



CONCORDE CAPITAL

Ukraine / Banking

**Ukrinbank**

**Ukrinbank Sold to Hapoalim**

December 20, 2007

Current price: 0.0064  
12M Target: 0.0099

**BUY**

Alexander Viktorov  
av@concorde.com.ua

+380 44 391 5577

#### Tickers

Bloomberg UKIB. UZ

#### Market information

No of shares, mln	20,440
Market price, USD	0.0064
MCap, USD mln	131.5
Chg YTD	0.5%
Hi/Lo YTD, USD	2.05/2.00
Free float	24%
Free float, USD mln	31.6

#### Corporate governance

Concorde Rating\* A

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

#### Shareholders

Group of seven individuals	80.3%
Portfolio investors	19.7%

#### Ratios 2007E

Net interest margin	8.2%
Net margin	11.7%
ROE	3.4%
Cost/Income	76.0%

Israel's Hapoalim Bank paid USD 136 mln for 76% stake in Ukraine's #46 bank by assets, Ukrinbank. Though the acquisition price implies a 36% premium to current mid-market, the deal's P/B'07e of x2.1 is way below average posted in Ukraine's other acquisitions in the sector. Nevertheless, sale to the second largest Israeli bank is a golden ticket for a lagging Ukrinbank. We confirm our BUY recommendation and a target of USD 0.0099.

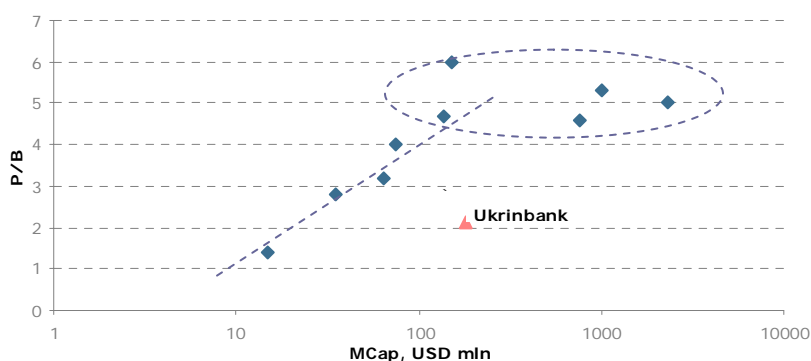
#### Deal parameters

On December 20, 2007 second-largest Israeli bank, Hapoalim, announced it acquired a 76% stake in Ukrinbank, Ukraine's #46 bank by assets, for USD 136 mln, implying MCap of USD 179 mln.

#### The price does not impress

The acquisition valued Ukrinbank at x2.1 P/B, based on the bank's 2007E equity of USD 87 mln. This is close to the lower range of multiples reached during the recent three-year acquisition boom in Ukrainian banking. For comparison, the average P/B ratio paid for Ukrainian banks was 3.6 in 2006 and 3.9 in 2007.

#### Acquisition multiples, 2007

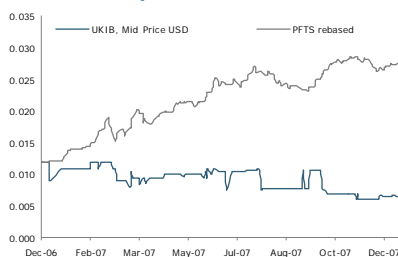


Note: MCap axis on a logarithmic scale

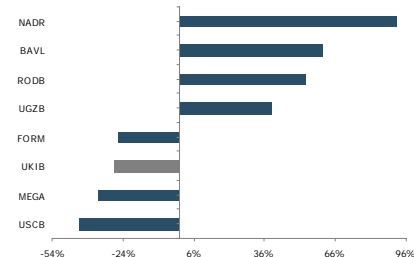
#### The deal implies a 36% upside to mid-market

The acquisition implies a share price of USD 0.0088, a 36% premium to the current mid-market. We believe Hapoalim will be able to give the bank a push, and expect the stock to gradually catch up to its peers. The recently sold Faktorial Bank of similar size trades at x3.4 P/B. We maintain our target for UKIB at USD 0.0099, which offers a 55% upside to current mid-market and 13% to the deal price.

