



Bank Saint-Petersburg

Company
Note**HOLD****Upside: 9%****Target Price: \$5.37****Analyst: Olga Belenkaya**

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Stock data

Ticker	STBK, STBKP	M.Cap, \$ mn	1,382
Shares Ords	282,200,000	Free Float, %	25
Shares Prefs	20,100,000	Free Float, \$ mn	345
Bid Ords, \$	4.90	Offer Ords, \$	4.90
Bid Prefs, \$	1.50	Offer Prefs, \$	1.65

Market performance

		1 month	6 months
Absolute	Ords	-3.2%	8.9%
Relative to RTSI	Ords	-5.5%	11.8%
Price range, \$			
High	Ords	4.70	4.29
Low	Ords	5.11	5.65

Financials, 2007

Assets, \$ mn	5,163	ROE	20.6
Book Value, \$ mn	611	P/E	17.6
Net income, \$ mn	79	P/BV	2.3

2007 financial results – stronger leadership position in the regional market

- On April 15, Bank Saint-Petersburg released its 2007 IFRS results. Net profits grew by 68% over the year and exceeded RR 2bn, which is slightly (+1.1%) higher than our forecast. Following the IPO, the bank's ROE shrank from an abnormally high 30% to 20.6%, which is also in line with our expectations.

- The bank noticeably improved its position in the regional market. Its asset share climbed from 7.6% in early 2007 to 9.8%. BSP's share in the credit market increased from 9.7% to 12.3%, and in the retail sector from 3.5% to 6.3%. The bank's share in the regional deposit market also increased from 8.9% to 10.5% for corporate deposits and from 6.0% to 7.8% for retail deposits.

- The results confirm sustainable vigorous growth rates. The bank's assets soared by 109%, and its loan portfolio by 133%, which is 2.5 times greater than the industry average. The bank's retail loan portfolio grew more than fourfold over the year. At the same time, the bank has maintained the high quality of its loan portfolio. The bank's growth rates for all balance sheet indicators beat our expectations. 4Q07 turned out to be quite favourable for the bank due to its IPO and significant inflow of corporate and retail deposits.

- The bank's interest and fee and commission income has grown rapidly, and it has developed its product line. The bank attributes the contraction of its net interest margin as a technical effect of the very rapid growth of its loan portfolio in 4Q07, which resulted in distorting its average return on assets.

- A period of successive improvements in the bank's profitability ratios over the past few quarters was interrupted by the rapid growth of operating expenses in 4Q07, including non-recurring expenses, such as the success fee for its IPO, and annual bonuses to management. The expansion of the bank's network combined with the hiring of personnel in 4Q07 also contributed to higher expenses. Although the cost/income ratio decreased from 43% to 37% for 9M07 and rose to 40% at the year-end, this, nevertheless, represents a good profitability ratio in comparison with other Russian banks. In future, the bank's ability to control its expenses will be a key factor for its success.

- Overall, we positively view the bank's financial performance and believe that its leadership strategy amongst private banks in the regional market will also prove successful in 2008.

- We estimate a year-end fair value of **\$5.37** for the bank's ordinary shares and reiterate our **HOLD** recommendation. Upon revision of our DCF model based on the bank's report, we may revise our target price.



2007 performance

On April 15, 2008 Bank Saint-Petersburg (BSP) released its 2007 IFRS results, summarized below:

