



SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

April 19, 2007

Sberbank

Investment alert

BUY

Upside: 25%

Target price: \$4,854

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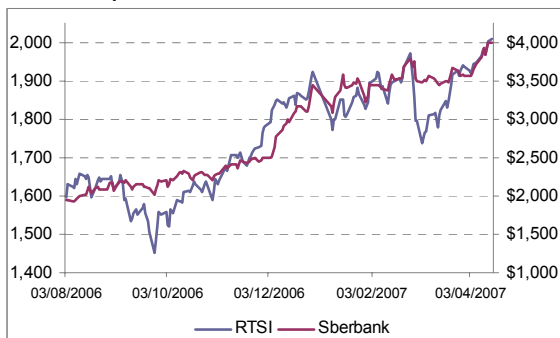
STOCK DATA

Ticker	SBER	M.Cap, \$ mn	87,621
Shares Ords	21,586,948	Free Float, %	40
Shares Pref	50,000,000	Free Float, \$ mn	35,048
Bid Ords, \$	3,920	Offer Ords, \$	3,950
Bid Prefs, \$	60	Offer Prefs, \$	65

PERFORMANCE 2007E

Assets, \$ mn	194,738	ROA, %	2.5%
Book value, \$ mn	26,364	ROE, %	18.4%
NII, \$mn	9,341	P/A	0.46
Net profit, \$ mn	4,858	P/BV	3.4
Tier 1 Capital ratio, %	13.5%	P/E	18.4

Sberbank's performance relative to the RTS



Source: RTS, Sovlink Securities

Sberbank's multiples

	2007E	2008E	2009E
P/A	0.46	0.33	0.25
P/BV	3.4	2.5	1.9
P/E	18.4	13.0	9.4

Source: Sovlink estimates

Sberbank forecasts

	2007E	2008E	2009E
Assets, \$ mn	194,738	267,970	363,470
Equity, \$ mn	26,364	35,446	47,719
NII, \$mn	9,341	12,295	15,927
Net profit, \$ mn	4,858	6,901	9,516
ROA	2.5%	2.6%	2.6%
ROE	18.4%	19.5%	19.9%
Loan/Deposit ratio	95.4%	94.8%	93.6%
Capital adequacy ratio	13.5%	13.2%	13.1%

Source: Sovlink estimates

Still the best

- We completely changed our evaluation approach to Sberbank, by excluding both comparative valuations as well as the SPO approach. Our new valuation is based entirely on the EBO model method. We revised our EBO model, by incorporating the results of the SPO and taking into consideration the recent positive news regarding Sberbank.

- Sberbank's successful SPO, which allowed the largest bank in the country to raise \$8.9 bn, demonstrated significant investor interest towards the Russian banking sector. Although the number of shares sold – 2.59 mn – was below the number announced by Sberbank before the placement (3.5 mn), we view the SPO results positively.

- Next, the bank intends to carry out a share split of its ordinary shares in a ratio of 50:1. This will result in its common and preferred shares having the same nominal value. The split was approved by Sberbank's Supervisory Board and is to be voted on at its AGM on June 29. If the split is approved, this will substantially improve share liquidity.

- We note that VTB's forthcoming IPO stresses investor interest in the Russian banking sector and in Sberbank, as it remains the only blue chip bank on the Russian securities markets. We expect that Sberbank will improve its corporate governance and become more open to investors as a result of VTB's IPO.

- We continue to stress that in spite of the rapid growth of the Russian banking sector in recent years, it still remains amongst the most underdeveloped in the CIS and has solid upside potential. The Russian banking sector jumped 37.7% (by asset value) in 2006 alone. We expect that it will continue to enjoy approximately 30% y-o-y growth rates through 2010.

- We stress that Sberbank's 2007E P/BV ratio of 3.4 is in line with the average expected P/BV ratio for Russian banks and is double that of developed economies. Because of Sberbank's advantages over other Russian banks, we believe it should trade at a premium to the average P/BV ratio of the Russian banking sector. In our previous research "Sberbank and the Russian banking sector: initiation of coverage" published on 2 February, 2007, we showed that the difference in the P/BV ratios can be explained only by the premiums awarded due to: high profits and growth rates. The average ROE for Russian banks exceeds 15%, which is much higher than for banks in developed economies. The expected ROE for Sberbank is steadily increasing to 20%, which is higher than the average ROE for Russian banks. Moreover, we believe that the bank will maintain its rapid growth rates regarding loans and deposits. Despite losing retail market share in 2006, we believe that Sberbank will remain a key player in the retail banking market and be the main beneficiary of further rapid retail market growth.

