- Economies are often under-banked
- Structurally higher asset growth

➤ **Accommodating Competitive Landscape**

- Strong local players often have better understanding of risks



Checklist for investing in Eastern-European Banks

➤ **Macroeconomics**

- Is the overall economy on the right track? What is the Nominal GDP growth in USD terms?

➤ **Quality of assets**

- Cash interest received as % of accrued?
- Non-loan assets
- Provisions/NPL coverage; Collateral coverage usually ends up being realized at 20 to 40% of face value.
- Related party disclosures

➤ **Funding Sources**

- Loan to deposit ratio
- Deposit concentration
- General reliance on capital markets

➤ **Valuation:** $(ROE + \text{Growth in assets}) / \text{Price to Book}$



Eastern European Banks

Metric	Macro Environment	Loan Growth	Funding	Quality of assets	Efficiency
<i>Key Measures</i>	<i>GDP CAGR – inv. Period*</i>	<i>This Yr's Loan Growth in USD</i>	<i>Loan / Deposit</i>	<i>CF Interest / accrued int.</i>	<i>Improving Cost/Income</i>
Bank of Georgia (Georgia)	8.7%	17%	110%	98%	36%↓
Banca Transilvania (Romania)	8.7%	7%	61%	101%	47%↓
Halyk Bank (Kazakhstan)	10.3%	-11%	53%	99%	25%↓
Sberbank (Russia)	1.5%	0%	94%	107%	31%↓
Siauliu Bankas (Lithuania)	9.0%	12%	66%	105%	44%↓

