



CONCORDE CAPITAL

Ukraine / Banking

# Bank Forum

Takeover benefits around the corner

FLASH NOTE

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January 28, 2008

12M Target

Undiluted  
USD 11.50

Diluted  
USD 7.96

**BUY**

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- 2007 financials released last week
- Assets doubled, beating the sector average and our forecast; earnings surged 89% yoy
- Commerzbank takes the reins, positives yet to be priced in
- We upgrade our target to USD 11.5 per share, 40% upside

### Ticker

PFTS	FORM
GDR (Frankfurt/Xetra)	B5F

### Market information

No of shares, mln*	
Current	112
After additional share issue	162

\* 45% share capital increase through issuing 50 mln shares at par USD 1.98 is on the agenda of the bank's AGM, scheduled for Feb. 1

DRs per common share	1:1
Market price, USD	8.19
Market price adjusted for the new # of shares, USD	6.27
MCap, USD mln	910.4
Chg YTD	-4.4%
Hi/Lo YTD, USD	8.8/8.1
Free float	10%
Free float, USD mln	91.0

### Corporate governance

Concorde Rating\* Q

\* The rating is based on Concorde capital's corporation governance survey. Q denotes quality corporate governance standards, AA – below average standards, A – average, BA – below average, P – for poor

### Shareholders\*

Provita Insurance	66.5%
Elmak Ltd	11.3%
Institutional investors	10.0%
Other	12.2%

\* German Commerzbank has received approval to complete the acquisition of a 60% stake in the bank

### Ratios 2007

Net interest margin	4.2%
Net margin	9.3%
ROE	5.0%
Cost/Income	61.1%

### Assets doubled in 2007, Beating our forecast

In 2007, for the second year in a row, Bank Forum nearly doubled its assets (+95% yoy to USD 2.9 bln vs. +96% yoy in 2006), exceeding sector's average growth of 76% and our estimates of 75% yoy. The bank's loan portfolio expanded 89% yoy to USD 1.8 bln, with retail again the major driver (+170% yoy to USD 442 mln). On the liability side, deposits were equally strong, up 82% yoy to USD 1.5 bln, and equity grew 76% yoy to USD 267 mln.

### Earnings surged on higher efficiency & stronger fee revenues

Net income leapt up 89% yoy to USD 10.4 mln in 2007 vs. a 13% decline in 2006 and was only 2% below our forecast. The progress was driven by notable efficiency improvement: the bank's C/I ratio fell by 8.3 pp to 61.1%, while fee income was up 91% yoy to USD 19.2 mln vs. +57% yoy in 2006.

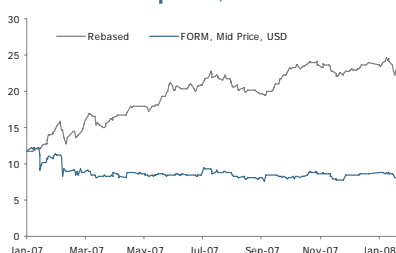
### Commerzbank takes the reins, Positives yet to be priced in

By the end of 2007 Commerzbank had obtained all the necessary approvals from Ukrainian authorities to complete the acquisition of a 60% stake in Forum. We believe the market has not priced in acquisition positives, which we think will be realized in full this year. We updated our valuation model to account for takeover benefits and now expect earnings growth to accelerate to 157% yoy to USD 26.9 mln on back of the following:

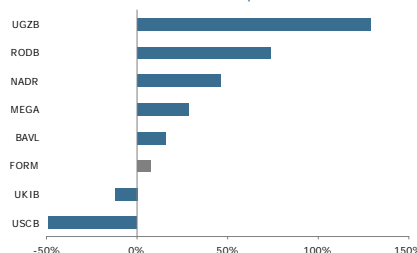
**Stronger progress in efficiency.** We expect Forum to further improve its efficiency in the coming year. We now see the bank's C/I falling another 7.8 pp in 2008 to 57% (vs. our previous forecast of 61%) to reach the level of other foreign-owned Ukrainian banks, 50%, in the next three years.

