



UKRSIBBANK
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Ukrainian banks: growth and risks outlook



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See the appendix for important disclosures

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Summary

- Macroeconomic environment will remain supportive with regard to banking system growth. A key risk in long-term prospect is excessive reliance of Ukrainian exports on steel prices;
- Growth rates of the banking system will moderate from current 60% to 43% in 2008, 23% in 2009, 17% in 2010. The key reason for a slowdown is scarce external resources to support further skyrocketing growth – this will force local banks to switch to domestic currency lending and tighten the risk management practices;
- We estimate aggregate net funding needs of the banking system in 2008..2010 at UAH 70 bn. and \$16 bn., most of which would fall on 2008;
- Assets/liabilities maturity mismatch will continue to mount, especially in UAH part of the balance sheets. Rollover refinancing risks are on the rise and we see grounds for higher risk premiums for long durations;
- Asset quality has been good up to date. Albeit expected slowdown may reveal some unpleasant details about 2002..2006 growth, this is unlikely to have a systemic nature;
- A significant credit risk reduction potential is in place for those banks who will manage to find a strategic foreign investor. Majority of banks (especially from TOP-30) will be forced to seek a partner in order to maintain their market position. However, not all will succeed;
- Due to desperate need for resources banks' activity on the primary market will continue to rule high – we see virtually all TOP-30 banks hitting actively the local bond market in 2008 and on.

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Box 1: Brief comparative characteristic of Ukrainian, Russian and Kazakh banking systems

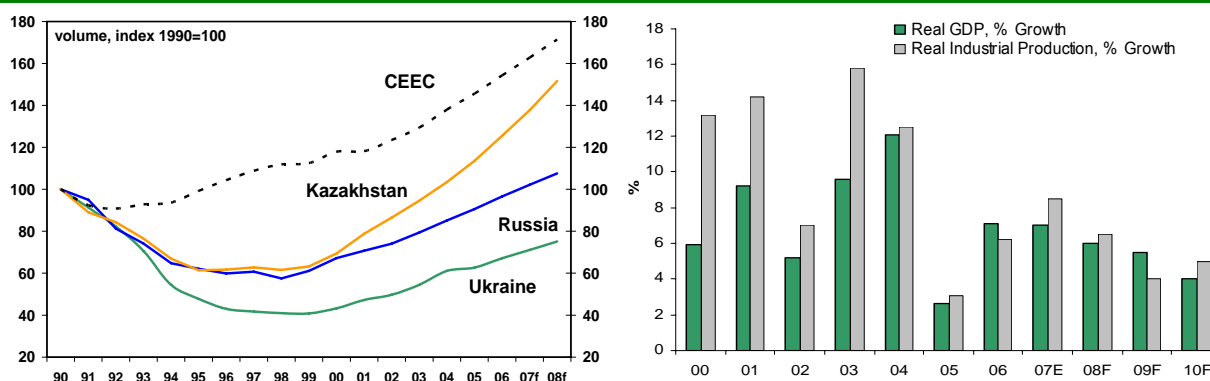
Macroeconomic Framework

Economic activity

Macroeconomic environment remains supportive with regard to banking system growth

Ukraine was the second largest economy in the USSR, representing an important industrial and agricultural component of the centralized Soviet economy. After gaining independence in 1991, the country stepped on the way of market reforms and privatization. In 1999, the output fell to less than 40% of its 1991 level as the result of the collapse of the economic and production links between the enterprises following the disintegration of Soviet Union. Economic downturn in Ukraine was harsher than in many other transition economies, partly due to the low natural resource endowment and little progress in reforms that were needed to encourage entrepreneurship.

Chart 1: Real GDP growth – a lot of catch-up potential



Sources: IMF, BNP Paribas –Economic Research

Since 2000, the economy has demonstrated strong growth (average annual growth rate is over 7%), which has been driven mainly by steep rise in industrial production. Ukrainian exports of steel and chemicals flourished due to global pickup in growth rates and favorable conjuncture on commodity markets. After a slump in 2005 when economic growth reached only 2.6%, Ukrainian economy managed to pick up its growth rates to 7.1% in 2006 and expected growth rates in 2007 is to be about 7%. The upsurge in economic activity last and this year has illustrated the fact that problems faced by the Ukrainian economy in 2005 were not caused by overheating but were sparked by accumulated structural imbalances and remaining reliance of industrial production on the world markets conjuncture.

Excessive dependency of export on steel prices remains the key risk in long-term outlook

Ukrainian export performance mainly depends on prices in the world markets of steel (non-precious metals represent about 43% of total exports). In the medium term, world prices for metal are most likely to edge down gradually in view of the slowdown of the world economy, although existing facilities in metallurgy are still insufficient.

High export concentration may potentially become a problem in the long term, especially since main Ukrainian exports are strongly pro-cyclical. Short term prospects are fairly good: EU economy demonstrates solid growth rates, coupled with continuing economic expansion in Asia and solid GDP growth in Russia, which is still the single most important destination of Ukrainian goods.

Pursuant to our optimistic assumptions, Ukraine may accede WTO in 2008. Ukrainian parliament adopted about a dozen laws required by a working group, although they yet to be approved without technical remarks. Ukraine's accession into WTO may result into cancellation of EU steel import quotas. At the same time, we expect significant foreign investments inflow after WTO accession.

Chart 2: Ukrainian exports breakdown;

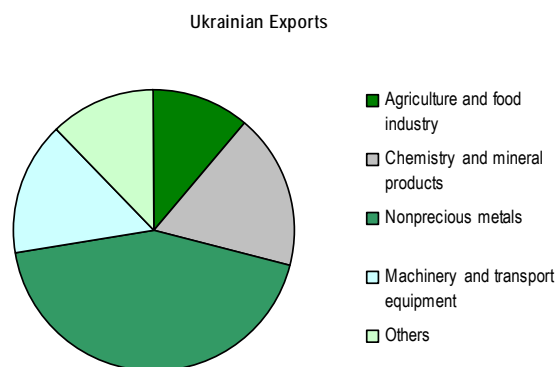
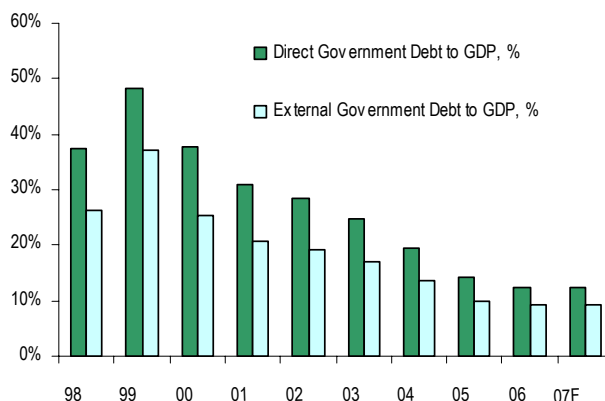


Chart 3: Debt-to-GDP ratios, %



Source: NBU

Political environment in Ukraine is unstable. A lack of consensus between major political forces leads to short-lived governments and quickly changing political conjuncture which is to prevail in 2008..2010. Since all political players will pursue short-term goals, do not expect a significant progress in structural reforms implementation.

Our baseline macroeconomic scenario implies moderation of growth rates to an average of about 5% in 2008..2010 due to gradual slowdown of world's economy and lower export receipts. During coming years the economic growth will primarily be investment-driven on the back of Ukrainian industries' modernization and improvement of transport infrastructure.

Despite our expectations for moderation of growth rates, personal incomes will continue to grow at a pace of 15..25% p.a., driven partly by continuing economic expansion and increasingly by higher social spendings as the country experienced early Parliamentary elections in 2007 and is heading towards presidential elections. There is little evidence that personal incomes growth is justified by higher productivity: in our view a potential, gathered in late nineties, is virtually exhausted. At the same time, current government indebtedness in international comparison is at a very low level, which provides a cushion against unjustified social spending.

Table 1: Key indicators of Ukrainian economy

Key indicators of the Ukrainian economy											
National accounts	00	01	02	03	04	05	06	07E	08F	09F	10F
Nominal GDP, UAH bn.	170,0	204,0	226,0	267,0	345,0	419,0	535,9	675,2	817,0	980,4	1078,4
Nominal GDP, \$ bn.	31,0	38,0	42,0	50,0	65,0	82,0	106,1	133,7	165,0	200,1	215,7
Real GDP, % chng.	5,9	9,2	5,2	9,6	12,1	2,6	7,1	7,0	6,0	5,5	4,0
Real industrial production volume % chng.	13,2	14,2	7,0	15,8	12,5	3,1	6,2	8,5	6,5	4,0	5,0
Population incomes (monetary), UAH bn.	86,9	109,4	185,1	215,7	274,2	370,6	475,2	550,0	632,5	727,4	800,1
GDP per capita	628	777	868	1042	1366	1734	2262	2869	3574	4372	4756
Population, mn.	49,4	48,9	48,4	48,0	47,6	47,3	46,9	46,6	46,2	45,8	45,4
Consolidated budget											
Budget surplus (deficit), % GDP	0,6	-0,3	0,7	-0,2	-3,2	-1,9	-0,7	-2,8	-3,0	-3,2	-2,5
Inflation											
CPI as at YE, % chng	25,8	6,1	-0,6	8,2	12,3	10,3	11,6	11,8	10,5	11,5	6,0
PPI as at YE, % chng	20,8	12,3	0,8	5,2	9,0	13,6	14,1	17,0	14,0	12,0	10,0
Money supply and interest rates											
Money supply (M3) as at YE, % chng.	45,4	42,0	41,7	47,3	32,4	54,3	34,7	35,0	32,5	29,5	28,6
Average loan interest rate of commercial banks, %	41,5	32,3	25,4	17,9	17,4	16,3	15,1	15,0	14,5	12,5	10,0
Balance of payments USD Bn											
Export of goods	15,7	17,1	18,7	23,7	33,4	34,3	38,8	48,5	57,2	65,8	77,7
Import of goods	14,9	16,9	18,0	23,2	29,7	36,1	43,7	56,8	71,5	85,8	98,7
Merchandise trade balance	0,8	0,2	0,7	0,5	3,7	-1,1	-5,2	-8,3	-14,3	-20,0	-21,0
Current account	1,5	1,4	3,2	2,9	6,8	1,8	-1,6	-4,0	-10,0	-15,7	-16,7
Current account %GDP	4,8	3,7	7,5	5,8	10,5	2,2	-1,5	-3,0	-6,1	-7,8	-7,7
Foreign direct investment	0,6	0,8	0,7	1,4	1,7	6,5	5,3	7,0	7,5	14,0	16,0
Gold and currency reserves	1,5	3,1	4,4	6,9	9,5	19,4	22,3	32,0	35,0	37,0	36,3
Coverage of commodity import by reserves (month)	1,2	2,2	3,0	3,6	3,8	6,4	6,1	6,8	5,9	5,2	4,4
External debt											
External government debt as at the period end, \$ bn.	10,4	10,2	10,2	10,8	12,9	13,6	13,5	18,0	21,0	24,2	26,7
External government debt as at the period end, % GDP	33,5	26,8	24,3	21,6	19,85	16,59	12,72	13,5	12,7	12,1	12,4
Gross external debt/GDP, %	61,1	53,6	51,1	47,5	47,3	46,1	44,7	51,5	57,7	63,4	69,8
Exchange rates											
Exchange rate UAH/USD, end of period	5,43	5,30	5,33	5,33	5,31	5,05	5,05	5,05	4,95	4,90	5,00
Exchange rate UAH /EUR, end of period	5,1	4,7	5,5	6,5	7,1	6,0	6,4	7,1	6,9	7,4	7,0

Source : SSC, NBU; Estimations: UkrSibbank

Currency

In mid-term outlook UAH FX rate vs USD may slightly appreciate (2..3%)

Ukrainian hryvnya FX rate vs USD stays roughly unchanged since the beginning of economic growth, with notable exception for 2005 administrative appreciation of 5%. Since then the National bank defends exchange rate within narrow corridor of 5.00..5.06, intervening the market in case of oversupply or excessive demand for the local currency. Other exchange rates are defined mostly via crosses.

In 2008 we expect gradual liberalization of FX rate, namely broadening of the borders for allowed fluctuations. Demand for UAH continue to remain robust and the National bank reserves added impressive \$8 bn. during 9M2007. NBU is likely to continue supporting UAH through 4Q2007 and relax the FX rate regime somewhere in 1H2008 – after that UAH is likely to appreciate to 4.90..4.95.

Growing current account deficit makes UAH potentially vulnerable in case of worsening conjuncture of the world markets

Appreciation of local currency looks even more certain given Ukraine's large-scale privatization plans for 2008..2009, coupled with massive inflows of foreign direct investment. On the other hand, merchandise trade balance will continue to deteriorate driven by higher energy costs and robust internal demand, which may pose risks for national currency in a long-term outlook.

Chart 4: UAH/USD exchange rate;

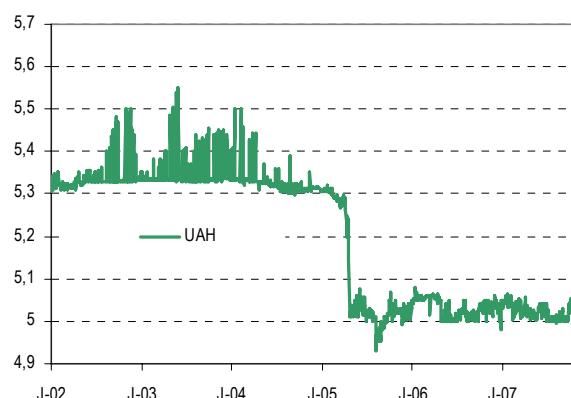
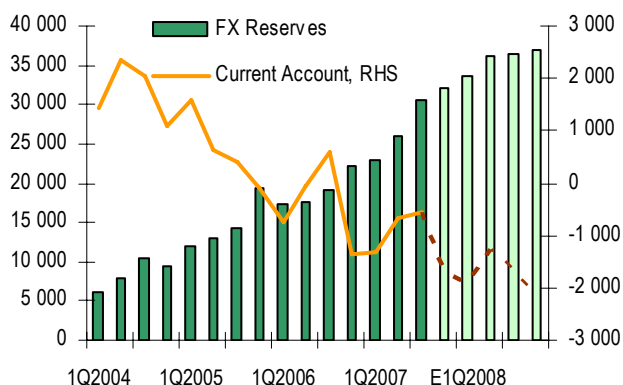


Chart 5: Current account and FX reserves, USD mn.



