



CONCORDE CAPITAL

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Ukraine's Banking Dynamics

	CAGR02-04	% of GDP
Assets	40%	41
Net Loans	40%	29
Deposits	51%	23

Macro Indicators

	2004	2005E
GDP gr, %	12.1	4.0
Industry gr, %	12.5	5.0
CPI, %	12.3	11.5
PPI, %	24.1	16.0

News that Erste Bank shelled out USD 4.45 bln, 5.8 times book value for a 61.9% stake in Banca Comerciala Romana sent shock waves through the investment and banking communities in Ukraine. The record-high price for a CEE bank should lead to an increase of x 2.0-2.5 P/B above the Raiffeisen-Aval benchmark of x 3.1.

Details Of The Transaction. On December 20, 2005 Erste Bank won a tender for Banca Comerciala Romana (BCR), the largest Romanian bank, with an offer of USD 4.45 bln for a 61.9% stake. If we use the BCR's reported book value, USD 1.24 bln on June 30 2005, this would translate into a **P/B multiple of 5.8** – the highest price ever paid for a financial institution in the CEE.

Why So Much? The Romanian government was able to rake in such a high return for the following reasons:

- 1) The BCR is the undisputed market leader in Romania and controls a quarter of country's banking assets
- 2) The BCR is the largest big bank in the CEE to be put up for sale and was the final chance for foreign banking heavyweights to gain a foothold in the region

CEE Banks: The Stakes Are Rising. The BCR deal caps a two-year, USD 13 bln spending spree in the region by foreign banks with Erste Bank coming out as the top consolidator. It seems CEE banks, known for being cheap, are not bargains anymore. Competition for higher profits in Eastern European growth markets has caused intense bidding for the region's banks. For example, in 2002, a major stake in the second-largest Czech bank, Ceska Sporitelna, cost Erste at x 1.5 P/B. However, in 2005, Erste agreed to pay 5.8 times book value for BCR, a price that exceeded the 5.7 times book value, Swedbank spent to buy Hansabank, the Baltic's largest lender.

M&A Deals In The CEE: Prices Up

Buyer	Year	Target	Comments	Acquired stake	P/BV
Erste Bank	2005	Banca Comerciala Romana	holds 25% of total banking assets in Romania	USD 4.45 bln for 61.9%	5.8
Erste Bank	2005	Novosadska Banka	occupies 4% of Serbian banking market	USD 91 mln for 83.3%	3.3
Erste Bank	2003	Postabank	6% of Hungarian market	USD 457 mln for 99.9%	2.7
Erste Bank	2002	Ceska Sporitelna	18% of Czech total banking assets	USD 1.33 bln for 87.2%	1.5
Swedbank AB	2005	Hansabank	59% of Estonian banking market	USD 2.05 bln for 95%	5.7
Unicredito	2005	Bank BPH SA	10% of Poland's market	USD 1.3 bln for 28.8%	2.6

More Value For Ukrainian Banks. Market saturation for further acquisitions in the CEE has caused international banks to eye Ukraine as a new frontier. Interest in the Ukrainian market has notably increased this year with several large European banking groups announcing plans to enter the Ukrainian market. To date the biggest banking deal in Ukraine was Raiffeisen's acquisition of the second-largest Ukrainian bank, Aval. The Austrian bank paid USD 1.28 bln for a 93.5% stake at x 3.1 P/B which up until now, had been considered as the benchmark for the valuation of

Ukrainian banks. However, in our opinion, the BCR acquisition at x 5.8 P/B reveals a potential increase of up to x 2.0-2.5 P/B from the Raiffeisen/Aval level. Given the increased competition for Ukrainian banks (roughly 20 foreign banks are currently competing for the fourth-largest Ukrainian bank, Ukrspbank) we may see the 2006 acquisitions close at x 3.5-4.0 P/B.

Deals In Ukraine's Banking Sector

Buyer	Year	Target	Acquired stake	P/BV
Global investment managers	2005	Forum	USD 20 mln for 10%	2.9
Raiffeisen International	2005	Aval	USD 1028 mln for 93.5%	3.1
PKO Bank Polski (Poland)	2004	Kredit Bank	USD30 mln for 66.65%	1.6
Vilniaus Bankas (Lithuania) (member of SEB group)	2004	Azhio	EUR23.2 mln for >90%	1.5

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