

BUY

12M Target USD 1.55

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Market Information

Bloomberg	MEGA UZ
No of Shares, mln	115
Market price, USD	1.05
MCap, USD mln	121
Free float	20%
FF MCap, USD mln	24

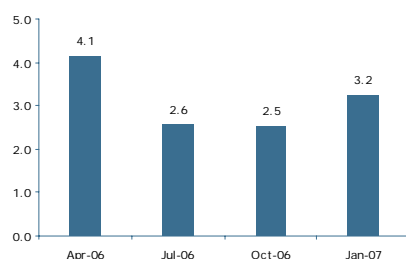
Stock Ownership

M-Invest	33.5%
Institutional investors	20%
Avtramat	10%
Mega-Garant-Life	5.2%
Turboatom	3.2%
Other	33.3%

Ratios, 2006E

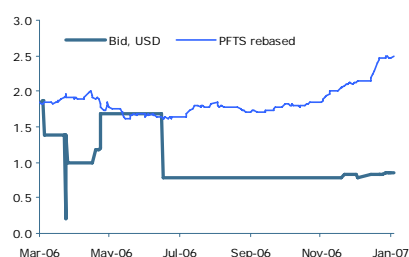
Net Interest Margin	4.6%
Net Margin	13%
ROE	7.9%
Cost/Income	74%

Megabank's P/B History*



* BV as of the most recent reported quarter

MEGA Stock Performance



The cost of financing in 2006 led the bank to shift its focus to aggressively build up its higher margin retail business. Retail lending grew 136% yoy, improving the share of retail in the bank's loan portfolio from 14% to 22%. Triple digit growth in utility tariffs throughout Ukraine in 4Q06 helped the bank take advantage of its 11% share of the national market for payment processing. A strong regional franchise, unique non-interest exposure and nation-wide brand recognition make Megabank an increasingly appealing take-over candidate. Our recommendation is BUY, with a USD 1.55 twelve-month target.

Foreign Financing In The Works. The bank's management informed us that a program to attract financing from international financial organizations is now in the execution stage. Both a USD 10-15 mln loan from the IFC and a USD 10-15 mln syndicated loan are approaching the final stage. Additionally, the bank will start to arrange for a USD 10 mln credit line from the EBRD in April-May 2007. Total foreign financing of USD 30-40 mln is sure to boost the bank's funding power this year.

Utility Payments: More Than a Stable Revenue Source. Half of the bank's revenues come from processing household utility payments and it is strongly protected through its Integral Clearing Centers (ICC), which is based on a proprietary IT solution. Megabank has an 11% share in this market and signed contracts to reach a total population of 3.4 mln in several new regions, which could help it gain up to another 7% of the market. A triple digit hike in housing tariffs throughout Ukraine in 4Q06 is expected to boost the bank's fee generation in 2007 and alone will account for 30% growth in total revenues, not counting increased exposure to retail.

More Retail. Megabank has increased its effort to build up its retail arm. Retail loans surged by 136% yoy to USD 32 mln in 2006, which brought their portion in the bank's overall loan portfolio to 22%, after remaining at 14% for the last three years. Megabank, with 171 outlets in 15 regions in Ukraine, has one of the largest regional retail networks in the country and forms a solid foundation for rapid penetration into retail. Megabank is one of the most recognized banking brands in Ukraine, more recognizable than many of its more sizable competitors. The bank is the ninth most frequented bank and eleventh most attractive banking institution in the country, according to GfK's market study last year.

Appealing Acquisition Target. With mid-sized banks currently the focus of international banking groups, Megabank is undoubtedly on many of their short-lists for acquisition. At the moment, the management is strongly motivated to get their IFO funding worked out - to feel confident when selling out. We feel that the management is seeking an exit somewhere at 4.0-4.5x P/B.