Source : NBU

Beyond 2008, further FX rate liberalization is possible, however in order to follow this path, the National bank has to ease currency market regulations. At this moment local banks are allowed to trade only within orders of their clients and maximum FX currency position is limited by a percentage of their regulative capital. A long-term goal of NBU is switching from fixed rate regime to inflation targeting but it will take several years to conduct necessary reforms and the process is unlikely to be finished within the time scope of this report.

At this moment, 1% tax is applied to purchases of foreign currency. The tax rate is being set every year in budget law. Normally, the tax is being reduced every year and might eventually reach zero in 2009..2010. In the first draft of the budget law for 2008 the tax rate has been reduced to 0.5%.

Box 1: Brief Comparative Characteristics of the Banking Systems of Ukraine, Russia and Kazakhstan

Diversification makes a key difference between Ukrainian and Russian/Kazakh markets

In order to position the banking system of Ukraine, we compare it with the financial sectors of two other developing markets – Russia and Kazakhstan. Our choice has been determined by common origin of the banking systems of these three countries as well as their similar scales. At the same time, Ukraine’s financial system is different from Russia’s and Kazakhstan’s systems as the latter two are more developed, on the one hand, yet more dependant on structural distortions and more departed from the European model than the Ukrainian system.

Ukraine’s banking system is not tightly concentrated. Ukraine’s two leading banks represent only 19 percent of the country’s banking system in terms of assets while in Russia this figure equals to 30 percent and in Kazakhstan – 45 percent. Ukraine’s top 15 banks (in terms of size, according to the NBU classification) hold only about 62 percent of banking assets and 54 percent of equity capital. The low concentration of Ukraine’s banking system, as compared with Russia and Kazakhstan, is due to lower degree of involvement of the state in managing financial institutions and a higher degree of economic diversification. State banks occupy only an 8.8 percent share of Ukraine’s market (while in Russia, the largest financial institutions are under governmental control, occupying 30 percent of the market as indicated above).

Brief comparative analysis of banking systems in Ukraine, Russia and Kazakstan, 2006

Indicator	Ukraine	Russia	Kasakstan
Assets/GDP	63%	53%	80%
Concentration ratio - % of assets controlled by the largest two banks	19%	30%	45%
Loan portfolio, % of assets	70%	57%	56%
Investments in financial instruments, % of assets	5%	17%	18%
Deposits, % of liabilities	30%	27%	12%
Due to nonresidents, % of liabilities	14%	16%	45%

Source: Broker Notes

Ukrainian banks are more oriented in their activity to lending. The credit portfolio makes up 70 percent of the assets of Ukrainian financial institutions while in Russia and Kazakhstan this indicator is at 57 and 56 percent respectively. To a great extent, this situation is a result of delay in Ukraine’s system development and poor development of lending alternatives in the country.

Investments in financial instruments make up only 5 percent of banking assets in Ukraine, three times less than in Russia (17 percent) and Kazakhstan (18 percent). This striking difference is a result of the fact that Ukraine’s financial markets are closely dependent on the banking system. In our opinion, the reason lies in the fact that most Ukrainian enterprises are yet not ready to go to the financial markets for capital (mostly due to their smaller size). As a result, both the fixed income market and the volume of shares in circulation make up only a small share of GDP. We see here a significant market growth potential as Ukrainian enterprises are growing and consolidation taking place in some industries, which will make it possible to increase substantially the volume of the internal financial market, and, first of all, fixed income market.

The key funding source of Ukrainian banks is deposits, which make up 30 percent of their liabilities as compared with 27 percent in Russia and 12 percent in Kazakhstan. And although the share of deposits in the liabilities has been showing some decrease lately (due to the fact that deposit volumes are unable to satisfy the need for capital), deposit attraction remains a primary business direction for banks, with very few exceptions.

In the structure of liabilities of Ukrainian banks, the debts owned by non-residents make up approximately 14 percent, which is the level of Russia (16 percent) and significantly below the level of Kazakhstan (45 percent). However, as the banking system progresses, we anticipate gradual growth in the share of non-residents in the liability structure of Ukrainian banks.

Size and growth

As at Jul 1, 2007, 173 banks were operating in Ukraine. Total Ukrainian banking assets amount to UAH 440.1 bn. (\$87 bn.). Historically, the key driver of banking system growth has been a corporate lending business, due to the fact that majority of Ukrainian banks were formed as corporate treasuries for large industrial groups and provided affiliated companies with working capital loans.

Since 2005 growth drivers of the banking system have changed - the sector has faced crucial changes. Rapid personal incomes growth and changes in people's mentality (such as revival of trust in financial institutions, adaptation of "living on credit" life principle and increase in confidence in the future) triggered banks to attach priority to retail lending. Currently retail is clearly the most dynamic segment, which demonstrates high growth rates.

During the recent years Ukraine already reached financial intermediation level which compares to CEE peers

In 2006 Ukrainian credit volumes stood at UAH 245 mn., corresponding to 46.5% of GDP – a level of financial intermediation, comparable to CEE peers. While Baltic states, Croatia and Slovenia seem to deliver even higher credit-to-GDP ratios, comparable in size, countries (Poland, Romania) tend to have lower level of financial intermediation. In this context we have to note that comparison to CEE might be blurred by (arguably) higher part of "shadow" economy in case of Ukraine. On contrary, banking sector is one of the most transparent segments of Ukrainian economy. That is, Ukrainian credit –to-GDP ratio may be biased to the upside.

In absolute terms, private credit volumes will reach UAH 400 bn in 2007, constituting over 60% of GDP.

Chart 6: Private credit and Credit-to-GDP in Ukraine

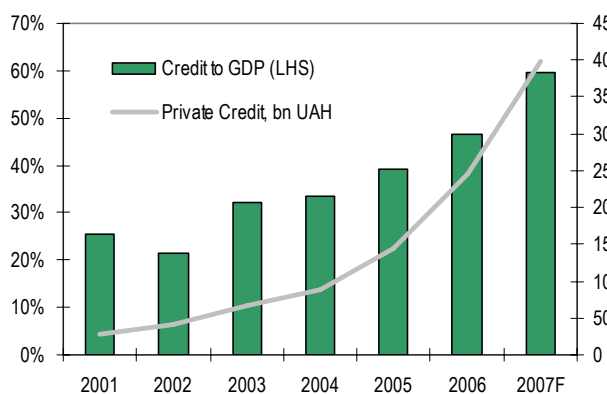
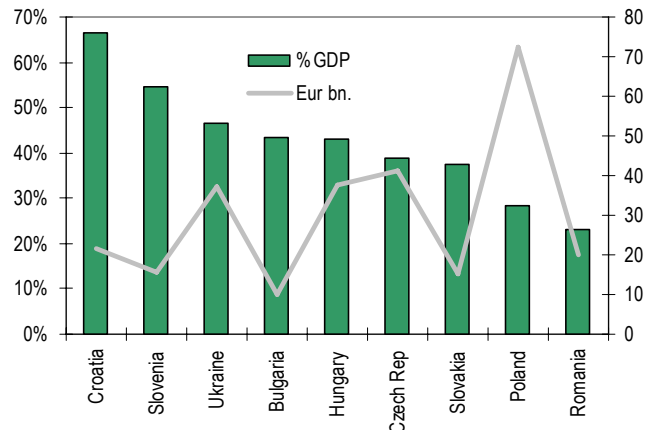


Chart 7: Private credit levels in Ukraine and CEE, 2006



Source: NBU, Estimations: UkrSibbank

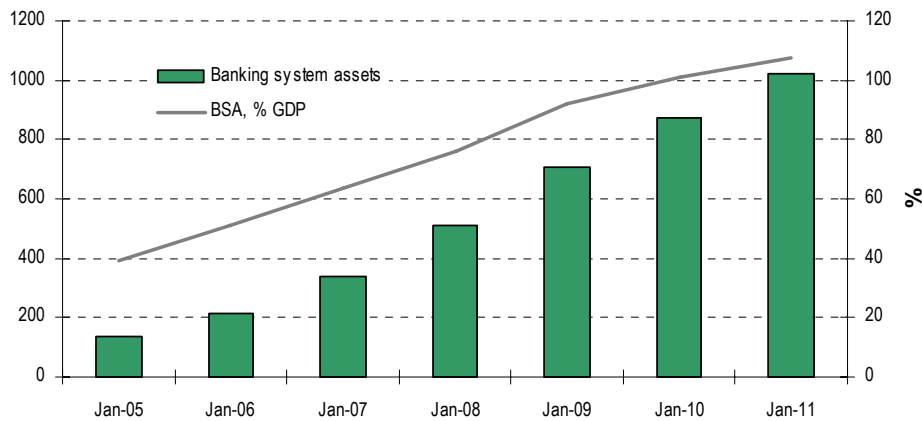
Over 2005..2006 average yearly asset growth rates of Ukrainian financial institutions were at roughly 60%. Obviously, these growth rates are not sustainable in the long run and have to halt in one or another way. While we do not think that potential for further growth is exhausted, most of factors point at significant slowdown over the years to come.

We expect that growth rates of the banking system will moderate from current 60% to 43% in 2008, 23% in 2009, 17% in 2010. Yearly growth rates will moderate both as a result of gradual market saturation and lack of resources to finance further

We expect that growth rates of the banking system will moderate from current 60% to 43% in 2008, 23% in 2009, 17% in 2010

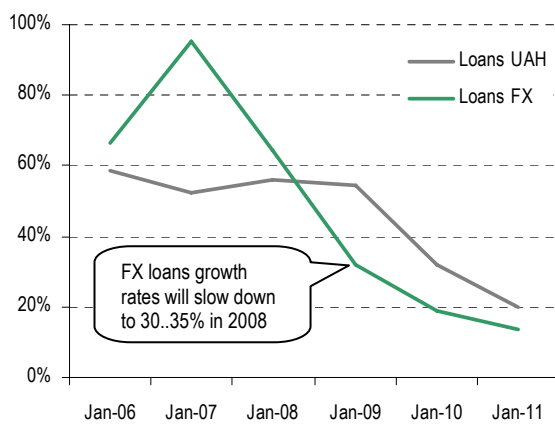
growth. The external market supply will be scarce and majority of local banks will have to enhance UAH loans programs, most important in auto lending and mortgage segments. We believe that rates of FX borrowings will decline significantly in 2008. However, due to lack of "long" UAH resources, domestic currency lending will not be able to substitute out FX credits completely. According to our forecast, banking system assets as % of GDP will reach 100% at the end of 2010.

Chart 8: Banking system and loan growth, 2008..2010



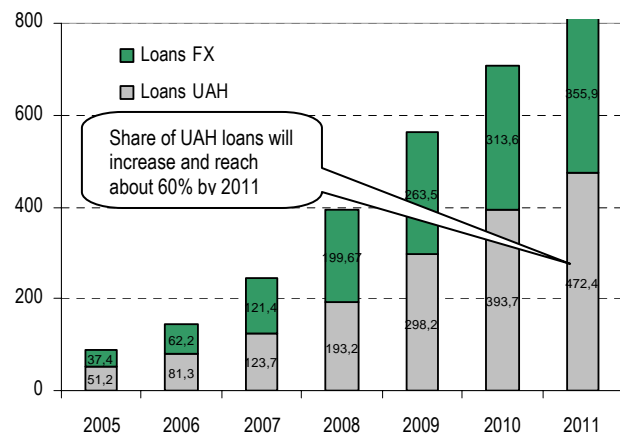
Source: NBU

Chart 9: FX vs UAH loan growth, 2008-2010



Source: NBU

Chart 10: FX vs UAH loans outstanding, 2008-2010



In our view, recent financial turmoil on external markets provided a long-term support for Ukrainian banking system

In our view, recent financial turmoil on external markets, although bringing in some short-term liquidity risks, provided a long-term support for Ukrainian banking system. Domestic banking system benefited from the crisis in several ways:

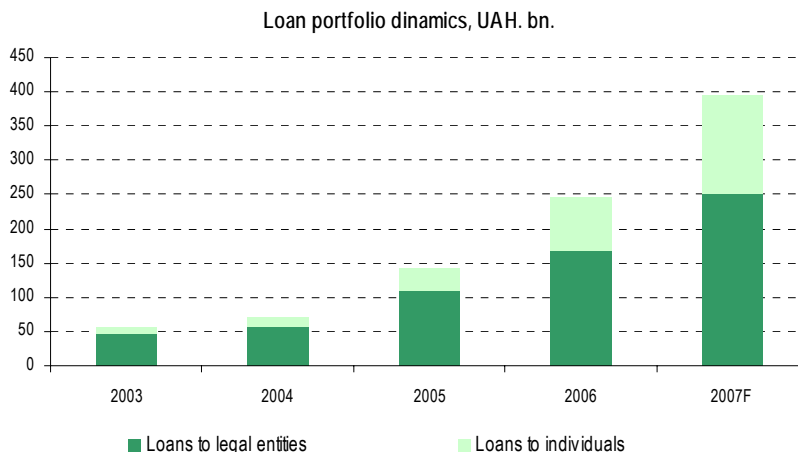
- in 2H2007 due to lack of FX resources dollar rates went up which pushed many banks towards development of UAH credit programs. Despite the fact that we do not expect UAH loans to prevail in total structure any time soon, in the long run it will offset some of the currency risks.
- limited resources will make the banks more picky regarding credit quality of the lender which will positively influence asset quality;
- credit growth rates will moderate which will decrease a possibility of overheating.

We base our banking system forecasts on assumption that financial markets conditions will improve in 2H2008. Before this point, borrowings of Ukrainian banks will be limited and relatively expensive. At the same time flourishing internal liquidity will allow the banks to substitute FX loans with local currency ones. As for higher borrowing costs – comfortable margins of the local banks will allow to overcome the unfavorable conjuncture relatively safely.

Focus on retail

Retail development is not only a key growth driver but also a cause of major recent shifts in the banking system; we take a closer look on this segment since the retail seems to be both present and the future of Ukrainian banking.