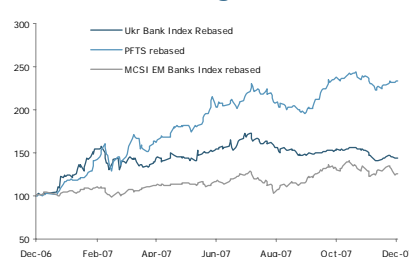
#### UKIB share price



#### Sector Performance, YTD



#### Ukrainian banking index



#### Key financials, USD mln

	Loans	Deposits	Book Value	Net Income
2006	134.4	130.2	87.3	1.4
2007E	196.9	197.2	86.8	3.4
2007E	276.8	225.1	125.5	6.3

	P/Loans	P/Deposits	P/B	P/E
2006	1.0	1.0	1.5	93.9
2007E	0.7	0.7	1.5	38.7
2007E	0.5	0.6	1.0	20.9

FLASH NOTE

FLASH NOTE

FLASH NOTE

### Ukrainian banking stocks: Trading summary

	MCap, USD mln	P/E		P/B	
		2007E	2008E	2007E	2008E
Ukrghazbank	560	39.6	18.2	4.1	2.8
Ukrstotsbank	2,805	34.8	21.8	4.4	2.9
Forum	997	88.8	39.6	3.7	2.4
Rodovid Bank	772	61.4	21.8	3.2	2.3
Megabank	183	27.4	15.4	2.3	1.8
Raiffeisen Bank Aval	4,683	35.6	20.0	4.4	3.1
<b>Ukrinbank</b>	<b>157</b>	<b>38.5</b>	<b>20.8</b>	<b>1.4</b>	<b>1.0</b>
Bank Nadra	2,435	35.2	25.1	5.1	2.6
Factorial Bank	92	88.7	57.4	3.4	2.7
<b>Average</b>		<b>50.0</b>	<b>26.7</b>	<b>3.6</b>	<b>2.4</b>

Source: PFTS, Concorde Capital estimates

### 9M07 Financial summary for traded banking stocks

	BAVL	USCB	FORM	RODB	UGZB	MEGA	UKIB	FKTB	NADR	Sector total
<b>USD mln</b>										
Assets	8,191	5,388	2,275	1,454	1,734	340	283	218	3,399	100,720
Loans	6,276	4,154	1,600	1,029	806	244	181	133	2,291	70,021
Deposits	4,405	2,934	1,363	745	826	227	177	172	1,760	55,915
Equity	723	559	258	220	126	63	85	28	328	11,526
Net interest income	310.0	123.1	57.5	16.7	33.3	8.8	10.6	3.3	96.7	2,981
Net fee & commissions	125.3	69.7	13.0	14.2	15.9	10.0	5.5	4.5	55.5	1,509
Total revenue	462.1	233.0	78.0	40.1	64.9	19.8	19.5	9.8	221.3	5,147
Operating expenses	(258.3)	(127.5)	(46.8)	(24.8)	(40.4)	(13.8)	(14.6)	(8.5)	(114.0)	(2,934)
Operating income	203.8	105.5	31.2	15.3	24.5	6.0	4.8	1.3	107.4	2,213
Net income	108.1	48.4	7.3	7.7	11.6	3.2	1.9	0.3	50.7	836
Net interest margin	6.7%	4.7%	4.5%	2.3%	4.0%	4.9%	8.6%	2.7%	5.5%	5.6%
Net margin	23.4%	20.8%	9.3%	19.1%	17.9%	15.9%	9.7%	3.5%	22.9%	16.2%
ROE	19.6%	14.1%	4.5%	7.1%	15.9%	7.8%	3.7%	2.0%	22.9%	11.7%
Cost/Income	55.9%	54.7%	59.9%	61.8%	62.3%	69.8%	75.2%	86.9%	51.5%	57.0%
<b>Growth, % yoy</b>										
Assets	64%	91%	100%	185%	158%	77%	73%	40%	95%	77%
Loans	59%	100%	102%	207%	153%	81%	42%	59%	97%	78%
Deposits	50%	44%	107%	132%	107%	64%	62%	40%	91%	54%
Equity	69%	82%	125%	476%	142%	76%	308%	52%	130%	75%
Net interest income	60%	48%	92%	155%	114%	79%	50%	63%	79%	62%
Net fee & commissions	15%	24%	81%	108%	128%	48%	25%	74%	39%	46%
Total revenue	42%	50%	93%	141%	127%	55%	40%	64%	85%	56%
Operating expenses	34%	39%	59%	118%	72%	43%	30%	63%	74%	54%
Operating income	52%	67%	186%	192%	370%	96%	81%	71%	99%	59%
Net income	73%	9%	69%	155%	222%	110%	37%	-29%	50%	41%
Net interest margin	0.0% p	-0.8% p	-0.1% p	-0.2% p	-0.5% p	0.5% p	0.8% p	0.5% p	-0.1% p	-0.2% p
Net margin	4.2% p	-7.8% p	-1.3% p	1.0% p	5.3% p	4.1% p	-0.2% p	-4.6% p	-5.4% p	-1.8% p
ROE	0.9% p	-7.4% p	-2.7% p	-3.3% p	3.7% p	1.1% p	0.2% p	-0.7% p	-10.2% p	-1.5% p
Cost/Income	-3.1% p	-4.6% p	-13.0% p	-6.6% p	-19.5% p	-6.2% p	-5.7% p	-0.6% p	-3.3% p	-0.8% p