Key Financials, USD mln

	Assets	Loans	Deposits	Equity
2006E	221	143	162	37
2007E	338	217	222	40
2008E	454	312	302	63

Price Ratios

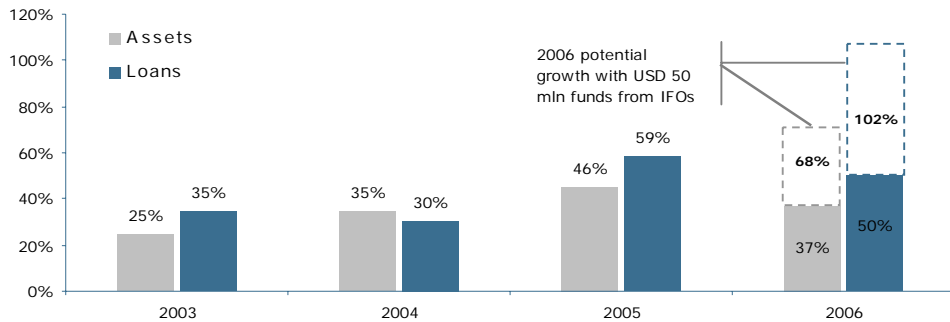
	P/E	P/BV	P/Assets	P/Loans	P/Deposits
	54.3	3.2	0.8	0.9	0.8
	35.5	3.0	0.4	0.6	0.5
	22.8	2.2	0.3	0.4	0.4

2007 Expansion Will Be Well Funded

Missing Funding Materializes in 2007

The main disappointment for shareholders last year was that Megabank missed its growth target as the result of a quagmire with IFO financing. Megabank's assets and lending growth actually slowed compared to the previous year.

Assets and Loan Growth



Source: Company data, Concorde Capital

From our recent interview with management, the delay is as good as over. The bank's program to attract financing from international financial organizations is now in the execution stage. As of late December 2006, the IFC completed due diligence on the bank, which will allow it to finalize negotiations for a USD 10-15 mln medium-term loan. Management expects the funds to come as early as 2Q or 3Q07. The EBRD will start its own due diligence in April-May, as soon as the bank's audited IFRS report is ready and USD 10 mln to fund the bank's SME program will be drawn from the EBRD.

In addition to funds from IFOs, the bank is currently in the final stage of attracting its first syndicated loan for USD 10-15 mln. Management also confirmed that one of the bank's shareholders is ready to grant USD 5 mln in subordinated debt in 2Q07.

The upcoming funds will reinstate Megabank's power to finance its expansion in 2007. We expect Megabank's assets to grow 53% yoy in 2007 and to exceed the sector's average forecasted increase of 43-45% yoy.

High-Margin Retail Salvages 2006's Expensive Deposits

In 2H06 the bank managed to support growth without foreign debt - Megabank raised USD 35 mln in customer deposits or 86% of its total annual increase. Funds raised from individuals were the main source of deposit increases and accounted for 62% of all deposits attracted in 2006. The bank directed the funds to finance its enhanced retail program - retail loans grew by USD 13 mln in 2H06, 68% of the total annual increase in retail lending.

Quarterly Loans & Funding, USD mln

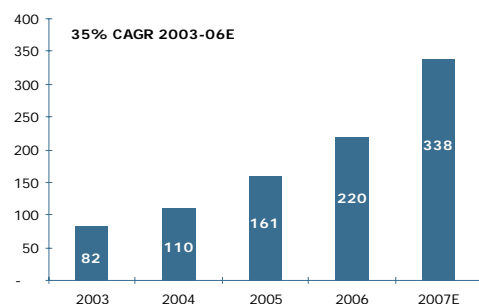
	2005 eop	1Q06 chg	2Q06 chg	3Q06 chg	4Q06 chg	2006 eop	chg % yoy
Assets	161	18	2	11	30	222	38%
Loan portfolio	98	3	9	25	10	144	47%
Retail loans	13	1	5	7	6	32	136%
Equity	21	2	0	13	1	37	74%
Customers' deposits	124	19	-13	9	26	165	33%
Retail deposit	71	0.5	-0.3	9	16	97	35%

Source: Company data, Concorde Capital

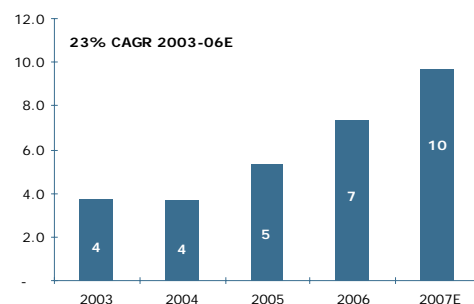
The increasing share of more expensive deposits from individuals (59% eop vs. 57% in 2005) is offset by superior growth, at 136% yoy, in high-margin retail products. We estimate Megabank's net interest margin will be unaffected at a healthy ~ 4% level during the next three years.

