



CONCORDE CAPITAL

Ukraine/ Banking Bank Forum

All Dressed Up And Ready To Go

BUY

13 Dec 2005

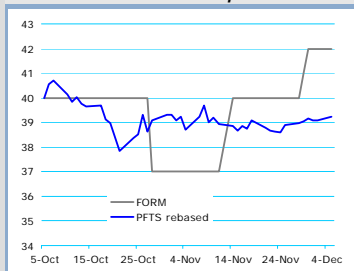
USD 8.05

12m Target

USD 9.50

Alexander Viktorov
+380 44 206 8370
av@con-cap.com

FORM Bid-Price, UAH



Market Information

PFTS **FORM**
Bloomberg **FORM UZ**

No of Shares, mln **37**

The subscription for an additional 10 mln share issue will be accomplished on December 20, 2005

Market price, USD **8.05**

MCap, USD mln 299

Free Float, % **10**

Stock Ownership

Provita Co **65%**

Elmak Co **14.8%**

Global portfolio fund **10%**

Other **10.2%**

Ratios 2004

Net Interest Margin **7.4%**

Net Income Margin **15.6%**

ROE **10.5%**

Cost/Income **41.7%**

The October placement of 10% of company among private foreign investors wet the market's appetite for the bank's sale to strategic investors. Forum plans to sell a blocking or major stake in 2006-07. Rapid growth, expansion into the retail segment and strong profitability are key features which make Forum an attractive acquisition target.

Rapid Growth. The growth rate of Forum's main financials are double the industry average, and have made the bank the 13th largest in Ukraine (#19 in 2003). So far this year, the bank's development has shown no sign of slowing down: in 9M05 Forum increased its assets by 85% YTD to USD 665 mln and its gross loan portfolio by 75% YTD to USD 451 mln, above the sector averages of 35% and 53% respectively.

Profitability Intact. Despite the bank's high growth rate, Forum's margins have not suffered, net margin increased from 9.8% in 2002 to 15.6% in 2004. Forum's net income has grown at 37% CAGR for the last five years, ROE/ROA (10.5%/1.3% in 2004) demonstrated stable growth and in 2003-04 were above the sector average.

More Growth On The Horizon. In 2006-08 we expect Forum to grow at 33% CAGR bringing its total assets to USD 1.79 bln and loan portfolio to USD 1.22 bln (+39% CAGR). By the end of 2008 net income is expected to reach USD 23.8 mln implying growth of 61% CAGR 2006-08, ROE at 17.9% and a net margin of 19.7%.

Future Value Drivers:

- **Expansion into the promising retail segment.** Forum's consumer lending grew at 159% CAGR in 2001-04, however, there is still potential for growth in this direction: retail loans represent a mere 8% of the bank's gross loan portfolio;
- **Non-interest income growth.** Given Forum's steady growth and development of its products and services, we expect non-interest incomes to become an important additional contributor to the bank's revenues in the future. Despite increases during the last few years non-interest income is only 24% of total revenues, half of the average of CEE banks, which gives the bank a great deal of catch-up potential in this segment;
- **Exposure to cheaper borrowings.** The ability to draw low-cost borrowing via syndicated loans and EBRD lending programs will continue to positively affect Forum's margins and capacity;
- **Provisions: Hidden Value.** We believe Forum's high provision charges (36% of total income) are due to an artificially increased level of lower quality loans, which understate the bank's profits. The bank's expected switch to more reasonable loan classifications is going to unlock these hidden reserves and may push NI 2006E USD 20 mln above our forecast USD 8.6 mln.

KEY FINANCIAL DATA, USD mln

| | Assets | Net Loans | Total Revenue | Net Income |
|----------------|--------|-----------|---------------|------------|
| 2004 | 341.6 | 229.2 | 23.9 | 3.7 |
| 2005E | 697.8 | 460.8 | 42.6 | 5.7 |
| 2006E | 1024.2 | 702.6 | 68.8 | 8.6 |
| Spot Exch Rate | 5.05 | | | |

KEY RATIOS

| | P/E | P/BV | P/Loans | P/Deposits |
|--------------|------|------|---------|------------|
| 2004 | 79.0 | 6.4 | 1.3 | 1.5 |
| 2005E | 51.6 | 3.6 | 0.6 | 0.8 |
| 2006E | 33.9 | 2.8 | 0.4 | 0.5 |

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UKRAINE: CONSOLIDATION TIME

The Ukrainian banking sector has entered a large-scale consolidation stage. The process has two facets: large local banks expand their business through the acquisition of small banks from the third/fourth tier group while global heavyweights target banks from the first tier with extensive branch-networks and established business.

Ukraine: The Next Frontier For Foreign Banks

After being a no man's land for the international banking community for a long time, the Ukrainian banking sector has become the focus of attention due to the size and potential of the Ukrainian market and the remarkable performance of Ukrainian banks in recent years.

The banking sector in Ukraine has almost doubled in size in the last two years. During 2001-04 total net assets, loans and deposits in Ukrainian banks increased almost four-fold. Ukraine's loan portfolio growth, 35% CAGR during 2000-04, was far above the CEE average of 15%. The difference in deposit dynamics was even more impressive: 44% in Ukraine compared to a mere 12% in the CEE.

This lower level of financial intermediation clearly signals even higher growth potential for Ukraine's banking segment. For example, deposits as a percentage of GDP, in Ukraine, 23%, are far below the CEE's percentage of 44%. Lending is similar, 29%, lower than the 34% in CEE countries. When looking at total banking assets, the difference is even more noticeable: Ukrainian banking assets are about 41% of GDP, much less than the CEE average of 74%. Ukraine's nominal GDP is predicted to grow by 18% CAGR in 2005-07 (Romania and Bulgaria are the fastest growing in the CEE with 12% and 11% respectively) offering even higher rates for loan and deposit growth.

Better Than Russia?

Ukraine's banking sector has been in the shadow of the Russian market for a long time. Although the banking sectors in both countries are comparable in growth and potential for further development, Ukraine is less concentrated (with none of the banks occupying more than 15% of the market) and therefore offers a more competitive environment. The Russian banking sector is highly concentrated, five banks account for 46% all banking assets and 66% of retail deposits (Sberbank alone holds around 60% of all private deposits). Dominant positions in Russia (~32% of all banking assets) are held by banks either owned directly by the state (Sberbank and Vneshtorgbank) or by state-owned companies (Gazprombank). In Ukraine the situation is the opposite: state-owned banks are losing their market share (8% at 2004-end) and foreign banks are playing a larger role on the market (16% as July, 2005)

Banking Market in Ukraine and Russia

| | Number of banks | Market share, % | | Total assets | | Total loans | | Total deposits | |
|----------------|-----------------|-----------------|-------------------|--------------|------------|-------------|------------|----------------|------------|
| | | Top-5 | State-owned banks | % of GDP | CAGR 00-04 | % of GDP | CAGR 00-04 | % of GDP | CAGR 00-04 |
| Ukraine | 160 | 37 | 8 | 41 | 27% | 29 | 35% | 23 | 44% |
| Russia | 1464 | 46 | 32 | 43 | 26% | 27 | 36% | 16 | 39% |

Global Majors To Flood Ukraine In 2006-07

Several large European banking groups have announced plans to enter the Ukrainian market. Foreign banks will enter the market by acquiring stakes in local banks and opening their own structural divisions. We believe acquisition of Ukrainian banks by global majors will intensify over the next two years. Currently foreign-owned banks make up 9% of the Ukrainian banking market. We estimate this figure will reach ~30% in 2007 and ~50% by 2010.

