



SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

October 8, 2007

Andrei Kazmin will leave Sberbank

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On Monday, President Putin agreed with Prime Minister Zubkov's suggestion to transfer Sberbank's CEO Andrei Kazmin to head Russian Post. Reports (citing anonymous government sources) regarding Kazmin's imminent resignation had already been circulating in the business media (Vedomosti, Kommersant) last Friday. The former Minister of Economy and Trade G. Gref is tipped as the most likely candidate to replace Kazmin at Sberbank – although, the former deputy head of VTB, I. Zavyalov and the head of VEB V. Dmitriev are also considered as possible candidates.

In our opinion, under Mr. Kazmin's management, Sberbank performed well and achieved favourable results. Since the beginning of 2002, the bank's assets, shareholders' equity and customer accounts increased 5-6 times. Sberbank is rated 66th in The Banker's list of the largest 1,000 global banks. The bank's leadership of the Russian financial sector, positive financial indicator trends and sound strategy were reflected in the impressive growth of its market capitalisation – during the past five years it has increased by 30 times (!), whilst the RTS index grew by 6 times. The bank attained very strong ROE and interest margin levels in 2005-06 and after the SPO, increased the opportunities for further strong growth.

At the same time, the weaknesses in Sberbank's business model include the high level of its operating expenses, as well as delays in the development of new financial products (for example, credit cards). Some investors have said that the bank needs to improve its transparency and corporate governance. However, we see progress in all of these spheres – the bank has begun to publish quarterly IFRS statements, and plans to issue GDRs.

Although German Gref (who had been a member of the bank's Supervisory Board) is regarded as the most likely candidate to become the new CEO of Sberbank, the final decision has still not been disclosed. In our opinion, Gref's lack of direct experience in the banking sector is a disadvantage. Nevertheless, many investors associate him with market-oriented reforms and view his potential appointment positively. In our opinion, the key issues are: 1) whether the current professional management team will remain at Sberbank; and 2) whether and how Sberbank's business model may change. It is important for the bank to maintain its political independence in key strategic and operational issues. Furthermore, in our opinion, it is equally important for the bank – in case it undergoes market-oriented reforms – to retain its unique advantages such as its exceptionally high level of dependability, its well-developed infrastructure and capability to serve retail clients throughout Russia.

We reiterate our BUY recommendation on both the ordinary and preferred shares of Sberbank with a target price of \$4.95 per ordinary share, and \$3.96 per preferred share.



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STOCK RATING POLICY

STRONG BUY:	Upside over 25%; confidence level – high / upside over 100%; confidence level - low
BUY:	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
HOLD:	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
SELL:	Fair value at or below current price levels

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