

## Sberbank: impact of the financial crisis

Vladimir Sergievskiy  
Konstantin Romanov

Recommendation for commons	Buy
Target price as of late 2009:	USD 3.31
12-month target price	USD 3.29
Current price, mid-spread:	USD 1.06
Upside potential after 12 months:	210%

Recommendation for prefs	Buy
Target price as of late 2009:	USD 1.17
12-month target price	USD 1.16
Current price, mid-spread:	USD 0.46
Upside potential after 12 months:	142%

RTS ticker	SBER, SBERP
Market cap	USD 23.274 bn
Number of common shares	21,586,948,000
Number of preferred shares	1,000,000,000
Free float	42%

### Financials, RUB bn

	2007	2008F	2009F
Assets	4,929	6,019	7,004
Equity capital	637.2	733.1	848.3
NII	252.8	337.9	443.9
Operating income	335.5	383.4	457.1
Net profit	106.5	106.7	130.8

### Margins, %

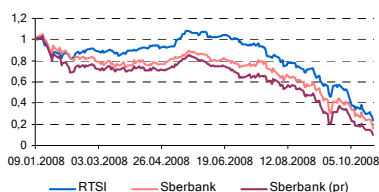
	2007	2008F	2009F
ROAE	22.5%	15.6%	16.5%
ROAA	2.5%	2.0%	2.0%
Net interest margin	6.2%	6.4%	7.0%

### Market multiples

	2007	2008F	2009F
P/E	5.9	5.9	4.8
P/BV	0.98	0.85	0.74

### Dividends, USD per share

	2005	2006	2007
Commons	0.009	0.015	0.021
Prefs	0.010	0.018	0.026



*In mid-September, the global financial crisis almost paralyzed activity in the Russian financial sector, and now, even with the active steps taken by the country's monetary authorities, credit markets are still far from functioning normally. Given the ongoing global negative trends, Sberbank's 1H 2008 financials and development strategy for the next 5 years, published in late October, need to be carefully considered.*

#### Drivers:

- **Government assistance.** Sberbank, which is a structural element of the financial sector, is protected from emerging financial problems by government assistance, which has been confirmed by numerous statements made by high government officials about their readiness to support the largest state banks irrespective of the outcome of the present situation.
- **Access to funding sources.** In contrast to most of its rivals, Sberbank should not face a funding problem. The government is ready to deposit RUB 500 billion in Sberbank (10% of its liabilities), which, coupled with an expected customer inflow and the ongoing credit opportunities for first-class borrowers, will ensure stability of the bank's funding structure.
- **Increase in Sberbank's market share.** Given the sharp decrease in customer confidence in the Russian banking sector, Sberbank's status as Russia's No. 1 bank and the ongoing access to funding sources should help Sberbank boost its customer base, both in the retail and corporate sectors.

#### Risks:

- **Slowdown in the growth of the financial sector.** In our opinion, amid a sharp appreciation of credit resources and growing shortage of funding sources, a considerable slowdown in the growth of the banking sector is inevitable. In line with our estimates, in FY 2008, the sector's total assets will advance by 18% compared to an average of 40% over the last 3 years.
- **A decrease in quality of Sberbank's credit portfolio** due to the ongoing depreciation of the economic environment. The expectations of this scenario have already been reflected in the bank's financials for 1H 08, represented through an increase in reserves for the security of its credit portfolio.
- **Social obligations** to maintain the normal functioning of the financial sector and provide assistance to specific sectors of the economy may contravene minority shareholders' interests.
- **Currency risks** related to a decline in the rate of Russian ruble, which is Sberbank's main currency, grow amid a downturn in prices for energy carriers and a reduction of the Central Bank's gold and currency reserves.

*Amid the instability of the financial sector and the emergence of a whole number of additional risks for Sberbank shareholders, we downgrade our target prices as of late 2009 for both Sberbank commons and prefs to USD 3.31 and USD 1.17, respectively, and reiterate our Buy recommendation for both types of securities. In our view, the scale of deterioration of Sberbank market cap is quite unreasonable, while the current price level is a good opportunity for long-term investors.*

## Banking sector: the increasing role of state owned banks

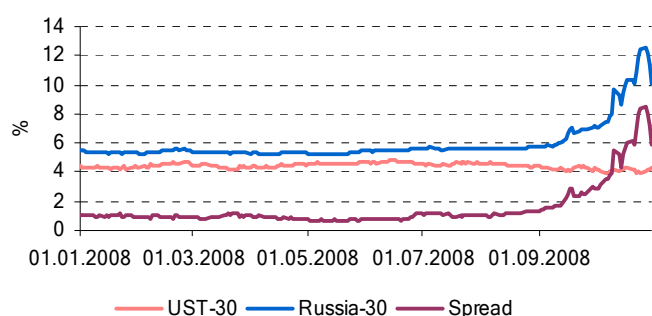
The instability of the global financial system in mid-September has been reflected in a rapid contraction of the global credit markets. Russia was not an exception, and sources of debt funding are currently available only to first-class borrowers.

Given the ongoing financial crisis, the revision of the required yield has resulted in a sharp increase in the yield of Russian state 30-year bonds to more than 12.5%. *The spread between Russia30 and USD30 state obligations has grown to 8.5% since early August, while over the last few years this indicator had rarely diverged by more than 1%.*

In our opinion, an upsurge in the yield of Russian state bonds is the consequence of the excessively emotional reconsideration of the risk of investing into developing countries.

In our opinion, a jump in the yield of Russian state bonds amid the reduction of refinancing rates by world's leading central banks and the expected slack in inflationary pressure against a slowdown in the global economic growth is a consequence of the excessively emotional reconsideration of the risk of investing into developing states. We do not predict the state bond yield indicator to go down considerably until 1Q 2009.

*Fig. 1. Russian and US state bond yield and spread performances*

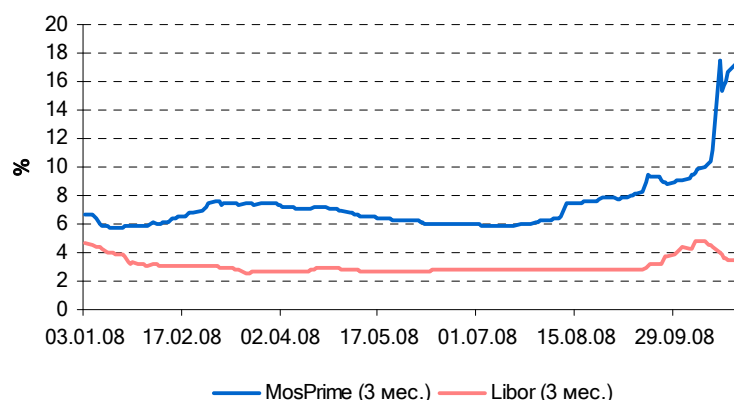


Source: Bloomberg

The bankruptcy of several large banks in Europe and the US caused the credibility gap in the financial system, which provoked a sharp decline in volumes of interbank transactions and a rise in interest rates. Particularly, the 3-month USD LIBOR grew from 2.8% in mid-September to 4.8% on October 10. Negative trends affected the Russian financial sector as well, where interest rates skyrocketed from the usual 6-8% to 15-18% in the first two weeks of October. Additionally, for many market participants, loans remain inaccessible even on such conditions. *The overnight interest rate exceeded 10% for quite a long time.*

In the first half of October, interbank lending rates in Russia skyrocketed to 15-18%, and for many market participants, credit remains inaccessible in such conditions.

*Fig. 2. Performances of 3-month interbank lending rates*



Source: Bloomberg, Bank of Russia

The coordinated activities of world's largest central banks aimed at reducing refinance rates and providing liquidity to the financial system have made it possible to ease tensions on the monetary markets and lower interbank lending rates. However, given the above factors and governments' readiness to perform inflows into the banking sector capital, counterparty risks on the market are still very high.

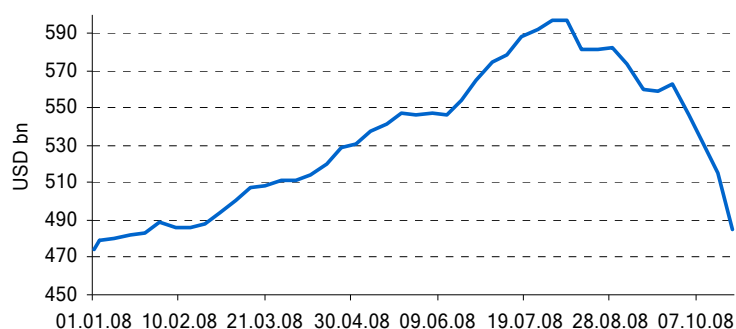
The monetary authorities of the largest global economies have showed their readiness to take decisive steps to stabilize the situation in the financial sector, which seems quite

The assets to capital ratio of the Russian banking sector is at a fairly acceptable level of 7.7%.

optimistic. However, although state governments have allocated large amounts of money for these purposes, they will most likely not be sufficient for further easing of tensions in the financial sector. Economies will need additional financial inflows, which will mainly come from central banks.