Chart 11: Loan portfolio dynamics

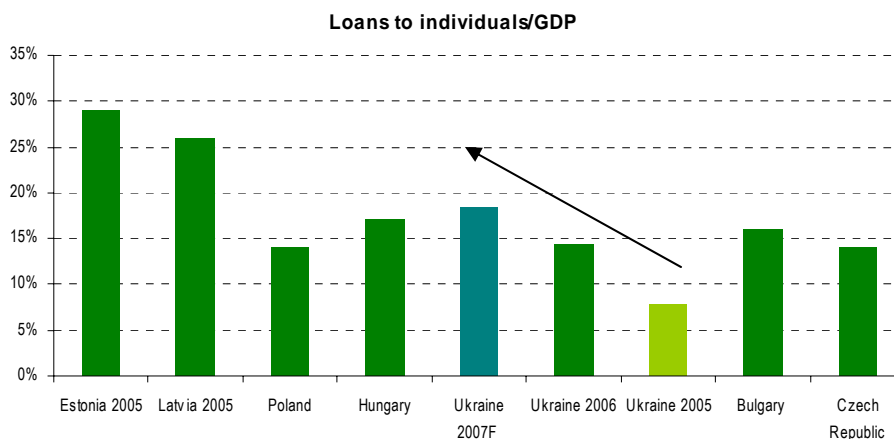


Source: NBU, Estimations: UkrSibbank

Due to relatively high nominal GDP growth rates, upside potential of retail lending has still persisted

Due to sustained growth of retail lending, saturation of this market segment closely approached to East European countries level. Loans to individuals-to-GDP ratio is 14.4% (7.9% in 2005). Similar indicator in Poland and Czech Republic is at 14% p.a., in Hungary - about 17% and Bulgaria - 16%. At the same time, relative volumes of retail lending in Ukraine have already come over those of Romania (9.6%) and Turkey (7%). Here we shall remind once again, that the ratios are produced on the basis of official statistics and therefore may be biased to the upside in countries with larger part of "shadow" economy.

Chart 12: Loans to individuals/GDP growth



Source: NBU, Bloomberg.
Estimate: JSIB UkrSibbank

By our estimates, in Ukraine, due to relatively high nominal GDP growth rates, upside potential of retail lending has still persisted. Such potential is additionally underpinned by high GDP being still shaded that distorts real retail loans-to-GDP ratios and by low volume of mortgage lending. We set for further growth in retail lending in 2007

reaching circa 60% (loans to individuals will arrive at about 18% GDP). For the first six months of 2007 volume of originated loans to individuals has grown by 37%.

Retail Lending Geography

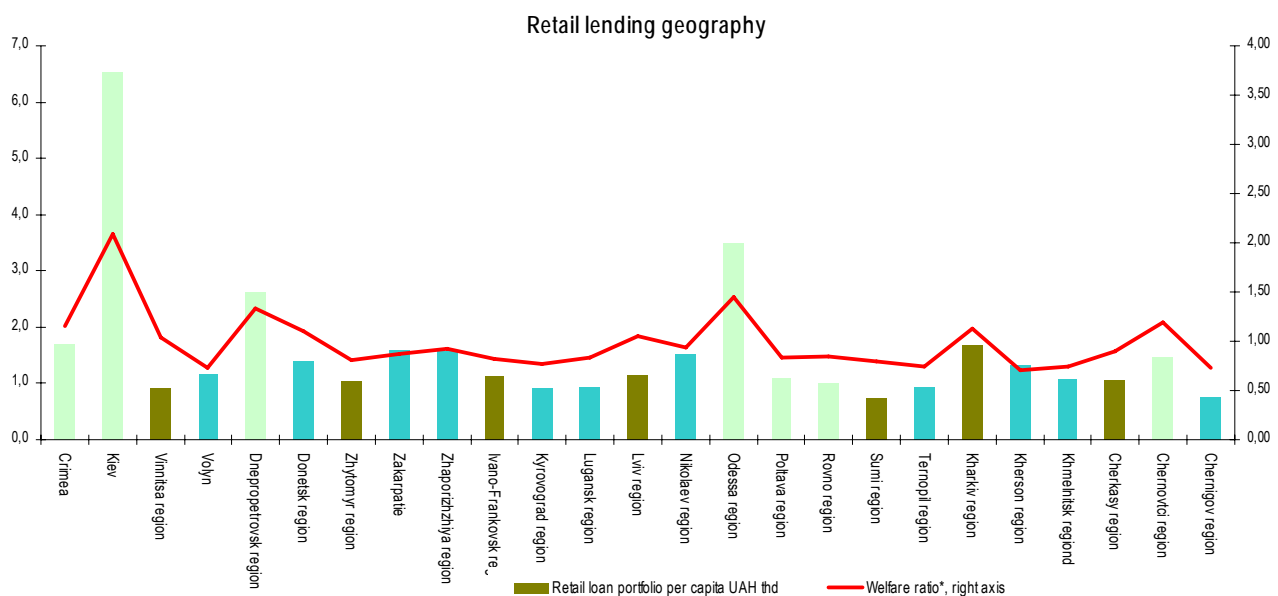
Kiev accounts for 30 percent of the total retail lending in Ukraine.

Retail lending is to spread over provincial regions. This is likely to slower sector consolidation and press on margins.

The economic growth of 2005-1Q2007 has been fueled by accelerated growth in lending in a number of the most developed regions, first of all, in Kiev. The amount of personal loans given out in the capital city since January 1, 2005 has increased more than fivefold. As of April 1, 2007, Kiev accounted for nearly 30 percent of the total volume of retail lending in Ukraine. The aggregate share of Kiev, the Odessa and Dnepropetrovsk oblasts (the most active regions as regards consumer lending) nears 50 percent. As of the end of the first quarter of 2007, there was UAH 6 500 due on loans per resident of Kiev (we assume that the Kiev population is about four million people), while in the Lugansk and Ternopol oblasts – no more than UAH 900 per resident.

Thus, in our estimate, only the major regions have actually approached the first market saturation stage (growth in retail lending in Kiev in the first quarter of 2007 lagged behind the Ukrainian average, which, we believe, is a result of fewer transactions on the local real estate market), while the retail lending market in most oblasts of Ukraine is presently underdeveloped. Its saturation is directly connected with growth in personal incomes in a region. (We notice direct correlation between lending volumes and the level of welfare).

Chart 13: Retail lending geography



Source: NBU, Estimations: UkrSibbank

- Regions with relatively high level of banking networks expansion (up to 2.5 thd. persons per a banking unit)
- Regions with middle level of banking networks expansion (from 2.5 to 3 thd. persons per a banking unit)
- Regions with low level of banking networks expansion (over 3 thd. persons per a banking unit)

* Welfare ratio is calculated on the basis of average salary in the region (accounting official incomes) and real estate value (accounting shadow personal incomes). We're aware that correlation of originated loans volumes and welfare ratio partially occurs due to mortgage loans that are included into lending volume: volumes of mortgage loans depend on real estate value. At the same time, we think that this fact is not crucial when estimating correlation between lending volumes and welfare level.

We believe that the growth of 2H2007-1H2008 will be driven not as much by rush demand for lending products in Kiev, Odessa, and Dnepropetrovsk but by accelerated

growth of lending in the regions of Ukraine. A factor contributing to this situation will be growth in personal incomes in the oblasts, as well as the development by most major financial institutions of their retail networks, with a stress on regional expansion, which has been underway in 2006-2007. The effect of a territorial expansion (i.e. substantial growth in lending volumes) becomes visible in six months to one year on. Additionally, as the graph shows, the lending potential of some regions (particularly, the Kharkov, Vinnitsa, Lugansk, Chekassy and Lviv oblasts) is yet to unfold due to insufficient coverage, a problem to be resolved by further expansion of the networks of financial institutions.

Market Dynamics: Mortgage Loans, Auto Loans, Credit Cards.

We predict a slowdown in lending growth in 2H2007. This slowdown is driven by many factors. The rate of growth in personal incomes in the regions does not make possible the same lending dynamics as in Kiev. At the same time, a high percentage of loan defaults makes banks revise their retail lending policies. Over January-June 2007, the share of defaults on personal loans increased by 94%. Formally, the share of bad loans in the portfolios of financial institutions remains insignificant (nearing 1.7%). Taking into account the fact that only a handful of financial institutions are active on the retail market, which contributes to the major growth in loan debts, the pressure on their finances is rather strong. As a result we predict that financial institutions will start making the consumer lending conditions tougher from the second half of 2007.

At the same time, the actions by the NBU aimed at increasing transparency of interest rates on personal loans will also come as a factor limiting growth in consumer lending. As a result, part of potential borrowers will cancel their decision to take up a loan after learning its actual cost which is very different from that declared by banks.

Mortgage and cards segments have a potential to become the main drivers of retail lending in 2008..2010. Auto loans is also to grow rapidly due to high personal incomes growth, however we believe that this segment growth potential might be closer to saturation than others.

In 2006, mortgage lending volumes increased by 130 percent and totaled USD 4.8 billion. The uncertainty on the real estate market in Kiev as well as the political risks resulted in 2Q2007 in decreased demand for residential property not only in the capital but also in almost every region of Ukraine (except for Odessa and Crimea). Since the results of the first quarter of 2007 revealed the share of mortgage loans being at 30% of the retail lending total, a growth decrease in this segment will have a significant effect on the total lending volumes.

Yet, we think that the drop in mortgage lending is a temporary phenomenon. After the residential property market develops a stable trend, which is expected to take the period from 4Q2007 through 2008, mortgage lending volumes will increase dramatically due to substantial deferred demand accumulated in 2007. In addition, our optimism as regards to further growth in the mortgage lending market is determined by substantial under-saturation of Ukraine's mortgage market as compared with European countries.

Chart 14: Mortgage per capita, total mortgage, 2006

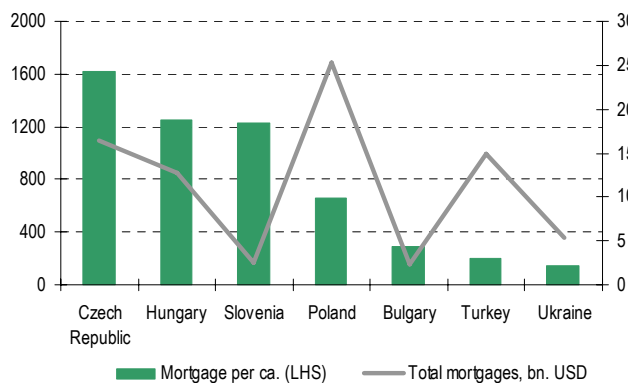
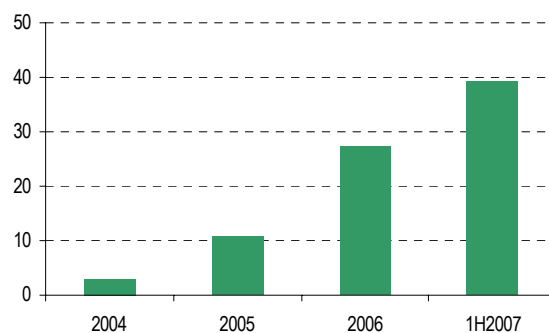


Chart 15: Mortgage dynamics, bn. UAH



Source: Citigroup, NBU

Mortgages will be the fastest growing segment of the retail lending market

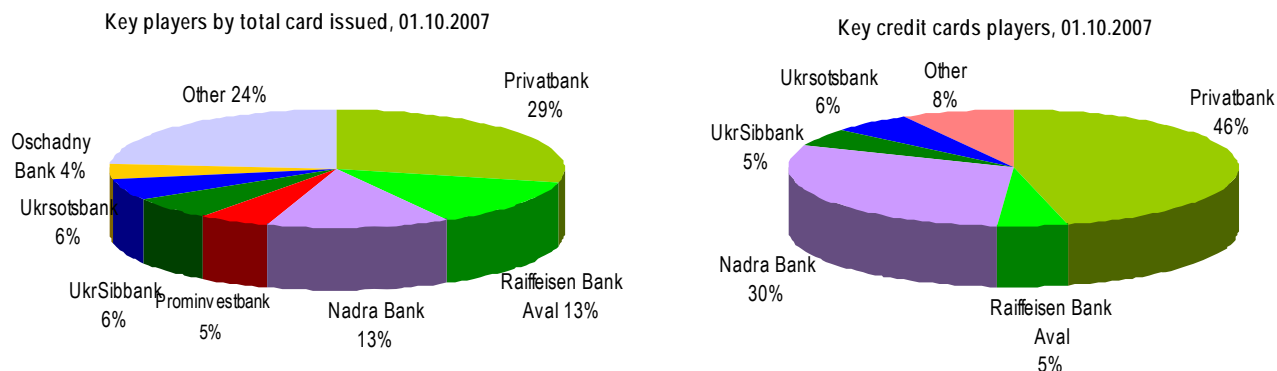
Thus, we expect that in 2008-2010 mortgage lending will become the fastest growing segment of the retail lending market. At the same time, its growth will depend to a great extent on the pricing situation on the residential property market, both in Kiev and in the regions. The latter will be responsible for the level of affordability of mortgage loans for various strata of the population.

Apart from mortgage lending, the key growth factor for further growth in lending, especially consumer lending, in our opinion, will be the credit card mechanism. Currently, the credit card potential is yet in a dormant state in Ukraine. The country lacks a card culture, and the consumer prefers cash to non-cash payment means. According to research by GfK Ukraine, only 5% of the Ukrainians intend to open a card account or card overdraft account, while the number of those considering a consumer loan is 12%.

The present impressive number of issued plastic cards is yet to gain a critical mass. The number of payment card holders, according to the 2006 results, exceeded 30 mn. people with the volume of card transactions topping UAH 150 bn. (\$30 bn.) for 2006. However, nearly 95% of these transactions were withdrawals of cash from accounts using ATMs. The market growth is currently based primarily on debit cards, the share of which on the domestic market nears 75%. Most of these cards have been issued within the framework of salary projects. Thus, plastic cards are yet to become a universal payment and crediting instrument in Ukraine.

This situation can be partly explained by bank's reluctance in this area. No more than 10 banks are actively promoting their card products. This segment features the highest level of concentration.

Chart 16: Cards market shares



Source: NBU

We expect a slowdown in the auto loan market in 2007-2008 (this market shares about 16% of retail banking loans). The decrease in the growing number of issued auto loans will be a result of a general decrease in car sales in Ukraine, which mounted at an increased rate throughout 2005-2006, when Ukraine's car market was recognized the fastest growing in Europe, showing a growth of 25% and 40% respectively. In terms of number of sold new cars, the Ukrainian market ranked the 12th in Europe in 2005 (with the number of sold cars equaled to 265 500 and the market volume totaled approximately USD 3 bn. in monetary terms). In 2006, it snatched the 9th place, with sales exceeding 370 000 cars. Starting from 2007, we expect a slowdown in sales of cars, nearly 50% of which are acquired for borrowed money, due to growth in the comparison base and relevant market saturation, especially in Kiev.