- As a result of changes to our valuation model, we increase our target price from \$3,670 per share to \$4,854 and raise our rating from **HOLD** to **BUY**.

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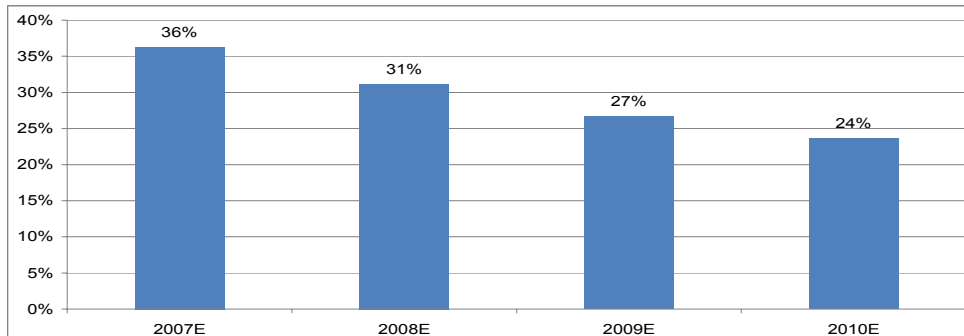
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The results of the SPO

- Sberbank managed to attract only \$8.9 bn, whereas the upper limit of the SPO announced by the bank was \$9.9 bn (260 bn roubles). Despite this, we regard the results of the placement as successful. Funds raised through the SPO will allow Sberbank to solve the most significant problem preventing the bank from further development – the lack of capital. This was an extremely acute issue for Sberbank, because by the beginning of 2007 the bank had utilized all available sources of capital increases – subordinated credit and asset reassessment.
- The Central Bank has set the capital adequacy ratio at 11% (the minimum ratio for participants of the Deposit Insurance System). At the beginning of November, 2006, Sberbank's capital adequacy ratio was 12%, and this low level became Sberbank's main obstacle regarding the expansion of its operations. As a result of the share placement, we estimate that Sberbank will be able to raise its equity capital by \$12 bn in 2007 and by \$9 bn in 2008.
- Money attracted by Sberbank via the SPO will be used for developing the bank's active operations, primarily in retail banking. A lack of capital in 2006 led to the loss of its leading position in some market segments. For example, in mortgage lending Sberbank was rated second in 2006, having yielded its No. 1 spot to CIT Finance Bank. Furthermore, the bank also lost retail market share, dropping from 44% to 37%.
- We expect that Sberbank will continue losing retail market share as a result of the low quality of its client base, its conservative policy in retail lending, and the rapid development of small retail-oriented banks.

Sberbank's retail market share, %



Source: Sovlink estimates

It is still too early to speak about a shift in retail banking from Moscow to the regions, but we expect that this will happen in the near future. When this happens, Sberbank will have a competitive advantage over all other Russian banks, due to the fact that it has the largest regional network in the country.



Changes in our valuation

We have changed our valuation approach to Sberbank.

1. We have based our revised valuation exclusively on the EBO model. Whereas in our previous valuation, we combined the SPO effect approach, comparative valuation and the EBO model, our revised valuation is based exclusively on the EBO model. We excluded the SPO effect valuation as it is a scenario-based method, which depended on the forecast SPO price. In our revised valuation we have incorporated the SPO results (the price and the volume) in our EBO model, and therefore no longer needed to use the SPO effect valuation. As we already mentioned, every banking system has its own fair multiples depending mainly on two factors: the difference between the ROE and the required return on equity (the so-called excessive margin) and expected growth rate in the banking sector. It is difficult to select a banking system similar to Russia, and, moreover, we consider that Sberbank should enjoy a premium to average Russian banking multiples as it is better positioned than other Russian banks in a number of ways. Consequently, our new valuation is based exclusively on the EBO model, an approach that we consider the most appropriate.
2. We incorporated the results of the secondary share placement in our EBO model through which Sberbank raised \$8.9 bn. The funds raised through the SPO will allow Sberbank to solve the most significant problem preventing the bank from further development – namely, a shortage of capital.
3. We incorporated our new forecasts for Sberbank's financials in our model. According to our new estimation, Sberbank will be able to achieve about \$26 bn equity capital by the end of 2007 and about \$35 bn equity capital by the end of 2008. We also revised our forecasts for the bank's net profit and net interest income (NII).
4. Finally, we have corrected the number of shares from 21.5 mn to the actual 21.59 mn.