* Nominal GDP CAGR in USD terms

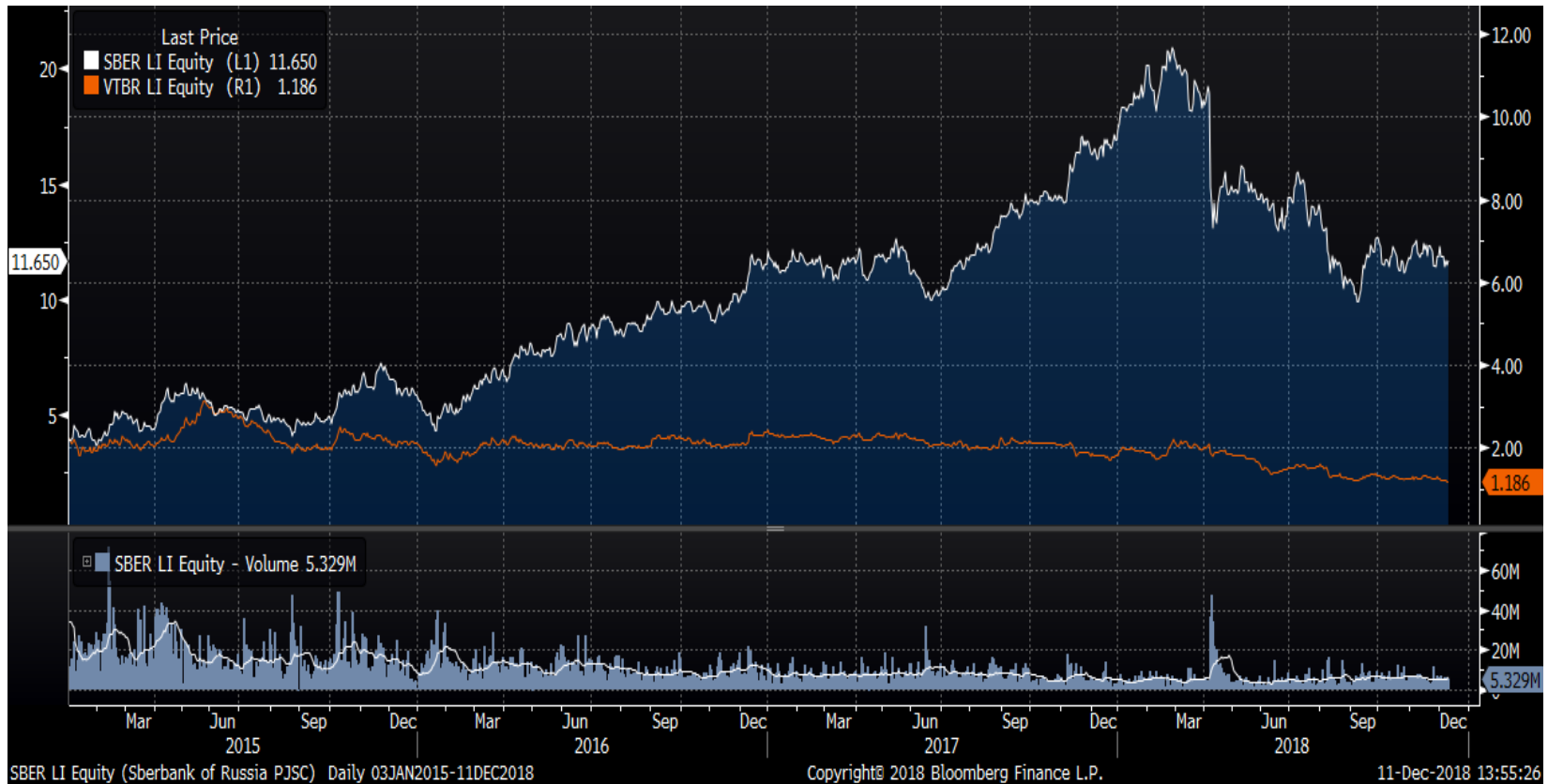


Buy the best



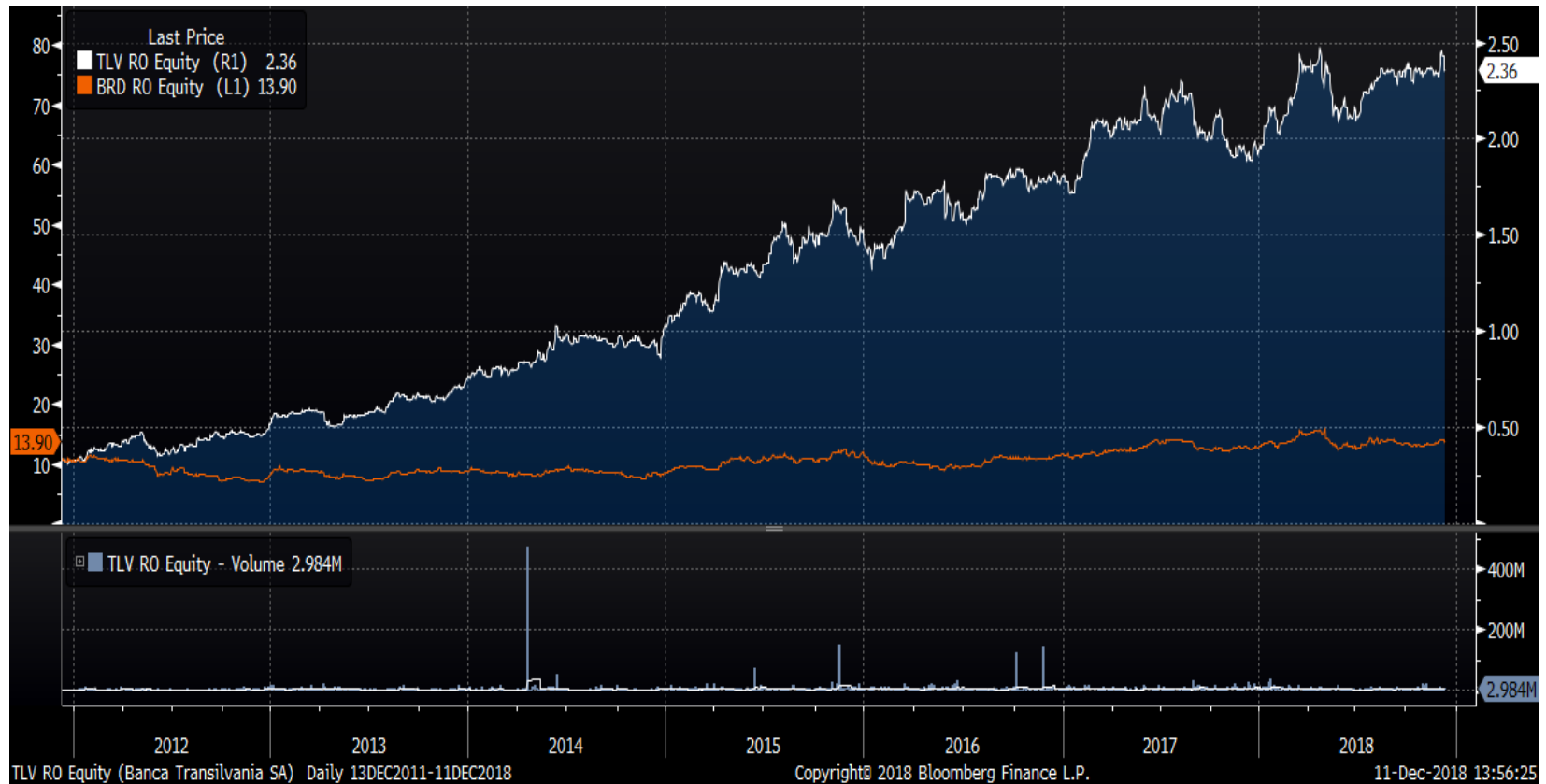
Recent stock market performance

➤ Russia: Performance of Sberbank vs. VTB



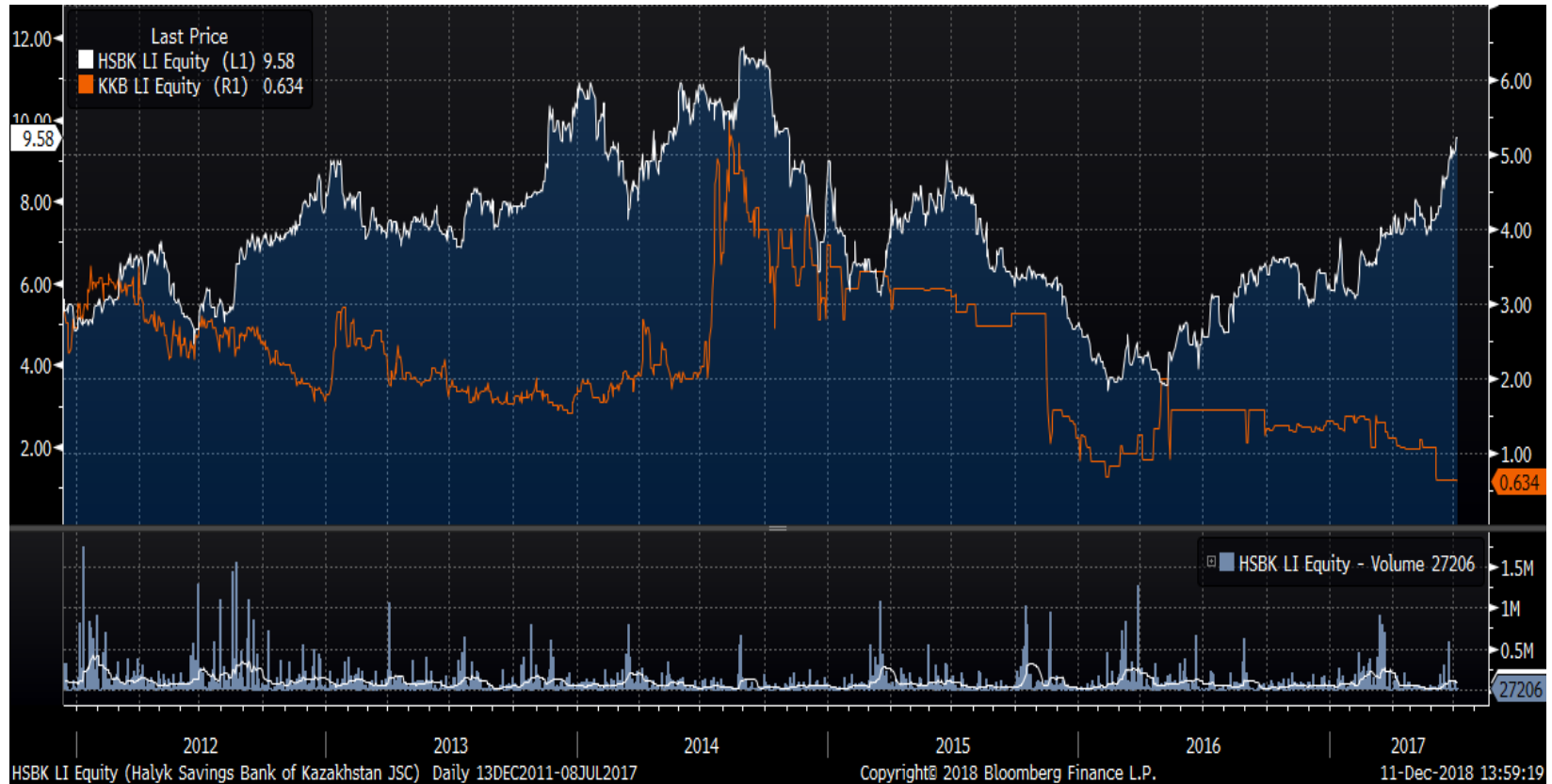
Recent stock market performance

➤ Romania: Performance of Banca Transilvania vs. BRD



Recent stock market performance

➤ Kazakhstan: Performance of Halyk Bank vs. Kazkommertsbank



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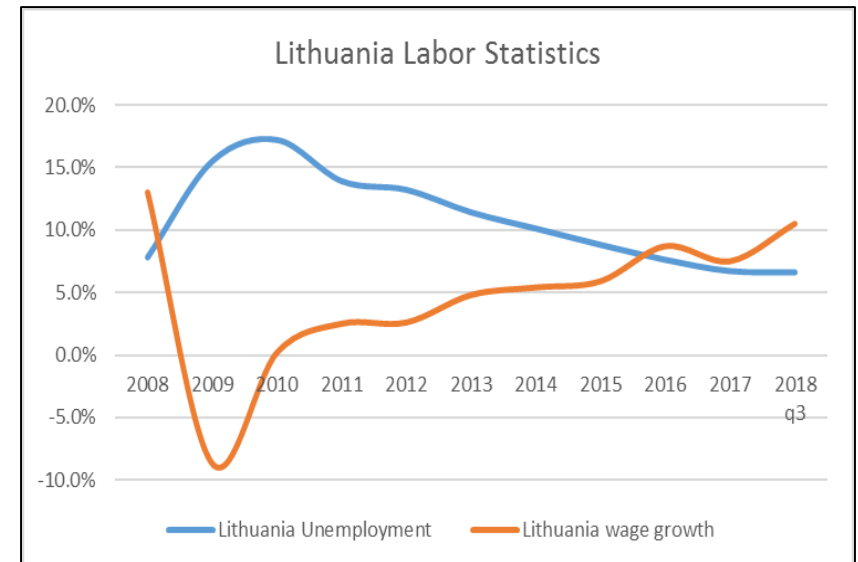
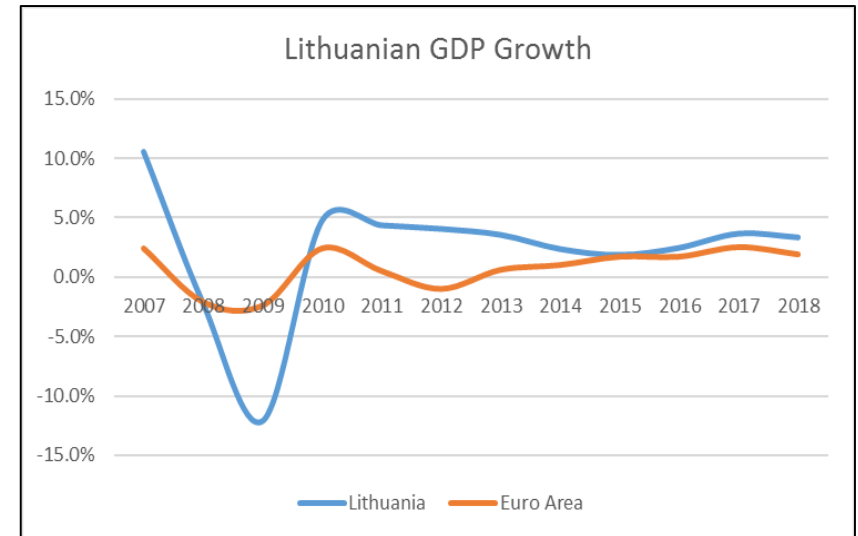


3. Investment Idea: Siauliu Bankas



Lithuanian Macro

