

Bank Forum (Commerzbank Group)

Potential buyback is a free put on FORM

Charter capital increase could trigger share buyback...

Forum's upcoming AGM may allow minority shareholders to sell their stock back to the bank at UAH 6.6-6.7 per share, which compares favorably to the current market price of UAH 6.1. This may trigger a short term uptick to UAH 6.6-6.7 prior to the AGM and, hence, present an attractive speculative opportunity for investors.

An AGM scheduled for October 14 will consider a 34% (UAH 1.5 bln, or USD 189 mln) charter capital increase. The subscription will be held subsequently, continuing from the end of this year through the beginning of 2011. The subscription price is expected to be UAH 10 per share (the par value) as during the previous share capital increase.

Should the increase be approved (which looks quite likely to us), the Law on Joint Stock Companies (LJSC) will require the bank to buy back stock from shareholders who voted against the decision at the "market price" as of the day preceding the AGM announcement. That market price, according to our estimates, should be UAH 6.6-6.7 per share (vs. yesterday's closing price of UAH 6.06).

Investors may apply for buyback immediately following (or within 30 days) the increase approval. The issuer is obligated to buy back shares within 30 days of receiving the shareholder application. However, since this is the first instance in which the buyback clause will be applied to a publicly traded bank, Forum may seek approval of the NBU and some delay in buyback may occur. Nonetheless, we don't expect any significant issues as Forum will try to avoid any negative publicity.

... Equivalent to a free put option

Effectively, Forum's obligation is similar to being long a European put option (currently in the money) on the stock with a strike price of UAH 6.6 and maturity in approximately 40 days. Combined with a long position in the stock, the position would allow the investor to capture all the upside potential while limiting downside (or be locked in to minimum upside of $(6.6/6.06 - 1) = 9\%$ in 40d period).

Such price support could trigger an increase to UAH 6.6-6.7 just prior to the AGM and present a good short-term investment opportunity. A subsequent short-term price retreat following the AGM is possible. Placing new shares at a price above the market (UAH 10 vs UAH 6.1) will also create upward pressure on the stock price.

CAR to reach 39%, significantly above the average

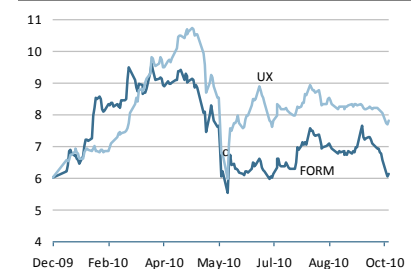
The upcoming share capital increase will be the second capital infusion this year, following a twofold increase to its equity capital in March. The upcoming capital increase should boost Forum's CAR to approximately 39% from the current 29% (other things being equal) vs. the minimum required 10% and sector average of 20%. The infusion also further testifies the readiness of parent Commerzbank Group to support its local subsidiary and may increase the stake by an additional 1-1.5 pps.

Most likely, the new proceeds will replace some interbank borrowing from Commerzbank (UAH 3.2 bln as of end-2Q10), positively impacting Forum's NII margin and increasing the stability of its funding base. Nonetheless, the purpose of the capital injection is not entirely clear given the already sufficient capital level (CAR of a strong 29%), while UAS provisions stand already at 18% of the loan portfolio, in line with the sector large bank median of 16.4%.

Report date	06 Oct 2010
Bloomberg	FORM UK
Reuters	FORM.PFT
Recommendation	Speculative BUY
Price (07 Sep 10), USD	0.76
2W price target, USD	0.84
No of shares, mln	443.5
DRs per ord share	1
Market Cap, USD mln	339
52-week performance	-14%
52-week range, USD	0.70/1.21
ADT, 6M, USD th	187
Free float, %	6.2%
Free float, USD mln	21.0

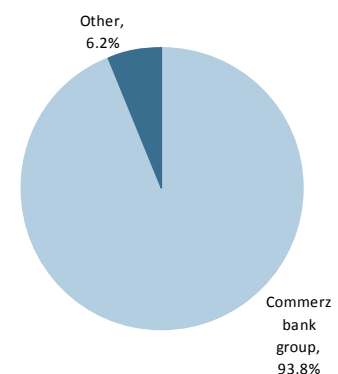
Prices as of Oct. 05, 2010

FORM Price (UAH) vs. UX index (rebased)