Chart 17: Car sales in Ukraine



Source: Auto-consulting, Estimations: UkrSibbank

Competitive Landscape

As we indicated before, Ukrainian banking market is extremely fragmented, with none of major banks controlling more than 10% of the stake. We displayed competitive position of top banks below. The key competition is to take place between TOP4 banks in terms of assets, two of which are owned by large international groups and one is in a transition process.

Chart 18: TOP 10 banks by market share, 2006

Top 10 banks by market share of assets, 1H2007

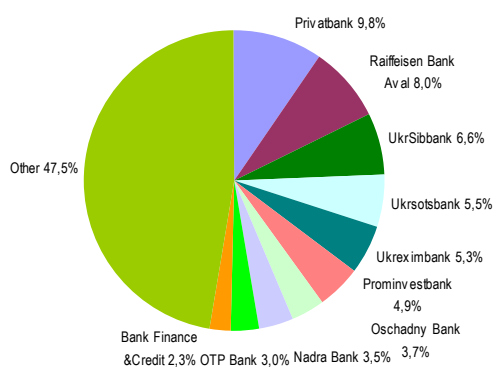


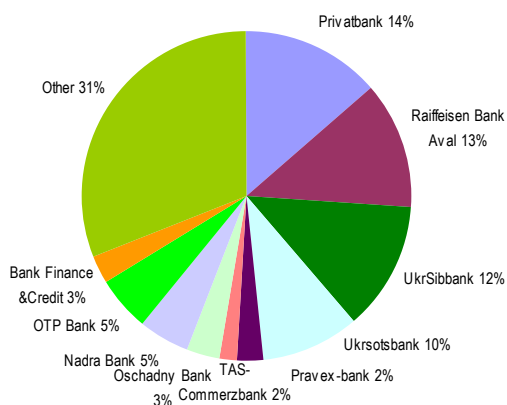
Table 19: TOP 6 banks by distribution networks, 2006

	Outlets	ATMs
Oschadbank	5751	565
Privatbank	2325	3439
Raiffeisenbank Aval	1400	1887
UkrSibbank	967	612
Nadra Bank	550	735
UkrSotsbank	483	675

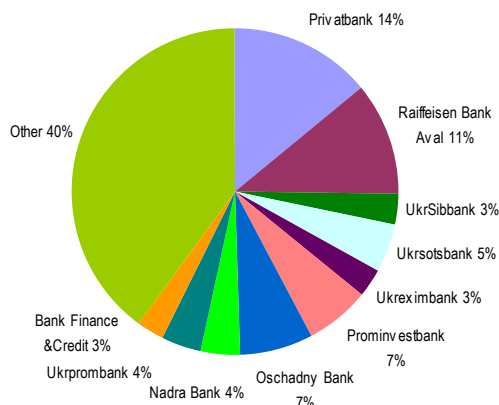
Source: NBU, Estimations: UkrSibbank

Chart 20: TOP 10 banks by share of loans/deposits, 2006

Top 10 banks by market share of retail loans, 1H2007



Top 10 banks by market share of retail deposits, 1H2007



Source: NBU, Estimations: UkrSibbank

State owned Oschadbank (which inherited enormous outlet network from USSR times) and Ukreximbank together with Prominvestbank are modestly involved in retail business and gradually lose their market share (although Oschadbank seems to be more involved in retail lending at this point).

A fierce competition is to evolve in TOP30. The banks controlling 1..2% of the market each will struggle for the market share as both consumers and investors become more demanding. Retail, corporate and SME segments require generation of specialized products. On the other hand, rapid market development will allow the existence of niche financial institutions specializing in servicing segments. The key

factors demanding bank's competitiveness and ability to survive during the coming years are flexibility, ability to find own niche, marketing and access to capital markets.

Table 2: Ukrainian Banks Financial Highlights as at 01.10.2007

Bank	Assets, UAH	bn.	Loan portfolio, bn. UAH	Loans to individuals	to individuals	Loans to individuals growth rates (9M2007/2006)**	Shareholders' equity, UAH**	bn.	Equity/Assets	ROA*	ROE*
PrivatBank	48,4		40,1	17,4		50%	4,5		9,3%	1,4	22,7
Raiffeisenbank Aval	41,4		32,8	15,6		49%	3,7		9,0%	1,2	16,1
UkrSibbank	32,7		26,8	15,4		57%	2,9		8,9%	0,3	3,9
Ukrsotsbank	27,2		21,4	11,7		70%	2,8		8,8%	1,6	77,7
Ukreximbank	26,0		20,1	0,8		100%	2,2		8,5%	1,9	40,1
Oschadbank	17,1		7,7	4,2		56%	2,0		11,7%	1,3	20,1
Nadra Bank	17,2		12,1	6,6		74%	1,7		9,9%	1,8	47,9
Forum	11,5		8,3	1,8		125%	1,3		11,3%	0,4	4,5
Finance and Credit	11,5		9,5	3,7		106%	1,0		8,3%	1,4	19,6
Kreditprombank	9,9		7,1	2,1		62%	0,9		9,1%	0,8	12,7
FUIB	11,5		6,4	1,3		160%	1,4		12,2%	1,4	25,1
Alfa-bank Ukraine	13,3		11,0	2,2		340%	1,5		11,3%	0,3	5,0
Ukrprombank	9,7		8,0	1,5		88%	1,1		11,5%	0,8	6,4
TAS-Commerzbank	6,6		5,2	2,2		83%	0,6		8,7%	0,4	3,7
Ukrgazbank	8,8		4,2	1,2		100%	0,6		6,8%	0,7	10,3
VAB Bank	5,9		3,9	1,0		100%	0,6		10,2%	0,6	13,1
Rodovid bank	7,3		5,3	1,9		111%	1,1		15,1%	0,6	6,4
Imexbank	3,5		2,1	0,6		200%	0,4		10,9%	0,9	9,6
ProCredit Bank	2,2		1,8	1,2		15%	0,2		9,1%	1,2	29,2

* As at YE2006

** A slight discrepancy may occur due to rounding

Source: NBU, Bloomberg

M&A and foreign ownership

Extension of possibilities for domestic financial institutions to raise funds abroad is also attributed to upsurge of foreign capital presence in Ukrainian banking system. During 2004-1H2007 European and Russian financial institutions acquired a set of Ukrainian banks.

Table 3: Major completed deals on Ukrainian banks acquisition

Date	Target (Ukrainian bank)	Acquirer	Price, mn. \$	Stake	P/B
Jan 2004	Bank "Azhiu"	SEB Group (Sweden)	23,3	>90%	1,5
Apr 2004	Credit Bank	PKO Bank Polski (Poland)	30,0	66,65%	1,6
Aug 2005	Bank "Aval"	Raiffeisen International (Austria)	1 028,0	93,5%	3,1
Dec 2005	JSIB "UkrSibbank"	BNP Paribas Group (France)	-	51%	-
Jan 2006	Bank "Mriya"	VTB (Russia)	70,0	98%	1,6
Mar 2006	"Index-bank"	Credit Agricole (France)	257,0	98%	5,5
May 2006	Raiffeisen (Ukraine)	OTP Bank (Hungary)	833,0	100%	5,9
Jul 2006	Bank "Prestizh"	Erste Bank (Austria)	104,5	100%	1,8
Feb 2007	TAS-Commerzbank	Swedbank (Sweden)	753,0	100%	4,6
Jun 2007*	Ukrsotsbank	Unicredit Group (Italy)	2 070,0	95%	5,05
Sep 2007	Forum	Commerzbank (Germany)	600,0	60%	3,9

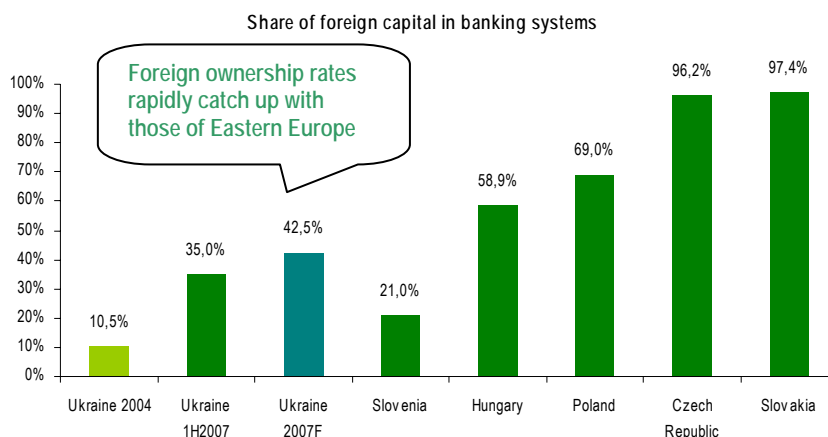
Source: Bloomberg

*to be completed by 2007-end

In 2007 a share of foreign capital banking assets to reach 42-43%

As at 01.01.2007 in Ukraine there were 35 banks with foreign capital participation including 13 banks with 100% foreign capital. As at 01.04.2007 banks with foreign capital accounted for about 32.5% of Ukrainian banking system assets. We expect a share of banks with foreign capital to keep on growing reaching circa 42-43% as of 2007 and over 50% in 2008.

Chart 21: Share of foreign capital in Ukrainian banking system



Source: Broker's notes
Estimate: JSIB UkrSibbank

Increase in share of foreign capital banks will be backed up by increase of market share of foreign capital banks already operating in the market and by appearance of new market players (in particular, completion of acquisition deals of UkrSotsbank, "Forum" and "TAS-Commerzbank" and market entry of "Sberbank"). Ukrainian financial institutions still remain attractive targets for acquisition for major foreign financial groups. Thereat, except for TOP market players that have steady market share and intensive branch network (e.g. "Kreditprombank", "UkrGasbank", etc., including other regional banks), we expect deals on acquisition of small banks (mainly targeting at NBU permits obtainment).

As more and more banks become foreign-owned and in most cases receive access to technology and cheaper, easier funding (both from "parents" and capital markets), competing positions of the local banks deteriorate. Majority of banks (especially from TOP-30) not affiliated with foreign financial groups will be forced to seek a partner in order to maintain their market position.

One of the key risks here is that some of domestic banks may rapidly lose the market share as the market approaches saturation – chances to find a buyer would decrease dramatically.

Funding

Structure and foreign borrowings

Domestic capital markets remain shallow and before 2006 the banks lacked access to foreign funding. Asset and loan book was predominantly funded by short-term retail deposits. Retail deposits-to-assets ratio of Ukrainian banks is at roughly 29% as at 01.07.2007 (which similar to other CEEC) and steadily declining.

Chart 22: Retail deposits to assets ratios, 2006

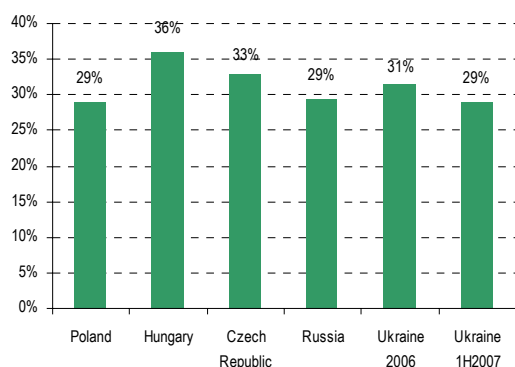
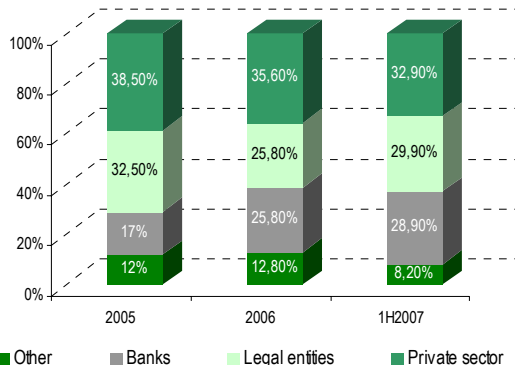


Chart 23: Ukrainian banking system liabilities' structure



Source: S&P, NBU

Short-term-term liquidity of Ukrainian banks is relatively fragile, depending on potentially flighty accounts

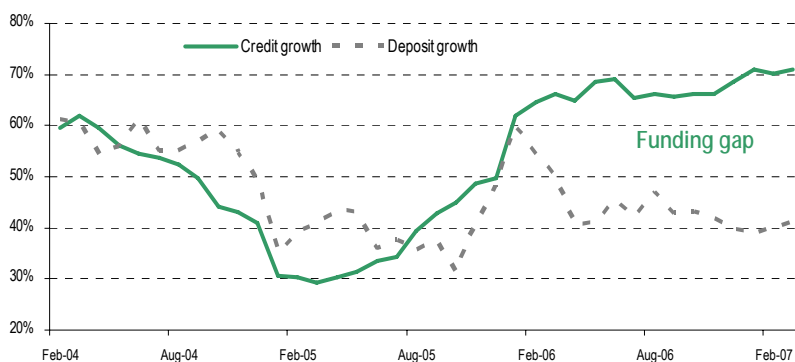
On another hand, it implies that the banking system is relatively immune to external shocks such as recent financial markets turmoil

Deposits from legal entities are another significant part of Ukrainian banks funding and constitute roughly 23.4% of banking system assets. Altogether customer deposits represent about 57% of Ukrainian system assets. That is, short-term-term liquidity of Ukrainian banks is relatively fragile, depending on potentially flighty accounts. On the other hand, it implies that the banking system is relatively immune to external shocks such as recent financial markets turmoil. In 2008.2010 the share of deposits in funding base of Ukrainian banks will gradually decrease, but will still stay significant (around 45%).

Speaking of deposits, we add that we expect the National bank to intervene should bank-run situation happen. One of the draft laws (albeit not approved by the Parliament) implies the National bank has a right to announce a 30-days moratorium on term deposits withdrawal in case their volumes fall below 5% during one week. We believe that it provides a fair benchmark of when the regulator starts to concern. the National bank steps during 2004 events (Orange Revolution) show that NBU actions aimed at preventing bank-run situation are timely and effective.