Announced Plans Of Foreign Banks In Ukraine

| Bank | Country | Comments |
|------------------|---------|--|
| Vneshtorgbank | Russia | Opened its structural division in March, 2005 - Vneshtorgbank (Ukraine). Plans to acquire a mid-sized Ukrainian bank in 2006. |
| Bank Of Moscow | Russia | To open a structural division of the Bank Of Moscow (Ukraine) by the end of 2005. |
| Alfa Bank | Russia | The most probable buyer of Ukrsotsbank (fourth-largest Ukrainian bank in terms of assets). The deal may be completed by the end of 2005. |
| Commertzbank | Germany | Plans to upgrade its representative office to a structural division - Commertzbank (Ukraine) |
| BNP Paribas | France | Opened a representative office and currently targeting Ukrsibbank (#5 in Ukraine) |
| Societe Generale | France | Targeting Ukrsibbank |
| OTP | Hungary | Targeting Ukrsibbank and considering the acquisition of a mid-sized Ukrainian bank |
| UniCredito | Italy | Targeting a top-ten bank |
| Erste Bank | Austria | Targeting Oshadbank (Saving bank) |
| Banka Intesa | Italy | Considering the acquisition of Ukrainian bank in 2005-06 |
| Finansbank | Turkey | To open structural division by the end of 2005 |

Paying Up To Enter The Ukrainian Market

On August 20, 2005 Raiffeisen International Bank-Holding AG (Austria) completed an acquisition deal for a 93.5% stake in Bank Aval. The acquisition price was USD 1028 mln (x 3.1 P/B) implying a 23% premium to Aval's Mcap at the moment of acquisition. This deal not only changed the landscape in the Ukrainian banking sector, by placing the foreign bank in a leading position in the sector, but also set a benchmark for the valuation of Ukrainian banks. However we think that x 3.1 P/BV is not the ceiling for the valuation of Ukrainian banks. The saturation of the CEE banking sector and desire to take advantage of early movers makes the competition much stiffer in the bidding process for Ukrainian banks. Next year we see P/BV x 3.5-4 being applied for upcoming acquisitions. This offers a great opportunity for investors to gain on synergy premiums.

Recent M&A Deals In Ukraine's Banking Sector

| Buyer | Target | Acquired stake | P/E | P/BV |
|--|-------------|-------------------------------|-------------|------------|
| Raiffeisen International | Aval | USD 1028 mln for 93.5% | 26.4 | 3.1 |
| PKO Bank Polski (Poland) | Kredit Bank | USD 30 mln for 66.65% | 30.5 | 1.6 |
| Bank NRB-Ukraine (structural division of a Russian bank) | Energobank | 21.88% | n/a | n/a |
| Vilniaus Bankas (Lithuania) (member of SEB group) | Azhio | EUR 23.2 mln for >90% | 24.5 | 1.5 |

Medium-Sized Banks Targeted For Further Acquisition

Following Raiffaisen's acquisition of Aval, and the upcoming sale of Ukrsibbank and Ukrsotsbank, there are still a couple of top-10 banks available for acquisition. The two remaining state-owned banks, Ukreximbank and Oshadbank (ranked #5 and #6 in Ukraine), are long-term privatization targets. Thus, foreign banks are setting their sights on banks from the second/third tier group.

Fast growing, Bank Forum, currently the 13th largest Ukrainian bank, will definitely draw interest from foreign banking institutions as a potential acquisition target. Breaking into the top-10 and attracting a strategic foreign partner are in the bank management's mid-term plans.

The Benefits Of Acquisition For Ukrainian Banks

Being acquired by a global banking institution has several benefits for a Ukrainian bank:

1. Sufficient capital inflows able to support further growth
2. The implementation of advanced cost efficiency methods, increased investments in modern banking technology.
3. Easy access to cheap international resources via syndicated loans and capital inflows from new owners.
4. The end of tax optimization schemes that understate the bank's profitability.
5. The introduction of western corporate governance standards.

BANK FORUM: All Dressed Up And Ready To Go

Private Placement: Gearing Up

In October 2005, Forum placed a 10% stake with foreign investors. The placement was conducted through a GDR program facilitated by the Bank of New York. The bank's GDRs were registered on the Frankfurt Stock Exchange's *Freiverkehr* in early November, 2005. The placement which valued Forum at USD 200 mln was over-subscribed by 1.8 times. The P/BV ratio reached 2.9 - very close to the P/BV 3.1 implied during Raiffeisen's acquisition of a 93.5% stake in Aval.

The presence of foreign institutional investors among the bank's shareholders improves the bank's image for potential strategic investors and bodes well for Forum's corporate governance.

What's For Sale?

1. Rapid Growth

For the past few years, Bank Forum's growth rates have outpaced the whole banking system as well as banks in the top-10 group. Total asset growth was 70% CAGR for 2002-04, above the industry average of 40% and three times higher than the 29% achieved by top-10 banks. This solid growth pace allowed the bank to expand its market share in asset terms from a minute 0.09% as of January 2003, to 1.6% in July 2005. Currently Forum, with total assets of USD 527 mln, ranks 13th in Ukraine (#19 in 2003). The bank's management plans to reach the top-10 as early as next year. Given Forum's growth momentum, we do not question the bank's ability to reach this target.