Megabank's Performance At Glance*

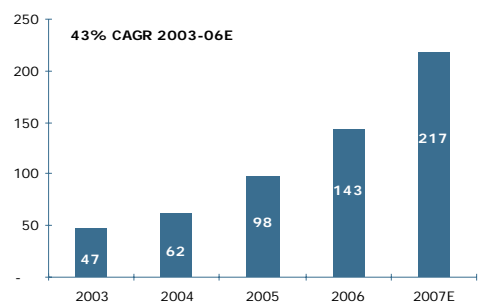
Net Assets



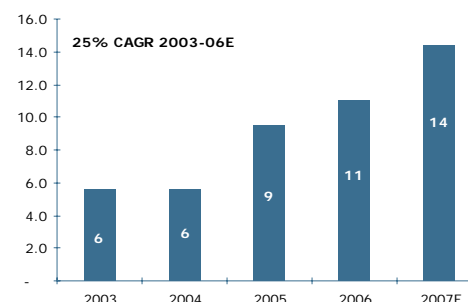
Net Interest Income



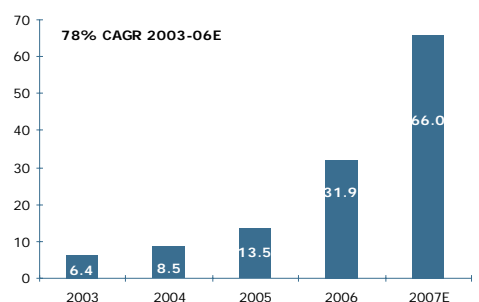
Loan Portfolio



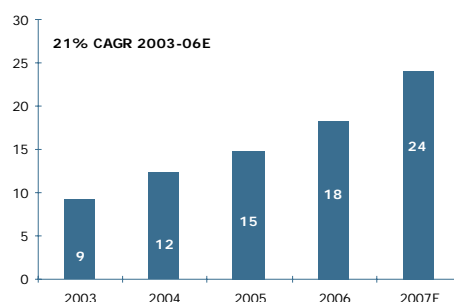
Non-interest Income



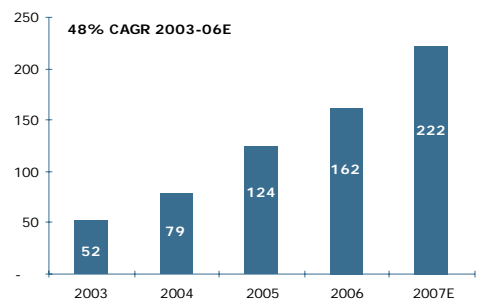
Retail Loans



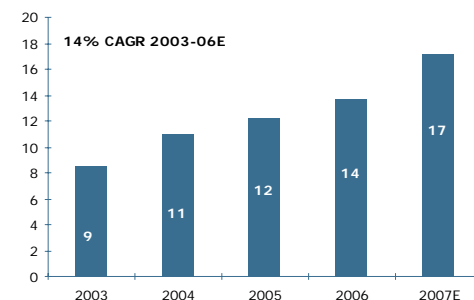
Total Revenues



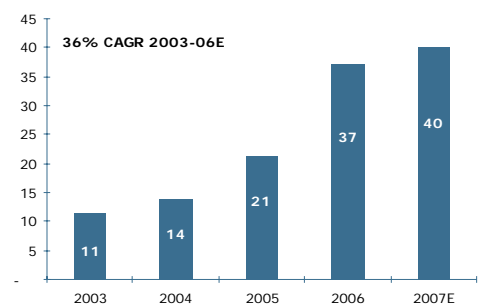
Customers' Deposits



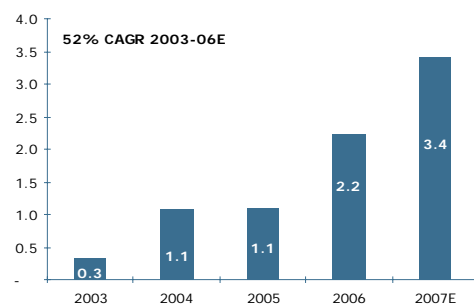
Operating Expenses,



Equity



Net Income



* All figures in USD mln

Source: Company data, the National Bank of Ukraine, Concorde Capital

Clearing Centers Bring In Half of Revenues

Since Megabank launched its Integral Clearing Centers (ICC) in 1999, which is based on a unique proprietary IT solution, the bank has been generating half its revenues from processing household utility payments in the form of fees & commissions.