As far as the Russian financial sector is concerned, the global financial crisis found it at its active development phase. The current assets to capital ratio is at a fairly acceptable level of 7.7% (in Eurozone, this value is below 18%), while the quality of assets remains quite high; the share of debt in arrears in the total credit portfolio amounts to about 1.5%. *An additional advantage in the current conditions is the high concentration of the banking system: Russia's three largest state banks hold more than 40% of total assets. Another upside driver for the stability of the Russian financial system is the Central Bank's ample gold and currency reserves, which stand for 40% of the country's FY 2007 GDP.*

**Fig. 3. Performances of the Central Bank's gold and currency reserves**



Source: Bank of Russia

In line with our new forecasts, the Russian financial sector will grow by less than 20% in FY 2008 and by just 15% in FY 2009.

However, in spite of a whole range of timely measures aimed at stabilizing the situation in the financial sector, such as expansion of state warranties for deposits, an increase in direct lending and acquisition of weak banks, the banking system is still far from functioning normally, and the longer it stays in such a condition, the more banks will experience problems with liquidity.

### Prospects for the Russian financial sector

Amid a decrease in customer confidence in the financial system, and limited accessibility to the main funding sources, we expect the largest market players to gradually increase their market shares.

The global financial crisis has dealt a serious blow to the Russian banking sector. The subsequent internal credibility gap provoked a decline on the interbank lending market and put banks with an unbalanced temporal balance structure at a disadvantage. *We expect that the current instability in the financial sector will lead to a reduction in the number of banks, which exceeded 1,100 as of late September, as well to the reinforcement of the government's role in the sector, primarily through the acquisition of weak banks.*

The growth of the financial sector is likely to slow down. While foreign funding sources were available, from early 2005 to late 2008 the Russian financial sector grew by over 40%. In line with our new forecasts, in FY 2008, the financial sector will rise by less than 20%, while in FY 2009 this value will amount to just 15%. In line with our current estimates, the banking sector's total assets to GDP ratio will reach 93% by 2015 compared to the earlier expected 105%.

Given a loss of confidence in the financial system and limited access to main funding sources, we expect the largest market players to gradually increase their market shares, If the counterparty risk goes up considerably, the state bank status should allow Sberbank (and VTB as well) not only to raise its share in the retail segment, but to reinforce its position in the corporate segment.

Among the most serious risks for the largest banks, we note a possible decrease in the quality of their credit portfolios, in part due to their social obligation to ensure the stable functioning of the real economy, as well as from losses due to the revaluation of securities portfolios.

Although the current state of affairs is complicated, we believe that the banking sector will return to normal functioning quite soon. *Active measures taken by Russian monetary authorities, the Central Bank's ample gold and currency reserves and the high concentration of the banking sector should help to limit the negative trends in the financial*

system. However, the situation will not get much better unless global credit markets stabilize.

## Sberbank: competitive advantages

### Management strategy

In line with management plans, in 5 years Sberbank annual net profit should reach RUB 400 billion and its total assets should rise to RUB 22 trillion by 2013.

On October 24, when the financial crisis was in full play, Sberbank published its ambitious development strategy. In line with the management's plans, in 5 years, Sberbank annual net profit should reach RUB 400 billion, while the bank's total assets should rise to RUB 22 trillion by 2013, which implies an annual increase of about 32%. The bank also plans to join the TOP-10 of global financial institutions in terms of capitalization. Management's decision to cut personnel by about 20-30% is also a positive factor, which should become an efficient cost control instrument, since the number of Sberbank employees exceeds 250,000.

In our opinion, Sberbank's plans are very ambitious, and we have thus built more moderate prerequisites into our model. In particular, we predict the average annual growth of Sberbank assets in the next 5 years at about 20%. In line with our model, Sberbank FY 2013 net profit will amount to RUB 257 billion.

We are also quite upbeat on the bank's urge towards optimization of its personnel structure. However, we believe that it will most likely be accompanied by a growth in capital expenses for technical upgrades.

### 1H 2008 results

In late October, Sberbank announced its 1H 2008 consolidated financials, which showed the bank's stable growth in the normal market environment, but did not provide any conception about how the bank would function under the pressure of the financial crisis. According to the released results, the bank's net profit grew by 39.6% to RUB 67 billion and its total assets rose by 13.7% to RUB 5.6 trillion. The volume of lending advanced by 17.6% and the bank's total credit portfolio exceeded RUB 4.6 trillion. The bank's equity capital went up by 8.5% to RUB 691.2 billion.

*Table 1. Sberbank: Key Financials, RUB billion*

	1H2008	1H2007	1H2008/1H2007
Assets	5,604.3	4,928.8*	+13.7%
Loans	4,612.4	3,921.5*	+17.6%
Private deposits	2,937.5	2,681.9*	+9.5%
Equity capital	691.2	637.2*	+8.5%
Interest income	278.1	192.4	+44.5%
Interest expenses	109.7	81.4	+34.8%
Net interest income (NII)	168.3	111.0	+51.6%
Operating income	196.1	146.8	+33.6%
Administrative expenses	108.6	85.3	+27.3%
Net profit	67.0	48.0	+39.6%
ROAE	20.2%	21.7%	-1.5 p.p.
ROAA	2.5%	2.5%	-
Net interest margin	6.57%	5.92%	+0.65 p.p.
Cost/income	50.9%	58.0%	-7.1 p.p.

\* - Data as of 31.12.2007

Source: company data, Finam estimates

The bank's core business developed primarily in line with market trends: the company's assets rose by 13.7%, almost identically to the sector performance. The growth of the bank's total credits was slightly below the consolidated sector indicators, while the volume of Sberbank consumer loans grew faster than in the sector as a whole, up 11.7% against 10.7%. As for the volume of private deposits, Sberbank fell slightly behind its main rivals, but we expect Sberbank to increase its private deposit share as of the year end.

The cost/income ratio went down to 50.9% in 6M 2008.

Sberbank's return on average equity (ROAE) declined compared to the year-earlier, which was caused by a large-scale raising of capital in March 2007. The bank's return on average assets (ROAA) has not undergone any considerable changes and currently amount to 2.5%. Given the strong demand for loans and relatively inexpensive funding sources in 1H, Sberbank managed to bring up its net interest margin to 6.57%.

We pay specific attention to the slowdown in the growth of the company's administrative expenses, up 27.3% compared to a 56.6% surge in 1Q 2008. The cost/income ratio went down to 50.9% in 6M 08.

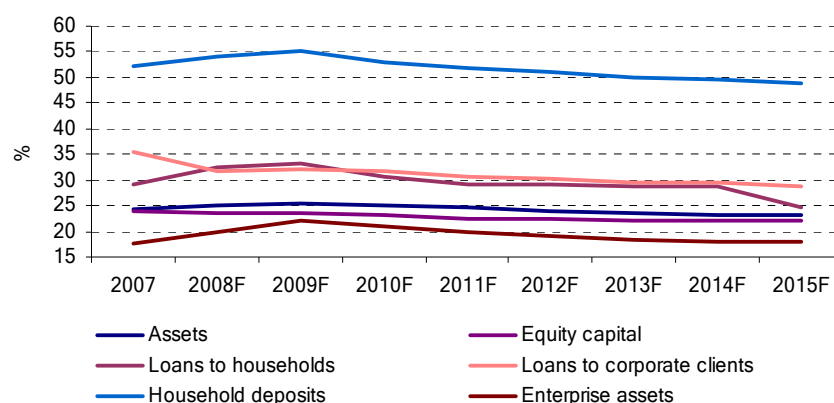
Among the most positive factors, we also point out a steady growth in the company's profit indicators: net interest income (NII) rose by 51.6% and net profit jumped by 39.6%. The creation of reserves for a total of more than RUB 17 billion also had a negative impact on the company's net profit. The share of transitory incomes amounted to less than 4% in 6M 08.

*In our opinion, the bank's 1H 08 financial report is quite strong. In the reporting period, the bank developed in line with general sector trends and showed strong profit indicators. We specifically point out a slowdown in the growth of the company's administrative expenses and a sharp reduction of the cost/income ratio. The bank's share of debt in arrears stayed at quite a comfortable level.*

### Market position and prospects

We believe that Sberbank is in a position to continue boosting its presence in all key market segments at least until the end of 2009, provided the bank makes effective use of its clear competitive advantages.

*Fig 4. Changes in Sberbank's position in key financial market segments*



Source: Central Bank of Russia, Finam estimates

*In the present environment, when risks for counteragents have substantially increased, companies prefer to deal with the most reliable banks, which gives Sberbank the opportunity to boost its share in the corporate segment.*

*The bank also stands a good chance of increasing its share in overall lending operations, primarily by promoting competitive lending, due to its access to relatively inexpensive sources of funding.*

*The bank's status as 'the most reliable state bank' will contribute to an inflow of depositors with the bank, or at least limit their outflow from the bank. However, the bank's interest rates, which are markedly lower than the average in the sector, will limit its competitive edge in the segment.*

We expect the after-effects of the financial crisis to be mostly offset by the end of 2009. Our estimation model envisions a gradual decrease in the bank's share in all key market segments, starting in 2010. This prediction is based on expectations of a new bout of competition, which will make it harder for Sberbank, with its traditionally conservative policy, to retain its market share. The bank may incur the most serious losses in retail lending and services to corporate clients.