Source: Bloomberg

Ownership structure



Source: Bank

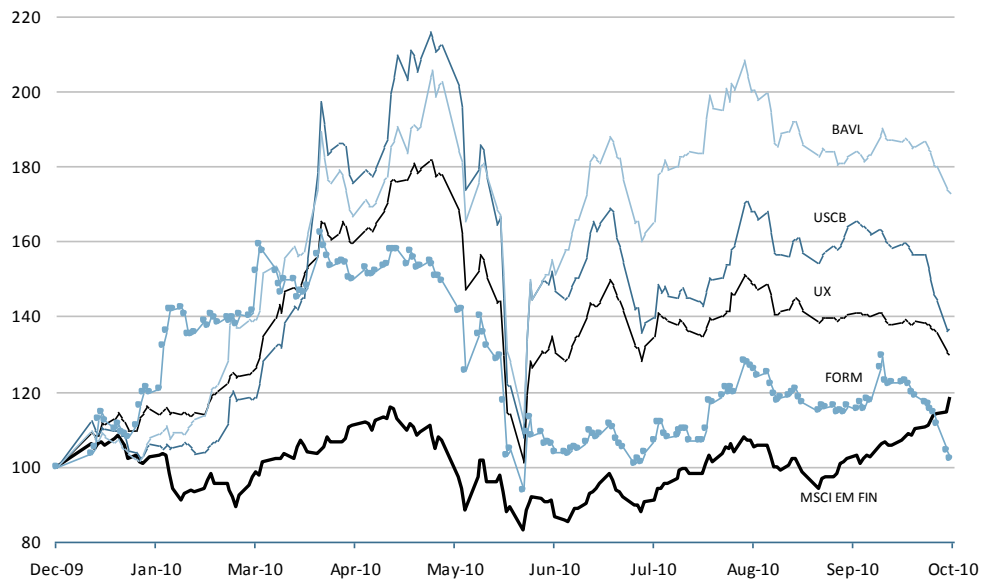
Peer valuation

	Country	MCap USD mln	P/B	
			2010E	2011F
Domestic peer group				
Ukrasotsbank	Ukraine	763	1.17	0.98
Raiffeisen Bank Aval	Ukraine	1,279	1.74	1.38
International peer group				
Bank Pekao	Poland	16,590	2.45	2.31
PKO BP	Poland	19,830	2.58	2.32
BZ WBK	Poland	5,531	2.47	2.20
ING BSK	Poland	3,844	2.04	1.82
Bank Millennium	Poland	2,127	1.48	1.34
Getin Holding	Poland	2,686	1.81	1.56
Komerční Banka	Czech Republic	8,477	2.09	1.94
OTP Bank	Hungary	7,839	1.15	1.05
Sberbank	Russia	66,488	2.25	1.79
VTB	Russia	32,375	1.75	1.58
Bank of Moscow	Russia	5,892	1.56	1.34
Vozrozhdenie	Russia	864	1.55	1.32
Bank St Petersburg	Russia	1,214	1.69	1.38
Halyk Bank	Kazakhstan	2,846	1.83	1.53
Kazkommertsbank	Kazakhstan	2,373	0.97	0.85
Akbank	Turkey	35,600	2.16	1.94
Garanti Bank	Turkey	35,700	2.31	1.95
Median			1.83	1.58
Forum			1.13	0.81
Price, USD implied by international peer median			1.23	1.50
Upside/Downside			61.4%	95.6%

Source: Company data; Bloomberg

Equity indices and Ukrainian banking stocks

(USD, normalized, 31/12/2009 = 100)