Top-10 Ukrainian Banks*

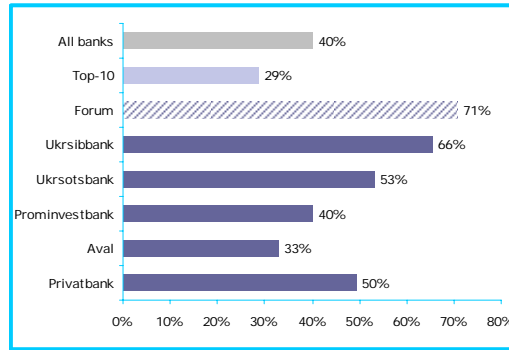
| Rank | Bank | Total Assets | % of all Ukr | Loan Portfolio | % of all Ukr | Total Deposits | % of all Ukr | Capital | % of all Ukr |
|-----------|---------------------|--------------|--------------|----------------|--------------|----------------|--------------|-----------|--------------|
| 1 | Privatbank | 3561 | 10.9 | 2128 | 10.6 | 2826 | 12.3 | 375 | 9.3 |
| 2 | Aval | 2974 | 9.1 | 2006 | 10.0 | 2424 | 10.5 | 261 | 6.4 |
| 3 | Prominvestbank | 2592 | 7.9 | 1966 | 9.8 | 2175 | 9.5 | 243 | 6.0 |
| 4 | Ukrsotsbank | 1887 | 5.8 | 1006 | 5.0 | 1474 | 6.4 | 185 | 4.6 |
| 5 | Ukrsibbank | 1423 | 4.4 | 932 | 4.7 | 838 | 3.6 | 150 | 3.7 |
| 6 | Ukreximbank | 1352 | 4.1 | 867 | 4.3 | 800 | 3.5 | 134 | 3.3 |
| 7 | Oshadbank | 1345 | 4.1 | 287 | 1.4 | 1209 | 5.3 | 71 | 1.7 |
| 8 | Raiffeisenbank | 921 | 2.8 | 698 | 3.5 | 489 | 2.1 | 67 | 1.7 |
| 9 | Nadra | 871 | 2.7 | 572 | 2.9 | 545 | 2.4 | 74 | 1.8 |
| 10 | Brokbisnesbank | 640 | 2.0 | 370 | 1.8 | 472 | 2.1 | 76 | 1.9 |
| 13 | Forum | 527 | 1.6 | 361 | 1.8 | 282 | 1.2 | 52 | 1.3 |
| 16 | Forum (Jan 1, 2005) | 343 | 1.4 | 228 | 1.5 | 194 | 1.1 | 41 | 1.2 |
| 17 | Forum (Jan 1, 2004) | 220 | 0.9 | 137 | 1.1 | 129 | 1.0 | 26 | 1.1 |

Source: the National Bank, Concorde Capital estimates

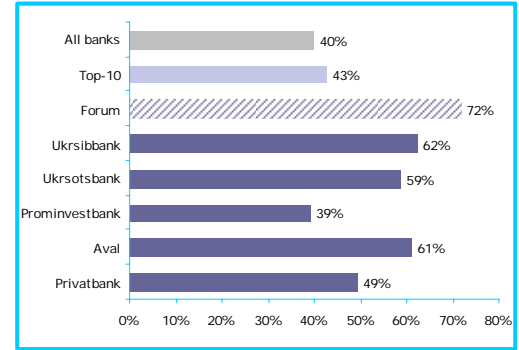
* As of July 1, 2005

The growth of the bank's balance sheet was primarily due to the rapid expansion of Forum's loan portfolio. For the last three years Forum has increased its loan book by four times (72% CARG for 2002-04, above the industry average of 43%) to reach USD 361 mln, representing 1.8% of the total loans in the banking system.

Asset Growth, CAGR 2002-04



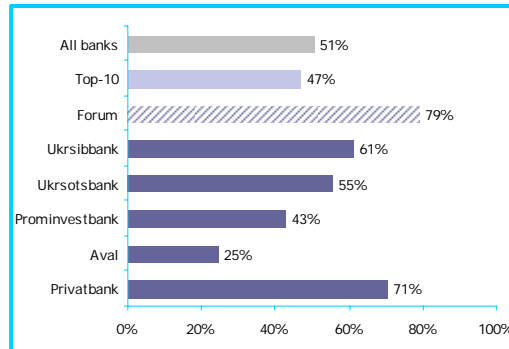
Loan Portfolio Growth, CAGR 2002-04



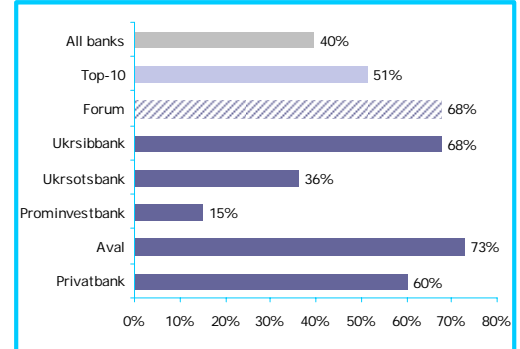
Source: the National Bank, Company data, Concorde Capital estimates

To support further lending, Forum has maintained the rapid growth of its deposit base. During 2002-04 funds on deposit accounts with the bank grew at 79% CAGR, above the industry average of 51%, and accounted for 1.2% of the total deposits in the system.

Customer Deposit Growth, CAGR 2002-04



Capital Growth, CAGR 2002-04

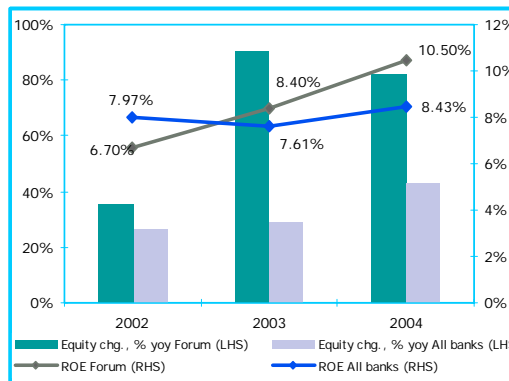


Source: the National Bank, Company data, Concorde Capital estimates

2. Profitability

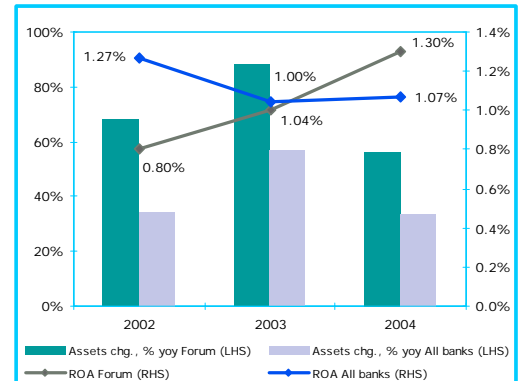
The bank's robust growth has not led to a deterioration of Forum's profitability. Forum had 37.1% CAGR of net income for the last five years and had a 100% growth rate in 2003-04. Even though the bank's assets and equity growth almost doubled the industry average in 2002-04, Forum's ROA/ROE demonstrated stable growth and in 2003-04 were above the sector average.