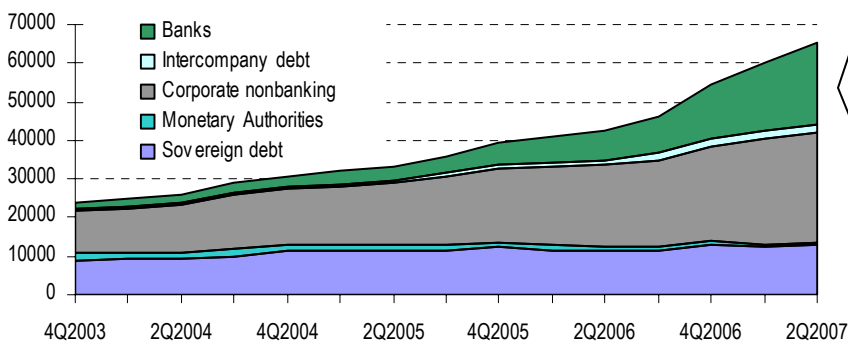
The short-term nature of customer funding combined with growing demand for retail loans forced Ukrainian banks to diversify their resource base towards external fundraising. This was triggered both by limited possibilities to increase volume of attracted deposits on internal market and by efforts to make resource base cheaper and more diversified.

Chart 24: Growth rates of loan and deposit portfolio of Ukrainian banks



Source: NBU

Chart 25: Gross external debt of Ukraine, sector breakdown, \$ mn.



Source: NBU

Skyrocketing volumes of Ukrainian banks' external debt to a part can be explained by increasing share of foreign ownership

As of July 1, 2007, the volume of external borrowings made by Ukrainian banks totaled USD 21.2 billion, having tripled during just one year.

Skyrocketing volumes of Ukrainian banks' external debt to a part can be explained by increasing share of foreign ownership. External debt figures not only include credit lines opened by affiliated parent banks, but can be upward biased via indirect deals between domestic businesses and parent foreign banks. E.g. when parent bank de-jure lends resources to domestic child and the child consequently gives out a loan to a domestic enterprise. De-facto it is a deal between parent company and domestic business which may distort the true picture of lending.

Roughly 40% of external debt is short-term comparing to over 50% one year ago. However, in a view of recent financial markets turmoil we believe that the part of short-time financing will grow since issuing long term notes turned into a challenging task.

Assets/liabilities term disbalances will continue to mount, especially in UAH part of the balance sheets

Indeed, maturity mismatch has been a problem for a while and will only intensify in coming years. According to our rough estimations based on NBU data, maturity mismatch is the case both for FX and UAH part of the balance sheets. About UAH 40 bn. (\$8 bn.) of "long" FX loans and UAH 16 bn. (\$3.2 bn.) of "long" UAH loans are financed via short-term financing of up to one year. And it is only a part of the whole picture since statistics available to us splits assets/liabilities only in two groups (with durations of below and above one year).

In 2008..2010, if lending will go in line with our expectations (rapid shift to crediting in local currency) matching terms will become even more difficult since local capital markets even theoretically cannot provide resources of respective durations. The duration of the “longest” government bond issue on domestic market is less than 5 years, and the banks’ UAH bonds mostly contain annual or biannual put options which make them vulnerable to rollover refinancing risks. Under these conditions we believe the demand for longer term resources will be very high and term premium will become significant during the next years.

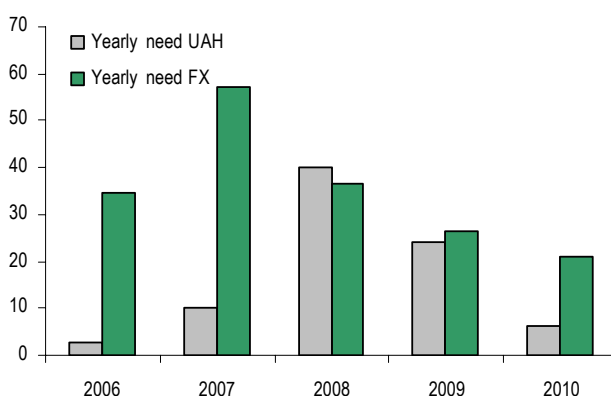
Increasing foreign ownership in the sector will help to offset (partly) the risks of maturity mismatch. The parent banks are very likely to intervene should domestic banks face difficulties in refinancing.

Since maturity mismatch problem will intensify in years to come, the banks are likely to hedge the interest rate risks by increasing use of floating-rate instruments. Formerly floating rates were rather exotic for domestic markets since there was no reliable benchmark and bid/ask spreads on the money market were very significant. However, with introduction of Kyiv Prime (average interbank rate), more banks will be willing to lend and borrow using floating rates.

Based on banking system growth forecast we estimated volumes of funds that Ukrainian banks have to raise from capital markets in coming years. The final numbers were obtained by subtracting expected deposits flow and capital increases needed to maintain capital adequacy ratios.

According to our expectation, total need for UAH funds in 2008 will be about UAH 40 bn. All-time record need will partially be covered by liquidity leftovers from the current year (about UAH 10-15 bn.) and most of remaining part can be financed via bond issues. If so, local banking bond market may soar several times, from current UAH 13 bn. to UAH 25..35 bn. A declining need for UAH doesn’t mean that we will see one-time explosion that would turn to a boring market. As said above, most of issues will have annual or bi-annual put options that would eventually require refinancing.

Chart 26: Local banks’ yearly net need for resources



Estimations: UkrSibbank

FX needs will gradually decline throughout forecasted period and are expected to constitute about UAH 36 bn (\$ 7.1 bn.) in 2008 and only UAH 26 bn. (\$5.2 bn) – in 2009. However, the actual need may be bigger if USD depreciates vs EUR quicker than expected – then we expect a serious correction in deposit flows.

Ukrainian banks will increasingly use floating-rate domestic instruments to hedge interest rate risks

Liquidity

FX liquidity will remain tight during coming quarters

Internal liquidity prospects remain bright as banking system enjoys at least \$ 4 bn. of excessive short money. Ukrainian banking system liquidity was virtually unaffected by world markets turmoil and pre-elections spending have further improved liquidity conditions. Albeit our earlier forecasts implied an abrupt drop of liquidity in early October, it happened only in dollar segment and there was no spillover to UAH part of the market.

FX liquidity will remain tight, especially as maturity time of 1-year credits comes. 4Q2006 was an exceptionally vivid period of attracting external financing as investors got rid of political fears. We believe some of the banks would feel a drastic need for resources and will be willing to borrow at higher rates. However it would not influence their financial positions, since, in the worst case, it would rise the cost of funding to the level of relatively expensive retail deposits. The only risk we see here is that local banks may start to crowd out each other when competing for deposits in case external channels are shut completely.

Table 4: Liquidity conditions of Ukrainian banks – short-term perspective

	4Q2007	1Q2008	2Q2008	3Q2008
FX liquidity	very tight	tight	very tight	tight/average
Reasons	total need over \$ 2 bn. for short-term resources refinancing;	lower need of short-term refinancing (below \$1bn.);	another large portion of short-term refinancing (about \$ 1.5 bn.);	gradual improving of external market conjuncture;
Consequences	significantly higher rates may be offered for FX borrowings, lending at any price;	many banks will try to borrow externally, mainly long-term;	depends on the stance of world market conjuncture;	Depends on the stance of world market conjuncture;
UAH liquidity	abundant	average/abundant	average	average/tight
Reasons	buildup of liquidity stock during the year; early elections; expectations of UAH appreciation;	active crediting in local currency as FX loans become more expensive;	active crediting in local currency;	active crediting in local currency;
Consequences	short rates at its minimum levels; long rates are going upward as banks try to find a substitute for external market;	long rates move down as more investors try to benefit from currency moves;	depends on FX policy;	depends on FX policy.

In 1Q2008 refinancing needs of Ukrainian banks are moderate, since one year ago banks were mostly issuing longer-term bonds, both domestic and external. A part of domestic bonds will have a put option, however we believe that in a view of local currency appreciation expectations there will be few exercises.

Asset quality

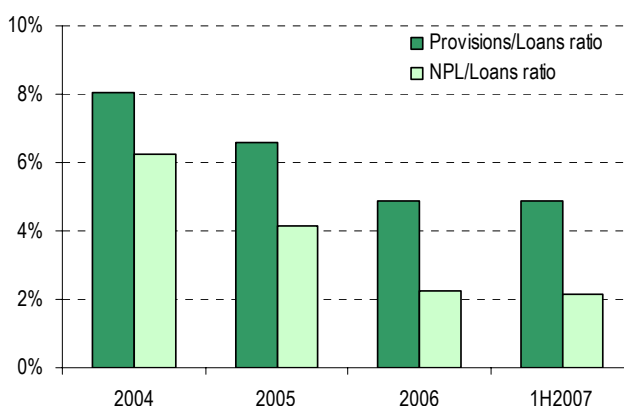
NPL and Provisions

In our view a key risk to Ukrainian banks asset quality is a slowdown in personal incomes growth which may cause rapidly falling property prices.

A very careful conclusion may be that asset quality has been good up to date. We measured asset quality by using two indicators: NPL/Loans and Provisions/Loans ratios. By Ukrainian standards NPLs are determined roughly as total of overdue payments – that is, principal is not included, which causes a serious downside bias. In order to check for a bias, we took total provisions across the banking system and divided it by total loans. The outcome is that both ratios are steadily declining since 2004. In 1H 2006 Provisions/Loans ratio was at about 5% while NPL/Loans came at 2%.

High rates of loan growth over the recent years also serve as a bias to the downside as more and more new loans enter the mix (especially long-term ones). There is no way to get rid of this bias at the moment and we see asset quality indicators running up as credit growth rates slow down in 2008-2010.

Chart 27: Average asset quality indicators



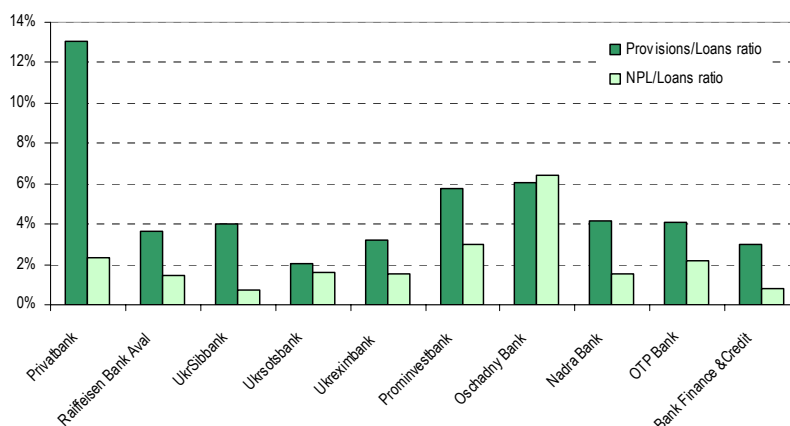
Source : NBU

We assume that since a) most of the loans are secured by property and b) demand for property will stay high over the coming years (on the back of generous social spending in run-up of presidential elections) there are fewer risks as time passes. At the same time, increasing NPL share may significantly heat the risks of banks operating in high-growth segments, especially with no collateral.

In our view a key risk to Ukrainian banks asset quality is a slowdown in personal incomes growth which may cause rapidly falling property prices. As 2005 showed, a sharp decline in economic growth rates does not necessarily lead to moderation of personal incomes growth especially when government has a cushion to finance social spending.

One should also note that total provisions depend on the credit portfolio and degree of flexibility the specific bank allows when forming reserves. Below we display figures for TOP-10 banks and we see that provisions can be larger than NPL up to a factor of 5.6, but also roughly equal to NPL (see below).

Chart 28: Asset quality indicators for TOP-10

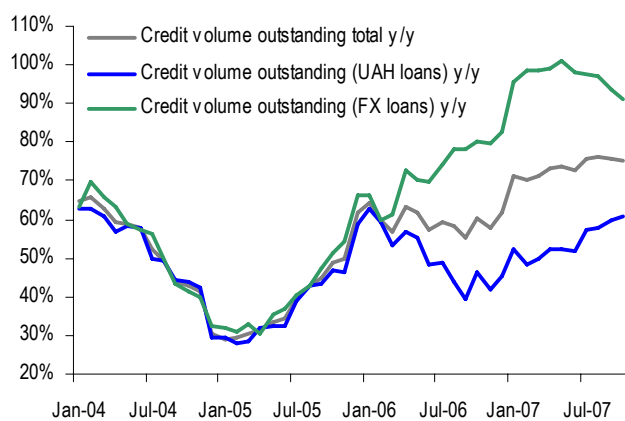


Source: UkrSibbank

Unhedged FX borrowings: a break in tendencies?

While attracting foreign currency resources, Ukrainian banks intensively give out loans, denominated in foreign currencies. Since 2006, foreign currency lending has been growing at an accelerated rate, which is a result of the difference between the interest rates in UAH and in foreign currencies. While most enterprises, which do not have any proceeds in foreign currency, preferred borrowings in domestic currencies, households readily took foreign currency risks. A factor contributing to this situation is the fact that since the beginning of the period of economic growth, the rate of the national currency against the US dollar has not almost changed. Furthermore, the official UAH rate appreciated to USD 5.05 as a result of the revaluation in April 2005.

Chart 29: FX vs UAH lending



Without turning to administrative measures, NBU seems to have some success in curbing FX borrowing growth in 2007

Source: NBU

The accelerated growth in the volume of lending in foreign currencies evokes concern of the National bank. In 2006, under discussion for some time was a draft resolution forbidding foreign currency lending with a few exceptions (payments for medical treatment, education abroad etc). However, the regulator chose market methods, decreasing, as a result, the reserve requirements for lending in the national currency and increasing them for foreign currency lending. Besides, effective Jan 1, 2008, NBU sets the maximum rate for the external loans of Ukrainian banks. These regulations are expected to increase the control of banks over the quality of foreign currency loans and make such lending less attractive.

We believe that the risks associated with foreign currency lending are decreasing. First, we regard NBU's actions as effective. Second (and most important) is that financial markets turmoil and deficit of external financing have helped NBU to do the job – in September 2007 percentage of FX loans taken by individuals fell, for the first time since early 2006. We believe that during 2008, as interest rate gap between UAH and USD shrinks, the paces of UAH lending will eventually overcome those of FX.

Banking segment of domestic fixed income market

As of Jan 1st 2007 total volume of banking segment was at UAH 5.2 bn. comparing to UAH 13.2 bn. just nine months later.

The trend will intensify as financial markets meltdown makes access to the world capital markets more difficult and expensive

The banking segment of bonds, both domestic and Ukrainian Eurobonds, is the most developed in the market of Ukrainian non-sovereign debts. The relative transparency of the banking sector makes bank bonds the most attractive for non-residents who generate the most of demand in this sector. Due to this fact, average yield of bank bonds on domestic market is 150-200 b.p. lower than average in the non-financial sector.

