



CONCORDE CAPITAL

Ukraine / Banking Bank Forum

Acquisition Sweetens Pot

October 16, 2007

Current Price: USD 8.21
12M Target: USD 10.00

BUY

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Bloomberg FORM UZ
Xetra B5F

Market information

No of Shares, mln	112.0
Reg S GDR to Ord.	1:1
Market Price, USD	8.21
52Wk H/L, USD	12.38/6.63
MCap, USD mln	911.7
Free float	10%
Free float, USD	91.2

Corporate Governance

Concorde Rating* Q

* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

Ownership*

Provita Insurance	65%
LLC Elmak	14%
Institutional investors	10%
Kontinental-Ukraine LLC	7%
Other	4%

* In mid-Sept. 2007, Commerzbank announced the acquisition of a 60% stake of the bank

Ratios 2007E

Net Interest Margin	4.4%
Net Margin	10.3%
ROE	5.2%
Cost/Income	62.5%

Last week Bank Forum reported 3Q earnings growth triple that in 3Q06. The bank also announced it raised the largest and cheapest foreign loan it ever has. While acquisition by Commerzbank is due to be concluded by yearend, it looks like foreign ownership is already reflecting positively on Forum's operations. On top of that, the bank's assets doubled and already reached our full-year forecast. On P/B '08E, the stock currently trades at a 21% discount to its local peers. We upgrade our target to USD 10.00 and reiterate our BUY recommendation.

Foreign shareholder brings higher earnings and cheaper funds

- We believe that with its 3Q07 financial results, Forum demonstrated its ability to rapidly accelerate earnings growth. In July alone Forum earned 1/3 of its entire net income in 1H07 and tripled bottom line growth yoy in 3Q to USD 2.8 mln. The results drove cumulative 9M profits up 69% yoy to USD 7.3 mln, versus a moderate 29% increase at midyear. We expect even greater transparency in financial disclosure when new owners take over the wheel.
- On October 5, Bank Forum signed an agreement on a USD 90 mln syndicated loan at LIBOR+1.65% - the cheapest and largest debt ever raised by the bank. Commerzbank served as one of the issue's lead-managers. We expect Forum to reduce its cost of financing even more, and boost its share of foreign debt to at least 1/3 over next 18 months, which is comparable to Raiffeisen Bank Aval, Ukrsibbank and OTP Ukraine.

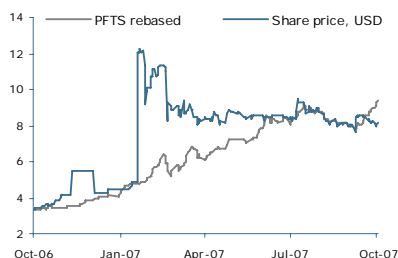
Forum expands balance sheet faster than our forecasts

In addition to acquisition-related positives, the bank itself doubled its assets and loan portfolio yoy in 9M07 to USD 2.3 bln and USD 1.6 bln, respectively. The strong gain brought balance sheet figures right up to our full-year 2007 estimates.

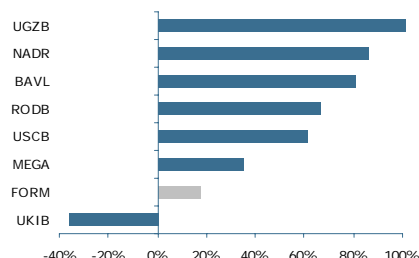
We revise our target upward

Forum trades at a 21% discount to local peers and 28% to EM banks on P/B '08E. Additionally, the current price still offers a 9% upside to the share price implied by Commerzbank's acquisition, USD 8.92. We upgrade our target price from USD 9.70 to USD 10.00, closer to the level implied by P/B '08E.

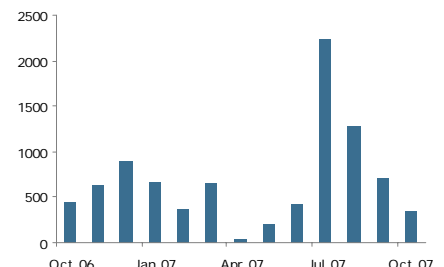
Stock performance*, 12M



Sector performance**, YTD



FORM Trading volumes, USD ths



* PFTS mid price
Source: PFTS, Concorde Capital estimates

** Mid prices adjusted for additional share issues

Key financials, USD mln

	Loans	Deposits	Book value	Net Income	P/Loans	P/Deposits	P/B	P/E
2006	978.3	844.6	151.8	5.5	0.9	1.1	6.1	167.3
2007E	1700.6	1284.2	258.8	10.7	0.5	0.7	3.6	85.9
2008E	2658.3	2003.2	385.4	24.0	0.3	0.5	2.4	38.3