- The bank has been consistently expanding its market share in both the federal (in terms of net assets, the bank climbed from 29th position in early 2007 to 24th at the year-end according to RBC's ranking) and regional markets. BSP ranks 20th in Russia by corporate deposits and 14th by retail deposits and 17th by corporate credits. BSP holds is the leader amongst private banks in the regional market. The bank's asset share in the banking sector climbed from 7.6% in early 2007 to 9.8%. BSP's share in the credit market increased from 9.7% to 12.3%, and in the retail sector from 3.5% to 6.3%. The bank's share in the regional deposit market also increased from 8.9% to 10.5% for corporate deposits and from 6.0% to 7.8% for retail deposits.
- The bank's assets soared by 109% over the year, which is 2.5 times greater than the trend for the aggregate assets of the Russian banking sector and 18.4% greater than our forecast. The bank's assets grew by 30% for 4Q07, which is almost three times higher than the trend in the industry. These results were achieved due to SPB's IPO (\$274 mn), as well as the aggressive growth of its corporate (+22%) and retail deposits (+27%). Customer accounts almost doubled over the year and account for 80% of the bank's liabilities.
- Net profit jumped by 68% and exceeded RR 2.0bn, which is slightly (+1.1%) higher than our forecast and the consensus forecast.
- The bank's loan portfolio expanded by 133% over the year, exceeding our forecast by 13.5%. At the same time, its retail loans also grew rapidly at 312% p.a. Retail loans as a proportion of its loan portfolio climbed from 5% as of 31.12.2006 and 8.4% for 9M07 to 8.9% at the year-end, with its retail loans consisting mainly of mortgages – in July 2007, the bank established a mortgage centre and was ranked 3rd in terms of mortgages in Saint-Petersburg. Last year the bank started granting loans to SME and providing private banking services. Despite the vigorous growth of its loan portfolio, the quality of the bank's loan portfolio remained at an unusually high level – overdue debts shrank from 0.4% of the loan portfolio to 0.25%, which is a result of the conservative approach adopted by the bank in selecting its retail borrowers. Despite cutting provisions for loan impairment from 3.88% to 2.73% over the year, they are still 10.8 times greater than overdue debts, which is an incredibly high level of cover against credit risks.
- Following its IPO, which resulted in the bank's equity increasing by 84%, its ROE naturally dropped from 30.5% for 9M07 to 20.6%, which was in line with our expectations.
- The bank's net interest income soared by 72%, which is 6% higher than our expectations. We were left slightly disappointed by the contraction in the bank's return on assets and net interest margin in 4Q07. According to our estimates, the bank's net interest margin shrank from 6.1% for 9M07 to 5.8%, with ROA falling by almost 1 p.p. and cost of liabilities falling by 0.4 p.p. According to the bank, its net interest margin equalled 5.7% as of 01.10.2007, or 5.5% for the year. The bank attributes this as a technical effect of the extremely rapid growth of its loan portfolio in 4Q07, which resulted in distorting its average return on assets. In future, the bank expects its net interest margin return to stabilize.
- A period of successive improvements in the bank's profitability ratios was interrupted in 4Q07. Operating income rose by 64%, and operating expenses increased by 60%, growing at a rate of 70% over the last quarter. Payroll expenses rose at the fastest rate – 76% p.a. and 80% over 4Q. According to the bank, the reason behind such growth is the vigorous growth of the bank's new retail outlets, hiring of personnel, half-year bonuses and salary increases. In addition, annual bonuses for management, as well as bonuses to the team involved in the IPO, were recorded for 4Q. Thus, some of the expenses for 4Q07 are non-recurring and the bank is planning to exercise greater control over its recurring expenses. Although the cost/income ratio decreased from 43% to 37% for 9M07 and leveled off at 40% at the year-end, this nevertheless, represents a fairly good profitability ratio for Russian banks.
- Customer accounts remain the principal funding source for the bank. They account for almost 80% of its liabilities, which gives it a significant advantage during the turmoil in global financial markets. At the same time, the bank intends to raise a syndicated loan for \$100mn before the end of June 2008, as well as a subordinated loan for \$100 mn over the year. The bank also plans to issue bonds for RR 3bn later this summer.



- On the whole, we positively view the bank's financial performance and believe that its leadership strategy amongst private banks in the regional market will also prove successful in 2008. The bank considers that it will be able to expand its deposit base by 50-60% in 2008 (which, in our opinion, is a very optimistic forecast), and intends to grow rapidly at a faster rate than the average for the regional market.

Table 1 – Financial results, RUR mn

	2007	Our forecast	Consensus	Difference from our forecast	Difference from consensus	2006	2007 / 2006, %
Interest income	9,176	8,667		5.9%		4,365	110.2%
Interest expenses	(4,508)	(4,315)		4.5%		(1,650)	173.2%
Net interest income	4,668	4,352	4,528	7.3%	3.1%	2,715	71.9%
Net interest income after provision for loan impairment	3,661	3,469		5.5%		2,231	64.1%
Net fee and commission income	889	791		12.5%		575	54.6%
Operating income	5,067	4,734		7.0%		3,097	63.6%
Operating expenses	(2,429)	(2,134)		13.8%		(1,528)	59.0%
Profit before tax	2,638	2,600		1.5%		1,569	68.1%
Net profit	2,009	1,976	1,987	1.7%	1.1%	1,193	68.4%

Source: Company data, SOVLINK estimates

Table 2 - Balance sheet summary, RUR mn

	As of 31.12.2007 (actual)	Our forecast	Consensus	Difference from our forecast	Difference from consensus	Change over the year, %	Change for 4Q07 (QoQ), %
Assets	126,750	107,038	109,409	18.4%	15.8%	109.0%	30.5%
Loans to customers (net)	92,347	81,349	81,717	13.5%	13.0%	132.6%	24.9%
Loans in assets, %	72.9%	76.0%	74.7%				
Retail loans	8,477	7,532		12.5%		312.5%	36.9%
As % in loan portfolio	8.9%	9.0%					
Customer accounts	88,729	74,753		18.7%		98.3%	23.8%
Retail deposits	30,216	24,669		22.5%		93.3%	27.3%
Corporate deposits	58,513	50,085		16.8%		100.9%	22.0%
Equity	15,005	14,750		1.7%		233.0%	84.0%

Source: Company data, SOVLINK estimates



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YOUR FIRST CALL – FOR THE SECOND TIER

April 16, 2008

Table 3 - Profitability ratio

	2007	2006	9M07
Earning asset yield	11.4%	11.8%	12.3%
Cost of liabilities	-5.4%	-5.8%	-5.8%
Net interest spread	6.0%	6.1%	6.5%
Net interest margin	5.8%	7.4%	6.1%
Net interest income after provisions / Net operating income	72.2%	72.1%	76.6%
Net fee and commission income / Net operating income	17.6%	18.6%	17.7%
ROE	20.6%	30.6%	30.1%
ROA	2.1%	2.6%	2.4%
Cost / Income	40.0%	42.7%	37.1%

Source: Company data, SOVLINK estimates



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:	Target price at or below current price levels

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