- **Lithuania is a country of 2.8 million people**
 - Former Soviet Republic
 - EU member since 2004; Euro member since 2015; stable EU focused politics
- **GDP Growing faster than EU average**
 - Recovered from deep crisis during 2008/2009
 - Diversified economy benefitting from FDI and EUR structural support
- **Unemployment is down dramatically**
 - 6.6% down from high double digits immediately after the crisis
 - Wages grew 10% in H1 2018 increasing spending power of consumers



Lithuanian Macro – Cause & Effect of 2008 crisis

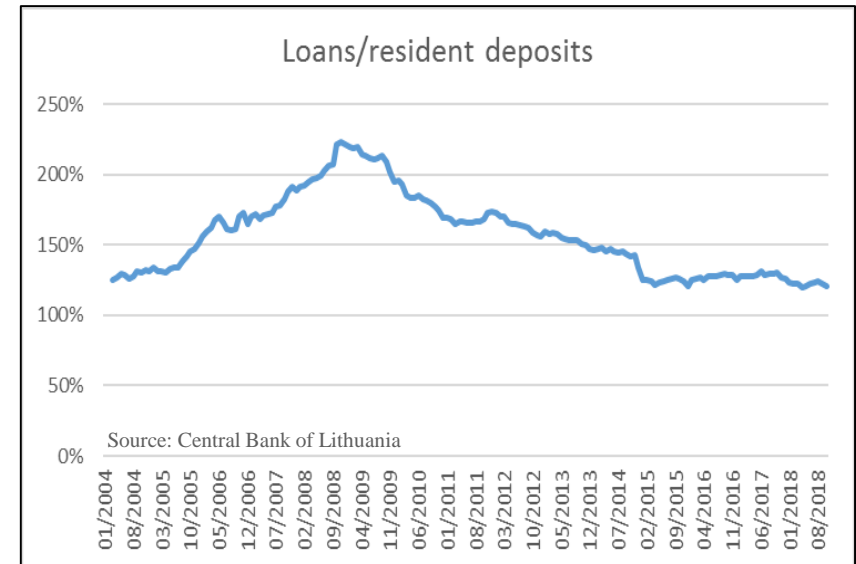
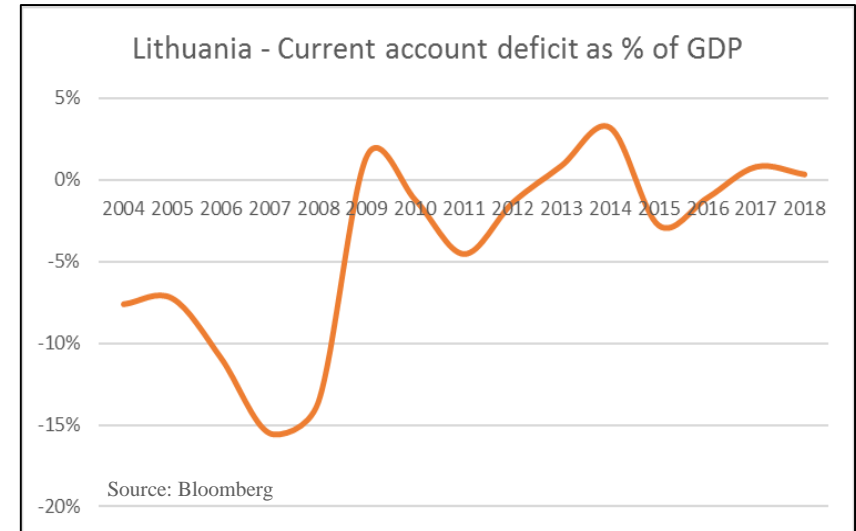
➤ Causes of 2008 crisis