In our view, Sberbank, as a pillar of the financial sector, supported by the state, is shielded from the emergence of financial problems, which is testified to by numerous

We believe that Sberbank is in a position to continue boosting its presence in all key market segments at least until the end of 2009.

In our view, Sberbank, as a pillar of the financial sector, supported by the state, is shielded from the emergence of financial problems.

statements by high-ranking officials about their readiness to shore up the largest state bank in any turn of events.

## Risks

*Slowdown in the growth of the financial sector will undoubtedly affect Sberbank, while the expected increase in its market share will not compensate it for the major part of its losses.*

*Among the main risks faced by the bank is the worsening quality of its loan portfolio, which deteriorates with general economic conditions, forcing the bank to raise its provisions against bad loans.*

*The bank's 'social burden' to maintain normal working conditions in the financial sector is another risk faced by the bank.*

One more potential risk is the growing cost of credit resources in the fallout from the liquidity crunch. However, this negative factor may be partially offset through a more extensive use of internal resources in the industry, which traditionally represent the cheapest source of funding for the banking sector.

*The unstable rate of the ruble, Sberbank's main currency, amid sagging energy prices and Russia's dwindling gold and foreign currency reserves, is another serious risk, at least in the eyes of global investors.*

## Valuation

*As before, we have applied an EVA method as the main tool to estimate the fair value of Sberbank common shares. To estimate the fair price of its preferred shares, we have used the discounted dividend model. As an additional tool of analysis, we have used a peer group valuation method to compare the bank's projected financial indices for 2009 to 2010, together with the indicators of peer companies from developed and developing countries.*

## Financial estimates

Sberbank currently owns about 25% of the overall assets in the Russian banking sector, and its share is likely to grow for the next 12 to 18 months. Given that the bank retains its dominant position in the sector, our estimates of its financial indices are based on projected trends and growth rates in the sector as a whole.

Key changes in our valuation model:

1. In the face of destabilization in the global financial sector and shrinkage of world credit markets, we have downgraded our outlook for GDP growth in 2009 from 6.8% to 5.5%. According to our estimates, the negative implications of the financial crisis will mainly be overcome by 2010, making it possible for the economy to grow at its pre-crisis rates.
2. We have lowered our CAGR for the banking system for 2007 to 2015 from 23.1% to 20.8% in view of the sharply negative impact of the financial crisis on conditions in the financial sector. We estimate the overall assets in the sector to expand by 18% in 2008, and expect the asset growth to slow to 15% in 2009 (see table 2).

*Table 2. Estimates of GDP and the key indices in the banking sector, RUB bn*

Indicator	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	CAGR
GDP (previous estimate)	40,015	47,693	55,867	64,366	73,201	82,403	91,890	101,502	15.1%
Actual growth rate (previous estimate)	7.3%	6.8%	6.5%	6.1%	5.7%	5.4%	5.2%	5.0%	
<b>GDP (new estimate)</b>	<b>42,731</b>	<b>50,716</b>	<b>60,062</b>	<b>70,035</b>	<b>80,505</b>	<b>91,216</b>	<b>102,436</b>	<b>114,011</b>	<b>16.8%</b>
<b>Actual growth rate (new estimate)</b>	<b>7.5%</b>	<b>5.5%</b>	<b>6.5%</b>	<b>6.1%</b>	<b>5.7%</b>	<b>5.4%</b>	<b>5.2%</b>	<b>5.0%</b>	
Assets (previous estimate)	26,718	34,734	44,805	56,006	68,328	81,310	93,507	106,983	23.1%
<b>Assets (new estimate)</b>	<b>23,884</b>	<b>27,467</b>	<b>34,334</b>	<b>42,917</b>	<b>53,536</b>	<b>65,313</b>	<b>78,376</b>	<b>91,893</b>	<b>20.8%</b>
Total credits (previous estimate)	17,809	23,781	30,716	38,576	47,103	56,321	66,247	76,777	25.1%
<b>Total credits (new estimate)</b>	<b>18,029</b>	<b>21,005</b>	<b>26,469</b>	<b>33,209</b>	<b>40,843</b>	<b>49,468</b>	<b>59,095</b>	<b>71,957</b>	<b>24.1%</b>
Equity capital (previous estimate)	3,339	4,074	4,930	5,866	6,922	8,099	9,395	10,804	19.1%

Source: Finam estimates

3. In the face of instability on financial markets and the steep growth in the required return on investments in Russian assets over the past few months, we have altered our approach to the estimate of the required return on Sberbank capital by applying floating interest rates (a more detailed description of our new calculation method and its results is available in the Discount Rate section and Supplement No. 5).

4. The targeted share of total loans in Sberbank's asset portfolio by 2015 has increased from 80% to 82% to allow for growth in demand for banking loans from a number of economic sectors. According to our estimates, increased demand for loans on the part of the real sector will prompt the bank to slate a greater share of its assets for lending operations.

5. We believe that the credit crisis will help ease inflationary pressure in the economy, which, together with a moderate growth in the bank's administrative expenses in 2008, has given us grounds to reduce the CAGR for its administrative expenses in 2007-2015 from 15.1% to 14.9% (see table 3).

6. We have also lowered our estimate of the ROAE in the post-forecast period from 19% to 16% in view of the expected toughening of controls over the activities of lending institutions (see table 3).

Table 3. Sberbank: key estimated financial indices, RUB bn

Indicator	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	CAGR
Assets (previous forecast)	6,573	8,336	10,574	13,106	15,852	18,701	21,507	24,606	22.3%
<b>Assets (new forecast)</b>	<b>6,019</b>	<b>7,004</b>	<b>8,583</b>	<b>10,515</b>	<b>12,849</b>	<b>15,349</b>	<b>18,262</b>	<b>21,135</b>	<b>20.0%</b>
Total loans (previous estimate)	5,192	6,602	8,396	10,432	12,634	14,924	17,184	19,685	22.3%
<b>Total loans (new estimate)</b>	<b>4,935</b>	<b>5,743</b>	<b>7,038</b>	<b>8,622</b>	<b>10,536</b>	<b>12,586</b>	<b>14,975</b>	<b>17,331</b>	<b>20.4%</b>
Equity capital (previous estimate)	750	887	1,042	1,227	1,427	1,683	1,936	2,215	16.8%
<b>Equity capital (new estimate)</b>	<b>733</b>	<b>848</b>	<b>996</b>	<b>1,171</b>	<b>1,365</b>	<b>1,583</b>	<b>1,831</b>	<b>2,108</b>	<b>16.1%</b>
Interest income (previous estimate)	579.6	702.1	826.7	951.5	1,082.4	1,204.2	1,348.6	1,487.5	16.8%
<b>Interest income (new estimate)</b>	<b>557.3</b>	<b>703.3</b>	<b>781.7</b>	<b>889.3</b>	<b>1,007.2</b>	<b>1,137.5</b>	<b>1,314.1</b>	<b>1,491.3</b>	<b>16.9%</b>
Interest expenses (previous estimate)	235.4	301.1	370.1	435.8	503.7	566.5	643.2	712.9	19.1%
<b>Interest expenses (new estimate)</b>	<b>219.3</b>	<b>259.5</b>	<b>295.4</b>	<b>342.0</b>	<b>391.4</b>	<b>451.9</b>	<b>529.4</b>	<b>610.0</b>	<b>16.8%</b>
Net interest income (previous estimate)	344.1	401.0	456.6	515.7	578.7	637.7	705.3	774.7	15.0%
<b>Net interest income (new estimate)</b>	<b>337.9</b>	<b>443.9</b>	<b>486.3</b>	<b>547.3</b>	<b>615.8</b>	<b>685.5</b>	<b>784.7</b>	<b>881.4</b>	<b>16.9%</b>
Operating expenses (previous estimate)	414.3	497.3	582.8	676.9	780.6	885.6	1,001.1	1,115.1	16.2%
<b>Operating expenses (new estimate)</b>	<b>383.4</b>	<b>457.1</b>	<b>548.2</b>	<b>637.4</b>	<b>725.3</b>	<b>811.7</b>	<b>915.4</b>	<b>1,022.6</b>	<b>14.9%</b>
Net profit (previous estimate)	129.4	154.8	183.4	217.3	255.6	296.7	344.7	390.7	17.6%
Administrative and other operating expenses (previous estimate)	244.0	293.6	341.5	391.0	444.2	495.2	547.5	601.0	15.1%
<b>Administrative and other operating expenses (new estimate)</b>	<b>243.0</b>	<b>285.0</b>	<b>327.9</b>	<b>375.1</b>	<b>425.0</b>	<b>473.8</b>	<b>531.9</b>	<b>594.1</b>	<b>14.9%</b>
<b>Net profit (new estimate)</b>	<b>106.7</b>	<b>130.8</b>	<b>167.4</b>	<b>199.3</b>	<b>228.2</b>	<b>256.8</b>	<b>291.5</b>	<b>325.7</b>	<b>15.0%</b>
ROAE	18.7%	18.9%	19.0%	19.2%	19.3%	19.1%	19.1%	18.8%	-
<b>ROAE (new estimate)</b>	<b>15.6%</b>	<b>16.5%</b>	<b>18.2%</b>	<b>18.4%</b>	<b>18.0%</b>	<b>17.4%</b>	<b>17.1%</b>	<b>16.5%</b>	-
ROA	2.3%	2.1%	1.9%	1.8%	1.8%	1.7%	1.7%	1.7%	-
<b>ROA (new estimate)</b>	<b>1.9%</b>	<b>2.0%</b>	<b>2.1%</b>	<b>2.1%</b>	<b>2.0%</b>	<b>1.8%</b>	<b>1.7%</b>	<b>1.7%</b>	-
Net interest margin	6.16%	5.53%	4.96%	4.47%	4.10%	3.79%	3.61%	3.46%	-
<b>Net interest margin (new estimate)</b>	<b>6.36%</b>	<b>7.02%</b>	<b>6.42%</b>	<b>5.89%</b>	<b>5.41%</b>	<b>4.99%</b>	<b>4.79%</b>	<b>4.59%</b>	-

