



2007 Figures Released

Remarkable growth, but mind the margin risks

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- 2007 sector statistics were released by NBU last week
- Asset growth hits a new five-year high, accelerating to 76% yoy
- Retail doubled, continuing historical trend
- Margins squeezed due to tightening competition and higher borrowing costs
- We favor stocks with the most progress in improving efficiency: MEGA, FORM, RODB

Banking stock universe

Raiffeisen Bank Aval	BAVL UZ
Ukrrotsbank	USCB UZ
Forum	FORM UZ
Rodovid Bank	RODB UZ
Megabank	MEGA UZ
Ukrgazbank	UGZB UZ
Ukrinbank	UKIB UZ
Nadra Bank	NADR UZ

Upsides/Recommendations

	Price, USD	12M TP, USD	Upside	Rec.
BAVL	0.21	0.24	14%	HOLD
USCB	0.27	0.32	19%	BUY
FORM	8.73	10.00	15%	BUY
RODB	1,698	2,300	35%	BUY
MEGA	0.80	1.20	50%	BUY
UGZB	1.39	1.32	-5%	HOLD
UKIB	0.01	0.01	30%	BUY
NADR	54.6	N/R	N/R	N/R

Ratios 2007

Net interest margin	4.9%
Net margin	16.0%
ROE	12.7%
Cost/Income	57.0%

Banking penetration, 2007E

Assets/GDP	83%
Loans/GDP	62%
Retail loans/GDP	21%
Deposits/GDP	39%

Balance sheet growth accelerated to 5Y record

According to the NBU, in 2007 the asset growth of local banks accelerated 76% yoy to reach USD 118 bln vs. 59% yoy growth in 2006. Real GDP growth at 7.3%, a 3-year high, led corporate lending to speed up 65% yoy vs. 54% yoy in 2006, which combined with the continued boom in retail (up 98% yoy), brought about stronger loan portfolio expansion of 80% yoy, against 73% yoy in 2006. With real GDP growth expected to stay above 6% in 2008 and consumer expenditures firm (+12% yoy in 2008), we forecast banks will grow their assets by 55-60% yoy and lending 65-70% yoy this year.

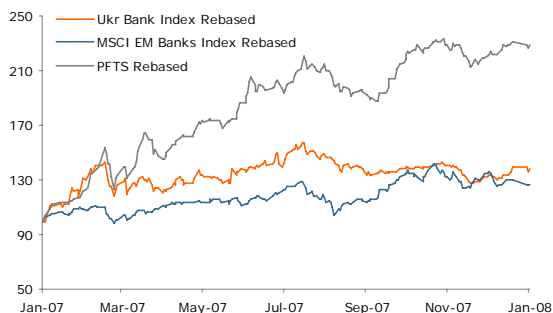
Margins squeezed

Meanwhile, margins came under pressure. Growing competition caused average weighted loan interest rates to fall to 13.5% in 2007 from 14.1% in 2006. On the cost side, global anxiety over subprime mortgages have made foreign borrowing more expensive and the cost of alternative domestic funds higher. Most banks postponed their plans for raising foreign debt and rushed to domestic financing. Increased demand for internal sources pushed deposit rates up to 7.4% from 6.8% in 2006. As a consequence, banks' net interest margin eroded to 4.9% from 5.3% last year. Overall, the net margin of local banks declined to ~16% from 18%.

We favor stocks that are improving efficiency the most

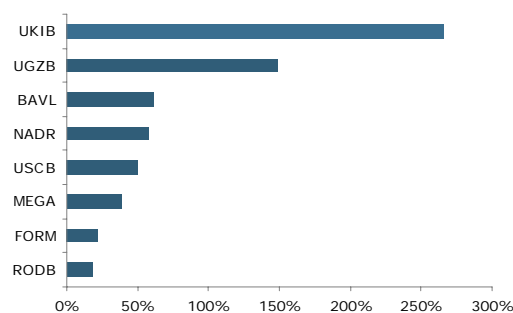
In an environment of declining interest margins, we think that improvement in cost efficiency is the largest value-generating factor. We favor banks that are making the most progress in that area. Based on 9M figures, **FORM**, **MEGA** and **RODB** did the best among traded banks, improving their C/I ratio by 13.0 pp, 6.2 pp and 6.6 pp, respectively. These banks are expected to report a twofold increase in their net incomes in 2007 despite net interest margin retraction.

Ukrainian banking index*, PFTS & MSCI EM Banks



* includes BAVL, FORM, RODB and UGZB
Source: PFTS, Bloomberg, Concorde Capital estimates

Sector Performance*, 12M trailing



* Mid share prices adjusted for additional share issues

Sector's key financials, USD bln

	Assets	Loans	Deposit	Net Income
2007	118.5	87.6	55.5	1.4
2008E	183.7	148.9	80.5	2.2
2009E	266.3	223.4	112.7	3.1

	P/Loans	P/Deposits	P/B	P/E
2007	1.0	1.0	3.7	47.8
2008E	0.7	0.7	2.6	22.8
2009E	0.5	0.6	1.9	14.9

Banking sector evolution

	2002	2003	2004	2005	2006	2007
Number of banks	157	158	160	165	170	196
Foreign banks	27	26	26	32	48	44
Share of foreign banks, % of capital	13.7	11.3	9.6	19.5	27.6	35.0
Share of top 10 banks, % of assets	54.0	53.7	53.1	53.8	52.4	51.2
Key financials, USD bln						
Total assets	12.0	18.8	25.3	42.4	67.4	118.5
Gross loans	7.8	12.5	16.5	28.2	48.6	87.6
Corporate loans	7.2	10.9	13.7	21.6	33.2	54.7
Retail loans	0.6	1.7	2.8	6.6	15.4	30.4
Total deposits	7.3	11.3	15.3	26.5	36.2	55.5
Corporate deposits	3.7	5.2	7.6	12.1	15.2	n/a
Retail deposits	3.6	6.0	7.8	14.4	21.0	n/a
Equity	1.9	2.4	3.5	5.0	8.4	13.8
Net income	0.13	0.16	0.24	0.43	0.82	1.41
Growth, % yoy						
Total assets	33%	57%	35%	67%	59%	76%
Total loans	47%	61%	32%	71%	73%	80%
Corporate loans	43%	52%	26%	57%	54%	65%
Retail loans	136%	173%	65%	139%	135%	98%
Total deposits	44%	55%	36%	73%	37%	52%
Corporate deposits	25%	42%	44%	60%	26%	n/a
Retail deposits	70%	68%	29%	85%	46%	n/a
Equity	25%	29%	44%	45%	67%	64%
Net income	28%	21%	53%	80%	91%	54%
Ratios						
ROA, %	1.3	1.0	1.1	1.3	1.6	1.5
ROE, %	8.0	7.6	8.1	10.0	12.2	12.7
Net interest margin, %	6.0	5.8	6.1	5.8	5.9	4.9
Cost/Income, %	n/a	n/a	65.5	63.8	58.1	n/a
Capital adequacy ratio, %	18.0	15.1	16.8	15.0	14.2	13.9
Banking penetration						
Assets/GDP	28%	38%	39%	50%	67%	83%
Loans/GDP	18%	25%	25%	33%	48%	62%
Retail loans/GDP	1%	3%	4%	8%	15%	21%
Deposits/GDP	17%	23%	24%	31%	36%	39%

Source: National Bank of Ukraine, Concorde Capital

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Hold	36	34%
Sell	18	17%
Under Review	11	10%
Total	107	100%

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