Banks intensively use bonds as a borrowing instrument on the domestic bond market in order to diversify their resource base. As of Jan 1st 2007 total volume of banking segment was at UAH 5.2 bn. comparing to UAH 13.2 bn. just nine months later. The trend will intensify as financial markets meltdown makes access to the world capital markets more difficult and expensive.

We distinguish three tiers of bank bonds on the domestic market. These tiers are shown in the yield map below. It should also be noted that a part of the shown bond issues is not in circulation on the market, being completely bought out during the placement process by large foreign players.

The first tier includes banks, which occupy leading positions on the market, being in most cases members of large international financial groups or holding the quasi sovereign status. These are UkrSibbank, Raiffeisenbank Aval, Ukreximbank, and UkrSotsbank. An exception here is small ProCredit Bank, which is in the first tier thanks to the impeccable reputation of its owners. Yield of first tier bank bonds is at 7.5-10.2% p.a. Demand for securities of these banks comes primarily from non-residents.

The second tier encompasses the financial institutions, which are members of Ukraine's top 20 in terms of asset volumes, as well as some banks, which are in advantage thanks to their owners' structure. This tier includes notes of Nadra, Forum, Ukrgasbank, Alfa-bank Ukraine, Khreshchatik, TAS-Commerzbank, TAS-Investbank and others. These securities are traded with yield of 10.2-12.0% p.a. Second tier bonds are interesting for both foreign investors (both Russian and Western) and most domestic stock market players.

The third tier is for securities of the remaining Ukrainian banks. The main obstacle in the way of lowering yield of such notes is a low transparency level of their issuers, as well as low potential of these banks on Ukraine's consolidating market. The said factors limit the demand for these notes. It comes exclusively from domestic investors (other banks and some asset management companies). Yield of third tier bonds ranges within 12.0 and 14.0% p.a.

Relatively high level of transparency of Ukrainian financial institutions in comparison with the corporate sector allows the banks to try more actively their luck on the market of external borrowings. At the same time, as mentioned above, access to external markets is actually open to financial institutions, whose bonds are in the first or partly in the second tiers. The distribution by tiers typical for Ukraine is clearly seen in the activity of Ukraine's banks on external markets. Yield of Eurobonds issued by UkrSibbank, UkrSotsbank, Ukreximbank and Privatbank ranges between 6.2 -8.2% p.a. Eurobonds of other Ukrainian banks are traded with a yield of 8.2-10.0% p.a.

Due to desperate need for resources banks' activity on the primary market will continue to rule high – we see virtually all TOP-30 banks hitting actively the local bond market in 2008 and on.

One might want to take a closer look on banking bonds of the second and third tiers, with good prospects of being sold to foreign banks. A vast majority of those banks already held negotiations with large international groups and the only unresolved issue was the price foreign players were willing to pay. As pressure on their market positions becomes stronger, many would seek a compromise with potential buyers.

A serious drawback of second/third tier bonds is issue volume, which in most cases doesn't exceed UAH 100..150 mn. Such issues are a priori not interesting for large investors and potentially less liquid.

Another drawback is that investors in these issues are mainly local banks, which makes yields vulnerable when liquidity levels of the banking system decreases. First tier bonds generally suffer in times of turbulences on external markets.

Banking bonds origination has its roots in private issues which were made domestically, completely bought out by several (or single) investors and then either kept in portfolio or traded offshore.

Ukrainian legislation allows two forms of bond issue: private and public. Registration of private issue is quicker and simpler, however it can be circulated only among previously selected list of investors (up to 100). That is, a holder of private bank bond issue a) doesn't benefit in full when new investors enter the market b) may have more difficulties trying to sell the bond if needed. During the recent financial markets turmoil it was a particularly important issue. Overall, **public form of issue contributes to bond's liquidity and should be considered as significant advantage.**

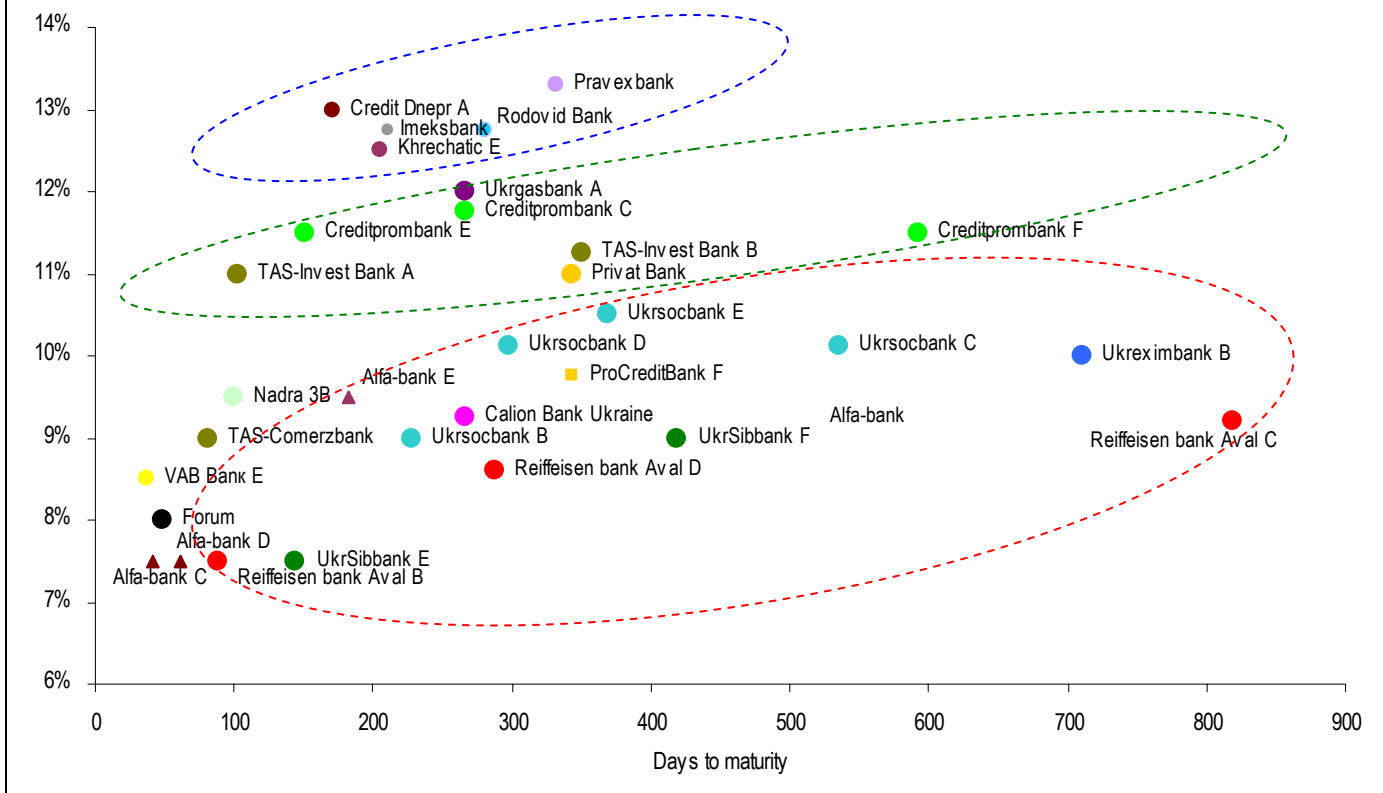
We expect that liquidity of domestic market will improve dramatically during the next year driven by high volumes of primary market placements as banks switch their borrowing activity to local fixed income market. We believe banks from the second and third tiers would be able to benefit the most from growing market: their issue would grow and eventually reach the size interesting for the large investors.

In this context it is important how the banks will organize the issues, that is which part of the total volume would land in portfolios and will not circulate on the secondary market

Second and third tier bonds offer yield contraction potential

Liquidity of domestic market will improve dramatically driven by large volumes of the primary market placements.

Chart 30: Banking bonds on the local fixed income market, 30.10.07



Source: UkrSibbank

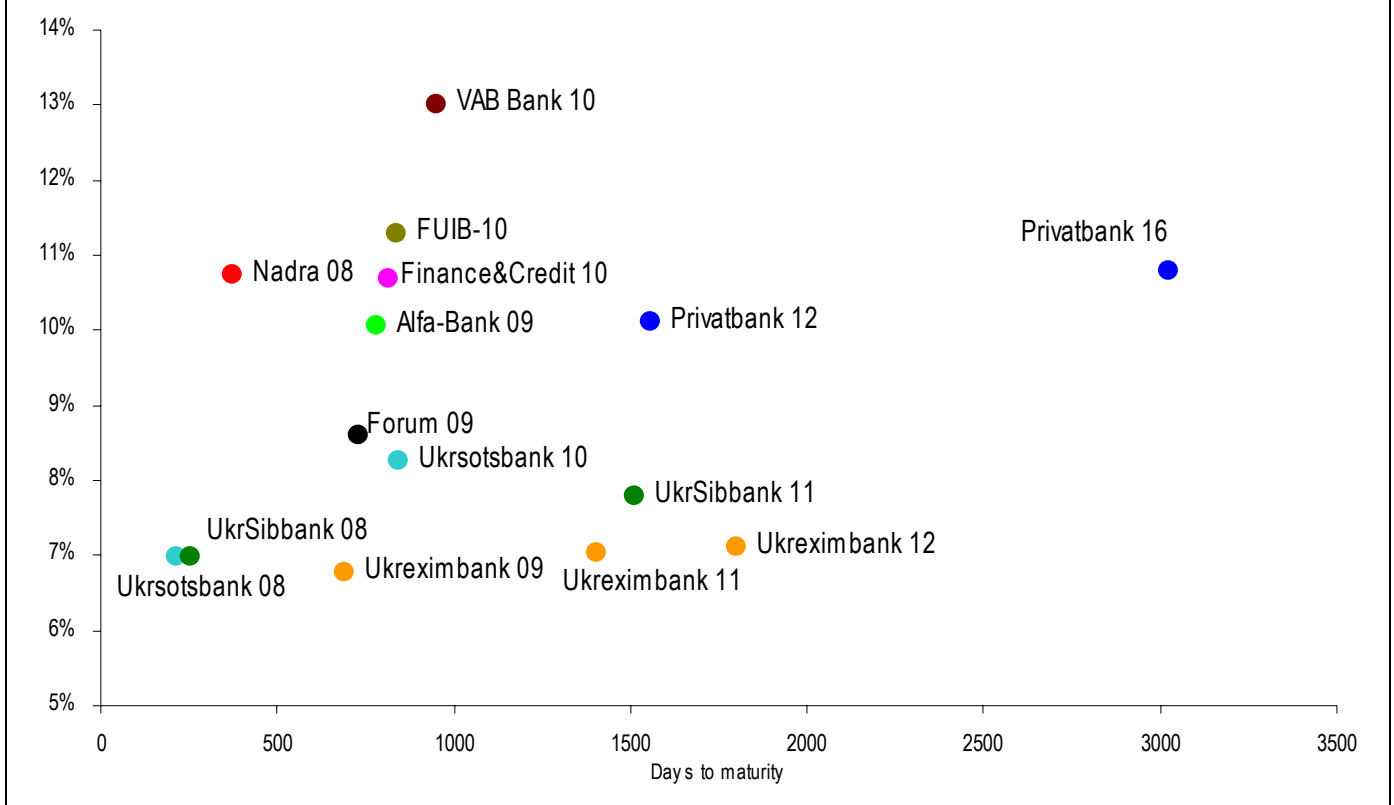
Table 5: Sample Ukrainian bank local bond issues as at 30.10.2007

	Coupon rate	Yield	Days to Maturity	Volume		Ratings		
	%	%		mn. UAH	S&P	Moody's	Fitch	
Alfa-bank C	13,0	7,25-7,75	126	50		B2/Positive		
Alfa-bank D	13,0	7,25-7,75	146	200		B2/Positive		
Alfa-bank E	12,0	9,25-9,75	633	300		B2/Positive		
Credit Dnepr A	14,0	12,75-13,25	256	70		B3/Stable		B-/Stable
Forum	11,5	7,75-8,25	133	100		B2/Positive		B-/Stable
Nadra B	12,5	9,25-9,75	184	200		B2/Positive		B-/Stable
Khreshchatyk E	13,0	12,25-12,75	290	100				B-/Stable
VAB Bank E	14,0	8,25-8,75	122	50				B-/Stable
Imexbank	14,0	12,5-13,0	296	100				
Calyon bank Ukraine	10,0	9,0-9,5	351	50		B3/Stable		
Pravex-bank	13,5	13,25-13,5	132	50		B3/Stable		
PrivatBank	11,5	10,75-11,25	514	250		B2/Stable		B/ Positive
ProCredit Bank F	13,0	9,5-10,0	428	175				BB-/ Positive
Raiffeisenbank Aval B	13,0	7,25-7,75	174	250		Baa1/Stable		
Raiffeisenbank Aval C	13,5	9,0-9,5	904	150		Baa1/Stable		
Raiffeisenbank Aval D	13,0	8,3-8,8	372	500		Baa1/Stable		
Rodovid Bank	13,5	12,5-13,0	783	100		B3/Positive		
TAS-Investbank A	14,0	10,75-11,25	96	50		B2/Stable		
TAS-Commerzbank A	14,0	8,75-9,25	439	40		B2/Positive		B-/Stable
UkrSibbank F	9,0	8,75-9,25	419	500		B2/Positive		BB-/ Positive
UkrSibbank E	10,0	7,25-7,75	144	300		B2/Positive		BB-/ Positive
UkrSibbank A	12,75	11,75-12,25	313	100		B2/Stable		
UkrSotsbank B	10,25	8,75-9,25	620	70	B/ Positive	B2/Positive		B/ Positive
UkrSotsbank C	10,0	10,0-10,3	383	300	B/ Positive	B2/ Positive		B/ Positive
UkrSotsbank D	12,0	10,0-10,3	454	500	B/ Positive	B2/ Positive		B/ Positive
UkrSotsbank E	12,0	10,25-10,75	800	500	B/ Positive	B2/ Positive		B/ Positive
Ukreximbank B	10,5	9,75-10,25	126	300		B2/ Positive		BB-/ Positive

Source: Cbonds.info

Due to the fact that significant part of these bonds are not widely traded on the market, their yields are rough estimates.

