



Sberbank

**Flash
note**

Under review

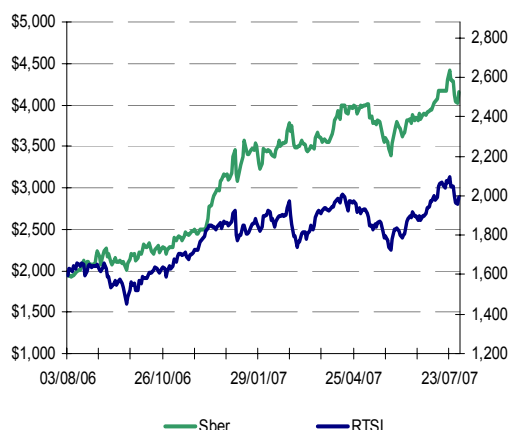
1H07 RAS results - Accelerating asset and profit growth, declining interest margins

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Stock data

Ticker	Sber	M.Cap, \$ mn	86,131
Shares Ords '000	21,586,948	Free Float, %	40
Shares Pref '000	1,000,000	Free Float, \$ mn	34,452
Bid Ords, \$	3.99	Offer Ords, \$	4.00
Bid Prefs, \$	2.90	Offer Prefs, \$	3.00

SBER – Relative performance



Source: RTS

- We found Sberbank's RAS 1H07 results published on August 1 to be ambiguous. They show that the bank has been gradually using the capital raised at the end of Q1 to increase its loan portfolio as well as its investments in securities. However, as a result of mounting competition, its interest margins have suffered significant declines.

- The bank's net income of 53.48 bn roubles in 1H07 exceeded management's estimates of 52 bn roubles. Net income growth accelerated from 25.3% in 1H06 to 31.4% in 1H07.

- The bank's assets and net loan portfolio grew by 23.4% and 22.9% respectively during the first half of this year versus 15.6% and 15.8% in the first half of 2006. On an annualised basis, the bank's assets and net loans increased by 46% and 49% – in comparison to average growth of 52.4% (assets) and 52.5% (loans) for the banking sector – according to the latest data available (published on June 1, 2007). Moreover, in 2Q07 the bank's assets and loans grew at a slower pace than in the first quarter.

- A reduction in asset yield from 11.1% in 1H06 to 9.9% and drop in the net interest margin from 6.8% in 1H06 to 5.5% were amongst the most noticeable changes in the bank's 1H07 RAS results. In our opinion, these declines are due to increased competition in the retail credit sector, which forced Sberbank to cut the interest it charges on some of its credit products such as mortgages, auto loans and loans for educational purposes.

- As a result, growth in net interest income was restricted to 16.8% and the higher growth rate of the bank's net income was due to higher net fee and commission income growth (29.2%) combined with administrative expenses growing at a slower rate of 23.8% (compared to 37% in 1H06).

- In our opinion, Sberbank's 1H07 RAS results are neutral and should not impact its current share price – as the temporary drop in profitability and the lower interest margin was expected by the market and had already been priced in. In the second half of the year, the bank will probably use the capital raised by it more actively, which – in turn – will lead to its key financial indicators growing at a faster rate.

- We plan to publish our updated recommendation on Sberbank in the near future.



Sberbank – 1H07 RAS results

We found Sberbank's 1H07 RAS results, published on August 1 to be quite ambiguous. They show that the bank has been gradually using the capital raised at the end of Q1 to increase its loan portfolio as well as its investments in securities. However, as a result of mounting competition, its interest margins have suffered significant declines.

The bank's net income of 53.48 bn roubles for 1H07 exceeded management's estimates of 52 bn roubles. Net income growth accelerated from 25.3% in 1H06 to 31.4% in 1H07 – in 2Q07 net income increased by 45%. However, the impressive growth in net income in 2Q07 is, to a great extent, explained by the fact that this year the bank paid staff bonuses earlier in February instead of March-April in order to give them the option of using their bonuses to participate in Sberbank's SPO.

The bank's assets and its net loan portfolio grew by 23.4% and 22.9% respectively during the first half of the year versus 15.6% and 15.8% respectively in 1H06. On an annual basis, Sberbank's assets and net loans increased by 46% and 49% – in comparison to average growth rates in the banking sector of 52.4% (assets) and 52.5% (net loans) – according to the latest data available (published on June 1, 2007). Moreover, in 2Q07 the bank's assets and loans grew at a slower pace. According to Interfax, Sberbank's retail loans in 1H07 grew at a rate of only 14.3%, which significantly lags behind the growth rate of the top-100 Russian banks (24%), implying that Sberbank is likely to continue giving up market share in this sector – in 2006, Sberbank's market share in retail loans declined from 44% to 37%. Sberbank has explained its loss of market share in this sector by pointing out that it continues to follow a strict policy in checking the credit-worthiness of its retail clients before agreeing to issue a loan – in contrast to its competitors that have been aggressively increasing their retail loan portfolios by lending to non-credit worthy clients. The advantage of Sberbank's policy lies in the fact that it results in a high quality retail loan portfolio; and its weakness is that the bank has lost market share in the most profitable segment of its business.