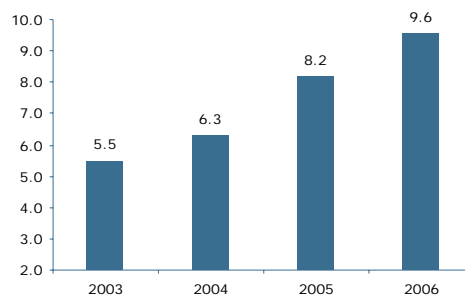
Integral Clearing Centers. A network of 100 outlets that specializes in accepting utility payments from households based on a unique payment and settlement system worked out by Megabank eight years ago. Prior to Megabank's ICC concept, utility and municipal service providers were unable to effectively trace and manage records associated with payments and outstanding debt for services.

Megabank internally developed a comprehensive IT solution that suits both utility service providers and customers. The system employs a single account model so that a customer pays only one bill, which can include up to 40 types of utility services. As each customer is given a personal account, it is not necessary to get a bill – all a customer needs to do is to call an ICC with their personal account to see how much they owe and their accounts due for payment.

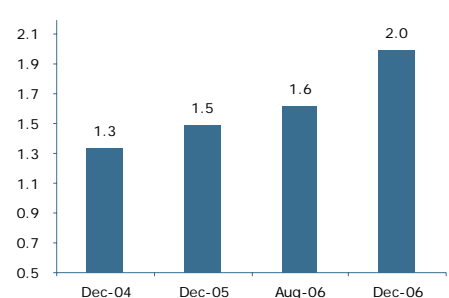
Although Ukrainians can settle utility accounts at many Ukrainian banks, Megabank's ICC raised this process to a new level of quality.

In 2006, net fee & commission income reached USD 9.6 mln - 20% CAGR over 2003-06. The portion of fee income in Megabank's total revenues has confidently stood above 50% level (52% in 2006).

Net Fee & Commission Income, USD mln



Household Accounts in ICCs, mln



Source: Company data, Concorde Capital

Megabank reports 2 mln household utility accounts as of the end of 2006, which translates into 11% of the market given around 18 mln registered households in Ukraine. Megabank's 100 ICCs cover towns and cities in six regions in Ukraine. Around half of the network is located in Kharkiv, the core region for Megabank, where 2.8 millions people reside.

By the end of last year, Megabank signed agreements with local authorities in three more regions to introduce its ICC system: Lugansk (population of 2.4 mln), the city of Donetsk (1 mln people) and the city of Cherkassy (292 ths people). The expansion should help the bank to gain another 7% of the market.

Recent innovations in the system of accepting utility payments is expected to further enhance Megabank's fee generation ability and cement the bank's position in the segment:

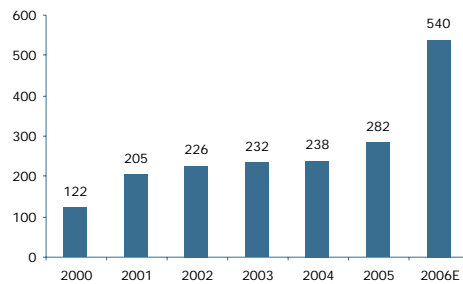
- At the end of 2006, Megabank launched an Internet-payment system for utility services via a personal bank card. Now, there is no need for clients to visit the bank to pay utility bills. The system enables them to access all necessary information and pay a bill directly on the Internet;
- Megabank plans to start accepting utility payments through its ATM network this year.

We find Megabank's strong non-interest revenue generation power one of its most important competitive advantages, as it hedges the bank's income in times of falling interest rates.

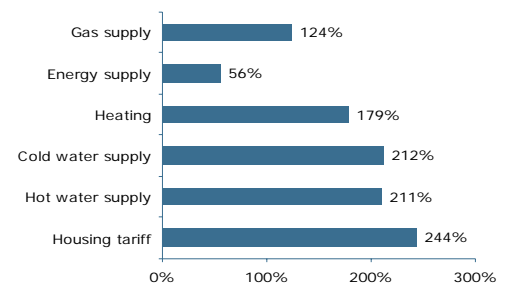
Housing Tariff Hike Will Boost Fee Revenues

Triple-digit growth in housing tariffs that took place throughout Ukraine in 4Q06 is estimated to double the market for household utility payments in 2006-07 to about USD 540 mln. In turn, Megabank's exceptional exposure will help the bank to boost its fee income. We estimate accelerated growth in income from fees alone will contribute around an additional 30% to the bank's total revenues in 2007.