Chart 31: Banking Eurobonds, 30.10.07



Source: UkrSibbank

Table 6: Banking Eurobonds as at 30.10.2007

	Coupon rate %	Average Yield %	Redemption date	Volume \$ mn.	Ratings		
					S&P	Moody's	Fitch
Alfa-bank	9,75	10,06%	22.12.2009	345,0		B2/Positive	
PrivatBank	8,0	10,12%	06.02.2012	500,0		B2/Stable	B/Positive
FUIB	9,75	11,29%	16.02.2010	275,0		B2/Positive	B-/Stable
UkrSibbank	8,95	6,99%	14.07.2008	125,0		B2/Positive	BB-/Positive
UkrSibbank	7,75	7,79%	21.12.2011	500,0		B2/Positive	BB-/Positive
Ukrsotsbank	9,0	7,00%	06.06.2008	100,0	B/Positive	B2/Positive	B/Positive
Ukrsotsbank	8,0	8,25%	22.02.2010	400,0	B/Positive	B2/Positive	B/Positive
Finance and Credit	10,38	10,70%	25.01.2010	100,0		B2/Stable	
Forum	10,0	8,60%	30.10.2009	100,0		B2/Positive	B-/Stable
VAB Bank	10,125	13,00%	07.06.2010	125,0			B-/Stable
Ukreximbank	7,75	6,78%	23.09.2009	250,0		B2/Positive	BB-/Positive
Ukreximbank	7,65	7,04%	07.09.2011	500,0		B2/Positive	BB-/Positive
Ukreximbank	6,8	7,12%	04.10.2012	250,0		B2/Positive	BB-/Positive
Nadra	9,5	10,74%	07.11.2008	100,0		B2/Positive	B-/Stable

Source: Reuters, Bloomberg

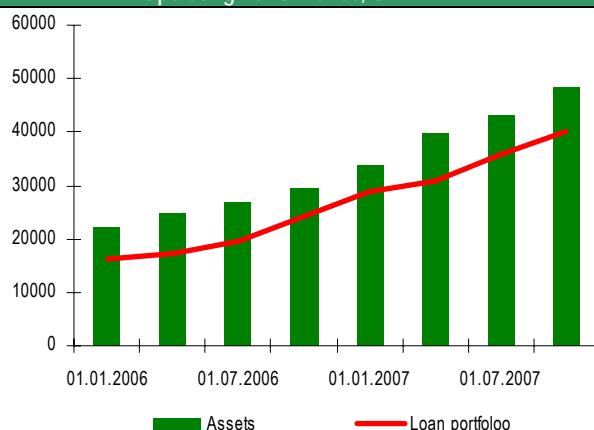
Selected Banks' Profiles

Privatbank
Raiffeisen bank Aval
Ukrsibbank
Alfa-bank (Ukraine)
Ukrsotsbank
Kreditprombank
ProCredit Bank
FUIB
TAS-Commerzbank
Ukrgazbank
Ukrprombank
Finance and Credit Bank
Forum
Imexbank
VAB Bank
Rodovid Bank

PrivatBank

- Privatbank is currently the largest bank in Ukraine by total assets. As at 01.10.2007 its assets amounted to UAH 48 bn., shareholder's equity - UAH 4.4 bn.
- Privatbank is associated with the large financial-industrial group – Privat. The group assets are concentrated in metallurgy, chemical and petrochemical sectors, petroleum production and food industries. The group is controlled by Ihor Kolomojsky, Hennady Bogolubov and Oleksy Martynov.
- The issuer has one of the biggest branch networks in Ukraine that comprises 2504 banking outlets (the 2nd place in Ukraine). The bank also has one of the most known banking brands in Ukraine. According to the GFK Ukraine market research 23.3% of Ukrainians named PrivatBank as the most attractive Ukrainian bank. Privatbank also has the highest level of public awareness – 64%.
- In 2006 the bank's assets growth rates were 52% that was comparable to average banking growth. As a result, as at 01.01.2007 the bank has kept its market share at 11.7%. In 9M2007 the bank's assets growth rates have reached 43%.
- As at 01.10.2007 the bank's loan portfolio amounted to UAH 40.1 bn. The share of retail segment is 44%. The high level of retail loans was achieved due to wide branch network.
- The individuals' accounts dominate in the structure of the bank's liabilities (46% of total liabilities). Due to the active attraction of personal funds and usage of bond market instruments the bank has diversified resource base despite the high share of affiliated parties in corporate segment (companies of the group are serviced in the bank).
- The bank is the pioneer on Ukrainian market in the securitization of its assets. At the beginning of 2007 the bank made first for Ukrainian banks transboundary deal with securities, which were secured by mortgage portfolio. Total amount of attracted funds resulted from securitization of the bank's mortgage portfolio was about \$180 mn.
- As at 01.10.2007 the bank has a few domestic bonds issues and 2 Eurobonds issues for the total amount of \$830 mn.
- As at 01.10.2007 the bank's equity is UAH 4.5 bn., Equity/Assets ratio is 9.3% considerably lagging behind average banking ratios (13,2%).
- The bank's net profit in 2006 amounted to UAH 471 mn. having no significant changes since 2005. The profitability of the bank's assets and capital stays on the level that is higher than average banking indicators. ROE and ROA are 22.7 and 1.4 respectively.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	48 424,9	33 777,2	22 058,1
Credit portfolio	40 133,3	28 767,5	16 095,9
Loans to individuals	17 398,4	11 564,2	6 356,6
Loans to legal entities	22 734,9	17 203,3	9 739,2
Shareholders' equity	4 458,9	3 288,3	2 272,3
Liabilities	43 966,1	30 488,9	19 785,8
Due to other banks	5 049,1	3 299,4	1 852,8
Individuals' accounts	20 198,2	15 188,3	10 440,3
Legal entities' accounts	14 631,4	9 693,8	6 541,4
Net Profit	604,1	471,8	472,0

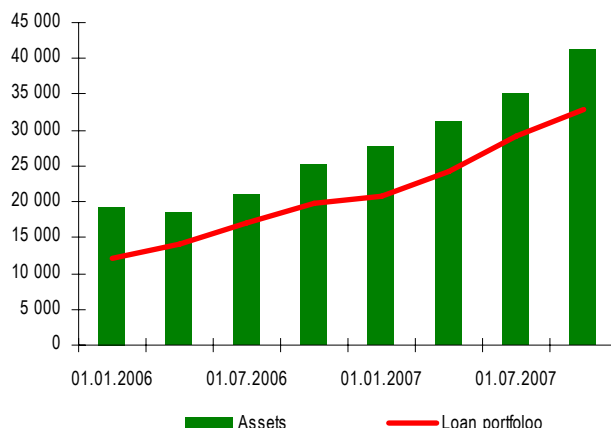
International credit ratings

Moody's Investors service	B2/Stable
Fitch Ratings	B/Positive

OJSC «Raiffeisen bank Aval»

- OJSC «Raiffeisen bank Aval» is currently the 2nd largest bank in Ukraine by total assets. As at 01.10.2007 assets amounted to UAH 41.4 bn., shareholder's equity - UAH 3.7 bn.
- OJSC «Raiffeisen bank Aval» is a subsidiary of the international financial group with head-office in Austria that works through Eastern and Central Europe. As at 01.07.2007 Austrian Raiffeisen International Bank Holding AG has controlled 95.54% stake of OJSC «Raiffeisen bank Aval».
- The issuer has one of the biggest branch networks in Ukraine that comprises 1339 banking units (the 3rd position in Ukraine). Due to the developed network the bank holds leading positions on the Ukrainian retail market. The bank's client base as at 01.01.2007 has included 3.9 mn. individuals and 240 thd. corporate clients.
- As at 01.10.2007 assets amount to UAH 41,4 bn. In 2006 the bank's assets growth rates were 44% that was lower than average banking growth. As a result the bank's market share slightly decreased reaching 8%. This was resulted from the optimization process of Ukrainian banking assets carried out by Raiffeisen group. There was a period of time characterized by uncertainty about the future bank development, first of all, in a question of possible amalgamation with Raiffeisen Ukraine Bank (OTP Bank today). From the second half of 2006 (after that issue was resolved) growth rates of the bank assets caught up average banking indicators. In 9M2007 the bank's assets growth rates have reached 49%.
- As at 01.10.2007 the bank's loan portfolio amounts to UAH 32.8 bn. In the structure of the loan portfolio shares of corporate and retail loans are practically equal. The high level of retail crediting is achieved due to intensive branch network and wide clients base. It was bolstered by servicing accounts of the state pension fund. The dynamic of retail loans increasing in 2006 overperformed growth rates in corporate banking (it corresponds to the main tendency in the Ukrainian banking system – orientation on the retail banking).
- In accordance to its strategy the bank plans to increase in 2007 its corporate loan portfolio by 40%. Therefore, despite an active development of the retail segment the bank will support a balance between retail and corporate crediting.
- The bank's resource base is characterized by high diversification. More than 41% of its liabilities are individuals' accounts. Thereat within 2006-2007 attracted funds of corporate and individual clients have demonstrated multidirectional dynamics. Since 01.01.2006 individuals' accounts have increased by 67%. At the same time corporate clients' accounts Since 01.01.2006 have slightly increased. Situation with legal entities' accounts is related to the partial exit of some related participates after the bank's ownership change.
- The Bank is active player on bond market. The bank has experience in Eurobonds issues. Its first Eurobond issue was paid off 23.05.2007.
- As at 01.10.2007 the bank's equity is UAH 3.7 bn., Equity/Assets ratio is 9.0% considerably lagging behind average banking ratios but remaining rather allowable. At the same time in 4Q2007-2008 it is expected further increasing of the bank's share capital by the owners to support robust assets growth and strengthen the bank's market position.
- The bank's Net profit for 2006 was UAH 338.4, 17 times as bigger as in 2005. The profitability of the bank's assets and capital keeps the level that is equal to average banking indicators.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	41366,8	27 802,6	19 258,8
Credit portfolio	32794,8	20 882,0	12 145,3
Loans to individuals	15601,8	10 533,4	4 365,2
Loans to legal entities	17192,9	11 202,9	8 364,5
Shareholders' equity	3648,9	3 233,1	1 745,5
Liabilities	37717,8	24 562,2	17 513,2
Due to other banks	11202,0	6 647,2	1 693,3
Individuals' accounts	15427,4	11 594,3	9 251,7
Legal entities' accounts	6816,0	5 487,8	5 915,1
Net Profit	545,8	338,4	83,8

International credit ratings

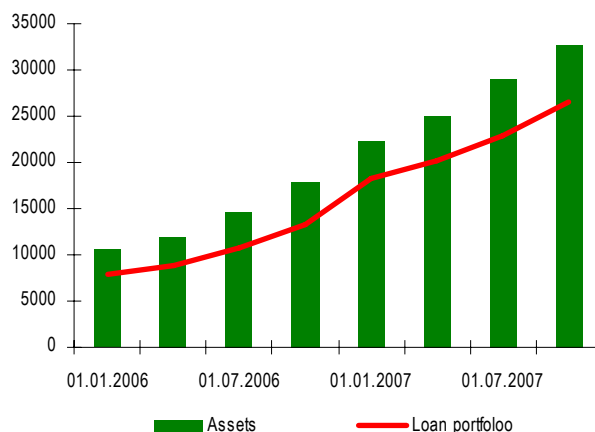
Moody's Investors service

Baa1/Stable

“UkrSibbank”

- UkrSibbank was registered in 1990 and is currently the 3rd largest bank in Ukraine by total assets. It also keeps leading positions on the local investment banking market.
- Since April 2006 the bank's 51%-stake is under control of French banking group BNP Paribas Group that is one of the largest financial groups worldwide.
- Bank's strategy is focused on retail banking. Thereat, corporate and investment banking maintain strong positions.
- Branch network comprises 1009 banking units (as at 1 May, 2007) all over Ukraine, 49'000 of enterprises and more than 1,400'000 individuals are clients of the Bank. UkrSibbank shares about 6.3% of the Ukrainian banking system assets, about 3.5% of deposits from individuals and around 10.8% of loans to individuals.
- One of the key targets of UkrSibbank set to be reached before the end of 2008 is reaching 10% share in total Ukrainian banking system assets.
- As at 01.10.2007 the bank's assets amounted to UAH 32.7 bn. Over 2005-2006 UkrSibbank overperformed the Ukrainian banking system growth rates. In 2005 the bank's assets growth rates were 97.8% (+63% of the banking system), in 2006 growth rates arrived at 109% (+59% of the banking system) reaching \$4.4 bn. In 2007 growth rates became slower but still retaining high levels.
- Over 2006 loan portfolio of UkrSibbank advanced over 94% up to UAH 18.2 bn. As at 01.10.2007 it amounts to UAH 26.5 bn. The key driver for loan portfolio increase was escalation in loans to individuals up to UAH 15.4 bn. Over 2006 UkrSibbank's share in retail lending grew from 9.5% to 10.8%. UkrSibbank's share in mortgage market grew to 20%.
- In the structure of bank's resource base the main share accounts for due to other banks, that is almost 2 times as bigger as individuals' and legal entities' accounts together. During 2005-2006 the dynamic growth was provided by attracting other banks' funds. It became possible after changes have been made in shareholder's structure. After BNP Paribas became the main shareholder of the bank UkrSibbank got possibility to raise comparatively cheap funds on the world financial markets.
- In order to diversify the resource base UkrSibbank performed several domestic bond issues and made few Eurobonds issues.
- UkrSibbank maintains a decent level of capital adequacy with doubling its share capital up to UAH 1.750 mn. over 2006. As of 31 December 2005 CAR was 11.6%. In 2006 the bank increased twice its share capital in the amount of UAH 500 mln. The recent increase was registered by the National Bank of Ukraine in late November 2006. On Dec 20 at the bank's shareholders meeting it was resolved to increase the share capital of UkrSibbank up to UAH 2.125 bn. The shareholders show their readiness to increase the bank's share capital to support vigorous growth of its assets.
- In the domestic bond market the bank's 6 issues totally amounting to UAH 1 650 mn. are outstanding.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	32744,9	22369,9	10669,2
Credit portfolio	26475,4	18212,2	7863,6
Loans to individuals	15421,6	9 799,8	3 174,2
Loans to legal entities	11053,8	8 412,5	4 689,4
Shareholders' equity	2940,3	2 060,2	947,8
Liabilities	29804,6	20 309,7	9 721,4
Due to other banks	16649,1	11 089,6	2 894,7
Individuals' accounts	4586,5	3 689,1	2 670,1
Legal entities' accounts	5006,2	3 226,8	2 858,4
Net Profit	96,8	68,6	56,1