Source: company data, Finam estimates

### Required return on equity

In the face of a sharp growth in returns on Russia's sovereign Russia-30 bonds and heightened volatility in the financial sector, we have changed our method for the calculation of the required return on equity capital and calculated the rate of return separately for each year in the forecast period and for the post-forecast period. Given the current rate of return on Russian state bonds, the required return on Sberbank's equity capital is slightly short of 30%. We believe that the required return on this level reflects the inadequate estimate of Russia's sovereign risk and expect considerable cuts in the rate of return on Russia-30 bonds from the current 12.5% in 1H 2009 at the latest. To calculate the excess return on Sberbank equity capital, we have applied the floating required rate of return in the range of 12.24% to 13.52% for the period between 2010 and 2015 (a more detailed description of our method for calculating this rate is shown in Supplement No. 5).

### EVA valuation

Our estimate of the fair value of the bank is based on the projected growth in the bank's equity capital and the yearly ROAE. We expect the equity capital to grow at a CAGR of 16.1%, from RUB 637 billion in 2007 to RUB 2,108 billion by 2015. Our estimate of growth in the bank's equity capital in the post-forecast period has remained unchanged at about 5% annually. Returns on the equity capital will gradually shrink from the 22.5% for 2007 to 16% a year in the post-forecast period.

To calculate the excess return on Sberbank equity capital, we have applied the floating required rate of return in the range of 12.24% to 13.52%.

*Table 4. Estimate of Sberbank's fair value at year-end 2009*

Cash flow (bn RUB)		Estimate of the fair price of share	
The rate of growth in the equity capital in the post-forecast period	5.00%	The book value of the equity capital (bn RUB)	848.3
The discount rate (Cost of equity)	11.93% - 13.21%	The value of the bank (bn RUB)	1,780.6
Surplus return on equity capital in the post-forecast period (bn RUB)	1,266.7	Number of common shares (mn)	21,586.9
The discounted value of surplus return on equity in the post-forecast period (bn RUB)	636.7	Number of preferred shares (mn)	1,000
The discounted value of surplus return on equity in 2010-2015 (bn RUB)	295.6	The target price of common share (RUB)	81.2
		<b>The target price of common share (USD)</b>	<b>3.31</b>
The discounted value of total surplus return on equity capital (bn RUB)	932.3	The target price of preferred share (RUB)	28.7
		<b>The target price of preferred share (USD)</b>	<b>1.17</b>

Source: Finam estimates

We estimate the fair market capitalization of Russia's Sberbank at RUB 1.7806 trillion as of year-end 2009.

### Preferred shares valuation

Our estimate of the fair value of Sberbank preferred shares is based on the discounted dividend model. The estimated share of profit for dividends and the dividend payout on preferred shares are indicated in table 3 below.

*Table 5. The estimated dividend payout ratio and dividend flow on preferred shares*

	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Dividend payout ratio	10.0%	12.0%	12.0%	12.0%	15.0%	15.0%	15.0%	15.0%
Dividend per share (RUB)	0.61	0.89	1.14	1.36	1.94	2.19	2.48	2.77

Source: Finam estimates

To discount the dividend flow, we have applied the previously calculated rate of required return on Sberbank equity capital. We estimate the dividend payout to increase at about 5% a year in the post-forecast period.

*Table 6. Estimate of the fair value of Sberbank preferred shares as of year-end 2009*

Preconditions		Estimate of the target price of share	
The pace of growth in equity capital in the post-forecast period	5.00%	The discounted value of a dividend flow in 2010-2015 (RUB)	7,62
The discount rate (Cost of equity)	11.93% - 13.21%	The discounted value of a dividend flow in the post-forecast period (RUB)	21,12
The target price of preferred share (RUB)			28.7
<b>The target price of preferred share (USD)</b>			<b>1.17</b>

Source: Finam estimates

We believe that the current discount on Sberbank preferred shares (of 55%) is close to the fair one and should not decrease significantly. The low liquidity of the preferred shares and their low proportion in the bank's capital, at 4.5% of the total, will cap their appeal for potential investors. We believe that the price of Sberbank preferred shares will primarily hinge on their mid and long-term dividend yield.

### Peer-group valuation

We have mostly chosen large banks as peers for Sberbank. The banks are deemed leaders in their respective countries and are primarily engaged in classical forms of lending.

Table 7. Market multiples for peer banks, based on projected financials for 2008-2009

Bank	Country	P/E			P/BV		
		2008F	2009F	2010F	2008F	2009F	2010F
<b>Developed countries</b>							
NORDEA BANK AB	Sweden	6.6	7.3	7.1	0.75	0.68	0.62
BANK OF NOVA SCOTIA	Canada	10.4	9.4	8.3	1.38	1.20	1.05
BANCO DE VALENCIA SA	Spain	11.4	10.9	10.2	1.10	1.00	0.91
EFG EUROBANK ERGASIAS	Greece	2.8	2.5	2.1	0.37	0.32	0.28
BANCO COMERCIAL PORTUGUES-R	Portugal	6.5	4.4	3.9	0.42	0.38	0.35
RAIFFEISEN INTL BANK HOLDING	Austria	1.9	1.7	1.4	0.23	0.21	0.18
ERSTE BANK DER OESTER SPARK	Austria	2.5	2.3	2.1	0.24	0.22	0.20
<b>Average for the group</b>		<b>6.0</b>	<b>5.5</b>	<b>5.0</b>	<b>0.64</b>	<b>0.57</b>	<b>0.51</b>
<b>Developing countries</b>							
KOMERCNI BANKA AS	The Czech Republic	8.2	7.9	7.3	1.51	1.27	1.08
OTP BANK NYRT	Hungary	4.1	4.6	4.0	0.80	0.68	0.58
IND & COMM BK OF CHINA - A	China	10.0	8.7	7.2	1.89	1.55	1.28
BANK OF CHINA LTD - H	China	9.2	8.2	6.9	1.39	1.19	1.02
BANCO ITAU HOLDING FINANCEIR	Brazil	7.5	6.9	6.3	1.31	1.10	0.94
AKBANK T.A.S.	Turkey	7.3	6.9	6.0	0.94	0.83	0.73
BANGKOK BANK PUBLIC CO LTD	Thailand	6.3	5.7	5.2	0.58	0.53	0.48
BANK OF PHILIPPINE ISLANDS	Philippines	12.9	11.0	10.4	1.30	1.16	1.05
BANK DANAMON PT	Indonesia	4.9	4.4	3.7	0.74	0.63	0.54
VTB	Russia	6.8	5.2	4.1	0.55	0.50	0.44
<b>Average for the group</b>		<b>7.7</b>	<b>7.0</b>	<b>6.1</b>	<b>1.10</b>	<b>0.94</b>	<b>0.81</b>
<b>Sberbank</b>	<b>Russia</b>	<b>5.3</b>	<b>4.3</b>	<b>3.4</b>	<b>0.77</b>	<b>0.67</b>	<b>0.57</b>

Source: Bloomberg, Finam estimates

Although the bank holds a dominant position in the financial sector and has a relatively high-quality loan portfolio, its stock looks undervalued in comparison to peer banks, both in developed and developing countries.

In the face of the destabilization in the financial sector and the emergence of an array of additional risks for Sberbank shareholders, we have downgraded our twelve-month target prices on Sberbank common and preferred shares to a respective USD 3.10 and USD 1.11 per share, while keeping our BUY recommendation on the shares unchanged. Our target prices on the shares as of year-end 2009 have also been revised downward to a respective USD 3.12 and USD 1.12 per share.