Utility Payments in Ukraine, USD mln



Utility Tariff Increases in 2006



Source: State Statistics Committee, Concorde Capital estimates

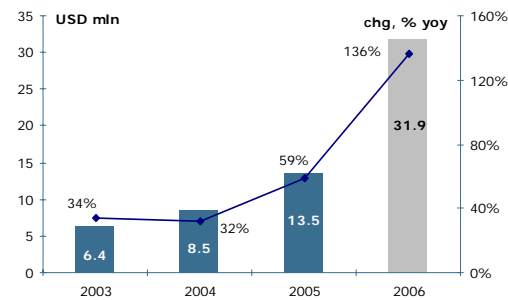
Despite serious political pressure that is resisting tariff increases, we will likely see more utility tariff hikes in the next few years, as most utility companies still do not cover their production costs even after the new price increases for their services and are a heavy burden to local budgets.

More Retail

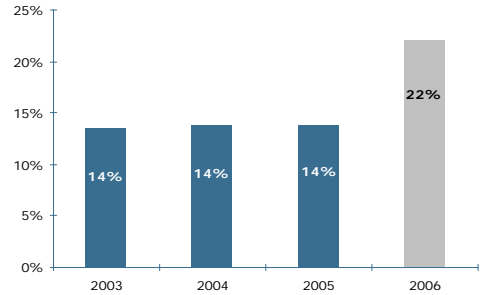
Break-Through

Megabank has accelerated expansion into retail. Retail loans surged by 136% yoy to USD 32 mln in 2006, which brought their portion in the bank's overall loan portfolio to 22%, after standing still at 14% for the three previous years in a row.

Retail Loan Growth



Retail Loans To Total Loan Portfolio



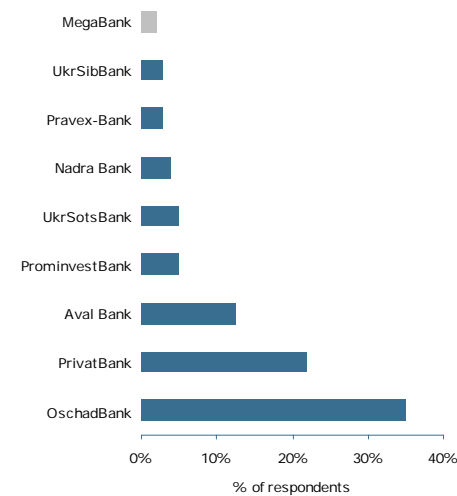
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Source: Company data, Concorde Capital

Strong in Utility Collection - Poised to Splash into Retail

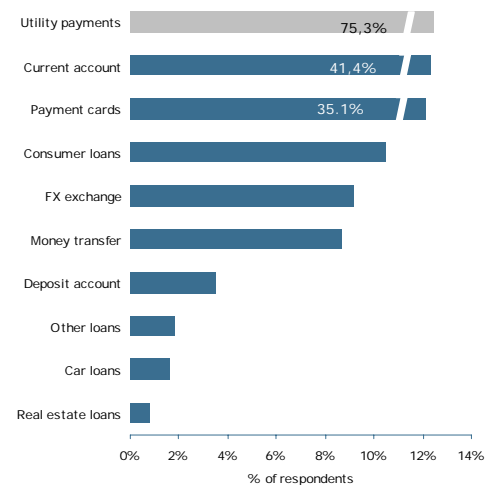
Paying bills for utility services is still the main reason Ukrainians visit banks. Research conducted in spring 2006 by GfK-Ukraine, a subsidiary of the international market research group, revealed that three out of four visits to a bank in Ukraine are done to settle different types of accounts, with utility bills accounting for the largest share.

As a result, banks with a strong position in servicing household utility payments enjoy ample customer traffic – a condition that helps pave the way for expansion into retail. It is no surprise that banks such as Privatbank, Raiffeisen Bank Aval and Ukrsotsbank, other strong players in utility payments, are also Ukraine's largest retail lenders.

The Most Frequented Ukrainian Banks*



Why do Ukrainians Visit Banks?*



Source: GfK Ukraine
* Multiple answers were possible

Megabank's strong play in the utility payment market made it the ninth most frequented bank in Ukraine.

Thanks to this foothold, Megabank has developed a unique customer database. No other Ukrainian bank has such comprehensive data on households. At the moment, the database contains about two million records, including basic information on households and payment history. This database is a significant advantage that will help develop its retail business, since it can be used to quickly to determine the solvency and reliability of potential client.