ROE & Equity Growth Dynamics



Source: the National Bank, Company data

ROA & Asset Growth Dynamics

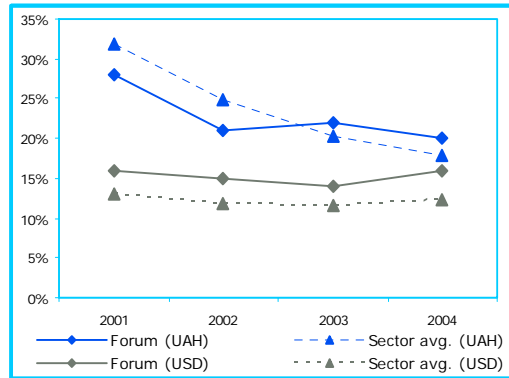


Source: the National Bank, Company data

For the past few years Forum has been able to maintain net interest margins (NIM) above the market average, even though the bank's average lending rate has exceeded the market rate since 2003. Forum's higher NIM are derived from its interest expense side. While the share of loans in the bank's interest-earning assets have been maintained at the industry average level of ~77%, Forum's customer deposits (the

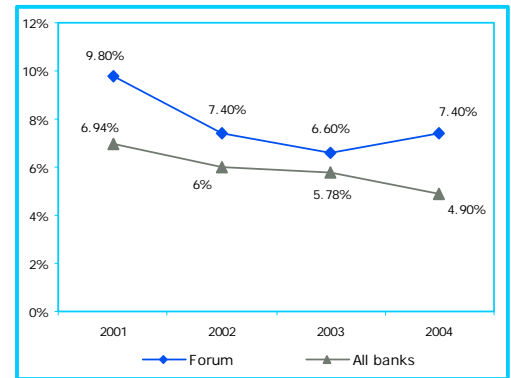
bank's most expensive resource) accounted for 66% of interest bearing liabilities versus the sector average of 80%. **More than most other banks Forum relies on borrowings from other banking institutions which account for 27% of its interest-bearing liabilities**, (the sector average is 17%). A major percentage of these funds are represented by cheap loans and deposits from foreign financial institutions. Long-standing cooperation with the EBRD has also had a positive affect on Forum's margins: the bank obtains cheap funds (USD LIBOR+3%) from the EBRD through a small/medium sized enterprise financing program and provides loans at the average market lending rate.

Lending Rates: Forum vs The Market



Source: the National Bank, Company data

NIM Dynamics: Forum vs The Market



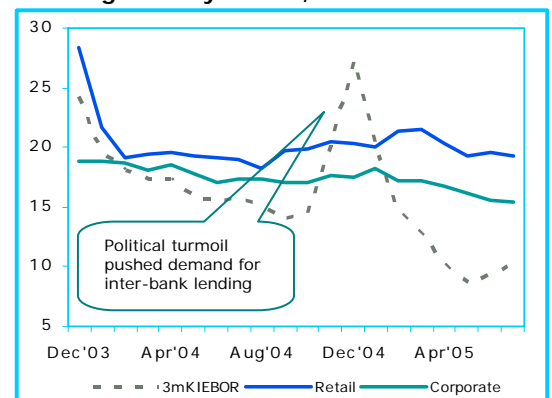
Source: the National Bank, Company data

3. Expansion Into The Retail Segment

The future growth of Ukrainian banking lies in the retail segment, as the corporate sector is approaching saturation. Expansion of lending to private customers significantly outpaced the corporate segment: 98.5% CAGR vs 41.4% in 2001-04. **The overall growth potential in the retail segment is obvious when compared to the Euro-zone and CEE countries, where lending to private customers is at about 50% and 12.4% of GDP respectively, while in Ukraine this indicator is around 4.0% of GDP.**

The retail segment is clearly more profitable. Since 2004, the average margin for retail loans (rate spreads over 3MKIEBOR, our proxy for the market rate) widened from 2% to 9%. In the corporate segment margins showed lower growth from around zero to 5%. Recently more banks, traditionally oriented towards the corporate segment have shifted their focus to retail, increasing the portion of higher-yield retail loans in their loan portfolios and expanding their branch-network.

Lending Rate Dynamics, %



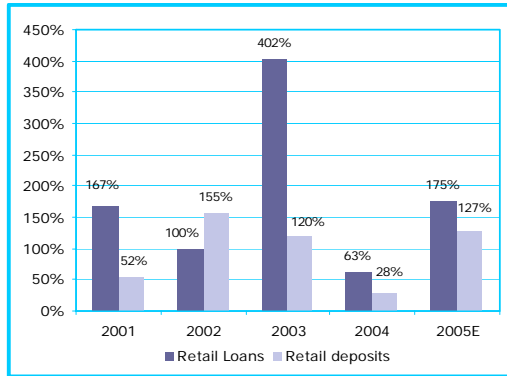
Source: National Bank of Ukraine, local Central Banks

For the last four years Bank Forum's consumer lending has shown impressive growth rates: CAGR 159%, above industry average of 82%. As a result the share of consumer loans in the bank's gross loan portfolio (GLP) increased from 2% in 2001 to 8% in 2004. The bank plans to increase the share of retail loans in GLP to 20%-25% over the next three years. Deposits from private customers have grow significantly: CAGR 101% in 2001-04 (59% for all banks). At the end of 2004, retail deposits made up a 51% share of Forum's deposit base.

To support further growth in the retail segment the bank is actively expanding its branch-network. The bank has 20 branches and 45 sub-divisions throughout Ukraine. Forum plans to add 100 new outlets by the end of 2005. According to the bank's management,

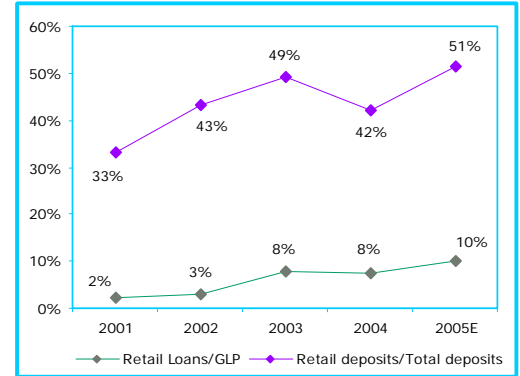
Forum will continue to increase its presence in the regions by bringing its network to 300 branches and outlets by 2008.

Retail Loans & Deposit Dynamics



Source: Company data

Retail Component In Forum's Operations



Source: Company data

Aggressive expansion may exert pressure on the bank's mid-term profitability by increasing operating expenses, including personnel and depreciation costs. As a result we expect Forum's cost/income ratio to deteriorate from the current 41.7% to 44% and 51% in 2006-07 respectively, then gradually improve to the 40% level.