best in class

worst in class

Source: National Bank of Ukraine, Concorde Capital calculations

## Financials statements, UAS

### BALANCE SHEET, UAS, USD mln

	2005	9M06	2006	9M07	2007E	2008E	2009E
<b>ASSETS</b>							
Cash & balances with NBU	23.0	9.7	13.4	19.5	16.9	21.3	27.9
Due from banks	8.1	4.2	28.0	17.3	49.8	50.3	40.7
<b>Loan portfolio, net</b>	<b>87.1</b>	<b>127.3</b>	<b>134.4</b>	<b>180.7</b>	<b>196.9</b>	<b>276.8</b>	<b>367.2</b>
Securities portfolio	0.8	0.5	0.5	0.1	0.6	0.7	0.8
Fixed & intangible assets	17.7	18.3	66.8	61.2	66.4	68.6	70.6
Other assets	2.3	2.1	1.6	3.0	1.2	1.6	2.0
<b>Total assets</b>	<b>140.3</b>	<b>163.3</b>	<b>245.8</b>	<b>283.1</b>	<b>331.8</b>	<b>419.4</b>	<b>509.2</b>
<b>LIABILITIES</b>							
Due to banks	3.3	0.9	15.4	8.5	42.8	62.2	68.7
<b>Customer accounts</b>	<b>116.6</b>	<b>109.6</b>	<b>130.2</b>	<b>177.1</b>	<b>197.2</b>	<b>225.1</b>	<b>294.4</b>
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.3	31.5	0.8	1.2	4.9	6.6	6.9
<b>Total liabilities</b>	<b>120.7</b>	<b>142.4</b>	<b>158.5</b>	<b>197.8</b>	<b>217.7</b>	<b>293.9</b>	<b>370.1</b>
<b>EQUITY</b>							
<b>Total equity</b>	<b>19.7</b>	<b>20.9</b>	<b>87.3</b>	<b>85.3</b>	<b>86.8</b>	<b>125.5</b>	<b>139.1</b>
<b>Total liabilities &amp; equity</b>	<b>140.3</b>	<b>163.3</b>	<b>245.8</b>	<b>283.1</b>	<b>331.8</b>	<b>419.4</b>	<b>509.2</b>

### INCOME STATEMENT, UAS, USD mln

	2005	9M06	2006	9M07	2007E	2008E	2009E
Interest income	14.9	13.3	18.9	19.6	27.2	36.8	44.9
Interest expense	(8.3)	(6.3)	(8.3)	(9.0)	(10.4)	(14.1)	(18.2)
<b>Net interest income</b>	<b>6.6</b>	<b>7.1</b>	<b>10.6</b>	<b>10.6</b>	<b>16.7</b>	<b>22.7</b>	<b>26.7</b>
Fee & commission income	6.7	5.7	8.1	7.2	10.8	13.6	16.9
Fee & commission expense	(1.6)	(1.2)	(1.8)	(1.7)	(2.0)	(2.4)	(2.9)
<b>Net fee &amp; commission income</b>	<b>5.1</b>	<b>4.4</b>	<b>6.3</b>	<b>5.5</b>	<b>8.8</b>	<b>11.2</b>	<b>14.1</b>
Trading income	2.5	1.7	2.4	2.1	2.8	3.4	4.3
Other income	0.8	0.7	1.0	1.2	0.7	0.5	0.4
<b>Net non-interest income</b>	<b>8.5</b>	<b>6.9</b>	<b>9.8</b>	<b>8.9</b>	<b>12.3</b>	<b>15.1</b>	<b>18.7</b>
<b>Total revenues</b>	<b>15.1</b>	<b>13.9</b>	<b>20.4</b>	<b>19.5</b>	<b>29.1</b>	<b>37.8</b>	<b>45.4</b>
Operating expenses	(13.2)	(11.3)	(15.8)	(14.6)	(22.1)	(26.0)	(30.2)
<b>Operating income</b>	<b>1.8</b>	<b>2.7</b>	<b>4.6</b>	<b>4.8</b>	<b>7.0</b>	<b>11.8</b>	<b>15.3</b>
Provision for loan losses & other	(1.5)	(0.9)	(2.2)	(2.6)	(2.5)	(3.5)	(4.6)
<b>Profit before tax</b>	<b>0.3</b>	<b>1.7</b>	<b>2.4</b>	<b>2.3</b>	<b>4.5</b>	<b>8.3</b>	<b>10.7</b>
Income tax expense	(0.1)	(0.4)	(1.0)	(0.4)	(1.1)	(2.1)	(2.7)
<b>Net income</b>	<b>0.2</b>	<b>1.4</b>	<b>1.4</b>	<b>1.9</b>	<b>3.4</b>	<b>6.3</b>	<b>8.0</b>