- Current account deficit of 15%
- Reliance on foreign funding through local subsidiaries of foreign banks
- Currency pegged to the euro reducing flexibility
- GDP declined by 14% between 2007 and 2009

➤ Economy restructured following the crisis

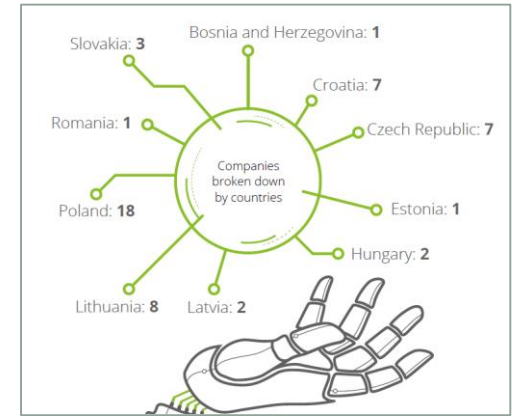
- Country went through severe austerity in order to meet the Maastricht criteria and join the euro
- Foreign banks pulled funding – domestic deposit base grew faster than the loans
- Current account deficit disappeared

➤ Economy is once again growing, but from a more sustainable footing



Lithuania Today

- **Economic growth is driven by industry and services**
- **8 out of 50 companies on the Deloitte 50 fastest growing companies in Central & Eastern Europe**



Lithuanian Banking System

➤ Dominated by Scandinavian banks

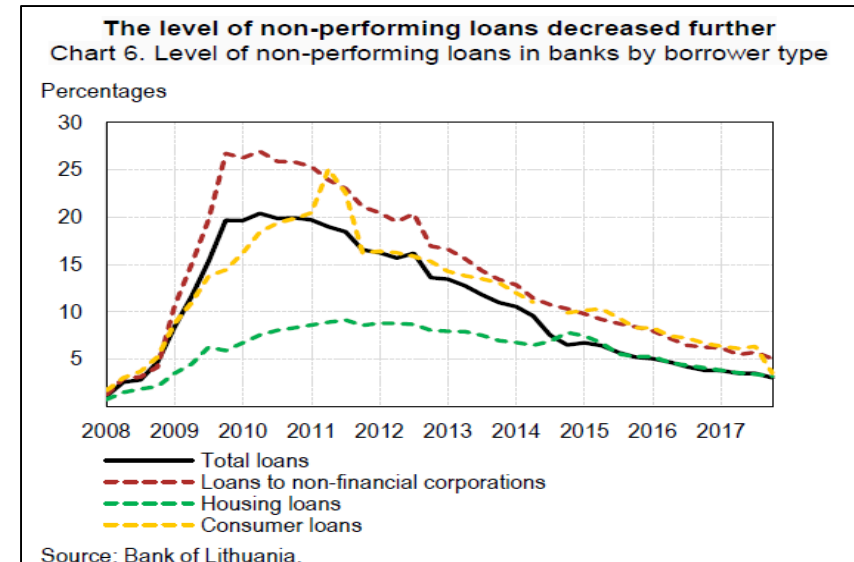
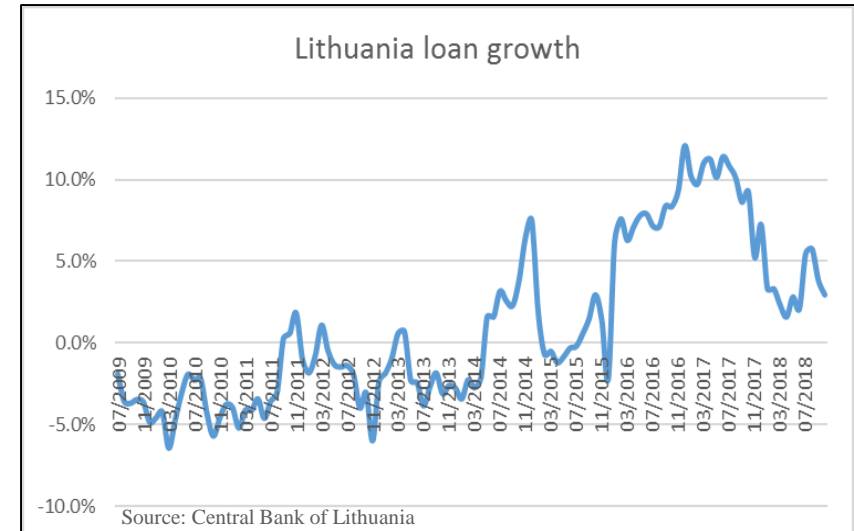
- Top 3 banks represent 81% of the market
- Foreign owned banks control 90% of the banking system

➤ Stable

- Non-performing loans are down to below 5% from the peak of 20% immediately following the crisis
- Primarily funded with domestic deposits

➤ Underbanked

- Banking assets to GDP of 58%
- Loan growth was negative from 2008 until mid-2015



Siaulių Bankas - Background

➤ 4th largest bank in Lithuania

- 6% market share
- EUR 232M MCAP; (Daily Trading Volume: ~ EUR 190k)
- Only bank specifically targeting SME clients
- Listed on Vilnius Stock Exchange (SAB1L LH)

➤ Locally Owned

- EBRD owns 26%; remainder is free float after termination of shareholder agreement

