



Bank Saint-Petersburg

Company
Note**UNDER REVIEW****Upside: -22%****Target Price: \$5.37**

1Q08 financial results – further strengthening of its regional market position

Analyst: Olga Belenkaya

belenkayao@sovlink.ru

Stock data

| | | | |
|---------------|----------------|-------------------|-------|
| Ticker | STBK, STBKP | M.Cap, \$ mn | 2,045 |
| Shares Ords | 282,200,000 | Free Float, % | 21 |
| Shares Prefs | 20,100,000 | Free Float, \$ mn | 424 |
| Bid Ords, \$ | 7.08 | Offer Ords, \$ | 7.29 |
| Bid Prefs, \$ | 1.50 | Offer Prefs, \$ | 1.60 |

Market performance

| | | 1 month | 6 months |
|------------------|------|---------|----------|
| Absolute | Ords | 20.9% | 36.7% |
| Relative to RTSI | Ords | 17.7% | 34.9% |
| Price range, \$ | | | |
| High | Ords | 5.93 | 4.70 |
| Low | Ords | 7.37 | 7.37 |

Financials, 2008E

| | | | |
|-------------------|-------|------|------|
| Assets, \$ mn | 7,022 | ROE | 19.7 |
| Book Value, \$ mn | 724 | P/E | 15.7 |
| Net income, \$ mn | 131 | P/BV | 2.8 |

• On June 10, Bank Saint-Petersburg released its 1Q08 IFRS results. Net income reached RUR 640 mn, an increase of 170% over its 1Q07 results. The bank's ROE declined from its 2007 average of 20.6% to 16.7%, as the bank has not yet leveraged its new shareholders' capital, raised via its IPO in November. Management expects to employ this capital completely in the second and third quarters.

• The bank's assets and loan portfolio has again shown solid growth at a faster rate than the industry average. Its assets have increased by 9.3% vs 6% for the Russian banking sector and its loan portfolio has grown by 14.6% vs aggregate sector growth of 10.2%. BSPb continues to develop as a leading private regional bank, while maintaining the high quality of its loan portfolio. BSPb's share in regional assets increased from 9.8% at the beginning of the year to 10.5%, in regional corporate loans – from 12.9% to 13.9%, in retail loans – from 6.3% to 6.8%, in regional corporate deposits – from 10.5% to 11% and in retail deposits – from 7.8% to 8.1%.

• Nevertheless, in comparison to the previous quarters, growth is slowing down, in line with the general trend for the Russian banking sector. Customer account growth was flat – only 6%. However, in 2008, management expects its assets and customer accounts to increase by 60%, while our forecast for the banking sector is 30-35%. In our opinion, it will be quite difficult to support such aggressive growth, taking into account the market conditions. However, the bank is counting on very strong preliminary 2Q08 results (with asset growth of 30% on June 1 since the beginning of the year).

• The bank's net interest margin in 1Q08 declined to 5.2% from 6.16% in 4Q07 and 5.5% in 2007. The bank explains this to be due to two key factors – the uneven growth of its loan portfolio in 1Q08 and the increase in low-margin trading activity and REPO operations. However, management hopes that the bank's net interest margin will increase to 5.5-6% during 2008.

• The solid growth in the bank's fee & commission income is mainly due to business expansion and the growth in the bank's customer base.

• The bank has improved its efficiency indicators – in 1Q08 its Cost/Income ratio decreased to 37.9% from an average of 40.2% for 2007 – one of the best efficiency ratios amongst Russian banks.

• Management announced its plans to raise \$400 mn via a SPO in 4Q08 – as it expects the bank will have completely used the capital, raised via its IPO in November and new equity capital will be needed to support the further growth of business. We consider the ability of the bank to employ the raised capital before the SPO and restore the bank's target ROE of about 20% as a key risk factor.

• Overall, we positively view the bank's financial performance and believe that its strategy to be a leading private bank in the regional market will be successful in 2008.