Source: UX, Bloomberg, Concorde Capital calculations

Financial statements, UAS

Balance sheet summary, USD mln

	2007		2008		2009		1H10	
	USD mln	% of Assets	USD mln	% of Assets	USD mln	% of Assets	USD mln	% of Assets
Balance Sheet								
Cash&Cash equivalents	149	5.2%	288	10.8%	360	14.8%	427	19.7%
Due from banks	662	23.2%	90	3.4%	34	1.4%	33	1.5%
Corporate loans	1,464	51.3%	1,528	57.3%	1,533	62.8%	1,366	63.1%
Retail loans	442	15.5%	694	26.0%	600	24.6%	572	26.4%
Loans loss provision	-57	-2.0%	-100	-3.7%	-211	-8.6%	-345	-15.9%
Other	194	6.8%	164	6.2%	124	5.1%	112	5.2%
Total assets	2,855	100.0%	2,664	100.0%	2,441	100.0%	2,165	100.0%
Due to banks	903	31.6%	1,115	41.9%	1,104	45.2%	646	29.8%
Corporate deposits	770	27.0%	280	10.5%	288	11.8%	287	13.2%
Retail deposits	762	26.7%	542	20.4%	638	26.2%	742	34.3%
Debt securities issued	61	2.1%	102	3.8%	0	0.0%	0	0.0%
Subordinated debt	50	1.8%	50	1.9%	135	5.5%	136	6.3%
Other	42	1.5%	330	12.4%	42	1.7%	305	14.1%
Total liabilities	2,588	90.7%	2,419	90.8%	2,207	90.4%	2,117	97.8%
Share capital & Share premium	222	7.8%	211	7.9%	284	11.6%	286	13.2%
Retained earnings	31	1.1%	22	0.8%	-63	-2.6%	-250	-11.6%
Other	14	0.5%	13	0.5%	13	0.5%	12	0.6%
Other	267	9.3%	245	9.2%	234	9.6%	49	2.2%

Income statement summary, USD mln

Income Statement	2007	2008	2009	1H09	1H10
	USD mln	USD mln	USD mln	USD mln	USD mln
Net interest income	83	92	98	58	21
Net fee income	19	18	17	7	6
SG&A	-68	75	87	-42	-53
Provisions accumulation	-31	48	121	-61	-166
Other, net	7	-231	-407	4	4
Net income	10	1	-83	-36	-187

Selected ratios

	2007	2008	2009	1H10
Loans Loss Provisions/Total Loans	-3.0%	-4.5%	-9.9%	-17.8%
Loans/Deposits	124.4%	270.3%	230.2%	188.4%
Interest Rate Margin		4.4%	4.3%	2.9%
Cost/Income	67.1%	68.1%	76.1%	124.3%
Cost/Avg Assets		3.2%	3.3%	3.9%
RoA (annualized)		0.1%	-3.3%	-10.3%
RoE (annualized)		0.6%	-35.4%	141.4%

Appendices

Analyst certification

I, Mykyta Mykhaylychenko, 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.

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.

Contacts

CONCORDE CAPITAL

2 Mechnikova Street, 16th Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.ua
Bloomberg: TYPE CONR <GO>

CEO

Igor Mazepa im@concorde.com.ua

SALES

International Sales & Trading

Anastasiya Nazarenko an@concorde.com.ua
Marina Martirosyan mm@concorde.com.ua
Rostyslav Shmanenko rs@concorde.com.ua
Marina Damaskina md@concorde.com.ua
Dasha Vasilieva vd@concorde.com.ua

