



Analyst's Notebook

Ukraine/Banking
 October 19, 2006

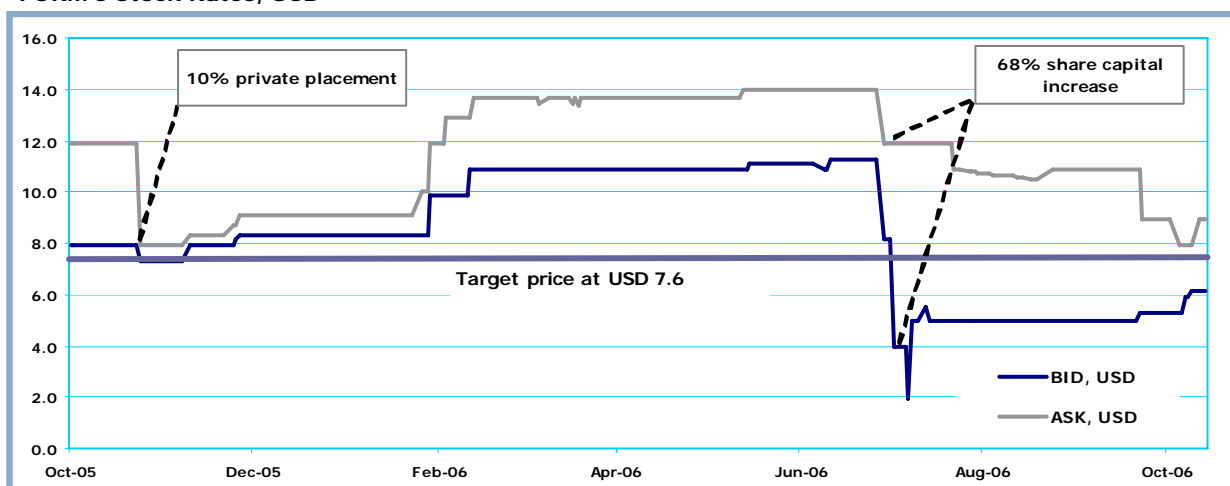
Bank Forum: Recommendation Upgrade

Target Price: **USD 7.58**
 Upside: **19%**
 Recommendation: **BUY**

Post-Emission Price Warrants 20% Upside

Following a post-emission drop of 56% in Bank Forum (FORM)'s bids to USD 4.95, the bid price remained flat. It began to revive on September 26, recovering 6% in one trading day followed by another 17% during next twenty days to reach USD 6.14. The spread also squeezed to 45% (as a percentage of the bid price), after staying at ~140% during last two months. Despite the improvements, the current price at USD 6.35 still warrants a 19% upside to our target, USD 7.58. **We technically upgrade the stock to BUY (from HOLD).**

FORM's Stock Rates, USD



Peer Comparison

	Country	MCap, USD mln	P/E		P/B		P/Operating income	
			2006E	2007E	2006E	2007E	2006E	2007E
Bank Forum	Ukraine	394	43.2	24.7	2.4	2.0	15.1	9.4
CEE Peers								
PKO BP	Poland	11,975	18.8	17.6	3.8	3.6	14.8	13.7
Pekao SA	Poland	11,201	20.8	19.8	3.9	3.7	14.9	14.0
Bank BPH	Poland	7,868	20.8	19.4	3.6	3.5	14.0	13.0
OTP	Hugary	9,211	11.2	9.9	2.9	2.4	9.3	8.2
Komerční Banka	Czech Rep	5,683	14.3	13.5	2.3	2.1	10.8	10.2
Finansbank	Turkey	4,881	12.5	9.6	3.4	2.7	12.0	9.9
Sberbank	Russia	45,325	28.0	20.4	5.7	4.5	21.3	15.5
CEE peers' average			18.1	15.7	3.7	3.2	13.9	12.1
CEE peers' median			18.8	17.6	3.6	3.5	14.0	13.0
Premium/ (Discount)			139%	57%	-35%	-39%	9%	-22%
Implied Price, USD			2.66	4.05	9.75	10.41	5.83	8.14
Upside (Downside)			-58%	-36%	54%	64%	-8%	28%

Source: Concorde Capital, Merrill Lynch

Improving The Funding Base

On Oct. 18, 2006 Bank Forum made its debut Eurobond placement by issuing USD 100 mln of three-year loan participation notes at an annual rate of 10%. Given the bank's debut placement and the high interest rate environment (the average LIBOR increased to 5.37% in 9M06 from 4.1% in 2004), Forum's placement can be considered successful, as the 10% annual rate implies a spread of only 4.65% over average LIBOR for October – the lowest spread for a debut placement by a Ukrainian bank.

Earlier this year the bank attracted a \$60 mln syndicated loan, which together with this Eurobond issue, is almost exactly in line with our forecasts for the bank's foreign borrowing this year. Combined with July share capital increase, which strengthen Forum's capital adequacy position, this year's foreign borrowings have poised the bank for further growth.

Bank Forum's 9M06 Results: In Line With Our Forecast

The bank announced its 9M06 results, which demonstrated healthy growth during the period. Over 9M06, Forum reported strong growth in assets, up 54% ytd, to USD 1.14 bln. The loan portfolio increased 67% ytd to USD 791 mln and customer deposit inflow was +21% ytd and reached USD 548 mln. The achieved growth confirms our estimates and remain positive about the bank.

Bank Forum's 9M06 Results, USD mln

	2005	1H06	9M06	2006E
Net Assets	740	994	1138	1300
Net loans	473	688	791	874
Customers' deposits	430	511	548	626
Equity	78	96	117	165
Net income	5.7	3.4	4.3	9.1

Source: Company data, Concorde Capital forecasts

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