To capitalize on its advantages in full, the bank needs to diversify its product mix with high-return retail products. In light of the remarkable acceleration in retail lending over the last twelve months (+139% yoy vs. 60% yoy last year), we believe, the management has realized the bank's unique opportunity to make a quick break-through on the retail front.

Well-Developed Branch Network

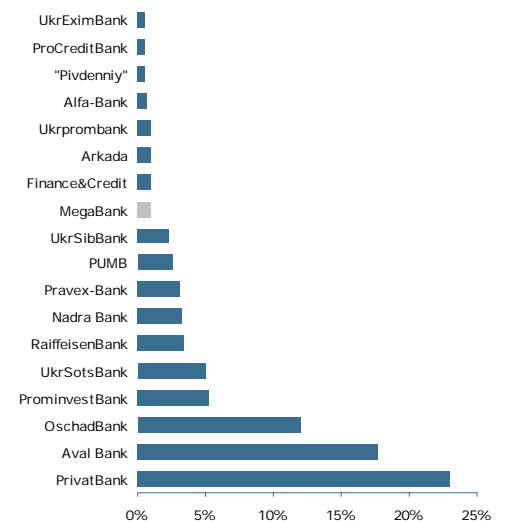
Over the years, Megabank has been focusing on corporate customers in different parts of Ukraine (mainly industry heavyweights from the country's east) and accepting household utility payments, which required the bank to develop an extensive branch network. Currently, Megabank, with 171 outlets in 15 regions of Ukraine, has one of the largest regional retail networks in the country. The management plans to have nation-wide coverage by the end of 2007 and bring the total number of outlets to 300 by the end of this year.

Superior Name Recognition

The pricing methods in the struggle for client are being gradually exhausted. In our view, while most banks offer a quite standardized set of retail products, in order to win in retail rush, the bank should be recognized - most Ukrainians often base their choice just on a bank's name.

In terms of brand recognition, Megabank has largely outperformed many of its more sizeable competitors. Based on GfK research, Megabank ranked the 17th most recognized banking brand in Ukraine. More importantly, Megabank ranked the 11th most attractive bank to Ukrainians.

Which bank is the most attractive in Ukraine?*



Source: GfK Ukraine
* Multiple answers were possible

Attractive Acquisition Target

Banks: Still in the Spotlight

Ukraine's banking sector remains a hot spot for M&A activity. Last year, the sector saw eleven deals closed for the total amount of around USD 2.5 bln. Acquisition P/B records exceeding the top lines paid for any financial institution in CEE confirmed that Ukrainian banks were not subject to bargaining. Even after a spending spree of a year and a half in Ukraine, there are still bidders for Ukraine's banking assets. This year, medium-sized and small institutions will be the center of attention as Ukraine's top-20 now offers limited options for further acquisitions.

M&A Deals in Ukraine's Banking Sector*

Date	Buyer	Target	Rank by assets	Acquired stake	P/B
Dec-06	Volksbanken (Austria)	Bank Electron	62	USD 74 mln for ~100%	4.0
Jul-06	Erste Bank (Austria)	Prestige Bank	59	USD 35.3 mln for 50.5%	1.2**
May-06	OTP Bank (Hungary)	Raiffeisenbank-Ukraine	7	USD 833 mln for 100%	5.9
Mar-06	Credit Agricole (France)	Index Bank	23	USD 257 mln for 98%	5.5
Feb-06	Banca Intesa (Italy)	Ukrsotsbank	4	USD 1.16 bln for 88%	5.0
Jan-06	Vneshtorgbank (Russia)	Mriya	27	USD 70 mln for 98%	1.6
Dec-05	BNP Paribas (France)	Ukrsibbank	5	~USD 350 mln for 51%	3.6
Aug-05	Raiffeisen International	Aval Bank	2	USD 1.028 bln for 93.5%	3.1

Source: Concorde Capital

* Includes officially publicized deal parameters

** Low P/B at Prestige Bank acquisition is a "banking license" price. Prestige Bank was established in January 2006 by the former owners of Aval Bank and by the time of acquisition, they did not have a strong track record

Megabank: For Sale, Probably Not Right Now

Megabank with its extensive retail network, a unique exposure to the promising household payments segment and good prospects in retail segment will be undoubtedly in the primary focus for acquisition. However, we don't expect the bank to be sold in the short-term. At the moment, the management is strongly motivated to get their IFO funding to get things fixed – to feel confident when selling out. We think they are targeting an exit in the range of 4-4.5x P/B.