Domestic Sales & Trading

Yuriy Pilipenko up@concorde.com.ua
Alisa Tikhomirova at@concorde.com.ua

Director of Domestic Fixed Income

Roland Vizner rv@concorde.com.ua

RESEARCH

Director of Investment Research

Rebecca Baldrige, CFA rb@concorde.com.ua

Metals & Mining

Andriy Gerus ga@concorde.com.ua

Utilities, Machinery

Yegor Samusenko syg@concorde.com.ua

Oil & Gas

Andriy Gerus ga@concorde.com.ua
Ruslan Patlavskyy rp@concorde.com.ua

Agriculture, Consumer-related

Ruslan Patlavskyy rp@concorde.com.ua

Economics, Financial services

Mykyta Mykhaylychenko mms@concorde.com.ua

Fixed income

Andriy Gerus ga@concorde.com.ua
Mykyta Mykhaylychenko mms@concorde.com.ua

Politics

Brad Wells bw@concorde.com.ua

Editor

Brad Wells bw@concorde.com.ua

DISCLAIMER

THIS REPORT HAS BEEN PREPARED BY CONCORDE CAPITAL INVESTMENT BANK INDEPENDENTLY OF THE RESPECTIVE COMPANIES MENTIONED HEREIN FOR INFORMATIONAL PURPOSES ONLY. CONCORDE CAPITAL DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT, INVESTORS SHOULD BE AWARE THAT CONCORDE CAPITAL MIGHT HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT.

THE INFORMATION GIVEN AND OPINIONS EXPRESSED IN THIS DOCUMENT ARE SOLELY THOSE OF CONCORDE CAPITAL AS PART OF ITS INTERNAL RESEARCH COVERAGE. THIS DOCUMENT DOES NOT CONSTITUTE OR CONTAIN AN OFFER OF OR AN INVITATION TO SUBSCRIBE FOR OR ACQUIRE ANY SECURITIES. THIS DOCUMENT IS CONFIDENTIAL TO CLIENTS OF CONCORDE CAPITAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED OR GIVEN TO ANY OTHER PERSON.

CONCORDE CAPITAL, ITS DIRECTORS AND EMPLOYEES OR CLIENTS MIGHT HAVE OR HAVE HAD INTERESTS OR LONG/SHORT POSITIONS IN THE SECURITIES REFERRED TO HEREIN, AND MIGHT AT ANY TIME MAKE PURCHASES AND/OR SALES IN THEM AS A PRINCIPAL OR AN AGENT. CONCORDE CAPITAL MIGHT ACT OR HAS ACTED AS A MARKET-MAKER IN THE SECURITIES DISCUSSED IN THIS REPORT. THE RESEARCH ANALYSTS AND/OR CORPORATE BANKING ASSOCIATES PRINCIPALLY RESPONSIBLE FOR THE PREPARATION OF THIS REPORT RECEIVE COMPENSATION BASED UPON VARIOUS FACTORS, INCLUDING QUALITY OF RESEARCH, INVESTOR/CLIENT FEEDBACK, STOCK PICKING, COMPETITIVE FACTORS, FIRM REVENUES AND INVESTMENT BANKING REVENUES.

PRICES OF LISTED SECURITIES REFERRED TO IN THIS REPORT ARE DENOTED IN THE CURRENCY OF THE RESPECTIVE EXCHANGES. INVESTORS IN FINANCIAL INSTRUMENTS SUCH AS DEPOSITORY RECEIPTS, THE VALUES OR PRICES OF WHICH ARE INFLUENCED BY CURRENCY VOLATILITY, EFFECTIVELY ASSUME CURRENCY RISK.

DUE TO THE TIMELY NATURE OF THIS REPORT, THE INFORMATION CONTAINED MIGHT NOT HAVE BEEN VERIFIED AND IS BASED ON THE OPINION OF THE ANALYST. WE DO NOT PURPORT THIS DOCUMENT TO BE ENTIRELY ACCURATE AND DO NOT GUARANTEE IT TO BE A COMPLETE STATEMENT OR SUMMARY OF AVAILABLE DATA. ANY OPINIONS EXPRESSED HEREIN ARE STATEMENTS OF OUR JUDGMENTS AS OF THE DATE OF PUBLICATION AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART WITHOUT PRIOR PERMISSION IS PROHIBITED.

NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OR DISTRIBUTED IN THE UNITED STATES OR TO ANY U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")), OTHER THAN TO A LIMITED NUMBER OF "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) SELECTED BY CONCORDE CAPITAL.

THIS DOCUMENT MAY ONLY BE DELIVERED WITHIN THE UNITED KINGDOM TO PERSONS WHO ARE AUTHORIZED OR EXEMPT WITHIN THE MEANING OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA") OR TO PERSONS WHO ARE OTHERWISE ENTITLED TO RECEIVE THIS DOCUMENT UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR ANY OTHER ORDER MADE UNDER THE FSMA.