The EBO model

The EBO (Edwards-Bell-Ohlson) model is a sort of discounted cash flow method based on discounting the excessive cash flow for shareholders. In this approach, the value estimate is based on the current equity book value (which makes this method the most appropriate for the valuation of a bank), plus the present value of all expected future excessive earnings (i.e. any earnings above and beyond the required rate of return on investments.)

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Risk free rate (30-year Russian Eurobonds)	5.90%	5.65%	5.50%	5.50%	5.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
β coefficient	1.14	1.25	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Market premium	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Required return on equity	11.6%	11.9%	10.5%	10.5%	10.5%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
BV	8,795	14,288	26,364	35,446	47,719	63,665	81,491	104,309	133,516	170,900	217,043	275,644
Earnings	2,170	3,355	4,858	6,901	9,516	12,676	16,479	21,422	27,849	36,203	47,064	61,184
ROE	24.7%	23.5%	18.4%	19%	19.9%	19.9%	20.2%	20.5%	20.9%	21.2%	21.7%	22.2%
SVA	284	389	385	619	898	1,256	1,684	2,257	3,024	4,049	5,499	7,462
SVA Discounted			349	507	666	858	1,046	1,274	1,552	1,889	2,332	2,877

Source: Company data, Sovlink estimates

Terminal growth rate, %	4.5%
Terminal value, \$ mn	43,032
Sum of SVA, \$ mn	13,349
Cash + interbank, \$ mn	14,112
Securities, \$ mn	23,751

Source: Company data, Sovlink estimates

Fair value, \$ mn	108,532
Number of ordinary shares	21,586,948
Number of preferred shares	50,000,000
Price of ordinary share, \$	4,854
Price of preferred share, \$	83

Source: Company data, Sovlink estimates

**Valuation of preferred shares**

We note that a 50:1 split of ordinary shares would make the conversion of preferred shares to ordinary shares more realistic. That is why we have reduced our discount for voting rights from the previous 10% to 5%. At the same time, we would like to underline the fact that as the ordinary shares have become more liquid after the SPO, we continue to apply a 10% liquidity discount. We also took into consideration the difference in dividend yields between ordinary and preferred shares. Assuming that the difference in yields will exist for a further two years, we have added a 0.5% premium to preferred shares to recognise their higher dividend yield.

Dividend per preferred share, 2006E, \$	0.35
Dividend yield for preferred shares	0.58%
Dividend per ordinary share, 2006E, \$	12.8
Dividend yield for ordinary shares	0.33%
Difference in yields (over two years)	0.5%

Source: Sovlink estimates

The table below summarises our discount/premium calculations regarding Sberbank's ordinary and preferred shares:

Discounts/premium applied to preferred shares versus ordinary shares	
Voting rights – discount	5%
Liquidity – discount	10%
Difference in yields – premium	0.50%
Net discount	14.50%
Fair value of ordinary share, \$	4,854
Fair value of preferred share, \$	83

Source: Sovlink estimates



Sberbank's asset base, \$ mn

	2005	2006E	2007E	2008E	2009E	2010E
Assets	87,489	136,181	194,738	267,970	363,470	484,784
Cash	2,138	3,420	5,301	7,952	12,246	19,593
Deposits at CBR	2,941	4,706	7,294	10,941	16,850	26,959
Required reserves	1,959	3,036	4,646	7,108	10,946	17,513
Funds in other banks	122	583	1,517	3,336	6,005	11,410
Trading securities	7,757	12,023	15,991	19,189	23,794	29,505
Loans	64,116	98,158	139,704	190,687	252,206	323,932
Corporate loans	47,861	67,962	94,467	126,586	164,562	207,348
Retail loans	16,255	30,196	45,236	64,101	87,643	116,583
Mortgages	2,476	4,060	6,659	10,521	15,572	21,645
General needs retail loans and auto loans	13,779	22,736	32,967	45,165	59,618	77,503
Credit cards	0	3,400	5,610	8,415	12,454	17,436
Investment securities	2,274	2,728	3,274	3,929	4,714	5,657
Other securities	2,991	3,589	4,486	5,607	7,009	8,762
PPE and intangible assets	4,550	9,101	16,382	22,934	33,347	46,685
Interest owed to the bank	56	84	135	182	254	356
Other assets	546	1,788	656	3,212	7,045	11,924