**Cost of funding advantage.** We expect Forum to leverage greater exposure to cheaper foreign debt and access to the financial coffers of its parent. These sources will help to keep Forum's net interest margin (NIM) resilient at 4%, contrary to the declining trend in the sector - over 2007 the sector's NIM fell by 1.0 pp, as foreign borrowing conditions became scarce and domestic funding more expansive. Earlier this month, Commerzbank granted USD 50 mln in subordinated debt to Forum.

FORM share price, 12M

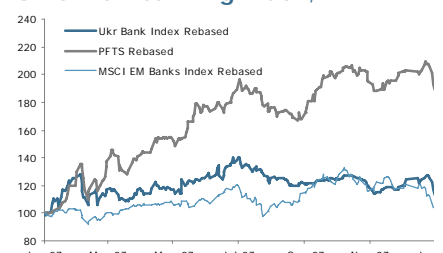


Sector Performance, 12M\*



\* PFTS mid adjusted for new share issues

Ukrainian banking index, 12M



### Key financials, USD mln

	Loans	Deposits	Book Value	Net Income
2007	1,849	1,533	267	10.4
2008E	3,117	2,606	403	26.9
2009E	4,857	4,187	568	56.7

	P/Loans	P/Deposits	P/B	P/E
2007	0.5	0.6	3.4	88.2
2008E	0.3	0.4	2.3	34.1
2009E	0.2	0.2	1.6	15.8

## Forecast revision

We revised our basic assumptions and projections for the bank's key financials to account for the stronger 2007 results and effects from acquisition positives, as Commerzbank has finally taken over.

### Key financials revision, USD mln

	2008E			2009E		
	old	new	change	old	new	change
Assest	3,466	4,569	32%	4,509	6,912	53%
<i>Growth, % yoy</i>	42%	60%	18%	30%	51%	21%
Loans	2,658	3,188	20%	3,688	5,067	37%
<i>Growth, % yoy</i>	56%	72%	16%	39%	59%	20%
Deposits	2,003	2,606	30%	2,866	4,187	46%
<i>Growth, % yoy</i>	56%	70%	14%	43%	61%	18%
Equity	385	403	5%	533	569	7%
<i>Growth, % yoy</i>	49%	51%	2%	38%	41%	3%
Revenues	156	175	12%	232	267	15%
<i>Growth, % yoy</i>	51%	56%	5%	48%	53%	4%
Operating costs	110	99	-10%	145	141	-3%
<i>Cost/Income ratio</i>	61%	57%	-5%	63%	53%	-10%
Net income	24.0	26.9	12%	45.6	58.2	28%
<i>Net margin</i>	14%	15%	1%	20%	22%	2%

Source: Concorde Capital

## Peer comparison

	Price, USD	MCap, USD mln	P/E		P/B	
			2007E	2008E	2007E	2008E
Bank Forum	8.19	917	88.2	34.1	3.4	2.3
<b>UKRAINIAN PEERS</b>						
Raiffeisen Bank Aval	0.20	4,628	34.7	19.5	4.3	3.1
Ukrsotsbank	0.27	2,703	36.0	22.5	4.6	3.0
Bank Nadra	64.6	2,522	45.4	32.5	6.6	3.4
Rodovid Bank	1,681	731	60.4	21.4	3.2	2.2
Ukrgazbank	1.30	650	45.1	20.8	4.6	3.2
Ukrinbank	0.01	155	45.7	24.7	1.6	1.4
Megabank	0.75	150	27.3	15.3	2.3	1.8
Factorial Bank	0.96	98	88.7	57.4	3.4	2.7
<b>Average</b>			<b>47.9</b>	<b>26.8</b>	<b>3.8</b>	<b>2.6</b>
<b>GEM PEERS</b>						
PKO BP	17.7	18,459	20.3	18.1	3.8	3.3
Pekao SA	82.3	21,048	26.7	22.9	3.3	3.0
Bank BPH	310.8	8,920	15.2	14.2	3.3	3.1
BZWBK	88.2	6,432	18.6	15.7	3.5	3.1
OTP	46.1	12,974	10.9	9.7	2.4	2.0
Komerčni Banka	185.0	7,020	14.4	12.9	2.6	2.4
Sberbank	3.9	83,109	19.2	15.3	3.0	2.5
Yapi Kredi	2.7	10,090	14.6	10.2	2.2	2.0
Standard Bank	12.4	17,199	12.2	10.6	2.0	1.7
Banco do Brazil	15.6	38,552	11.8	10.9	2.7	2.4
<b>Average</b>			<b>16.4</b>	<b>14.1</b>	<b>2.9</b>	<b>2.5</b>
<b>Forum price*</b>						
Implied by GEM avg., USD			1.52	3.38	6.88	9.16
Implied by Ukr. avg, USD			4.45	6.43	9.14	9.32
Upside/Downside by CEE avg			-81%	-59%	-16%	13%
Upside/Downside by Ukr. avg			-45%	-21%	12%	14%