## Appendix No. 1

## Sberbank: balance sheet, RUB billion

	2007	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
<b>Assets</b>									
Cash and cash equivalents	242.2	295.3	343.7	421.2	516.0	630.5	753.2	896.1	1,037.1
Reserve requirements on the Central Bank accounts	56.8	26.1	79.9	99.2	123.0	150.4	181.1	213.7	247.9
Trading securities	246.2	159.9	140.1	228.1	279.4	341.4	407.8	485.2	561.5
Other securities	247.0	241.1	280.6	343.8	421.2	514.7	614.8	731.5	846.7
Funds in other banks	5.1	6.2	7.2	8.9	10.9	13.3	15.9	18.9	21.9
Credits and advances to customers	3,921.5	4,935.5	5,743.4	7,038.5	8,622.1	10,535.8	12,585.9	14,974.5	17,331.1
Investments in securities held to maturity	10.1	120.4	140.1	85.8	105.1	128.5	153.5	182.6	211.4
Capital assets	146.9	174.1	203.5	239.1	281.8	333.0	391.5	458.1	529.6
Other assets	52.9	60.2	65.7	118.9	155.3	201.0	244.9	301.0	348.4
<b>Total assets</b>	<b>4,928.8</b>	<b>6,018.9</b>	<b>7,004.1</b>	<b>8,583.5</b>	<b>10,514.8</b>	<b>12,848.5</b>	<b>15,348.6</b>	<b>18,261.6</b>	<b>21,135.4</b>
<b>Liabilities and equity</b>									
<b>Liabilities</b>									
Due to other banks	80.3	71.0	78.0	101.5	131.9	164.9	197.8	237.4	284.9
Private deposits	2,682.0	3,138.7	3,545.1	4,455.1	5,691.4	7,135.5	8,725.1	10,407.8	12,107.0
Funds held for customers	1,195.6	1,660.7	1,995.8	2,395.6	2,792.9	3,244.1	3,766.3	4,289.3	4,892.2
Issues debt securities	163.8	163.8	163.8	212.9	266.2	332.7	415.9	519.9	649.8
Other borrowed funds	112.0	162.4	227.4	306.9	383.7	460.4	552.5	663.0	795.6
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	32.8	64.7	121.3	90.4	51.8	119.0	80.3	285.2	298.2
Subordinated loan	25.1	24.5	24.5	25.5	26.0	27.0	27.5	28.0	0.0
<b>Total liabilities</b>	<b>4,291.6</b>	<b>5,285.7</b>	<b>6,155.8</b>	<b>7,587.9</b>	<b>9,343.8</b>	<b>11,483.6</b>	<b>13,765.4</b>	<b>16,430.6</b>	<b>19,027.6</b>
<b>Equity</b>									
Charter capital	87.7	87.7	87.7	87.7	87.7	87.7	87.7	87.7	87.7
Share premium	232.5	232.5	232.5	232.5	232.5	232.5	232.5	232.5	232.5
Revaluation reserve	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Undistributed profit	301.4	397.4	512.6	659.9	835.3	1,029.3	1,247.5	1,495.3	1,772.1
<b>Total equity</b>	<b>637.2</b>	<b>733.1</b>	<b>848.3</b>	<b>995.6</b>	<b>1,171.0</b>	<b>1,365.0</b>	<b>1,583.2</b>	<b>1,831.0</b>	<b>2,107.8</b>
<b>Total liabilities and equity</b>	<b>4,928.8</b>	<b>6,018.9</b>	<b>7,004.1</b>	<b>8,583.5</b>	<b>10,514.8</b>	<b>12,848.5</b>	<b>15,348.6</b>	<b>18,261.6</b>	<b>21,135.4</b>

## Sberbank: income statement, RUB billion

	2007	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Interest income	428.6	557.3	703.3	781.7	889.3	1,007.2	1,137.5	1,314.1	1,491.3
Interest expenses	175.8	219.3	259.5	295.4	342.0	391.4	451.9	529.4	610.0
<b>Net interest income (NII)</b>	<b>252.8</b>	<b>337.9</b>	<b>443.9</b>	<b>486.3</b>	<b>547.3</b>	<b>615.8</b>	<b>685.5</b>	<b>784.7</b>	<b>881.4</b>
Reserve on security of credit portfolio	17.6	41.1	86.7	54.0	47.3	52.9	63.0	86.6	104.1
<b>NII after reserve creation</b>	<b>235.2</b>	<b>296.8</b>	<b>357.2</b>	<b>432.3</b>	<b>500.0</b>	<b>562.9</b>	<b>622.5</b>	<b>698.0</b>	<b>777.3</b>
Net income from trading security transactions	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income from investment security transactions	19.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income from foreign currency revaluation	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commission income	68.2	82.1	94.4	109.1	128.9	151.9	176.2	201.7	226.5
Commission expenses	-2.4	-2.9	-3.3	-3.8	-4.5	-5.3	-6.2	-7.1	-8.0
Income from settlement of receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	5.7	7.4	8.8	10.6	13.0	15.9	19.1	22.8	26.7
<b>Operating income</b>	<b>335.5</b>	<b>383.4</b>	<b>457.1</b>	<b>548.2</b>	<b>637.4</b>	<b>725.3</b>	<b>811.7</b>	<b>915.4</b>	<b>1,022.6</b>
Administrative and operating expenses	195.7	243.0	285.0	327.9	375.1	425.0	473.8	531.9	594.1
<b>Profit before tax</b>	<b>139.8</b>	<b>140.4</b>	<b>172.2</b>	<b>220.3</b>	<b>262.2</b>	<b>300.3</b>	<b>337.9</b>	<b>383.5</b>	<b>428.5</b>
Income tax	33.3	33.7	41.3	52.9	62.9	72.1	81.1	92.0	102.8
<b>Net profit</b>	<b>106.5</b>	<b>106.7</b>	<b>130.8</b>	<b>167.4</b>	<b>199.3</b>	<b>228.2</b>	<b>256.8</b>	<b>291.5</b>	<b>325.7</b>

## Sberbank ratios

	2007	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
P/E	5.3	5.3	4.3	3.4	2.8	2.5	2.2	1.9	1.7
P/BV	0.9	0.8	0.7	0.6	0.5	0.4	0.4	0.3	0.3
ROAE	22.5%	15.6%	16.5%	18.2%	18.4%	18.0%	17.4%	17.1%	16.5%
ROA	2.5%	1.9%	2.0%	2.1%	2.1%	2.0%	1.8%	1.7%	1.7%
Equity capital/Assets	12.9%	12.2%	12.1%	11.6%	11.1%	10.6%	10.3%	10.0%	10.0%
Reserves/Credits	2.8%	3.1%	4.2%	4.2%	4.0%	3.7%	3.6%	3.6%	3.7%
ROAA	11.45%	11.27%	11.95%	11.15%	10.37%	9.61%	8.99%	8.71%	8.43%
Cost of raising liabilities	4.76%	4.63%	4.61%	4.37%	4.07%	3.79%	3.61%	3.55%	3.50%
Credit yield	12.06%	11.82%	12.46%	11.59%	10.75%	9.92%	9.25%	8.95%	8.65%
Cost of deposits	4.80%	4.50%	4.49%	4.22%	3.89%	3.58%	3.38%	3.31%	3.25%
Net interest spread	6.69%	6.64%	7.34%	6.79%	6.30%	5.82%	5.38%	5.16%	4.94%
Cost/Income	55.4%	57.2%	52.4%	54.5%	54.8%	54.6%	54.2%	53.1%	52.7%
Net interest margin	6.22%	6.36%	7.02%	6.42%	5.89%	5.41%	4.99%	4.79%	4.59%

