SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

June 17, 2008

Bank Saint-Petersburg

Company Note

UNDER REVIEW

Upside: -22%

Target Price: $5.37

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

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

• 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