Source: Bloomberg, PFTS, Concorde Capital estimates

\* Based on the current # of shares

## Gordon growth model

### FORM Key model assumptions, UAH mln

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
<b>Gross loan portfolio</b>	<b>16,598</b>	<b>26,379</b>	<b>37,222</b>	<b>48,870</b>	<b>60,831</b>	<b>71,702</b>	<b>82,046</b>	<b>91,863</b>	<b>101,497</b>	<b>112,143</b>
Retail loans	5,139	9,763	15,622	21,870	28,431	34,117	39,576	44,721	49,640	55,101
Corporate loans	11,459	16,616	21,600	27,000	32,400	37,584	42,470	47,142	51,856	57,042
<b>Customers' deposits</b>	<b>13,162</b>	<b>21,143</b>	<b>30,790</b>	<b>40,919</b>	<b>51,149</b>	<b>61,379</b>	<b>71,199</b>	<b>80,455</b>	<b>89,305</b>	<b>98,236</b>
Retail accounts	7,001	11,901	17,852	24,100	30,125	36,150	41,934	47,385	52,597	57,857
Corporate accounts	6,161	9,241	12,938	16,819	21,024	25,229	29,266	33,070	36,708	40,379
<b>Spread</b>	<b>5.9%</b>	<b>5.5%</b>	<b>5.4%</b>	<b>5.0%</b>	<b>4.7%</b>	<b>4.8%</b>	<b>4.8%</b>	<b>4.7%</b>	<b>4.5%</b>	<b>4.5%</b>
Lending yield rate	14.7%	13.8%	13.2%	12.5%	12.0%	11.8%	11.6%	11.4%	11.2%	11.2%
Deposit cost rate	8.8%	8.3%	7.8%	7.5%	7.3%	7.0%	6.8%	6.7%	6.7%	6.7%

### FORM valuation summary

Valuation date: Jan. 24

For the purposes of forecasting, local currency is used (UAH mln)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Target Total Capital	2,193	3,412	4,748	6,113	7,511	8,830	10,113	11,343	12,562	13,916
CAR	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Cash flow to Equity	100	(427)	(332)	(98)	153	571	894	679	853	875
Discount rate	13%	12%	11%	11%	11%	10%	10%	10%	10%	10%
Discounted CF to Equity	89	(384)	(267)	(71)	100	335	477	330	376	351
Terminal Value	4,609	5,164					Discount Rate to Perpetuity			10.0%
Equity Value	5,811	6,511					Perpetuity Growth Rate			3.0%
<b>per Share, USD</b>	<b>10.27</b>	<b>11.51</b>					Implied Exit P/E Multiple			6.0x
<i>adjusted for new # shares</i>	<i>7.10</i>	<i>7.96</i>								