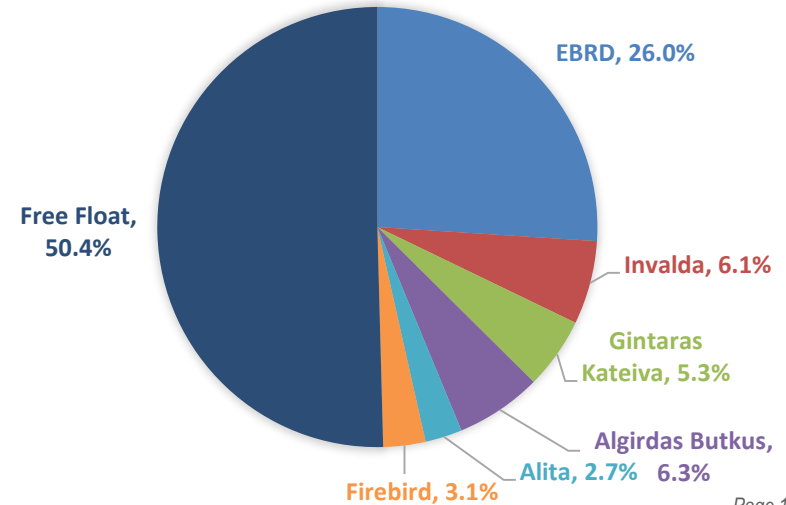
➤ Recently Transformed

- Bought two smaller local competitors solidifying its place as the largest locally owned bank
- New management team working on transforming the bank since 2011



Bank	Market Share	
	Loans	Deposits
SEB	30.0%	26.1%
Luminor	26.0%	18.2%
Swedbank	25.4%	33.8%
Siaulių Bankas	6.3%	8.7%
Citadele Bank	1.4%	2.1%
Medicinos Bankas	0.9%	1.4%
Foreign Bank Branches	7.9%	7.1%

SIAULIŲ BANKAS OWNERSHIP



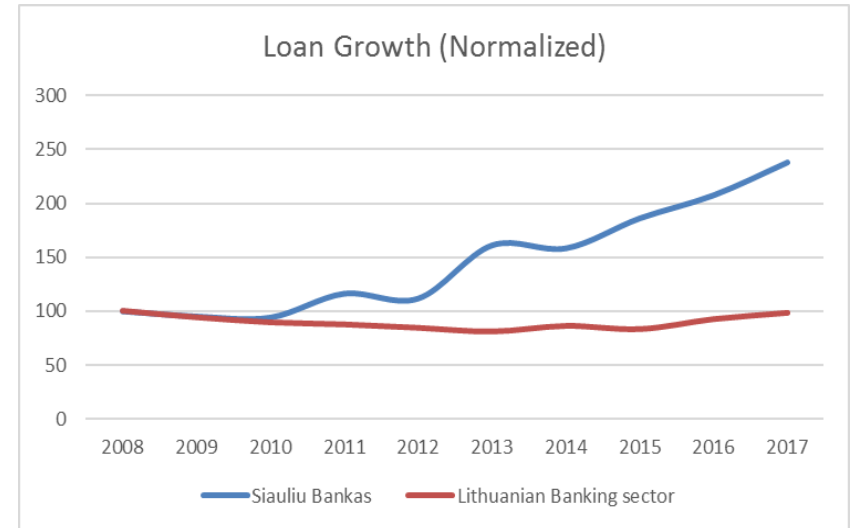
Siauliu Bankas – Transformation through Consolidation

➤ Consolidation

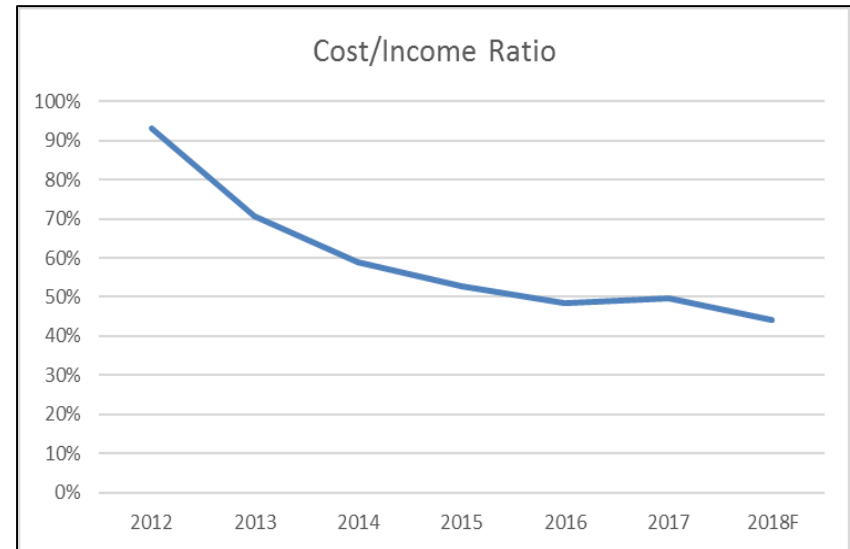
- 2012 - Assumed assets and liabilities of Ukio Bankas, sixth largest bank in the country, with the backing of Lithuanian Deposit Insurance Fund
- 2015 - Bought Finasta Bank - Seller insisted on compensation in Siauliu shares

➤ Transformation

- Bank doubled its balance sheet and in the process gained market leading market share in leasing
- Emerged as the go to lender for SMEs and retail customers.
- Reduced cost/income ratio from 90% to 44%
- Grew fee & commission income by 350% since 2012



Source: Central Bank of Lithuania, Bank filings



Source: Bank filings



Siauliu Bankas - Valuation

Metric	Macro Environment	Funding	Quality of assets	Efficiency	Valuation	Expected IRR
Key Measures	Real GDP Growth	Loan / Deposit	CF Interest / accrued int.	Improving Cost/Income	ROE + Growth/ (P/B)	Medium term holding period
Siauliu Bankas (Lithuania)	9%	66%	105%	44%↓	24%	36%

Growth Value

Return on Equity (ROC)	15%	
Cost of Equity (R)	12%	
Normalized Growth (G)	5%	
ROC/R		
G/R		
Capital or Equity (C)	262	
$PV = C * (ROC - G)/(R-G)$	375	Present Value
$EPV = C * (ROC/R)$	328	Earnings Power Value
EPV Multiple (ROC/R)	1.25	EPV
$M = PV/EPV$	1.14	Growth Multiplier
EPV with Growth Multiple (EPV * M)	1.43	

$$M = PV/EPV$$

$$PV = C * (ROC - G)/(R - G)$$

$$EPV = C * (ROC/R)$$

$$M = 1 - (G/R)(R/ROC)/1 - (G/R)$$

IRR	12/12/18	5/31/19	5/31/20	12/31/20
Entry Price	(257)			
Intermediate CFS		9	9	
Exit @ EPV Multiple				458
Total CFS	(257)	9	9	458
IRR	35.9%			