Source: Company data, Sovlink estimates

Sberbank's liabilities, \$ mn

	2005	2006E	2007E	2008E	2009E	2010E
Total equity and liabilities	96,284	136,181	194,738	267,970	363,470	484,784
Liabilities	87,489	121,893	168,374	232,524	315,751	421,118
CBR credits	0	0	0	0	0	0
Funds from other banks	3,967	6,824	9,554	13,375	19,394	28,121
Deposits	70,441	106,484	146,407	201,136	269,509	352,887
Deposits from individuals	51,728	78,464	108,003	148,674	199,099	259,324
Current accounts	4,656	6,913	9,264	12,414	16,510	21,959
Term deposits	47,072	71,550	98,739	136,260	182,589	237,365
Corporate accounts	18,713	28,021	38,403	52,462	70,410	93,563
Current accounts	13,885	20,827	28,117	37,957	50,104	65,135
Term deposits	4,828	7,193	10,287	14,504	20,306	28,428
Issued debt securities	2,989	6,278	8,789	12,304	17,841	25,870
Interest owed to creditors	620	1,103	1,654	2,481	3,722	5,583
Other liabilities	505	894	1,475	2,434	4,016	6,626
Loss Reserves	172	310	496	793	1,269	2,031

Source: Company data, Sovlink estimates

Sberbank's equity, \$ mn

	2005	2006E	2007E	2008E	2009E	2010E
Equity	8,795	14,288	26,364	35,446	47,719	63,665
Share capital	34	2,280	2,734	2,778	2,823	2,857
Share premium	192	380	6,009	6,104	6,203	6,279
Revaluation of fixed assets	2,324	1,330	859	873	887	898
Deferrals	-640	-874	-898	-913	-927	-939
Reserves and retained earnings of past years	4,714	7,943	12,802	19,703	29,219	41,894
Earnings	2,170	3,229	4,858	6,901	9,516	12,676

Source: Company data, Sovlink estimates



Sberbank's P&L, \$ mn

	2005	2006E	2007E	2008E	2009E	2010E
Interest income	8,048	10,845	14,610	19,408	25,316	32,057
Corporate loans	5,634	7,391	9,626	12,388	15,697	19,199
Loans to small and mid-sized enterprises	3,099	4,121	5,440	7,072	9,052	11,224
Loans to large corporations	2,535	3,270	4,186	5,316	6,645	7,974
Retail loans	2,414	3,453	4,984	7,020	9,619	12,859
Mortgages	483	748	1,160	1,682	2,271	2,952
Auto loans	72	87	104	125	150	180
General needs loans	1,859	2,603	3,696	5,174	7,141	9,640
Credit cards	0	15	24	38	58	86
Income from fixed income instruments	1,128	1,354	1,516	1,698	1,902	2,130
Income from leasing operations	0	0	0	0	0	0
Interest expense	3,052	3,846	5,269	7,113	9,390	11,925
NII	4,996	6,998	9,341	12,295	15,927	20,132
Net income from securities	613	717	789	867	954	1,050
Net income from currency and precious metal transactions	-4	-6	-6	-6	-6	-6
Net income from currency revaluation	183	192	201	211	222	233
Fees and commissions	1,826	2,355	3,203	4,292	5,666	7,366
Other net income	-308	-500	-500	-500	-500	-500
Staff costs	3,031	3,834	4,601	5,476	6,461	7,495
Loss reserves	-1,204	-1,565	-2,034	-2,604	-3,281	-4,101
EBT	3,070	4,357	6,393	9,080	12,521	16,679
Income tax	900	1,002	1,534	2,179	3,005	4,003
Net income	2,170	3,355	4,858	6,901	9,516	12,676
ROA	2.5%	2.5%	2.5%	2.6%	2.6%	2.6%
ROE	24.7%	23.5%	18.4%	19.5%	19.9%	19.9%
Loan/deposit ratio	91.0%	92.2%	95.4%	94.8%	93.6%	91.8%
Capital adequacy ratio	10.1%	10.5%	13.5%	13.2%	13.1%	13.1%

Source: Company data, Sovlink estimates



SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

April 19, 2007

STOCK RATING POLICY

STRONG BUY:	Target price offers upside of over 100%; confidence level – high
STRONG BUY (SPEC):	Target price offers upside of over 100%; confidence level – low
BUY:	Target price offers upside of between 25% and 100%; confidence level – high
BUY (SPEC):	Target price offers upside of between 25% and 100%; confidence level – low
HOLD:	Target price offers upside of less than 25%
SELL:	Target price at or below current price levels

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