## Financials statements, UAS

### BALANCE SHEET, UAS, USD mln

	2004	2005	2006	2007	2008E	2009E	2010E
<b>ASSETS</b>							
Cash & balances with NBU	29.1	51.9	50.9	149.5	195.5	314.0	457.3
Due from banks	65.6	180.9	339.3	660.6	913.7	1,175.0	1,418.1
<b>Loan portfolio, net</b>	<b>228.7</b>	<b>450.9</b>	<b>978.3</b>	<b>1,849.4</b>	<b>3,188.1</b>	<b>5,066.8</b>	<b>7,149.5</b>
Securities portfolio	2.0	22.7	28.3	93.2	117.1	146.3	175.6
Fixed & intangible assets	8.9	27.6	51.1	77.8	112.2	145.7	166.1
Other assets	6.2	3.0	4.1	8.8	42.2	63.9	87.4
<b>Total assets</b>	<b>344.2</b>	<b>743.1</b>	<b>1,461.0</b>	<b>2,855.2</b>	<b>4,568.7</b>	<b>6,911.7</b>	<b>9,454.0</b>
<b>LIABILITIES</b>							
Due to banks	93.8	173.0	421.6	902.6	1,405.7	1,401.2	1,399.4
<b>Customer accounts</b>	<b>194.4</b>	<b>455.8</b>	<b>844.6</b>	<b>1,532.6</b>	<b>2,606.3</b>	<b>4,186.6</b>	<b>6,097.0</b>
Debt securities issued	0.4	13.9	9.5	61.7	69.1	76.0	88.3
Other liabilities	11.3	19.0	13.2	54.7	84.4	127.8	174.9
<b>Total liabilities</b>	<b>302.8</b>	<b>670.3</b>	<b>1,309.2</b>	<b>2,588.4</b>	<b>4,165.5</b>	<b>6,343.1</b>	<b>8,681.7</b>
<b>EQUITY</b>							
<b>Total equity</b>	<b>41.4</b>	<b>72.8</b>	<b>151.8</b>	<b>266.8</b>	<b>403.2</b>	<b>568.7</b>	<b>772.3</b>
<b>Total liabilities &amp; equity</b>	<b>344.2</b>	<b>743.1</b>	<b>1,461.0</b>	<b>2,855.2</b>	<b>4,568.7</b>	<b>6,911.7</b>	<b>9,454.0</b>

### INCOME STATEMENT, UAS, USD mln

	2004	2005	2006	2007	2008E	2009E	2010E
Interest income	39.8	65.2	120.7	228.8	393.1	601.0	845.1
Interest expense	(21.7)	(38.5)	(76.6)	(146.2)	(258.1)	(386.5)	(529.5)
<b>Net interest income</b>	<b>18.0</b>	<b>26.7</b>	<b>44.1</b>	<b>82.7</b>	<b>135.0</b>	<b>214.4</b>	<b>315.7</b>
Fee & commission income	5.1	7.9	12.5	22.1	30.5	41.2	59.7
Fee & commission expense	(0.8)	(1.6)	(2.4)	(2.9)	(3.6)	(4.7)	(5.7)
<b>Net fee &amp; commission income</b>	<b>4.3</b>	<b>6.4</b>	<b>10.1</b>	<b>19.2</b>	<b>26.9</b>	<b>36.5</b>	<b>54.1</b>
Trading income	1.3	3.2	4.2	8.6	11.2	14.6	19.7
Other income	0.1	0.5	0.8	1.4	2.0	1.6	2.3
<b>Net non-interest income</b>	<b>5.8</b>	<b>10.1</b>	<b>15.1</b>	<b>29.3</b>	<b>40.1</b>	<b>52.6</b>	<b>76.0</b>
<b>Total revenues</b>	<b>23.9</b>	<b>36.8</b>	<b>59.2</b>	<b>111.9</b>	<b>175.0</b>	<b>267.0</b>	<b>391.7</b>
Operating expenses	(10.4)	(21.5)	(41.1)	(68.3)	(98.9)	(141.4)	(195.0)
<b>Operating income</b>	<b>13.5</b>	<b>15.3</b>	<b>18.1</b>	<b>43.6</b>	<b>76.1</b>	<b>125.6</b>	<b>196.7</b>
Provision for loan losses & other	(8.9)	(7.1)	(10.9)	(30.6)	(40.3)	(48.1)	(62.7)
<b>Profit before tax</b>	<b>4.7</b>	<b>8.2</b>	<b>7.2</b>	<b>13.0</b>	<b>35.9</b>	<b>77.6</b>	<b>134.0</b>
Income tax expense	(1.2)	(1.9)	(1.7)	(2.6)	(9.0)	(19.4)	(33.5)
<b>Net income</b>	<b>3.5</b>	<b>6.3</b>	<b>5.5</b>	<b>10.4</b>	<b>26.9</b>	<b>58.2</b>	<b>100.5</b>