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

**Table 1 – Financial results, RUR mn**

| | 1Q08 | 1Q07 | 1Q08/1Q07 |
|---|---------|-------|-----------|
| Interest income | 3,395 | 1,703 | 99% |
| Interest expenses | (1,773) | (769) | 131% |
| Net interest income | 1,622 | 935 | 74% |
| Net interest income after provision for loan impairment | 1,242 | 585 | 112% |
| Net fee and commission income | 364 | 170 | 114% |
| Operating income | 1,580 | 770 | 105% |
| Operating expenses | (742) | (459) | 62% |
| Profit before tax | 838 | 311 | 170% |
| Net Income | 640 | 235 | 172% |

Source: Company data, SOVLINK estimates

Table 2 – Profitability ratios

| | 1Q07 | 2Q07 | 3Q07 | 4Q07 | 1Q08 |
|---|-------|-------|-------|-------|-------|
| Asset yield | 12.6% | 12.4% | 12.7% | 12.4% | 11.6% |
| Cost of funding | -5.1% | -5.8% | -6.1% | -5.8% | -6.1% |
| Net interest spread | 7.5% | 6.5% | 6.6% | 6.6% | 5.5% |
| Net interest margin | 6.9% | 6.0% | 6.2% | 6.5% | 5.5% |
| Net interest income after provisions / Net operating income | 76% | 74% | 79% | 64% | 79% |
| Net fee and commission income / Net operating income | 21% | 17% | 16% | 17% | 23% |
| ROE | 17.4% | 34.0% | 31.9% | 19.3% | 16.7% |
| ROA | 1.4% | 3.0% | 2.8% | 2.0% | 1.9% |
| Cost / Income | 41% | 36% | 35% | 45% | 38% |

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 |

SOVLINK LLC
Tel.: +7 495 967 1300
Fax: +7 495 967 1311

Kremlin Embankment 1, building 2,
Moscow 119019, Russia
www.sovlink.ru
research@sovlink.ru

©2008 Sovlink LLC. The information in the enclosed Report (the "Information") is not an advertisement for any security or particular issuer and should not be interpreted as such. The Information is intended solely for the personal use of Sovlink LLC's clients or other parties pre-agreed to with Sovlink LLC. The Information is not intended for use by citizens of the USA or legal entities registered in the USA. Nothing contained in the Information is, or should be interpreted as being information intended for an undetermined audience.

The Information is exclusively of an informational/analytical nature, and should not be interpreted as a recommendation to take any particular investment action. The Information should not be relied upon as a justification for the execution of any transactions, and should not be referred to as such. Sovlink LLC takes no responsibility for any actions taken on the basis of the Information. The enclosed Report does not contain an offer or an invitation to make an offer to buy or sell any securities or any options, futures or other derivatives related to such securities.

This Report does not have regard to any specific investment objectives, financial situation and the particular needs of any specific person who may receive this Information. Investors should seek financial advice regarding the appropriateness of investing in any securities mentioned and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may earn less than originally invested. Past performance is not necessarily a guide for future performance. Foreign currency exchange rates may adversely affect the value, price or income of any security mentioned in the Report. Please bear in mind that investment activity in emerging markets is very risky, and investors should conduct their own due-diligence prior to making an investment decision.

The individual(s) responsible for the preparation of this Report (the Author(s)), or Sovlink LLC may hold short- and long-term positions in any of the securities mentioned in the Report, and may take part in investment activities with companies mentioned in the Report.

In preparing this Report, the Author(s) assumed that the issuers mentioned in the Report disclose information in the amount and under the procedure stipulated by the securities legislation of the Russian Federation for issuers who publicly place securities.

This Report and the Information is based exclusively on publicly-available information, which is deemed to be reliable, however Sovlink LLC makes no representation that this Information is accurate or comprehensive, and it should not be relied upon as such. Sovlink LLC makes no representation that this Report has been released to all readers simultaneously, nor that Sovlink LLC will update this material on a regular basis, or that it will correct inaccuracies contained in this Report.