Why is it Cheap? – Perceived overhang

- EBRD has been a shareholder since 2005. Typical holding period of 4 to 7 years
 - Recently increased its ownership of the bank from 18% to 26% as a result of a loan conversion
- Dissolved shareholders agreement
 - Parties holding 40% of the bank (including EBRD) agreed to dissolve shareholder agreement freeing them up to sell shares independently
 - Shareholders include individuals and liquor company Alita – non core asset



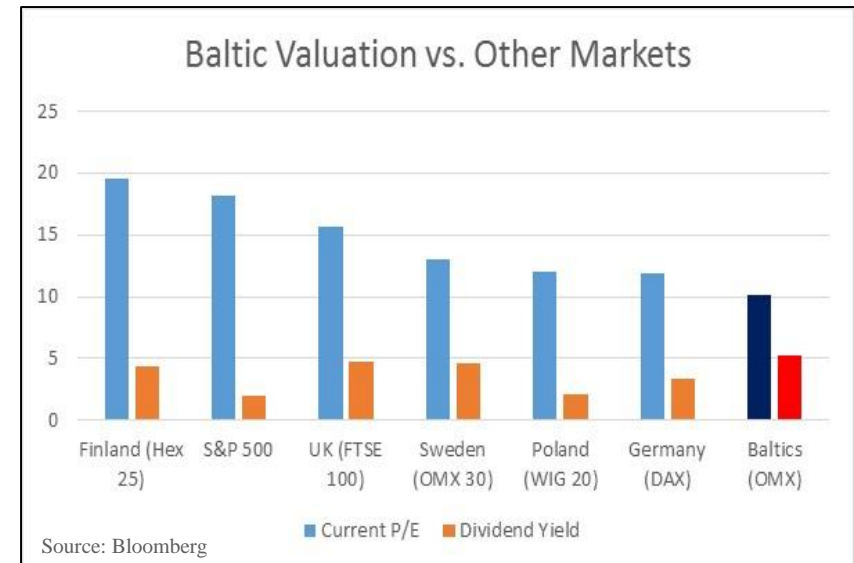
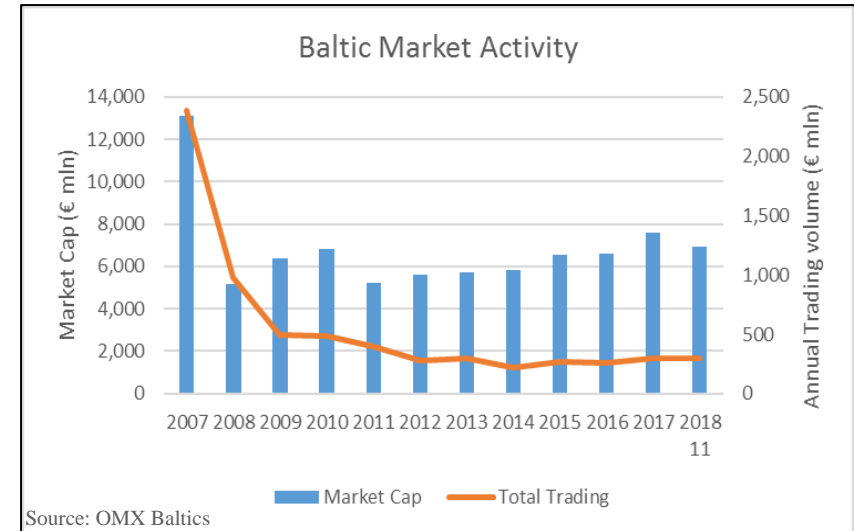
Why is it cheap?

➤ **Baltic Market Is Cheap**

- Trading at 10.1 P/E and 5%+ dividend yield
- Underfollowed due to lack of liquidity and free float
- Lack of domestic sources of demand

➤ **Baltic Banks are under suspicion due to numerous scandals earlier this year**

- ABLV shut down after being accused of participating as a conduit for North Korean money
- Danske Bank Estonia branch implicated in laundering of EUR 200 billion of Russian money
- Non-resident participation in Lithuanian banking sector is below 5% vs. 40% in Latvia and 11% in Estonia



Catalysts

➤ Higher Dividends

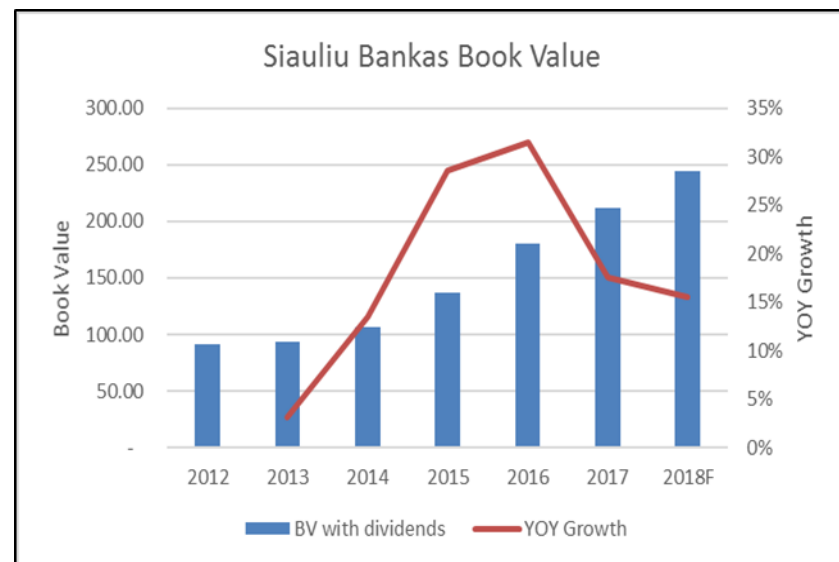
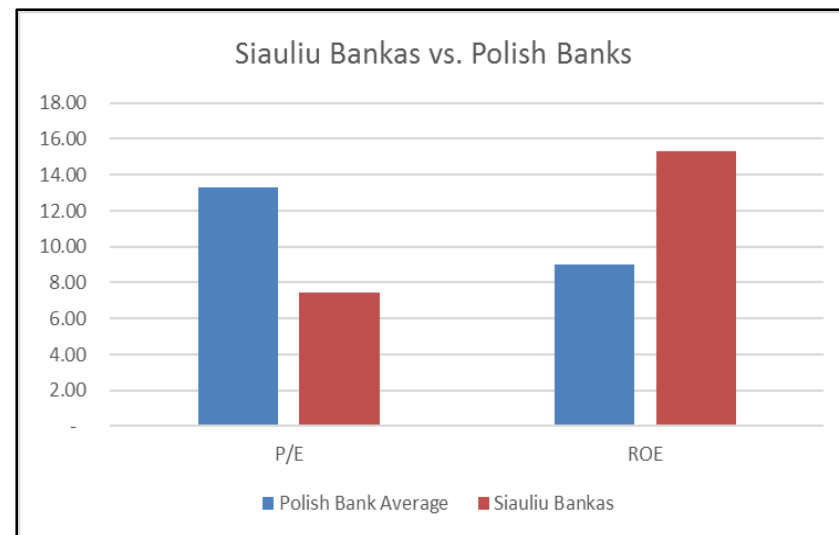
- Bank recently announced dividend policy with minimum 25% payout ratio