### MARGINS & RATIOS

	2004	2005	2006	2007	2008E	2009E	2010E
Net interest margin	7.4%	5.6%	4.4%	4.2%	4.0%	4.0%	4.2%
Net income margin	14.5%	17.2%	9.3%	9.3%	15.4%	21.8%	25.7%
ROE	10.2%	11.1%	4.9%	5.0%	8.0%	12.0%	15.0%
ROA	1.2%	1.2%	0.5%	0.5%	0.7%	1.0%	1.2%
Cost/Income	43.4%	58.5%	69.4%	61.1%	56.5%	52.9%	49.8%
Net interest income/Total revenue	75.6%	72.6%	74.4%	73.9%	77.1%	80.3%	80.6%
Loans/Total assets	66.4%	60.7%	67.0%	64.8%	69.8%	73.3%	75.6%
Loans/Deposits	117.7%	98.9%	115.8%	120.7%	122.3%	121.0%	117.3%

### GROWTH RATES

	2004	2005	2006	2007	2008E	2009E	2010E
Assets	56.7%	115.9%	96.6%	95.4%	60.0%	51.3%	36.8%
Loans	66.3%	97.2%	117.0%	89.0%	72.4%	58.9%	41.1%
Deposits	50.4%	134.5%	85.3%	81.5%	70.0%	60.6%	45.6%
Equity	56.4%	75.7%	108.6%	75.7%	51.1%	41.0%	35.8%
Total income	na	54.3%	60.7%	89.1%	56.4%	52.6%	46.7%
Operating income	na	13.1%	18.5%	140.5%	74.6%	65.1%	56.5%
Net income	144.8%	82.5%	-13.2%	89.5%	158.2%	116.4%	72.7%

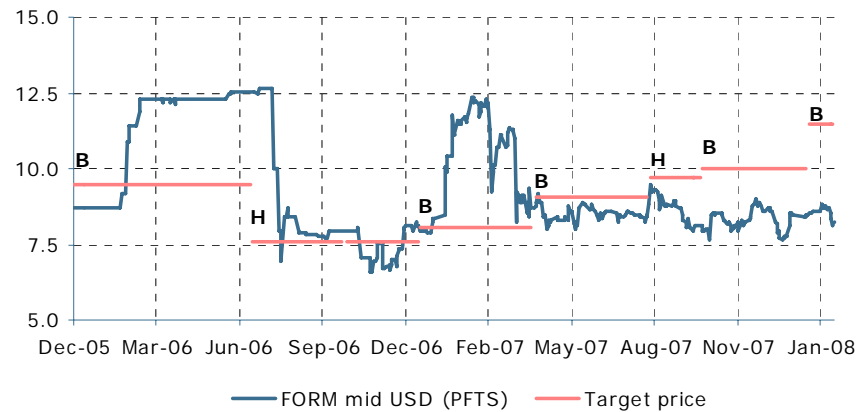
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I, Alexander Viktorov, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

## Bank Forum

Date	Target price,USD	Market price,USD	Rec'	Action
13-Dec-05	9.50	8.05	BUY	Initiating
18-Jul-06	7.58	8.41	HOLD	Downgrade
19-Oct-06	7.58	7.53	BUY	Upgrade
05-Jan-07	8.08	10.70	BUY	Maintain
28-Apr-07	9.05	8.22	HOLD	Downgrade
23-Aug-07	9.70	8.24	BUY	Upgrade
15-Oct-07	10.00	8.14	BUY	Maintain
28-Jan-08	11.50	8.19	BUY	Maintain

## Recommendation history, USD



## Investment Ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

### Concorde Capital ratings distribution

Buy	38	36%
Hold	29	28%
Sell	14	13%
Under Review	24	23%
<b>Total</b>	<b>105</b>	<b>100%</b>

### Investment banking clients\*

Buy	7	78%
Hold	1	11%
Sell	0	0%
Under Review	1	11%
<b>Total</b>	<b>9</b>	<b>100%</b>

*\*Within the last twelve month period, Concorde Capital has obtained compensation from these companies.*

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