Valuation

Peer Comparison

	Country	MCap, USD mln	P/E		P/B*		P/Operating profit	
			2007E	2008E	2007E	2008E	2007E	2008E
CEE Peers								
PKO BP	Poland	15,298	21.7	19.7	4.4	4.2	16.9	15.4
Pekao SA	Poland	12,799	18.7	16.9	3.8	3.6	16.0	14.4
Bank BPH	Poland	8,919	25.9	24.4	3.9	3.9	20.1	18.8
BZWBK	Poland	5,616	21.1	18.8	4.1	3.7	16.5	14.7
OTP	Hugary	12,582	12.5	11.3	3.0	2.5	9.8	8.9
Komerční Banka	Czech Rep	5,948	13.5	12.6	2.1	2.0	10.2	9.5
Sberbank	Russia	70,685	21.7	19.0	4.8	3.9	12.3	14.4
Average			19.3	17.5	3.8	3.4	14.5	13.7
Ukrainian peers								
Ukrsotsbank	Ukraine	2,072	25.9	18.8	4.5	3.1	15.5	11.7
Raiffeisen Bank Aval	Ukraine	3,417	21.2	12.8	4.0	2.8	10.4	7.1
Forum	Ukraine	749	74.9	39.4	2.8	2.0	25.0	15.3
Rodovid Bank	Ukraine	477	69.1	43.3	5.0	4.5	27.6	18.2
Average			47.8	28.6	4.1	3.1	19.6	13.1
Megabank								
	Ukraine	121	35.5	22.8	3.0	2.2	21.2	11.7
Implied Price to CEE, USD			0.37	0.52	1.31	1.88	0.72	1.23
Premium/(Discount) to CEE			84%	30%	-20%	-35%	46%	-15%
Implied Price to Ukrainian, USD			0.91	0.85	1.41	1.72	0.97	1.17
Premium/(Discount) to Ukrainian			-26%	-20%	-26%	-29%	8%	-10%

Source: Bloomberg, PFTS, Concorde Capital

* P/B calculation for Ukrainian banks accounts for officially announced share capital increases

DDM Model

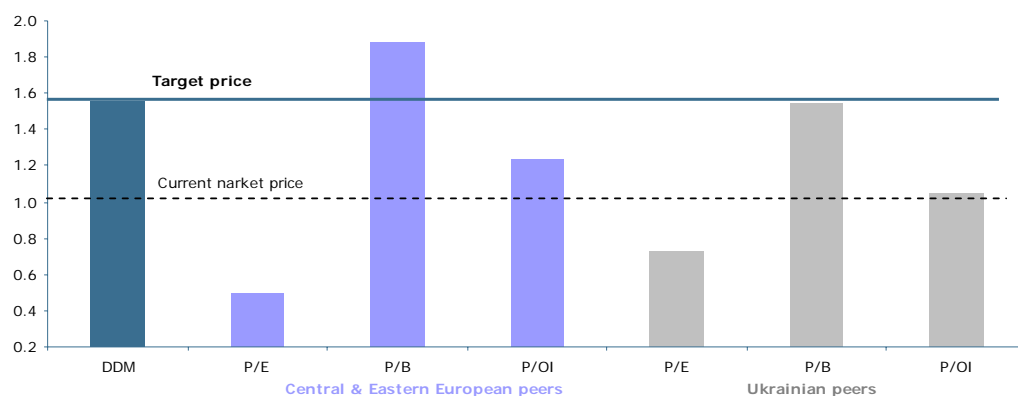
Key Assumptions, USD mln

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Loans	143	217	312	419	534	644	753	859	963	1,072
Corporate loans	115	155	202	252	308	360	411	460	511	564
Retail loans	32	66	116	174	235	294	352	409	462	517
Customer deposits	162	222	302	391	491	597	701	802	893	977
Corporate deposits	65	84	105	125	145	164	182	201	219	236
Retail deposits	97	139	197	266	346	432	519	602	674	741
Spread	6.4%	5.8%	5.1%	4.2%	4.0%	3.9%	3.8%	3.7%	3.6%	3.6%
Lending yield rate	13.9%	13.1%	12.1%	11.1%	10.2%	10.0%	10.1%	9.9%	9.9%	9.9%
Deposit cost rate	7.5%	7.3%	7.0%	6.8%	6.1%	6.1%	6.2%	6.2%	6.2%	6.2%
Net interest income	7.2	9.7	13.3	17.0	20.5	24.5	28.2	32.0	34.5	38.4
Fee income	9.7	13.0	18.2	26.5	36.4	47.3	61.6	73.9	87.3	100.4
Operating costs	(13)	(14)	(17)	(22)	(28)	(35)	(43)	(53)	(61)	(68)
Provision charge	(2)	(2)	(3)	(5)	(8)	(10)	(12)	(13)	(14)	(16)