➤ M&A

- Pan-Baltic bank Luminor was recently bought out by Blackstone for 1x P/B despite ROE of only 9%
- Potential acquirers from Poland are trading at 50% premium on P/E basis despite much lower ROE

➤ Compounding

- Bank is delivering ROE of 15 to 20% and growing at 10% per annum.
- Trading at 1x BV – ROE + growth implies 25% p.a. compounding of value without revaluation



Summary & Contact

- Eastern European Banks can be great serial compounders
- Macro and management matters – *a lot*
- Buy the best
- Lithuanian economy is well positioned for growth in short to medium term
- Siauliu Bankas is 4th largest bank in Lithuania; largest locally owned bank
- Trading at 1x P/B and 8x PE
- Cheap because of perceived overhang and structure of the market
- Should generate 25 to 35% IRR to long-term holders



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Appendix: Financials

Income Statement (EUR Millions)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Interest Income	10.2	13.2	18.7	29.4	40.6	41.4	32.0	35.0	36.5	59.1	64.5	65.8	65.9	67.1
Interest Expense	(4.2)	(5.8)	(8.4)	(16.6)	(26.7)	(32.9)	(22.8)	(19.1)	(18.7)	(28.8)	(26.3)	(18.6)	(13.9)	(12.8)
Provisions for Loan Losses	(0.2)	(0.1)	(0.5)	(1.7)	(2.5)	(14.6)	(13.3)	(3.1)	(8.8)	(14.1)	(22.3)	(23.0)	(7.8)	2.5
Gross Profit	5.8	7.4	9.8	11.1	11.3	(6.2)	(4.1)	12.8	9.1	16.1	16.0	24.2	44.2	56.7
Gain on Financial Assets	0.2	0.9	0.2	1.2	1.7	1.4	0.9	(1.0)	3.1	2.7	3.7	(0.1)	4.5	(9.2)
Gain on Forex	1.0	0.7	0.9	1.0	0.7	0.7	0.8	1.4	1.4	2.0	3.7	3.2	4.5	4.8
Net Fee and Commission Income	1.6	1.9	2.3	2.6	2.8	2.4	2.3	2.5	2.3	4.2	5.2	8.0	9.4	11.0
Net Income from Insurance Activities	-	-	-	-	-	-	-	-	-	0.4	0.3	0.1	2.5	1.9
Other Income	2.3	0.7	1.0	0.7	0.3	0.3	0.5	4.0	5.4	1.7	2.3	1.9	1.7	1.4
Operating Income	10.9	11.6	14.2	16.6	16.9	(1.3)	0.4	19.7	21.2	27.1	31.0	37.3	66.8	66.5
Operating Expense	(8.1)	(9.4)	(11.0)	(11.1)	(11.9)	(10.6)	(9.9)	(16.0)	(18.8)	(24.4)	(25.7)	(29.1)	(29.8)	(32.3)
EBIT	2.8	2.3	3.2	5.5	5.0	(12.0)	(9.5)	3.6	2.4	2.7	5.3	8.3	37.0	34.2
Gain from derecognition of fin. Assets	-	-	-	-	-	-	-	-	-	3.5	7.5	4.8	12.6	2.7
Net Income from sales of apartments	-	-	-	-	-	-	-	-	1.4	1.6	0.5	0.4	-	-
Results of Associates	-	-	-	-	-	-	-	0.0	0.0	-	-	-	-	-
Results of discontinued operations	-	0.3	11.5	3.1	0.1	(0.0)	(0.1)	0.6	0.6	(1.3)	0.5	11.3	0.6	2.9
EBT	2.8	2.6	14.8	8.5	5.1	(12.0)	(9.6)	4.2	4.4	6.5	13.8	24.8	50.3	39.8
Taxes	(0.3)	(0.1)	(2.5)	(0.9)	(0.5)	1.7	1.4	(0.5)	(0.6)	(1.1)	(2.0)	(1.0)	(6.7)	(7.6)
Minority Interest	(0.6)	(0.3)	(5.6)	(0.6)	(0.7)	-	-	-	(0.0)	(0.0)	-	-	-	-
Net Income to Shareholders	1.9	2.2	6.6	7.1	3.9	(10.3)	(8.2)	3.8	3.8	5.3	11.8	23.8	43.7	32.1
Other Comprehensive Income	-	-	-	-	-	(0.0)	0.2	(0.3)	1.8	(2.1)	1.1	0.4	(0.6)	0.2
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	0.6	1.9
Adjusted Net Income	(0.4)	1.2	(5.9)	3.2	3.5	(10.6)	(8.6)	(0.9)	(3.6)	(0.1)	1.1	5.4	28.7	37.3
Adjusted ROE	-2.2%	4.7%	-14.1%	4.7%	4.1%	-13.3%	-11.7%	-1.1%	-4.1%	-0.1%	1.0%	4.4%	18.1%	19.2%