## Appendix No. 2

## The Russian financial sector: development forecast, RUB billion

	2007	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	CAGR
GDP, old forecast	32,987	40,015	47,693	55,867	64,366	73,201	82,403	91,890	101,502	15.1%
<b>GDP, new forecast</b>	<b>32,987</b>	<b>42,731</b>	<b>50,716</b>	<b>60,062</b>	<b>70,035</b>	<b>80,505</b>	<b>91,216</b>	<b>102,436</b>	<b>114,011</b>	<b>16.8%</b>
<i>Nominal growth rate, %</i>	<i>23.2%</i>	<i>29.5%</i>	<i>18.7%</i>	<i>18.4%</i>	<i>16.6%</i>	<i>14.9%</i>	<i>13.3%</i>	<i>12.3%</i>	<i>11.3%</i>	
Assets, old forecast	20,241	26,718	34,734	44,805	56,006	68,328	81,310	93,507	106,983	23.1%
<b>Assets, new forecast</b>	<b>20,241</b>	<b>23,884</b>	<b>27,467</b>	<b>34,334</b>	<b>42,917</b>	<b>53,536</b>	<b>65,313</b>	<b>78,376</b>	<b>91,893</b>	<b>20.8%</b>
<i>Share in GDP, %</i>	<i>61.4%</i>	<i>55.9%</i>	<i>54.2%</i>	<i>57.2%</i>	<i>61.3%</i>	<i>66.5%</i>	<i>71.6%</i>	<i>76.5%</i>	<i>80.6%</i>	
Liabilities, old forecast	17,570	23,379	30,660	39,876	50,140	61,406	73,211	84,112	96,179	23.7%
<b>Liabilities, new forecast</b>	<b>17,570</b>	<b>20,759</b>	<b>23,873</b>	<b>30,021</b>	<b>37,741</b>	<b>47,428</b>	<b>58,167</b>	<b>70,087</b>	<b>82,360</b>	<b>21.3%</b>
<i>Share in GDP, %</i>	<i>53.3%</i>	<i>48.6%</i>	<i>47.1%</i>	<i>50.0%</i>	<i>53.9%</i>	<i>58.9%</i>	<i>63.8%</i>	<i>68.4%</i>	<i>72.2%</i>	
Equity capital, old forecast	2,672	3,339	4,074	4,930	5,866	6,922	8,099	9,395	10,804	19.1%
<b>Equity capital, new forecast</b>	<b>2,672</b>	<b>3,126</b>	<b>3,595</b>	<b>4,313</b>	<b>5,176</b>	<b>6,108</b>	<b>7,146</b>	<b>8,289</b>	<b>9,533</b>	<b>17.2%</b>
<i>Share in GDP, %</i>	<i>8.1%</i>	<i>7.3%</i>	<i>7.1%</i>	<i>7.2%</i>	<i>7.4%</i>	<i>7.6%</i>	<i>7.8%</i>	<i>8.1%</i>	<i>8.4%</i>	
<i>Share in assets, %</i>	<i>13.2%</i>	<i>13.1%</i>	<i>13.1%</i>	<i>12.6%</i>	<i>12.1%</i>	<i>11.4%</i>	<i>10.9%</i>	<i>10.6%</i>	<i>10.4%</i>	
Total loans, old forecast	12,791	17,809	23,781	30,716	38,576	47,103	56,321	66,247	76,777	25.1%
<b>Total loans, new forecast</b>	<b>12,791</b>	<b>18,029</b>	<b>21,005</b>	<b>26,469</b>	<b>33,209</b>	<b>40,843</b>	<b>49,468</b>	<b>59,095</b>	<b>71,957</b>	<b>24.1%</b>
<i>Share in GDP, %</i>	<i>38.8%</i>	<i>42.2%</i>	<i>41.4%</i>	<i>44.1%</i>	<i>47.4%</i>	<i>50.7%</i>	<i>54.2%</i>	<i>57.7%</i>	<i>63.1%</i>	
<i>Share in assets, %</i>	<i>63.2%</i>	<i>75.5%</i>	<i>76.5%</i>	<i>77.1%</i>	<i>77.4%</i>	<i>76.3%</i>	<i>75.7%</i>	<i>75.4%</i>	<i>78.3%</i>	
Retail credits, old forecast	3,242	4,539	6,581	8,939	11,620	14,525	17,576	20,915	24,614	28.8%
<b>Retail credits, new forecast</b>	<b>3,242</b>	<b>3,761</b>	<b>4,250</b>	<b>5,525</b>	<b>7,182</b>	<b>8,978</b>	<b>11,042</b>	<b>13,472</b>	<b>18,242</b>	<b>24.1%</b>
<i>Share in assets, %</i>	<i>16.0%</i>	<i>15.7%</i>	<i>15.5%</i>	<i>16.1%</i>	<i>16.7%</i>	<i>16.8%</i>	<i>16.9%</i>	<i>17.2%</i>	<i>19.9%</i>	
<i>Share in credits, %</i>	<i>25.3%</i>	<i>20.9%</i>	<i>20.2%</i>	<i>20.9%</i>	<i>21.6%</i>	<i>22.0%</i>	<i>22.3%</i>	<i>22.8%</i>	<i>25.4%</i>	
Loans for business development, old forecast	8,731	12,223	15,890	20,181	25,024	30,279	36,032	42,157	48,481	23.9%
<b>Loans for business development, new forecast</b>	<b>8,731</b>	<b>12,223</b>	<b>14,301</b>	<b>17,877</b>	<b>22,346</b>	<b>27,485</b>	<b>33,257</b>	<b>39,576</b>	<b>46,700</b>	<b>23.3%</b>
<i>Share in assets, %</i>	<i>43.1%</i>	<i>51.2%</i>	<i>52.1%</i>	<i>52.1%</i>	<i>52.1%</i>	<i>51.3%</i>	<i>50.9%</i>	<i>50.5%</i>	<i>50.8%</i>	
<i>Share in credits, %</i>	<i>68.3%</i>	<i>67.8%</i>	<i>68.1%</i>	<i>67.5%</i>	<i>67.3%</i>	<i>67.3%</i>	<i>67.2%</i>	<i>67.0%</i>	<i>64.9%</i>	
Private deposits, old forecast	5,137	6,897	9,351	12,361	15,794	19,650	23,794	27,757	31,739	25.6%
<b>Private deposits, new forecast</b>	<b>5,137</b>	<b>5,812</b>	<b>6,446</b>	<b>8,406</b>	<b>10,945</b>	<b>13,991</b>	<b>17,450</b>	<b>21,026</b>	<b>24,708</b>	<b>21.7%</b>
<i>Share in GDP, %</i>	<i>15.6%</i>	<i>13.6%</i>	<i>12.7%</i>	<i>14.0%</i>	<i>15.6%</i>	<i>17.4%</i>	<i>19.1%</i>	<i>20.5%</i>	<i>21.7%</i>	
<i>Share in liabilities, %</i>	<i>29.2%</i>	<i>28.0%</i>	<i>27.0%</i>	<i>28.0%</i>	<i>29.0%</i>	<i>29.5%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>	
Funds held for enterprises, old forecast	5,754	7,247	9,198	11,763	14,541	17,501	20,499	23,131	25,968	20.7%
<b>Funds held for enterprises, new forecast</b>	<b>6,772</b>	<b>8,304</b>	<b>9,072</b>	<b>11,408</b>	<b>13,964</b>	<b>17,074</b>	<b>20,359</b>	<b>23,829</b>	<b>27,179</b>	<b>19.0%</b>
<i>Share in GDP, %</i>	<i>20.5%</i>	<i>19.4%</i>	<i>17.9%</i>	<i>19.0%</i>	<i>19.9%</i>	<i>21.2%</i>	<i>22.3%</i>	<i>23.3%</i>	<i>23.8%</i>	
<i>Share in liabilities, %</i>	<i>38.5%</i>	<i>40.0%</i>	<i>38.0%</i>	<i>38.0%</i>	<i>37.0%</i>	<i>36.0%</i>	<i>35.0%</i>	<i>34.0%</i>	<i>33.0%</i>	