The funds raised – \$8.8 bn – via the SPO have, so far, had only a limited effect on quickening the growth of the bank's loan portfolio. On the contrary, the bank's securities as a proportion of its total assets soared from 13.9% in the beginning of the year to 17.7% on April 1, and were only slightly lower at the end of June. This may be due to the acquisition of a significant number of bonds issued by the Central Bank, following Sberbank's SPO.

Corporate deposits, which have increased by 30.5% during the first half of the year, have provided the main source for the growth in the bank's liabilities. In comparison, retail deposit growth (+13.9%) – has been considerably weaker. It appears that after the increase in its share capital, Sberbank is less interested in raising relatively more expensive debt, such as funds from individuals.

After analysing the bank's financial statements, we found the most significant changes to be the decrease in the bank's asset yield and its net interest margin (see Tables 2 and 3). This trend started in 2006, when – due to increased competition – the bank increased its interest rates on deposits and significantly reduced the cost of rouble retail loans. In early May, the bank again reduced its interest rates for the most popular retail loans (mortgages, auto loans, and loans for educational purposes); at the same time, lower interest rates introduced for certain types of deposits only partly compensated for the lower interest rates charged on loans. Thus, the trend towards lower net interest margin, which began in 2006 – as a result of increased competition in the banking sector – is still continuing today.

As a result, growth in net interest income turned out to be relatively weak (16.8%), and the bank's faster growth in net income was due to higher net fee and commission income (29.2%) combined with administrative expenses growing at a slower rate of 23.8% (compared to 37% in 1H06).



Table1 –Balance sheet summary, bn roubles

	On 01.07.2007	On 01.04.2007	At the beginning of 2007	Changes in 1H07 – YTD	Changes in 1H07 – y-o-y	Changes in 1Q07 – q-o-q	Changes in 2Q07 – q-o-q
Assets	4,290.05	3,946.48	3,477.59	23.4%	46.2%	13.5%	8.7%
Net loans	3,219.70	2,925.00	2,619.03	22.9%	49.5%	11.7%	10.1%
As a % of assets	75.1%	74.1%	75.3%				
Securities	741.34	698.34	482.26	53.7%	47.8%	45%	6%
As a % of assets	17.3%	17.7%	13.9%				
Retail deposits	2,311.11	2,147.70	2,028.57	13.9%	35.9%	5.9%	7.6%
As a % of liabilities	62.3%	63.8%	64.1%				
Corporate deposits	1,059.48	900.08	811.77	30.5%	60.7%	10.9%	17.7%
As a % of liabilities	22828.6%	26.7%	24.8%				
Shareholders' equity	580.95	577.81	323.23	79.7%	108.3%	78.8%	0.5%

Source: Company data, Sovlink estimates

Table2 –Income statement summary, mn roubles

	1H07	1H06	1H07 vs 1H06	1Q07	1Q06	1Q07 vs. 1Q06	2Q07	2Q06	2Q07 vs. 2Q06
Interest income	176,777	136,351	29.6%	86,302	68,297	26.4%	90,475	68,054	32.9%
Interest expenses	-78,352	-52,093	50.4%	-37,112	-25,009	48.4%	-41,240	-27,084	52.3%
Net interest income	98,426	84,258	16.8%	49,191	43,288	13.6%	49,235	40,970	20.2%
Net fee and commission income	41,037	31,754	29.2%	18,582	14,506	28.1%	22,455	17,249	30.2%
Operating income	145,217	117,351	23.7%	71,245	59,327	20.1%	73,972	58,023	27.5%
Operating expenses	-68,508	-55,358	23.8%	-31,873	-23,609	35.0%	-36,634	-31,748	15.4%
PBT	69,428	53,600	29.5%	33,033	26,415	25.1%	36,395	27,186	33.9%
Net income	53,481	40,714	31.4%	25,931	21,755	19.2%	27,550	18,959	45.3%

Source: Company data, Sovlink estimates

Table3 – Ratio analysis

	1H07	1H06	1Q07	1Q06	2Q07	2Q06
Asset yield	9.9%	11.1%	10.2%	11.7%	9.5%	10.7%
Debt interest	4.7%	4.3%	4.6%	4.4%	4.8%	4.4%
Net interest spread	5.3%	6.7%	5.5%	7.3%	4.7%	6.3%
Net interest margin	5.5%	6.8%	5.8%	7.4%	5.1%	6.5%
ROE	23.7%	30.5%	23.0%	32.8%	19.0%	27.3%
ROA	2.8%	3.0%	2.8%	3.3%	2.7%	2.7%

Source: Company data, Sovlink estimates

In our opinion, Sberbank's 1H07 RAS results are neutral and should not impact its current share price – as the temporary drop in profitability and the lower interest margin was expected by the market and had already been priced in. In the second half of the year, the bank will probably use the capital raised by it more actively, which – in turn – will lead to its key financial indicators growing at a faster rate.

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SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

August 3, 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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