DDM Valuation Summary: Benchmarking to Total CAR of 12%, UAH ths

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Target Total Capital	107,446	158,048	217,027	281,395	349,757	417,056	482,653	548,056	613,314	682,682
CAR	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Cash flow	5,112	7,938	12,362	19,611	27,891	37,467	49,102	62,622	77,264	90,369
Discount rate	13%	12%	11%	11%	11%	11%	10%	10%	10%	10%
Discounted CF	5,079	7,892	12,293	17,564	22,504	27,235	32,156	37,272	41,806	44,452
Valuation date	21-Jan-07	21-Jan-08								
Terminal Value	583,812	654,073								
Equity Value, UAH ths	801,711	898,195								
per Share	1.38	1.55								
								Discount Rate to Perpetuity		10.0%
								Perpetuity Growth Rate		3.0%
								Implied Exit P/E Multiple		x6.7

Valuation Summary



Financial Summary

All financials prepared according to IFRS, USD mln

	2005	2006E	2007E	2008E	2009E	2010E	2011E
Profit and Loss							
Net interest income	5.8	7.2	9.7	13.3	17.0	20.5	24.5
Net commissions income	9.1	9.7	13.0	18.2	26.5	36.4	47.3
Trading income	0.6	0.5	0.6	0.7	0.9	1.1	1.4
Total income	17.0	18.3	24.1	32.8	45.0	58.7	74.1
Operating income	3.8	4.6	6.9	10.6	16.5	23.5	31.0
Net income	2.3	2.2	3.4	5.3	8.4	12.0	16.1
Profit and Loss Growth							
Net interest income	69%	26%	34%	37%	28%	20%	19%
Net commissions income	65%	7%	34%	40%	45%	37%	30%
Trading income	-49%	-17%	15%	23%	25%	27%	23%
Total income	31%	8%	31%	36%	37%	31%	26%
Operating income	192%	23%	49%	54%	56%	42%	32%
Net income	662%	-2%	54%	56%	59%	42%	34%
Balance Sheet							
Net Loans	98	143	217	312	419	534	644
Corporate loans*	86	115	155	202	252	308	360
Retail loans*	13	32	66	116	174	235	294
Average interest earning assets	113	159	237	337	439	547	666
Total Assets	161	221	338	454	570	697	832
Customer deposits	124	162	222	302	391	491	597
Corporate deposits	52	65	84	105	125	145	164
Retail deposits	72	97	139	197	266	346	432
Average interest bearing liabilities	118	158	235	338	428	523	626
Book Value	21	37	40	63	89	116	145
Balance Sheet Growth							
Net Loans	60%	46%	52%	44%	34%	27%	21%
Corporate loans	57%	34%	36%	30%	25%	22%	17%
Retail loans	70%	136%	108%	75%	50%	35%	25%
Average interest earning assets	23%	41%	48%	42%	30%	25%	22%
Total Assets	47%	37%	53%	34%	26%	22%	19%
Customer deposits	58%	30%	38%	36%	30%	26%	21%
Corporate deposits	26%	24%	29%	25%	20%	16%	13%
Retail deposits	94%	34%	44%	42%	35%	30%	25%
Average interest bearing liabilities	16%	33%	49%	44%	27%	22%	20%
Book Value	56%	74%	7%	59%	40%	31%	25%
Key Ratios							
Non interest income/Total income	26%	34%	39%	40%	41%	38%	35%
Net interest income/Total income	74%	66%	61%	60%	59%	62%	65%
Net interest margin	5.1%	4.5%	4.1%	3.9%	3.9%	3.7%	3.7%
Net income margin	13%	12%	14%	16%	19%	20%	22%
Provision/Operating income	28%	33%	34%	33%	32%	32%	31%
Cost / Income ratio	78%	75%	71%	68%	63%	60%	58%
ROA	1.7%	1.2%	1.2%	1.3%	1.6%	1.9%	2.1%
ROE	13%	7.6%	8.9%	10.3%	11.1%	11.7%	12.4%

Source: Company data, Concorde Capital estimates

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