VALUATION

Peer Comparison

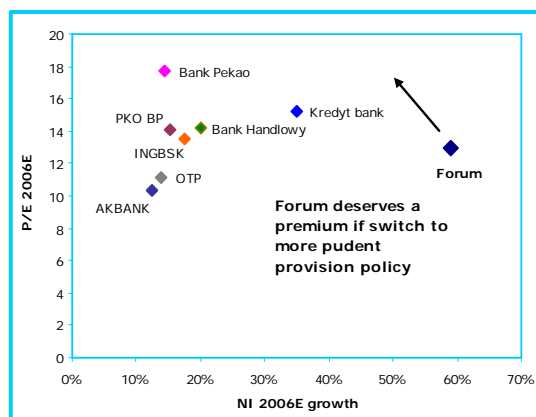
| | Country | Mkt Price, USD | Mcap, USD mln | P/Assets | | P/Loans | | P/Deposits | |
|---------------------|----------------|----------------|---------------|-------------|-------------|-------------|--------------|-------------|-------------|
| | | | | 2005E | 2006E | 2005E | 2006E | 2005E | 2006E |
| Forum | Ukraine | 7.9 | 292 | 0.4 | 0.3 | 0.6 | 0.4 | 0.8 | 0.5 |
| Bank Pekao | Poland | 52.7 | 8776 | 0.5 | 0.5 | 1.0 | 0.9 | 0.7 | 0.7 |
| Bank Handlowy | Poland | 18.7 | 2445 | 0.3 | 0.2 | 0.7 | 0.7 | 0.4 | 0.4 |
| OTP | Hungary | 34.8 | 9769 | 0.4 | 0.3 | 0.6 | 0.5 | 0.6 | 0.5 |
| Komercni Banka | Czech Rep. | 140.5 | 5339 | 0.3 | 0.3 | 0.7 | 0.7 | 0.4 | 0.4 |
| Garanti | Turkey | 3.3 | 6871 | 0.3 | 0.2 | 0.7 | 0.5 | 0.4 | 0.4 |
| Yapi Kredi Bank | Turkey | 4.1 | 3105 | 0.2 | 0.1 | 0.4 | 0.2 | 0.3 | 0.1 |
| Average | | | | 0.3 | 0.3 | 0.7 | 0.6 | 0.5 | 0.4 |
| Median | | | | 0.3 | 0.3 | 0.7 | 0.6 | 0.4 | 0.4 |
| Premium/ (Discount) | | | | 35% | 5% | -15% | -29% | 66% | 20% |
| Implied Price, USD | | | | 5.86 | 7.53 | 9.31 | 11.07 | 4.75 | 6.56 |
| Upside (Downside) | | | | -26% | -5% | 18% | 40% | -40% | -17% |

| | P/E adj. | | P/E | | P/BV adj. | | P/BV | | P/Operating Income | |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------|-------------|
| | 2005E | 2006E | 2005E | 2006E | 2005E | 2006E | 2005E | 2006E | 2005E | 2006E |
| Forum | 20.9 | 13.3 | 51.6 | 33.9 | 3.3 | 2.6 | 3.6 | 2.8 | 12.0 | 7.9 |
| Bank Pekao | 20.6 | 17.7 | 3.6 | 3.3 | 3.6 | 3.3 | 3.6 | 3.3 | 14.9 | 13.5 |
| Bank Handlowy | 16.1 | 14.2 | 1.8 | 1.7 | 1.8 | 1.7 | 1.8 | 1.7 | 14.0 | 11.9 |
| OTP | 13.0 | 11.2 | 3.7 | 3.0 | 3.7 | 3.0 | 3.7 | 3.0 | 8.8 | 7.7 |
| Komercni Banka | 14.2 | 14.7 | 2.6 | 2.3 | 2.6 | 2.3 | 2.6 | 2.3 | 10.3 | 9.4 |
| Garanti | 15.2 | 11.3 | 2.3 | 1.8 | 2.3 | 1.8 | 2.3 | 1.8 | 6.5 | 5.2 |
| Yapi Kredi Bank | 20.9 | 11.4 | 2.1 | 1.1 | 2.1 | 1.1 | 2.1 | 1.1 | 10.4 | 4.1 |
| Average | 16.6 | 13.4 | 2.7 | 2.2 | 2.7 | 2.2 | 2.7 | 2.2 | 10.8 | 8.6 |
| Median | 15.6 | 12.8 | 2.4 | 2.1 | 2.4 | 2.1 | 2.4 | 2.1 | 10.4 | 8.6 |
| Premium/ (Discount) | 25% | -1% | 210% | 142% | 23% | 16% | 37% | 28% | 11% | -9% |
| Implied Price, USD | 6.30 | 7.98 | 2.55 | 3.12 | 6.40 | 6.79 | 5.78 | 6.20 | 7.14 | 8.64 |
| Upside (Downside) | -20% | 1% | -68% | -59% | -19% | -14% | -27% | -22% | -10% | 9% |

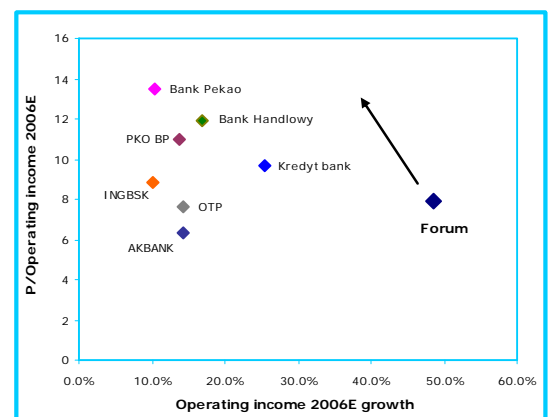
Share prices as of November 30, 2005

A straightforward comparative valuation of Bank Forum by x33.9 P/E would only imply a USD 3.12 share price (based on peer averages x13.4 P/E 2006E). At the same time, MCap/Operating Income (2006E) implies USD 8.64. We attribute this discrepancy to accounting schemes discussed in detail on page 11. After adjustment, Forum's 2006 P/E is x13.3, implying USD 7.98 per share. In any case, we are convinced Forum deserves a premium over its peers due to its substantial growth and "strategic sale" driver:

P/E vs Earnings Growth ('06)*



P/Operating Income vs Oper.Inc.'06 growth



Source: Bank Austria Creditanstalt, Concorde Capital

* NI was adjusted to reflect Forum's more prudent loan portfolio classification structure

P/Deposit and P/Asset comparisons give depressed valuations, as the former does not capture the fact that Forum attracts inexpensive funds from international institutions, and the latter fails to reflect the favorable structure of Forum's assets – 67% of Forum's total assets are loans, while this figure is 40% for the peer group. Currently lending activity is the most profitable segment for Bank Forum. The bank benefits from attractive rates on its loans (higher than market average) and at the same time is able to cover a significant share of its loans (~20%) with low-cost borrowings from foreign financial institutions. Thus in our opinion, applying P/Loans better reflects Forum's growth and development prospects.

Given Forum's steady growth and the fact the bank continuously diversifies its products and services, we expect non-interest incomes will become an additional booster for the bank's revenues in the future. With a non-interest/total income ratio of 24%, Bank Forum is way behind its CEE peers (45%). This gap represents potential for the bank to develop in this direction.

Provisions: Hidden Reserves

Despite concerns that rapid loan portfolio growth would erode asset quality, Forum has been able to maintain its loans at a quality level. As of December 31 2004, non-performing loans (NPL) which include doubtful and overdue loans, amounted to USD 14 mln and represent a 5% (unchanged since 2003) share of the company's GLP. Loan loss provisions (LLP) as of December 31 2004, were 1.2 times higher than NPL and amounted to USD 16.5 mln which is 6.8% of GLP. We estimate that the bank will maintain its LLP share in its gross loan portfolio at ~7% in 2005-06.

It is common practice for Ukrainian banks to use loan loss provisions in tax optimization schemes. The banks tend to overstate them to decrease income tax. The National Bank (NBU) sets rates of provisions to be applied to loans of certain classification but provides only general guidance for the classification process itself. Thus the banks often assign a bigger share of loans to categories with higher provision rates.