UAH/USD Spot exchange rate is 5.05

Peer valuation

	Price, USD	MCap, USD mln	P/E			P/B		
			2006	2007E	2008E	2006	2007E	2008E
Forum	8.21	920	167.3	85.9	38.3	6.1	3.6	2.4
Ukrainian peers								
Ukrgazbank	1.33	665	109.1	46.2	21.2	7.0	4.4	3.3
Ukrsotsbank	0.28	2,805	49.2	26.9	16.0	7.3	4.4	3.1
Rodovid Bank	1,756	764	171.0	63.1	22.4	8.6	3.3	2.3
Megabank	0.88	176	79.0	32.1	18.0	4.7	2.9	2.2
Raiffeisen Bank Aval	0.22	4,557	73.8	37.1	20.8	7.8	4.6	3.3
Ukrinbank	0.01	143	108.1	46.2	24.9	1.8	1.4	1.3
Bank Nadra	62.38	2,435	65.8	43.9	31.3	9.3	5.8	4.9
Factorial Bank	1.00	102	170.2	100.0	64.7	5.3	3.8	3.0
Average			103.3	49.4	27.4	6.5	3.8	2.9
GEM Peers								
PKO BP	21.3	21,266	31.9	23.4	20.9	6.7	5.0	4.4
Pekao SA	100.4	16,769	30.2	21.2	18.3	6.1	4.8	4.5
Bank BPH	375.1	10,772	27.4	18.3	17.2	5.0	3.9	3.7
BZWBK	106.6	7,776	33.1	22.4	18.9	6.2	4.6	4.0
OTP	54.0	15,177	17.2	12.8	11.3	4.1	2.8	2.4
Komercni Banka	230.5	8,760	23.4	17.9	16.1	3.6	3.2	3.0
Sberbank	4.4	94,227	32.1	21.8	17.3	8.5	3.7	3.0
Yapi Kredi	3.6	8,426	21.7	14.6	10.2	2.6	2.4	2.1
Standard Bank	12.4	17,199	14.6	12.2	10.6	3.5	3.3	2.8
Banco do Brazil	15.6	38,552	9.5	11.8	10.9	2.8	2.4	2.0
Average			24.1	17.6	15.2	4.9	3.6	3.2
Forum price								
Implied by CEE peers avg, USD			1.18	1.69	3.25	6.65	8.36	11.11
Implied by Ukrainian peers avg, USD			5.42	5.11	6.14	8.73	8.80	9.94
Upside/Downside by CEE avg			-86%	-79%	-60%	-19%	2%	35%
Upside/Downside by Ukrainian avg			-34%	-38%	-25%	6%	7%	21%

Source: Bloomberg, PFTS, Concorde Capital

Financial Statements, UAS

INCOME STATEMENT, USD mln

	2004	2005	9M06	2006	9M07	2007E	2008E	2009E
Interest income	39.8	65.2	81.8	120.7	156.2	212.1	316.2	437.6
Interest expense	(21.7)	(38.5)	(51.9)	(76.6)	(98.7)	(131.8)	(195.4)	(255.2)
Net interest income	18.0	26.7	29.9	44.1	57.5	80.3	120.8	182.5
Fee & commission income	5.1	7.9	8.9	12.5	15.1	17.9	27.8	40.6
Fee & commission expense	(0.8)	(1.6)	(1.8)	(2.4)	(2.1)	(2.2)	(2.9)	(3.6)
Net fee & commission income	4.3	6.4	7.2	10.1	13.0	15.7	24.9	36.9
Trading income	1.3	3.2	2.9	4.2	6.7	6.6	9.3	11.6
Other income	0.1	0.5	0.5	0.8	0.7	1.2	1.4	1.0
Net non-interest income	5.8	10.1	10.5	15.1	20.4	23.5	35.6	49.5
Total revenues	23.9	36.8	40.4	59.2	78.0	103.8	156.4	232.0
Operating expenses	(10.4)	(21.5)	(29.4)	(41.1)	(46.8)	(64.9)	(95.0)	(132.0)
Operating income	13.5	15.3	10.9	18.1	31.2	38.9	61.4	100.0
Provision for loan losses & other	(8.9)	(7.1)	(4.9)	(10.9)	(21.7)	(24.7)	(29.4)	(39.1)
Profit before tax	4.7	8.2	6.1	7.2	9.5	14.3	32.0	60.8
Income tax expense	(1.2)	(1.9)	(1.8)	(1.7)	(2.3)	(3.6)	(8.0)	(15.2)
Net income	3.5	6.3	4.3	5.5	7.3	10.7	24.0	45.6