### MARGINS & RATIOS

	2005	9M06	2006	9M07	2007E	2008E	2009E
Net interest margin	7.4%	7.8%	8.2%	8.6%	8.2%	7.9%	7.2%
Net income margin	1.5%	9.9%	7.1%	9.7%	11.7%	16.6%	17.7%
ROE	1.2%	3.5%	2.7%	3.7%	3.4%	5.2%	6.1%
ROA	0.2%	0.5%	0.8%	0.9%	1.2%	1.7%	1.7%
Cost/Income	88.0%	80.8%	77.3%	75.2%	76.0%	68.8%	66.4%
Net interest income/Total revenue	43.9%	50.7%	52.0%	54.5%	57.6%	60.1%	58.7%
Loans/Total assets	62.1%	78.0%	54.7%	63.8%	59.3%	66.0%	72.1%
Loans/Deposits	74.7%	116.2%	103.3%	102.0%	115.9%	123.0%	124.7%

### GROWTH RATES

	2005	9M06	2006	9M07	2007E	2008E	2009E
Assets	21.7%	26.5%	75.2%	73.3%	35.0%	26.4%	21.4%
Loans	18.4%	36.7%	54.3%	41.9%	46.5%	40.6%	32.6%
Deposits	40.1%	7.2%	11.6%	61.6%	30.5%	32.5%	30.8%
Equity	9.6%	3.0%	344.1%	307.5%	30.7%	10.0%	10.9%
Total income	17.9%	28.8%	35.5%	39.8%	42.5%	29.9%	20.3%
Operating income	54.8%	86.2%	155.5%	81.0%	50.8%	68.8%	29.5%
Net income	-69.9%	57.8%	548.1%	36.8%	134.4%	84.2%	28.3%

## 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	42	39%
Hold	36	34%
Sell	18	17%
Under Review	11	10%
Total	107	100%

### Investment banking clients\*

Buy	8	80%
Hold	2	20%
Sell	0	0%
Under Review	0	0%
Total	10	100%

\* Concorde Capital provided investment banking services to the company within the past 12 months.

**Concorde Capital**  
**2 Mechnikova Street**  
**21st Floor**  
**Kyiv 01601, UKRAINE**

**Tel.: +380 44 391 5577**  
**Fax: +380 44 391 5571**  
**www.concorde.com.ua**  
**office@concorde.com.ua**

#### CEO

Igor Mazepa

im@concorde.com.ua

#### Equity Trading

Jathan Tucker

jt@concorde.com.ua

#### Equity Sales

Anastasiya Nazarenko

an@concorde.com.ua

Zack Watson

zw@concorde.com.ua

Duff Kovacs, CFA

dk@concorde.com.ua

Marina Martirosyan

mm@concorde.com.ua

#### Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

#### RESEARCH COVERAGE BY SECTOR

##### Strategy

Konstantin Fisun

kf@concorde.com.ua

Oleksandr Klymchuk

ok@concorde.com.ua

##### Metals & Mining

Eugene Cherviachenko

ec@concorde.com.ua

Andriy Gerus

ga@concorde.com.ua

##### Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

##### Oil & Gas, Chemicals

Vladimir Nesterenko

vn@concorde.com.ua

##### Consumer/Real Estate Group

Andriy Gostik, CFA

ag@concorde.com.ua

Olha Pankiv

op@concorde.com.ua

Alexander Romanov

ar@concorde.com.ua

Anna Dudchenko

ad@concorde.com.ua

##### Machinery

Eugene Cherviachenko

ec@concorde.com.ua

Inna Perepelytsya

pi@concorde.com.ua

##### Financial Services, Retail

Alexander Viktorov

av@concorde.com.ua

##### Macroeconomics

Polina Khomenko

pk@concorde.com.ua

##### Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

##### Corporate Governance

Nick Piazza

np@concorde.com.ua

##### News/Production

Nick Piazza

np@concorde.com.ua

Polina Khomenko

pk@concorde.com.ua

##### Editor

Brad Wells

bw@concorde.com.ua

#### Disclaimer

This report has been prepared by Concorde Capital investment bank 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.

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 without prior permission is prohibited. © 2007 Concorde Capital