In our opinion, Forum takes advantage of this situation as well. Below we compare Forum's loan portfolio quality with a Polish bank, Pekao SA. We believe Polish banks may serve as a proxy for their Ukrainian counterparts in a mid-term prospective. The biggest difference is in loans categorized as sub-standard. While Forum's sub-standard loans account for 35% of all loans, for Bank Pekao this figure is a mere 2% of GLP. There are rare occasions when the number of sub-standard loans are nearly equal to standard loans (in 2003 sub-standard loans even exceeded the standard category) even though Ukrainian loans are perceived as more risky. This discrepancy can neither be explained by Forum's conservative classification of loans nor by the quality of the bank's loans.

This large share of sub-standard loans allows Forum to increase its loan loss provision charge (20% of sub-standard is required to be assigned to provisions versus 2% for loans from the standard category) and thus reduce taxable income. This practice caused Forum's provision charge accounts to reach 36% of total income while the ratio for Bank Pekao is 8%.

Loan Portfolio Quality: Forum vs Bank Pekao

| | 2003 | % of total loans | 2004 | % of total loans | Pekao | % of total loans | Required provisions, % |
|--------------------|--------------|------------------|--------------|------------------|-------------|------------------|------------------------|
| Standard | 51.3 | 36 | 109.0 | 45 | 7335 | 75 | 2 |
| Watch | 19.3 | 14 | 33.5 | 14 | 638 | 7 | 5 |
| Sub standard | 65.4 | 46 | 85.4 | 35 | 242 | 2 | 20 |
| Doubtful | 3.7 | 3 | 10.5 | 4 | 153 | 2 | 50 |
| Lost | 2.6 | 2 | 3.6 | 1 | 1440 | 15 | 100 |
| Total loans | 142.4 | 100 | 242.1 | 100 | 9807 | 100 | |

Although we observed a positive shift in the structure of loan classifications in 2004, (the share of sub-standard loans decreased to 35% of GLP in favor of standard loans) the share of sub-standard loans is still too high. When using DDM to value the bank, we followed the assumption that within the next ten years Forum's classification structure will be close to that of Bank Pekao and the provision charge/total income ratio will reach ~10%.

We adjusted Forum's NI 2005E/06E implying provisions that reflect a more reasonable approach to loan classification. Assuming loan classification at the end of 2006 is as follows: standard (70%), watch (15%), sub-standard (10%), doubtful (4%) and loss (1%) – this brings NI 2006E to USD 20 mln and x13.3 P/E 2006E implying USD 7.98 per share.

Dividend Discount Model

Case #1

Cash Flow To Shareholders: Dividend Payout Ratio Of 50%

We use local currency for our forecasts (UAH ths)

| | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E |
|---------------------|------------------|------------------|--------|---------|---------|---------|-----------------------------|---------|---------|---------|
| Net income | 28,827 | 44,036 | 71,906 | 123,200 | 171,715 | 224,407 | 286,309 | 342,377 | 395,588 | 447,712 |
| Payout ratio | 50% | 50% | 50% | 50% | 50% | 50% | 50% | 50% | 50% | 50% |
| Cash flow | 14,274 | 21,807 | 35,608 | 61,010 | 85,039 | 111,140 | 141,806 | 169,591 | 195,904 | 221,662 |
| Discount rate | 13.5% | 13.3% | 12.9% | 12.4% | 12.0% | 11.5% | 11.1% | 10.8% | 10.4% | 10.0% |
| Discounted CF | 14,231 | 19,103 | 27,522 | 41,760 | 51,774 | 60,433 | 69,151 | 74,393 | 77,612 | 79,581 |
| Valuation date | 8-Dec-05 | 8-Dec-06 | | | | | | | | |
| Terminal Value | 1,162,877 | 1,319,865 | | | | | Discount Rate to Perpetuity | | | 10.0% |
| Equity Value | 1,674,963 | 1,901,083 | | | | | Perpetuity Growth Rate | | | 3.0% |
| per Share | USD 8.88 | USD 10.07 | | | | | Imlied Exit P/E Multiple | | | 7.3x |

Case # 2

Cash Flow To Shareholders: Total CAR Of 12%, UAH ths

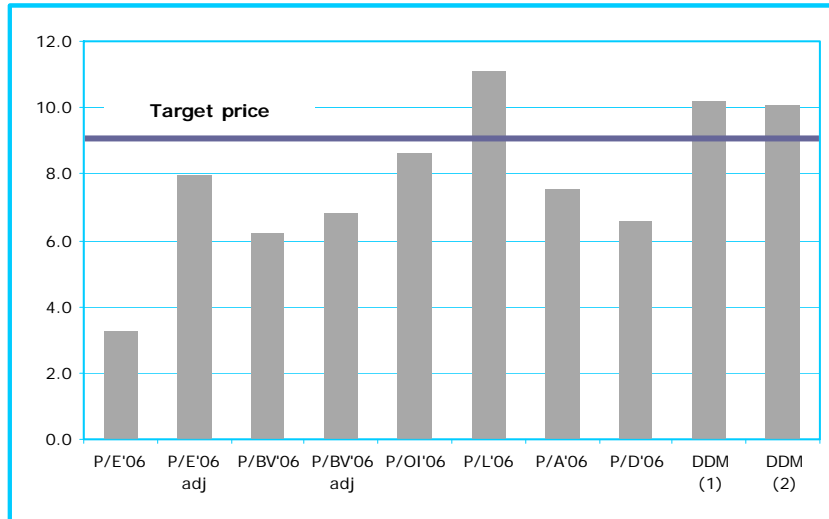
| | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E |
|----------------------|------------------|------------------|----------|---------|-----------|-----------|-----------------------------|-----------|-----------|-----------|
| Target Total Capital | 325,251 | 489,252 | 661,378 | 865,008 | 1,039,594 | 1,223,148 | 1,403,447 | 1,592,813 | 1,797,703 | 2,007,213 |
| CAR | 12% | 12% | 12% | 12% | 12% | 12% | 12% | 12% | 12% | 12% |
| Cash flow | 119,535 | (27,382) | (15,620) | (4,347) | 44,631 | 81,418 | 153,616 | 200,320 | 186,208 | 230,203 |
| Discount rate | 13.5% | 13.3% | 12.9% | 12.4% | 12.0% | 11.5% | 11.1% | 10.8% | 10.4% | 10.0% |
| Discounted CF | 118,020 | -23,757 | -11,957 | -2,947 | 26,914 | 43,852 | 74,205 | 87,053 | 73,065 | 81,838 |
| Valuation date | 8-Dec-05 | 8-Dec-06 | | | | | | | | |
| Terminal Value | 1,207,682 | 1,370,719 | | | | | Discount Rate to Perpetuity | | | 10.0% |
| Equity Value | 1,675,010 | 1,901,137 | | | | | Perpetuity Growth Rate | | | 3.0% |
| per Share | USD 8.88 | USD 10.07 | | | | | Imlied Exit P/E Multiple | | | 7.6x |

Traditionally we use the DCF approach for valuation purposes, discounting after-tax Free Cash Flows to Firm and subtracting interest-bearing debt thereafter. With banks, however, things are complicated by the fact that the main source of financing is non-interest-bearing deposits accumulated from their retail networks. On the other hand, the *equity approach* reflects the fact that banks can create value from the liability side of their balance sheets. Thus, we use the Dividend Discount Model (DDM) to gauge the intrinsic value of Bank Forum.