BALANCE SHEET, USD mln

	2004	2005	9M06	2006	9M07	2007E	2008E	2009E
ASSETS								
Cash & balances with NBU	29.1	51.9	39.1	50.9	65.2	84.0	131.0	187.4
Due from banks	65.6	180.9	244.1	339.3	435.8	538.7	519.9	450.9
Loan portfolio, net	228.7	450.9	794.1	978.3	1,600.1	1,700.6	2,658.3	3,687.5
Securities portfolio	2.0	22.7	9.2	28.3	80.4	39.0	48.8	58.5
Fixed & intangible assets	8.9	27.6	37.6	51.1	64.6	74.9	91.7	103.5
Other assets	6.2	3.0	5.3	4.1	13.8	11.4	16.1	21.0
Total assets	344.2	743.1	1,137.8	1,461.0	2,275.1	2,448.5	3,465.8	4,508.8
LIABILITIES								
Due to banks	93.8	173.0	314.1	421.6	592.5	756.7	904.5	915.3
Customer accounts	194.4	455.8	659.2	844.6	1,363.3	1,284.2	2,003.2	2,866.1
Debt securities issued	0.4	13.9	16.4	9.5	19.7	121.9	134.1	146.1
Other liabilities	11.3	19.0	20.6	13.2	11.8	26.9	38.6	48.3
Total liabilities	302.8	670.3	1,023.1	1,309.2	2,016.8	2,189.7	3,080.4	3,975.8
EQUITY								
Total equity	41.4	72.8	114.7	151.8	258.3	258.8	385.4	533.0
Total liabilities & equity	344.2	743.1	1,137.8	1,461.0	2,275.1	2,448.5	3,465.8	4,508.8

MARGINS & RATIOS

	2004	2005	9M06	2006	9M07	2007E	2008E	2009E
Net interest margin	7.4%	5.6%	4.6%	4.4%	4.5%	4.4%	4.4%	4.5%
Net income margin	14.5%	17.2%	10.7%	9.3%	9.3%	10.3%	15.4%	19.7%
ROE	10.2%	11.1%	7.2%	4.9%	4.5%	5.2%	7.5%	9.9%
ROA	1.2%	1.2%	0.7%	0.5%	0.5%	0.5%	0.8%	1.1%
Cost/Income	43.4%	58.5%	72.9%	69.4%	59.9%	62.5%	60.7%	56.9%
Net interest income/Total revenue	75.6%	72.6%	74.1%	74.4%	73.8%	77.4%	77.3%	78.7%
Loans/Total assets	66.4%	60.7%	69.8%	67.0%	70.3%	69.5%	76.7%	81.8%
Loans/Deposits	117.7%	98.9%	120.5%	115.8%	117.4%	132.4%	132.7%	128.7%

Source: Company data, Concorde Capital estimates

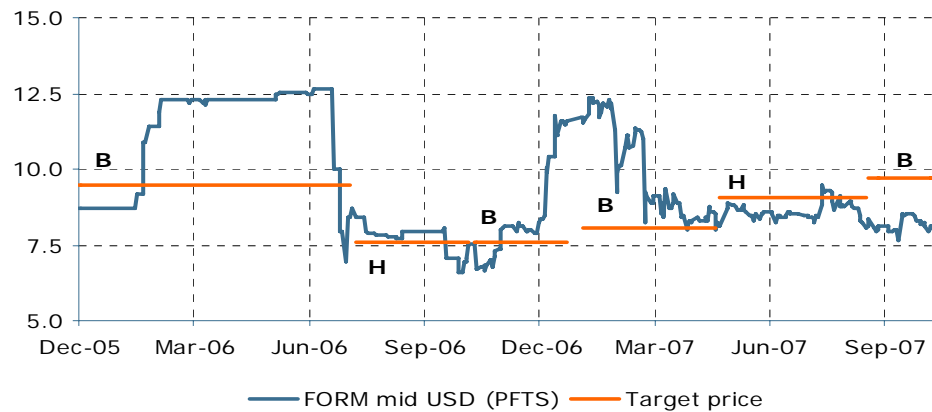
Analyst Certification

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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
5-Jan-07	8.08	10.7	BUY	Maintain
28-Apr-07	9.05	8.22	HOLD	Downgrade
23-Aug-07	9.70	8.24	BUY	Upgrade
15-Oct-07	9.70	8.14	BUY	Maintain

Recommendation history, USD



Concorde Capital rating universe

BUY	40	51%
HOLD	19	24%
SELL	5	6%
U/R	14	18%
Total	78	100%

Investment banking clients

BUY	8	80%
HOLD	2	20%
SELL	0	0%
U/R	0	0%
Total	10	100%

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