## Appendix No. 3

## Performances and forecasts for Sberbank key financial indicators, RUB billion

	2007	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	CAGR
Assets, old forecast	4,929	6,573	8,336	10,574	13,106	15,852	18,701	21,507	24,606	22.3%
<b>Assets, new forecast</b>	<b>4,929</b>	<b>6,019</b>	<b>7,004</b>	<b>8,583</b>	<b>10,515</b>	<b>12,849</b>	<b>15,349</b>	<b>18,262</b>	<b>21,135</b>	<b>20.0%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-8.4%</i>	<i>-16.0%</i>	<i>-18.8%</i>	<i>-19.8%</i>	<i>-18.9%</i>	<i>-17.9%</i>	<i>-15.1%</i>	<i>-14.1%</i>	
Liabilities, old forecast	4,292	5,822	7,450	9,532	11,878	14,425	17,018	19,571	22,392	22.9%
<b>Liabilities, new forecast</b>	<b>4,292</b>	<b>5,286</b>	<b>6,156</b>	<b>7,588</b>	<b>9,344</b>	<b>11,484</b>	<b>13,765</b>	<b>16,431</b>	<b>19,028</b>	<b>20.5%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-9.2%</i>	<i>-17.4%</i>	<i>-20.4%</i>	<i>-21.3%</i>	<i>-20.4%</i>	<i>-19.1%</i>	<i>-16.0%</i>	<i>-15.0%</i>	
Equity capital, old forecast	637	750	887	1,042	1,227	1,427	1,683	1,936	2,215	16.8%
<b>Equity capital, new forecast</b>	<b>637</b>	<b>733</b>	<b>848</b>	<b>996</b>	<b>1,171</b>	<b>1,365</b>	<b>1,583</b>	<b>1,831</b>	<b>2,108</b>	<b>16.1%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-2.3%</i>	<i>-4.3%</i>	<i>-4.5%</i>	<i>-4.6%</i>	<i>-4.3%</i>	<i>-5.9%</i>	<i>-5.4%</i>	<i>-4.8%</i>	
Total loans, old forecast	3,922	5,192	6,602	8,396	10,432	12,634	14,924	17,184	19,685	22.3%
<b>Total loans, new forecast</b>	<b>3,922</b>	<b>4,935</b>	<b>5,743</b>	<b>7,038</b>	<b>8,622</b>	<b>10,536</b>	<b>12,586</b>	<b>14,975</b>	<b>17,331</b>	<b>20.4%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-4.9%</i>	<i>-13.0%</i>	<i>-16.2%</i>	<i>-17.3%</i>	<i>-16.6%</i>	<i>-15.7%</i>	<i>-12.9%</i>	<i>-12.0%</i>	
Retail credits, old forecast	946	1,309	1,766	2,330	2,999	3,693	4,434	5,189	6,038	26.1%
<b>Retail credits, new forecast</b>	<b>946</b>	<b>1,221</b>	<b>1,406</b>	<b>1,686</b>	<b>2,106</b>	<b>2,623</b>	<b>3,195</b>	<b>3,879</b>	<b>4,495</b>	<b>21.5%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-6.7%</i>	<i>-20.4%</i>	<i>-27.6%</i>	<i>-29.8%</i>	<i>-29.0%</i>	<i>-27.9%</i>	<i>-25.2%</i>	<i>-25.6%</i>	
Loans for business development, old forecast	3,092	4,033	5,026	6,299	7,712	9,265	10,856	12,400	14,089	20.9%
<b>Loans for business development, new forecast</b>	<b>3,092</b>	<b>3,867</b>	<b>4,577</b>	<b>5,645</b>	<b>6,856</b>	<b>8,306</b>	<b>9,847</b>	<b>11,638</b>	<b>13,484</b>	<b>20.2%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-4.1%</i>	<i>-8.9%</i>	<i>-10.4%</i>	<i>-11.1%</i>	<i>-10.3%</i>	<i>-9.3%</i>	<i>-6.1%</i>	<i>-4.3%</i>	
Private deposits, old forecast	2,682	3,621	4,769	6,181	7,818	9,628	11,540	13,323	15,076	24.1%
<b>Private deposits, new forecast</b>	<b>2,682</b>	<b>2,938</b>	<b>3,139</b>	<b>3,545</b>	<b>4,455</b>	<b>5,691</b>	<b>7,136</b>	<b>8,725</b>	<b>10,408</b>	<b>18.5%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-18.9%</i>	<i>-34.2%</i>	<i>-42.6%</i>	<i>-43.0%</i>	<i>-40.9%</i>	<i>-38.2%</i>	<i>-34.5%</i>	<i>-31.0%</i>	
Funds held for enterprises, old forecast	1,114	1,338	1,622	1,978	2,389	2,809	3,211	3,532	4,071	17.6%
<b>Funds held for enterprises, new forecast</b>	<b>1,114</b>	<b>1,368</b>	<b>1,495</b>	<b>1,805</b>	<b>2,177</b>	<b>2,550</b>	<b>2,975</b>	<b>3,470</b>	<b>3,970</b>	<b>17.2%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>2.2%</i>	<i>-7.8%</i>	<i>-8.7%</i>	<i>-8.9%</i>	<i>-9.2%</i>	<i>-7.3%</i>	<i>-1.8%</i>	<i>-2.5%</i>	

# Sberbank: impact of the financial crisis

November 5, 2008



	2007	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	CAGR
Interest income, old forecast	428.6	579.6	702.1	826.7	951.5	1,082.4	1,204.2	1,348.6	1,487.5	16.8%
<b>Interest income, new forecast</b>	<b>428.6</b>	<b>557.3</b>	<b>703.3</b>	<b>781.7</b>	<b>889.3</b>	<b>1,007.2</b>	<b>1,137.5</b>	<b>1,314.1</b>	<b>1,491.3</b>	<b>16.9%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-3.8%</i>	<i>0.2%</i>	<i>-5.4%</i>	<i>-6.5%</i>	<i>-6.9%</i>	<i>-5.5%</i>	<i>-2.6%</i>	<i>0.3%</i>	
Interest expenses, old forecast	175.8	235.4	301.1	370.1	435.8	503.7	566.5	643.2	712.9	19.1%
<b>Interest expenses, new forecast</b>	<b>175.8</b>	<b>219.3</b>	<b>259.5</b>	<b>295.4</b>	<b>342.0</b>	<b>391.4</b>	<b>451.9</b>	<b>529.4</b>	<b>610.0</b>	<b>16.8%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-6.8%</i>	<i>-13.8%</i>	<i>-20.2%</i>	<i>-21.5%</i>	<i>-22.3%</i>	<i>-20.2%</i>	<i>-17.7%</i>	<i>-14.4%</i>	
NII, old forecast	252.8	344.1	401.0	456.6	515.7	578.7	637.7	705.3	774.7	15.0%
<b>NII, new forecast</b>	<b>252.8</b>	<b>337.9</b>	<b>443.9</b>	<b>486.3</b>	<b>547.3</b>	<b>615.8</b>	<b>685.5</b>	<b>784.7</b>	<b>881.4</b>	<b>16.9%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-1.8%</i>	<i>10.7%</i>	<i>6.5%</i>	<i>6.1%</i>	<i>6.4%</i>	<i>7.5%</i>	<i>11.3%</i>	<i>13.8%</i>	
NII after creation of reserve, old forecast	235.2	306.0	360.4	413.8	470.2	533.2	594.7	667.7	736.4	15.3%
<b>NII after creation of reserve, new forecast</b>	<b>235.2</b>	<b>296.8</b>	<b>357.2</b>	<b>432.3</b>	<b>500.0</b>	<b>562.9</b>	<b>622.5</b>	<b>698.0</b>	<b>777.3</b>	<b>16.1%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-3.0%</i>	<i>-0.9%</i>	<i>4.5%</i>	<i>6.3%</i>	<i>5.6%</i>	<i>4.7%</i>	<i>4.5%</i>	<i>5.5%</i>	
Net commission income, old forecast	65.8	83.2	105.0	129.5	158.8	190.0	223.4	256.0	291.4	20.4%
<b>Net commission income, new forecast</b>	<b>65.8</b>	<b>79.2</b>	<b>91.1</b>	<b>105.3</b>	<b>124.4</b>	<b>146.5</b>	<b>170.0</b>	<b>194.6</b>	<b>218.6</b>	<b>16.2%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-4.8%</i>	<i>-13.2%</i>	<i>-18.7%</i>	<i>-21.7%</i>	<i>-22.9%</i>	<i>-23.9%</i>	<i>-24.0%</i>	<i>-25.0%</i>	
Operating income, old forecast	335.5	414.3	497.3	582.8	676.9	780.6	885.6	1,001.1	1,115.1	16.2%
<b>Operating income, new forecast</b>	<b>335.5</b>	<b>383.4</b>	<b>457.1</b>	<b>548.2</b>	<b>637.4</b>	<b>725.3</b>	<b>811.7</b>	<b>915.4</b>	<b>1,022.6</b>	<b>14.9%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-7.5%</i>	<i>-8.1%</i>	<i>-5.9%</i>	<i>-5.8%</i>	<i>-7.1%</i>	<i>-8.3%</i>	<i>-8.6%</i>	<i>-8.3%</i>	
Administrative and other operating expenses, old forecast	195.7	244.0	293.6	341.5	391.0	444.2	495.2	547.5	601.0	15.1%
<b>Administrative and other operating expenses, new forecast</b>	<b>195.7</b>	<b>243.0</b>	<b>285.0</b>	<b>327.9</b>	<b>375.1</b>	<b>425.0</b>	<b>473.8</b>	<b>531.9</b>	<b>594.1</b>	<b>14.9%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-0.4%</i>	<i>-2.9%</i>	<i>-4.0%</i>	<i>-4.0%</i>	<i>-4.3%</i>	<i>-4.3%</i>	<i>-2.8%</i>	<i>-1.2%</i>	
Net profit, old forecast	106.5	129.4	154.8	183.4	217.3	255.6	296.7	344.7	390.7	17.6%
<b>Net profit, new forecast</b>	<b>106.5</b>	<b>106.7</b>	<b>130.8</b>	<b>167.4</b>	<b>199.3</b>	<b>228.2</b>	<b>256.8</b>	<b>291.5</b>	<b>325.7</b>	<b>15.0%</b>
<i>Change from previous forecast, %</i>	<i>0.0%</i>	<i>-17.6%</i>	<i>-15.5%</i>	<i>-8.7%</i>	<i>-8.3%</i>	<i>-10.7%</i>	<i>-13.4%</i>	<i>-15.5%</i>	<i>-16.7%</i>	