We apply capital adequacy requirements (CAR) to determine the residual earnings available for distribution to shareholders. While the National Bank requires CAR of 10%, Bank Forum has an agreement with the EBRD to keep its CAR at 12%. We assume Forum will maintain its 12% CAR level during the 10-year forecast period. In parallel we made calculations benchmarking a certain percentage of net income for dividends. As the tables above demonstrate, distributing all retained earnings to shareholders after satisfying CAR is equivalent to the policy of 50% dividend payout through the 10-year explicit forecast period and to the perpetuity.

We take a 13.5% cost of equity (CoE) for 2005 (which implies a 7.2% equity premium over a 6.3% yield for Ukrainian Eurobonds maturing in 2013). Through the 10-year forecast period we force CoE to 10%.

Valuation Summary



Financial Statements*

Balance Sheet Summary USD ths

| | 2004 | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E |
|---|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| ASSETS | | | | | | | | | | | |
| Cash | 6703 | 11429 | 17077 | 22920 | 29107 | 35304 | 41094 | 46860 | 53111 | 59830 | 66985 |
| Balances with the National Bank of Ukrain | 22141 | 38098 | 56924 | 76400 | 77619 | 94145 | 109585 | 124960 | 141629 | 159546 | 178627 |
| Due from other banks | 65436 | 149020 | 191406 | 233010 | 368200 | 307102 | 364683 | 403071 | 422265 | 476370 | 483994 |
| Loans and advances to customers | 229220 | 460847 | 702640 | 955597 | 1227332 | 1488651 | 1748048 | 2005361 | 2282100 | 2576035 | 2884129 |
| Debt securities | 1999 | 10000 | 13867 | 16058 | 17788 | 19557 | 21521 | 23518 | 25522 | 27502 | 29428 |
| Other investments | - | 22 | 29 | 33 | 39 | 43 | 53 | 62 | 72 | 85 | 99 |
| Property and equipment | 9443 | 22242 | 33203 | 40777 | 59538 | 74023 | 90049 | 106619 | 125939 | 145391 | 167690 |
| Other assets | 6653 | 6199 | 9079 | 12047 | 16133 | 18153 | 21343 | 24319 | 27299 | 30799 | 33975 |
| TOTAL ASSETS | 341596 | 697856 | 1024226 | 1356841 | 1795756 | 2036979 | 2396376 | 2734770 | 3077938 | 3475557 | 3844926 |
| LIABILITIES | | | | | | | | | | | |
| Due to the National Bank of Ukraine | 26646 | 5882 | 5859 | 5825 | 5803 | 5758 | 5758 | 5758 | 5758 | 5758 | 5758 |
| Due to the other banks | 67091 | 220884 | 316291 | 435301 | 628702 | 634795 | 765943 | 875449 | 963500 | 1094444 | 1177346 |
| Customer deposits | 196287 | 380980 | 569238 | 763995 | 970236 | 1176815 | 1369812 | 1561997 | 1770367 | 1994319 | 2232839 |
| Debt securities | 430 | 3235 | 21484 | 23301 | 26569 | 29621 | 32657 | 35662 | 38942 | 42525 | 46437 |
| Subordinated debt | 4295 | 4479 | 4462 | 4436 | 12156 | 12062 | 12062 | 7678 | 7678 | 7678 | 7678 |
| Other liabilities | 997 | 2083 | 3051 | 4049 | 5422 | 6101 | 7173 | 8173 | 9175 | 10351 | 11418 |
| TOTAL LIABILITIES | 295747 | 617544 | 920387 | 1236907 | 1648887 | 1865152 | 2193406 | 2494716 | 2795420 | 3155075 | 3481477 |
| TOTAL EQUITY | 45849 | 80312 | 103839 | 119934 | 146868 | 171827 | 202970 | 240053 | 282518 | 320482 | 363449 |
| TOTAL LIABILITIES & EQUITY | 341596 | 697856 | 1024226 | 1356841 | 1795756 | 2036979 | 2396376 | 2734770 | 3077938 | 3475557 | 3844926 |

Source: Company data, Concorde Capital forecasts

Income Statement Summary

| | 2004 | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E |
|---------------------------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Interest income | 39688 | 73141 | 122123 | 168275 | 217444 | 261254 | 291680 | 327756 | 361270 | 395088 | 427753 |
| Interest expense | (21719) | (43035) | (72726) | (99977) | (130811) | (157381) | (179466) | (204082) | (227371) | (246647) | (275553) |
| Net interest income | 17969 | 30105 | 49398 | 68298 | 86633 | 103873 | 112214 | 123674 | 133899 | 148441 | 152200 |
| Net fee & commission income | 4337 | 8722 | 14311 | 16789 | 22181 | 27988 | 32379 | 38180 | 39752 | 41238 | 51480 |
| Net trading income | 1500 | 3657 | 4885 | 8414 | 11959 | 15675 | 18959 | 22943 | 27095 | 31607 | 34220 |
| Net other operating income | 63 | 146 | 244 | 337 | 435 | 523 | 583 | 656 | 723 | 790 | 856 |
| Net non interest income | 5900 | 12525 | 19440 | 25539 | 34575 | 44186 | 51922 | 61778 | 67570 | 73635 | 86556 |
| Total income | 23869 | 42631 | 68838 | 93837 | 121208 | 148059 | 164136 | 185452 | 201468 | 222075 | 238755 |
| Operating expenses | (9959) | (18340) | (31792) | (47456) | (58612) | (72827) | (75277) | (82178) | (84374) | (87436) | (92915) |
| Operating income | 13910 | 24291 | 37046 | 46381 | 62596 | 75233 | 88859 | 103274 | 117094 | 134639 | 145840 |
| Provision for loan losses | (8698) | (16330) | (24932) | (26716) | (29034) | (28813) | (28194) | (25876) | (24539) | (27699) | (24810) |
| Other provisions | (280) | (424) | (646) | (1048) | (1789) | (2475) | (3234) | (4127) | (4935) | (5702) | (6453) |
| Profit before income tax | 4932 | 7537 | 11468 | 18617 | 31773 | 43945 | 57430 | 73272 | 87620 | 101238 | 114578 |
| Income tax expenses | (1209) | (1884) | (2867) | (4654) | (7943) | (10986) | (14357) | (18318) | (21905) | (25310) | (28644) |
| Net income | 3723 | 5652 | 8601 | 13962 | 23830 | 32959 | 43072 | 54954 | 65715 | 75929 | 85933 |