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Loan Loss Provision Ratio	-0.2%	0.0%	-0.2%	-0.5%	-0.6%	-3.4%	-3.2%	-0.7%	-1.7%	-2.3%	-3.1%	-2.9%	-0.9%	0.2%
Fee and Commission Income Growth Rate		21.8%	22.6%	11.2%	6.5%	-14.4%	-1.7%	5.9%	-4.5%	79.1%	23.0%	55.5%	17.1%	16.3%
Interest on avg yielding assets		6.1%	6.2%	7.0%	8.0%	8.0%	5.9%	5.7%	5.3%	6.0%	5.0%	4.7%	4.2%	3.9%
Interest on avg yielding liabilities		-2.6%	-2.8%	-3.9%	-5.2%	-6.3%	-4.0%	-2.9%	-2.6%	-2.7%	-1.8%	-1.2%	-0.9%	-0.8%
Net Interest Margin		3.6%	3.4%	3.0%	2.7%	1.6%	1.9%	2.7%	2.7%	3.3%	3.2%	3.4%	3.3%	3.1%
Cost/Income Ratio	-73.0%	-80.0%	-74.8%	-60.8%	-61.1%	-80.0%	-71.9%	-70.6%	-62.7%	-59.2%	-48.1%	-48.1%	-39.9%	-42.5%
Loan Growth Rate		58.0%	39.5%	56.8%	7.4%	-3.7%	0.0%	24.6%	-3.1%	45.1%	-1.1%	18.2%	12.0%	15.2%
Asset Growth Rate		48.9%	30.0%	47.9%	1.4%	-0.3%	12.6%	17.2%	7.5%	81.3%	6.2%	3.4%	9.8%	9.1%
Equity Growth Rate		44.3%	82.1%	54.4%	1.9%	-13.7%	-1.2%	17.1%	6.9%	3.1%	13.5%	28.6%	31.0%	17.0%
Capital Adequacy (Equity/Assets)	9.9%	9.6%	13.5%	14.1%	14.2%	12.3%	10.8%	10.7%	10.7%	6.1%	6.5%	8.1%	9.6%	10.3%
Loan/Deposit Ratio	69.6%	81.6%	86.3%	82.6%	87.0%	80.9%	70.5%	75.7%	67.5%	52.6%	49.3%	57.7%	60.5%	64.6%



Appendix: Financials

Balance Sheet (EUR Millions)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Cash	15.2	21.9	27.3	66.8	41.4	48.9	60.4	64.8	64.3	142.0	197.4	105.0	153.9	129.7
Financial Assets	0.5	4.6	3.6	5.4	1.1	0.9	23.6	4.8	14.8	42.0	52.1	71.1	57.4	49.2
Loans to Banks	11.5	21.3	17.1	0.2	0.4	0.6	1.2	1.2	1.2	2.5	5.7	6.5	5.3	2.2
Loans to Customers	116.3	183.7	256.3	401.8	431.5	415.4	415.4	517.4	501.6	728.0	720.2	851.3	953.6	1,098.3
Finance Lease Receivables	11.2	18.0	22.6	35.2	37.3	29.4	30.1	47.4	53.3	63.2	53.7	57.8	69.8	91.1
Investments	34.8	31.4	47.2	54.7	54.1	67.3	92.0	99.0	139.2	440.2	476.2	515.1	543.2	592.7
Total Current Assets	189.6	280.8	374.1	564.1	565.8	562.5	622.6	734.7	774.3	1,417.9	1,505.3	1,606.9	1,783.3	1,963.3
PP&E	11.9	14.2	14.0	14.9	16.3	15.1	13.4	13.6	15.3	13.4	11.2	10.9	11.5	10.7
Intangible Assets	0.6	0.6	0.5	0.4	0.2	0.2	0.2	0.3	0.3	3.1	3.3	3.8	4.2	4.5
Other Assets	5.4	13.3	13.2	14.9	12.8	12.8	16.7	17.7	12.9	1.8	7.8	24.3	20.6	21.7
Inventories	-	-	-	-	7.2	10.1	12.4	12.8	38.5	44.2	54.6	30.5	24.9	18.3
Investment Property	-	-	-	-	-	-	7.2	9.6	10.9	26.1	20.2	18.3	16.8	12.2
Assets Held for Sale	-	-	-	-	-	-	3.6	4.1	-	38.4	37.6	0.3	-	-
Total Assets	207.5	309.0	401.8	594.2	602.3	600.6	676.2	792.8	852.3	1,544.8	1,640.0	1,695.0	1,861.3	2,030.8
Customer Accounts	149.8	215.4	266.8	352.5	364.8	442.8	484.3	548.5	627.2	1,311.8	1,415.3	1,436.4	1,495.1	1,648.1
Loans from other banks	33.7	35.8	50.1	134.3	131.7	71.3	106.9	136.4	117.7	76.5	55.8	50.4	89.8	55.7
Debt Securities Issued	-	5.7	8.0	8.3	7.2	1.2	1.5	13.1	6.6	-	-	20.5	22.1	54.2
Other Borrowed Funds	0.1	9.1	12.4	10.6	8.9	9.1	8.1	4.9	2.1	2.1	2.5	8.2	28.3	13.3
Deferred Tax Liability	0.3	0.0	1.7	0.4	0.2	-	-	0.0	1.8	1.7	2.3	2.3	5.3	4.3
Liabilities Related to insurance	-	-	-	-	-	-	-	-	-	-	-	23.5	25.5	27.2
Other Liabilities	3.1	13.1	8.5	4.4	4.1	2.6	2.5	4.6	5.8	58.8	57.5	16.8	15.7	18.0
Total Liabilities	186.9	279.2	347.5	510.4	517.0	527.0	603.4	707.6	761.2	1,450.9	1,533.4	1,558.0	1,681.8	1,820.8
Share Capital	16.2	21.6	31.6	46.6	52.2	52.2	59.3	68.0	68.0	72.4	78.2	91.2	109.5	131.4
Share Premium	0.7	2.4	7.2	18.8	13.2	13.2	13.5	13.9	13.9	9.5	3.7	-	-	-
Reserves	0.8	0.9	1.0	1.4	1.6	5.3	5.6	0.7	2.8	1.1	2.7	4.1	5.2	8.5
Retained Earnings	1.9	2.5	8.2	14.4	16.8	2.9	(5.7)	2.6	6.1	10.7	22.0	41.7	64.8	70.1
Minority Interest	1.1	2.3	6.2	2.5	1.4	-	-	-	0.2	0.1	-	-	-	-
Total Equity	20.6	29.8	54.3	83.8	85.3	73.6	72.7	85.2	91.1	93.9	106.6	137.1	179.5	210.0
Liability + OE	207.5	309.0	401.8	594.2	602.3	600.6	676.2	792.8	852.3	1,544.8	1,640.0	1,695.0	1,861.3	2,030.8



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