## Appendix No. 4

### Performances and forecasts for Sberbank share in the sector, %

	2007	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Assets, old forecast	24.4%	24.6%	24.0%	23.6%	23.4%	23.2%	23.0%	23.0%	23.0%
<b>Assets, new forecast</b>	<b>24.4%</b>	<b>25.2%</b>	<b>25.5%</b>	<b>25.0%</b>	<b>24.5%</b>	<b>24.0%</b>	<b>23.5%</b>	<b>23.3%</b>	<b>23.0%</b>
Liabilities, old forecast	24.4%	24.9%	24.3%	23.9%	23.7%	23.5%	23.2%	23.3%	23.3%
<b>Liabilities, new forecast</b>	<b>24.4%</b>	<b>25.5%</b>	<b>25.8%</b>	<b>25.3%</b>	<b>24.8%</b>	<b>24.2%</b>	<b>23.7%</b>	<b>23.4%</b>	<b>23.1%</b>
Equity capital, old forecast	23.9%	22.5%	21.8%	21.1%	20.9%	20.6%	20.8%	20.6%	20.5%
<b>Equity capital, new forecast</b>	<b>23.9%</b>	<b>23.5%</b>	<b>23.6%</b>	<b>23.1%</b>	<b>22.6%</b>	<b>22.3%</b>	<b>22.2%</b>	<b>22.1%</b>	<b>22.1%</b>
Credits, old forecast	30.7%	29.2%	27.8%	27.3%	27.0%	26.8%	26.5%	25.9%	25.6%
<b>Credits, new forecast</b>	<b>30.7%</b>	<b>27.4%</b>	<b>27.3%</b>	<b>26.6%</b>	<b>26.0%</b>	<b>25.8%</b>	<b>25.4%</b>	<b>25.3%</b>	<b>24.1%</b>
Retail credits, old forecast	29.2%	28.8%	26.8%	26.1%	25.8%	25.4%	25.2%	24.8%	24.5%
<b>Retail credits, new forecast</b>	<b>29.2%</b>	<b>32.5%</b>	<b>33.1%</b>	<b>30.5%</b>	<b>29.3%</b>	<b>29.2%</b>	<b>28.9%</b>	<b>28.8%</b>	<b>24.6%</b>
Loans for business development, old forecast	35.4%	33.0%	31.6%	31.2%	30.8%	30.6%	30.1%	29.4%	29.1%
<b>Loans for business development, new forecast</b>	<b>35.4%</b>	<b>31.6%</b>	<b>32.0%</b>	<b>31.6%</b>	<b>30.7%</b>	<b>30.2%</b>	<b>29.6%</b>	<b>29.4%</b>	<b>28.9%</b>
Private deposits, old forecast	52.2%	52.5%	51.0%	50.0%	49.5%	49.0%	48.5%	48.0%	47.5%
<b>Private deposits, new forecast</b>	<b>52.2%</b>	<b>54.0%</b>	<b>55.0%</b>	<b>53.0%</b>	<b>52.0%</b>	<b>51.0%</b>	<b>50.0%</b>	<b>49.5%</b>	<b>49.0%</b>
Funds held for enterprises, old forecast	20.8%	20.5%	19.5%	18.5%	18.0%	17.5%	17.0%	16.5%	16.5%
<b>Funds held for enterprises, new forecast</b>	<b>17.7%</b>	<b>20.0%</b>	<b>22.0%</b>	<b>21.0%</b>	<b>20.0%</b>	<b>19.0%</b>	<b>18.5%</b>	<b>18.0%</b>	<b>18.0%</b>

## Appendix No. 5

### Sberbank: required return on equity

	2007	31.10.2008	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Riskless rate in the US (UST 30)	4.84%	4.04%							
<b>Riskless rate in Russia (Russia 30)</b>	<b>5.78%</b>	<b>12.55%</b>	<b>6.84%</b>	<b>6.34%</b>	<b>5.84%</b>	<b>5.84%</b>	<b>5.84%</b>	<b>5.84%</b>	<b>5.84%</b>
<b>Historical risk premium in the US</b>	<b>4.36%</b>	<b>4.36%</b>	<b>4.36%</b>	<b>4.36%</b>	<b>4.36%</b>	<b>4.36%</b>	<b>4.36%</b>	<b>4.36%</b>	<b>4.36%</b>
Spread between Russian and US state bonds	0.94%	8.51%	2.00%	1.50%	1.00%	1.00%	1.00%	1.00%	1.00%
Excessive volatility of share market compared to bond market	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
<b>Risk premium in Russia</b>	<b>5.8%</b>	<b>17.1%</b>	<b>7.4%</b>	<b>6.6%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.9%</b>
Expected market yield in Russia	11.6%	29.7%	14.2%	13.0%	11.7%	11.7%	11.7%	11.7%	11.7%
Sberbank beta	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04
Premium for risk of investing in Sberbank	6.0%	17.81%	7.65%	6.87%	6.09%	6.09%	6.09%	6.09%	6.09%
<b>Sberbank required return on equity</b>	<b>11.78%</b>	<b>30.36%</b>	<b>14.49%</b>	<b>13.21%</b>	<b>11.93%</b>	<b>11.93%</b>	<b>11.93%</b>	<b>11.93%</b>	<b>11.93%</b>

## Research Department

**Alexander Butov**  
[Butov@finam.ru](mailto:Butov@finam.ru)  
Head of Department

**Vladimir Sergievskiy**  
[Sergievskiy@finam.ru](mailto:Sergievskiy@finam.ru)  
Senior Analyst  
Chief Investment Strategist  
Banking. Infrastructure. Metals and mining  
+7 (495) 604-82-75

### Analysts:

**Sergey Filchenkov**  
[Filchenkov@finam.ru](mailto:Filchenkov@finam.ru)  
Analyst  
Consumer  
+7 (495) 604-80-98

**Mikhail Frolov**  
[Frolov@finam.ru](mailto:Frolov@finam.ru)  
Analyst  
Chemicals. Petrochemicals  
+7 (495) 604-81-64

**Konstantin Romanov**  
[Romanov@finam.ru](mailto:Romanov@finam.ru)  
Analyst  
Automotive. Industry. Banking, Transport  
+7 (495) 604-83-77

**Konstantin Reily**  
[Reily@finam.ru](mailto:Reily@finam.ru)  
Analyst  
Utilities  
+7 (495) 604-82-74

**Alexei Sulinov**  
[Sulinov@finam.ru](mailto:Sulinov@finam.ru)  
Junior Analyst  
Metals & Mining

**Denis Kruglov**  
[Kruglov@finam.ru](mailto:Kruglov@finam.ru)  
Junior Analyst  
Utilities

**Aigul Ziyangulova**  
[Ziyangulova@finam.ru](mailto:Ziyangulova@finam.ru)  
Research Assistant

**Yuliya Golysheva**  
[Golysheva@finam.ru](mailto:Golysheva@finam.ru)  
Research Assistant

## Finam Investment Holding

**Call center**  
+7 (495) 796-90-26.  
+7 (495) 796-93-88. ext. 221  
+7 (800) 210-44-00 (toll-free in Russia))

**Investment Department**  
**Dmitry Serebrennikov**  
[Aq@finam.ru](mailto:Aq@finam.ru)  
+7 (495) 604-84-34

**International Business Development**  
**Grigoriy Yudashkin**  
[Yudashkin@finam.ru](mailto:Yudashkin@finam.ru)  
+7 (495) 604-81-68.

**Institutional Equities**  
**Alexander Zalko**  
[Zalko@finam.ru](mailto:Zalko@finam.ru)  
+7 (495) 604-81-65

**PR and Media Service**  
**Igor Ermachenkov**  
[Ermachenkov@finam.ru](mailto:Ermachenkov@finam.ru)  
+7 (495) 604-84-47

**Pre-sales**  
**Alexei Dyupin**  
[alex@finam.ru](mailto:alex@finam.ru)  
+7 (495) 796-93-88. ext. 248

**Regional development department**  
**Denis Kolousov**  
[Kolousov@finam.ru](mailto:Kolousov@finam.ru)  
+7 (495) 796-93-88. ext. 105

**Translator**  
**Alexander Tatarinov**  
[Tatarinov@finam.ru](mailto:Tatarinov@finam.ru)  
+7 (495) 604-8165

**Translator**  
**Kirill Lyubchenko**  
[Lyubchenko@finam.ru](mailto:Lyubchenko@finam.ru)  
+7 (495) 604-8165

**Chief Editor**  
**Mark Veda**  
[Veda@finam.ru](mailto:Veda@finam.ru)  
+7 (495) 604-8165

The research material and information contained herein are intended solely for the clients of Finam Investment Company. This publication has been drafted strictly for information purposes and cannot be considered as an invitation or a solicitation to make an offer, nor a request to buy or sell securities and/or other financial instruments or to execute any investment activities. The information presented herein has been compiled on the basis of sources which in the opinion of the authors are reliable and reflects solely the viewpoint of the authors about any and all companies under analysis. Despite the fact that this research report has been drafted with due diligence neither its authors nor Finam Investment Company shall guarantee directly or indirectly its accuracy or completeness. Any and all information or assumptions contained herein shall serve as comments at the time when this research report is released and may be subject to change without notice. Neither Finam Investment Company nor its employees shall be held liable for any losses incurred due to the use of this research report or for another other reason associated with said report. Any duplication, reproduction and/or distribution of this research report, in part or in full, shall be strictly prohibited without the express written consent of Finam Investment Company.