Source: Company data, Concorde Capital forecasts

*According to IFRS

Growth Rates & Key Ratios

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--------------------------------------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| P&L Growth | | | | | | | | | | | |
| Net interest income | 90.1% | 67.5% | 64.1% | 38.3% | 26.8% | 19.9% | 8.0% | 10.2% | 8.3% | 10.9% | 2.5% |
| Net commissions income | 63.4% | 101.1% | 64.1% | 17.3% | 32.1% | 26.2% | 15.7% | 17.9% | 4.1% | 3.7% | 24.8% |
| Total income | 88.3% | 78.6% | 61.5% | 36.3% | 29.2% | 22.2% | 10.9% | 13.0% | 8.6% | 10.2% | 7.5% |
| PBT | 70.1% | 52.8% | 52.2% | 62.3% | 70.7% | 38.3% | 30.7% | 27.6% | 19.6% | 15.5% | 13.2% |
| Net profit | 130.5% | 51.8% | 52.2% | 62.3% | 70.7% | 38.3% | 30.7% | 27.6% | 19.6% | 15.5% | 13.2% |
| B/S Growth | | | | | | | | | | | |
| Net Loans | 67.1% | 101.0% | 52.5% | 36.0% | 28.4% | 21.3% | 17.4% | 14.7% | 13.8% | 12.9% | 12.0% |
| Average interest earning assets | 28.9% | 91.4% | 64.1% | 38.2% | 33.5% | 21.4% | 15.6% | 15.6% | 13.0% | 12.6% | 11.5% |
| Total Assets | 56.9% | 104.3% | 46.8% | 32.5% | 32.3% | 13.4% | 17.6% | 14.1% | 12.5% | 12.9% | 10.6% |
| Customer deposits | 50.0% | 94.1% | 49.4% | 34.2% | 27.0% | 21.3% | 16.4% | 14.0% | 13.3% | 12.7% | 12.0% |
| Average interest bearing liabilities | 27.1% | 89.6% | 65.8% | 40.2% | 33.9% | 21.5% | 15.9% | 15.5% | 12.8% | 12.5% | 11.5% |
| Book Value | 82.4% | 75.2% | 29.3% | 15.5% | 22.5% | 17.0% | 18.1% | 18.3% | 17.7% | 13.4% | 13.4% |
| Key Ratios | | | | | | | | | | | |
| Non interest income/Total income | 24.5% | 29.0% | 27.9% | 26.9% | 28.2% | 29.5% | 31.3% | 33.0% | 33.2% | 32.8% | 35.9% |
| Net interest income/Total income | 75.5% | 71.0% | 72.1% | 73.1% | 71.8% | 70.5% | 68.7% | 67.0% | 66.8% | 67.2% | 64.1% |
| Net interest margin | 7.4% | 6.5% | 6.5% | 6.5% | 6.2% | 6.1% | 5.7% | 5.4% | 5.2% | 5.1% | 4.7% |
| Cost / Income ratio | 41.7% | 43.0% | 46.2% | 50.6% | 48.4% | 49.2% | 45.9% | 44.3% | 41.9% | 39.4% | 38.9% |
| ROA | 1.3% | 1.1% | 1.0% | 1.2% | 1.5% | 1.7% | 1.9% | 2.1% | 2.3% | 2.3% | 2.3% |
| ROE | 10.5% | 9.0% | 9.3% | 12.5% | 17.9% | 20.7% | 23.0% | 24.8% | 25.2% | 25.2% | 25.1% |

Source: Company data, Concorde Capital estimates

Attachment #1

The CEE Banking Market

| | Number of banks | Market share, % | Total assets | | Total loans | | Total deposits | |
|------------------|-----------------|-----------------|--------------|------------|-------------|------------|----------------|------------|
| | | | Top-5 | % of GDP | % of GDP | CAGR 00-04 | % of GDP | CAGR 00-04 |
| Poland | 54 | 50 | 65 | 30 | 7% | 39 | 6% | |
| Hungary | 35 | 53 | 82 | 41 | 21% | 40 | 13% | |
| Czech Rep. | 35 | 63 | 96 | 33 | -1% | 64 | 6% | |
| Slovakia | 21 | 67 | 88 | 29 | -1% | 53 | 4% | |
| Slovenia | 19 | 64 | 92 | 46 | 16% | 51 | 13% | |
| Croatia | 39 | 74 | 109 | 62 | 21% | 60 | 18% | |
| Bulgaria | 35 | 52 | 66 | 35 | 45% | 39 | 24% | |
| Romania | 39 | 57 | 38 | 18 | 43% | 24 | 38% | |
| CEE* | 396 | 59 | 74 | 34 | 15% | 43 | 12% | |
| Ukraine | 160 | 37 | 41 | 29 | 35% | 23 | 44% | |
| Russia | 1464 | 45 | 43 | 27 | 36% | 16 | 39% | |
| CEE total | 2020 | 54 | 59 | 31 | 24% | 31 | 19% | |
| Euro area | 2287 | 54 | 206 | 102 | 4% | 73 | 6% | |

Source: National Bank, Bank Austria Creditanstalt

Central and Eastern Europe (CEE) is a large and highly dynamic region with outstanding potential for growth. Banking sector growth in the CEE substantially outperforms the growth dynamics of banks in the Euro-zone. For the last four years the CEE's overall growth in lending has been 24% CAGR, more than three times higher than the growth rate observed in the Euro-zone (4%). The deposit base of CEE banks increased at 19% CAGR in 2000-04, a sharp contrast to the 6% registered by western European banks. Despite the remarkable growth rates of CEE banks in recent years, the region is still largely underbanked and shows great catch up potential against the western European benchmark. The total loans to GDP ratio in the CEE of 74% is three times less than in the Euro-zone (102%). The difference in the deposit/GDP ratio is less striking but remains substantial: 31% in the CEE to 73% in the Euro-zone.

Concorde Capital
72 Chervonoarmiyaska St.
2nd entry, 6th floor
Kiev 03150, UKRAINE

Tel +380 44 206 8370
Fax: +380 44 206 8366
www.concorde.com.ua
office@con-cap.com

CEO

Igor Mazepa

im@con-cap.com

Chief Operating Officer

John David Suggitt

js@con-cap.com

Directors, Investment Banking

Nick Enukidze

ne@con-cap.com

Vitaly Strukov

vs@con-cap.com

Director, International Equity Sales

Peter Bobrinsky

pb@con-cap.com

Equity Sales

Marina Martirosyan

mm@con-cap.com

Lucas Romriell

lr@con-cap.com

Alexis Stenbock-Fermor

asf@con-cap.com

Anastasiya Nazarenko

an@con-cap.com

Director, Research

Konstantin Fisun, CFA

kf@con-cap.com

Utilities (Telecom, Energy)

Alexander Paraschiy

ap@con-cap.com

Oil & Gas, Pipes, Metals

Andriy Gostik

ag@con-cap.com

Machine Building, Chemicals

Olga Pankiv

op@con-cap.com

Banking & Macroeconomics

Alexander Viktorov

av@con-cap.com

Editor

Nick Piazza

np@con-cap.com

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