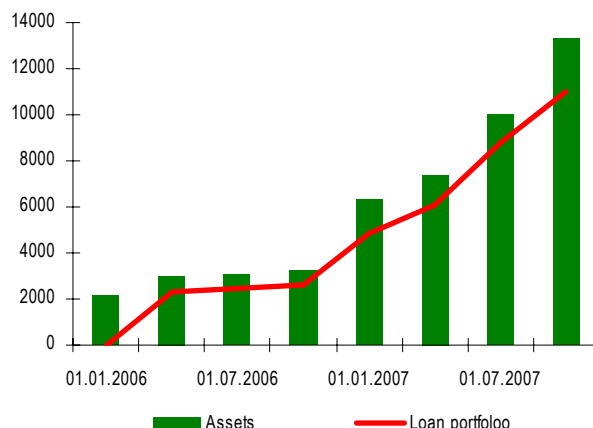
International credit ratings

Moody's Investors service	B2/Positive
Fitch Ratings	BB-/Positive

CJSC "Alfa-bank" Ukraine

- CJSC "Alfa-Bank" (Ukraine) is the core of the financial and industrial consortium "Alfa-Group" in Ukraine. The majority shareholder is OJSC "Alfa-Bank" (Russia) – 93.8% (as at July 2006).
- "Alfa-Group" is one of the largest private financial and industrial syndicates in Russia. Its activity embraces oil&gas extraction, commercial and investment banking, asset management, insurance, retail trade and telecommunications. "Alfa-bank" enters into the group of five largest by assets and equity size banks of Russia being one of the leaders in the bank retail market.
- CJSC "Alfa-Bank" (Ukraine) ranks the 10th by assets in Ukraine (as at 01.10.2007). It's one of the major Ukrainian banks under NBU classification. At present the bank's branch network is relatively small with 19 branches in the biggest cities of Ukraine.
- As at start of its activity the bank was focused on lending major and medium borrowers. Since 2005 CJSC "Alfa-Bank" Ukraine has launched consumer lending attaching it to the priority segments of activity. Thereat the bank stakes on card products development that makes it less dependent on large trade retailers.
- As at 01.10.2007 the bank's assets amount to UAH 13.3 bn. For 2H2006 - 1H 2007 assets size was augmented almost five-fold allowing the bank to step from the 21st up to 11th position under NBU classification (as at 01.07.2007).
- Assets growth is primarily attributed to external fundraising totally amounting to \$270 mn. (Nov 29, 2006 - \$50 mn. maturing in 15 months granted by Rabobank International London Branch; \$160 mn. through placement of 3-year Eurobonds and \$60 mn. credit facility granted by Dutch Amsterdam Trade Bank in Dec 2006).
- Despite the jump in lending, Equity-to-Assets ratio as at 01.10.2007 is about 11,3% that is considerably lagging behind average banking ratios but remaining rather allowable.
- Alfa-bank Ukraine is focused on servicing big corporate customers, among which there are Ukrainian enterprises related to Alfa Group. Loans to legal entities share 90% of total credit portfolio.
- In 2006 the bank's Net profit grew more than six-fold up to UAH 18.1 mn. The bank's activity is notable for domination of commission incomes over interest incomes (UAH 103.2 mn. and UAH 72.4 mn. respectively). Despite considerable growth in profitability, ROA and ROE are at low level. As at 2006 ROA is 0.3, ROE – 5.0 while average banking indicators are 1.3 and 15.9 respectively.
- The bank is rather active in the bond market of Ukraine. It's one of the major underwriters in local market.. CJSC "Alfa-bank" Ukraine is the issuer of \$345 mn. Eurobonds

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	13307,1	6 284,2	2 132,6
Credit portfolio	11029,6	4 869,1	1 550,7
Loans to individuals	2195,9	464,9	75,9
Loans to legal entities	8833,7	4 404,2	1 474,9
Shareholders' equity	1523,2	493,7	202,9
Liabilities	11783,9	5 790,6	1 929,7
Due to other banks	5270,2	2 902,5	1 013,6
Individuals' accounts	370,6	121,3	79,5
Legal entities' accounts	5025,6	2 544,2	713,5
Net Profit	19,0	18,1	2,9

International credit ratings

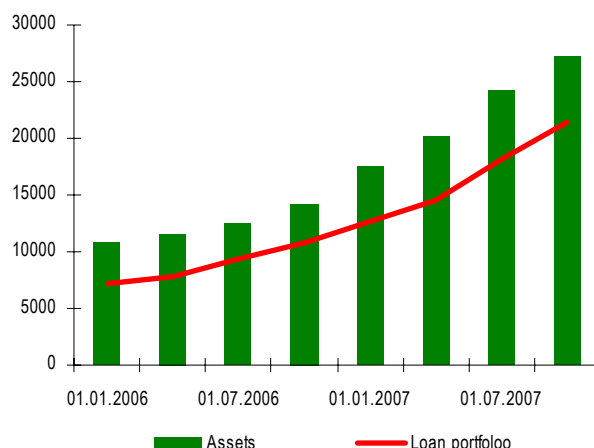
Moody's Investors service

B2/Stable

JSCB "Ukrsotsbank"

- JSCB "Ukrsotsbank" ranks the 4th by assets size in Ukraine (As at 01.10.2007). As at 01.10.2007 the bank's assets reached UAH 27.2 bn., equity – UAH 2.4 bn.
- As at early 2007 Ukrsotsbank associates with the group of companies "Interpipe" controlled by Viktor Pinchuk. Interpipe group comprises a set of industrial and media assets, and it's also represented in the financial sector of Ukraine. Interpipe is the 4th pipe company in the world by capacities, the 3rd world producer and supplier of railway wheels, the biggest world supplier of silicomanganese. In the world market of weldless tubes the group's share is 4.1%, in the world market of railway wheels it shares 10%, in the market of manganese ferro-alloys — 11.4%. It's worth noticing that financial operations of the group's enterprises are effected through another bank controlled by Interpipe ("Credit-Dnepr" bank) that allows Ukrsotsbank to retain high level of its activity diversification.
- On July 5, 2007 it was announced about signing provisional agreement on acquisition of Ukrsotsbank by UniCredit Group that gained control through its affiliate - Bank Austria Creditanstalt. Having acquired Italian bank Capitalia for \$29.6 bn. in June UniCredit Group became the 2nd largest financial group in Europe with market capitalization of about €70 bn. The group is presented in 20 countries of the world, has 7.2 thd. branches. In 2006 UniCredit net profit amounted to €5.448 bn., assets attained €846 bn.
- Ukrsotsbank is the sole Ukrainian financial institution that has been rated by all three leading world agencies.
- In 2006 assets growth rates were 63% that only slightly exceeded average banking dynamics. As at 1H2006 the bank lost two positions in NBU classification by assets size coming down to the 6th position. This was attributed to impossibility to increase assets due to insufficient equity. Thereat, share capital increase was constrained by corporate conflict with minority shareholders who blocked additional stock issue. After conflict being settled the bank started actively building up its assets (+40% for 2H2006) and as at 01.01.2007 the bank managed to return to its market position (market share is about 6%).
- The bank's branch network includes 596 outlets (as at 01.07.2007). The bank is active in retail market; loans to individuals share about 54% of credit portfolio. The bank is one of the leaders in mortgage lending with its share of 14% in 2006.
- The bank is characterized by high diversification. Extensive branch network contributes to significant share of individuals' accounts in liabilities that exceed legal entities accounts. In addition, the bank uses actively debt instruments raising funds both in local and foreign markets. Owing to news about acquisition deal, Ukrsotsbank attracted funds at lower cost than set for another Ukrainian bank. The bank's 5 Series of local bonds together with two Series of Eurobonds amounting to \$500 mn. are currently outstanding.
- As at 01.10.2007 the bank's equity is UAH 2.4 bn., Equity/Assets ratio is 8,8% considerably lagging behind average banking ratios.
- In 2006 Ukrsotsbank Net profit arrived at UAH 287.3 mn. that more than doubled vs. 2005.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	27209,0	17 531,5	10762,9
Credit portfolio	21435,8	12 690,5	7251,8
Loans to individuals	11646,1	6 953,3	2 976,3
Loans to legal entities	9789,7	5 737,2	4 275,5
Shareholders' equity	2821,3	1 926,7	1027,1
Liabilities	24387,8	15 604,8	9 735,8
Due to other banks	7627,3	3 826,0	975,5
Individuals' accounts	6592,2	5 125,6	3 547,3
Legal entities' accounts	8222,6	5 866,9	4 802,9
Net Profit	244,4	287,3	117,3

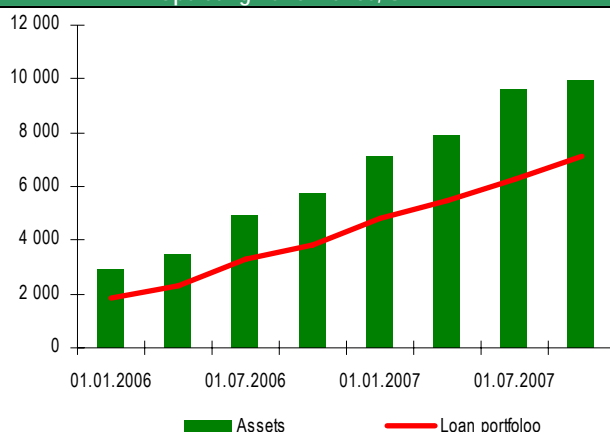
International credit ratings

Moody's Investors service	B2/Positive
Standard&Poor's	B/ Positive
Fitch Ratings	B/ Positive

OJSC "Kreditprombank"

- OJSC "Kreditprombank" ranks among top banks of Ukraine holding the 14th position by assets size under NBU classification. Branch network comprises 126 outlets.
- The bank is controlled by "Concern Energo" Group. At the same time, the bank is publicly reported to be acquired by a foreign investor in the nearest time.
- Kreditprombank has experience of collaboration with respected international financial organizations. The bank finances SME projects within the limits of credit lines of EBRR and Ukrainian-German Fund and realizes the Program of trade promotion with EBRR guarantees confirmation.
- As at 01.10.2007 the bank's assets reached UAH 9.9 bn. Over 2005-2006 assets growth rates outstripped considerably those of average banking. As at 01.01.2007 the bank has ranked among major Ukrainian financial institutions by assets size due to over two-fold assets upsurge over 2006. It's worth mentioning that as of 01.01.2005 the bank ranked the 22nd by assets size in Ukraine. In 9M2007 the bank's assets growth rates have reached 40%.
- Within 2005-2006 Kreditprombank loan portfolio was growing in line with assets dynamics. Despite outstripping dynamics of loans to individuals, corporate segment has still dominated in loan portfolio structure (circa 73%).
- Accounts from legal entities have also prevailed in the bank's resource base. But retail segment demonstrated the outrunning growth (+67% in 9H2007). In order to diversify resource base the bank issues local bonds being one of the most active players on the domestic market.
- Kreditprombank equity amounts to UAH 891,6 mn. Equity/Assets ratio is 9.1% considerably lagging behind average banking ratios.
- Kreditprombank Net profit in 2006 attained UAH 56.9 mn. almost doubling since 2005. Thereat, the bank's returns have not practically changed. ROA and ROE are 0.8 and 12.7 respectively.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	9966,1	7 117,6	2 904,9
Credit portfolio	7110,8	4 798,8	1 822,9
Loans to individuals	2063,2	1 311,6	475,9
Loans to legal entities	5047,6	3 487,2	1 347,1
Shareholders' equity	891,6	652,4	340,7
Liabilities	9074,5	6 465,2	2 564,2
Due to other banks	2256,1	2 240,6	664,0
Individuals' accounts	2409,0	1 446,1	747,9
Legal entities' accounts	2669,9	2 288,1	996,2
Net Profit	25,1	56,9	28,5

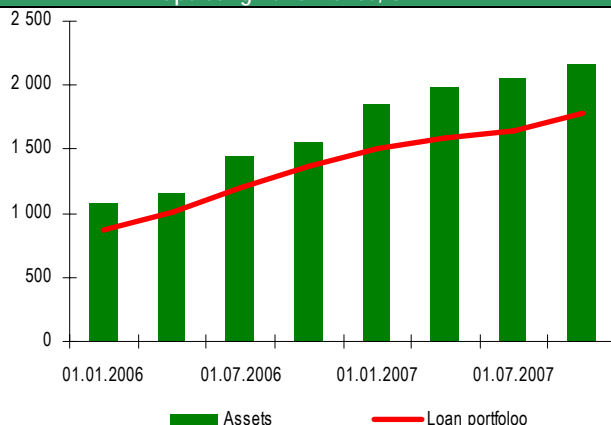
International credit ratings

Moody's Investors service	B2/Stable
Fitch Ratings	B-/Stable

CJSC "ProCredit Bank"

- CJSC "ProCredit Bank" ranks among medium Ukrainian banks under NBU classification being the 39th bank by assets size. CJSC "ProCredit Bank" is a universal bank specializing on rendering full-range of services to small and medium businesses. The bank affiliates with the chain of banks ProCredit operating in 19 countries worldwide. In Ukraine the bank's branch networks includes 56 outlets. The bank is oriented at crediting SME segment.
- Such outstanding international organizations as ProCredit Holding AG, EBRD and Western NIS Enterprise Fund are shareholders of the bank. Due to the aforesaid the bank's activity is characterized by transparency, streamlined mission and development strategy. This increases forecastability and clarity of business.
- Shareholders and its related parties are the major bank's lenders providing it with long-run and relatively cheap foreign investments. The bank actively uses long-term credit lines of IFI for financing its active operations. The bank uses actively long-term credit lines of MFO for financing its active operations.
- As at 01.10.2007 ProCredit Bank assets amount up to UAH 2.2 bn. Over the last years assets have been increasing by averagely 65% per year, outstripping the growth rates of Ukrainian banking system. In 2005 assets grew by 58%, in 2006 - by 72%. Thereat, we point out to low volatility in dynamics of both assets and loan portfolio of the bank. Till 2010 the bank plans to magnify its assets three-fold up to \$935 mn. (UAH 4.7 bn.).
- The bank's credit portfolio amounts to UAH 1.8 bn. Loans to individuals prevail in loan portfolio structure. Due to absence of clear classification, SME lending is reflected in balances as loans to individuals.
- Herewith, the bank's orientation towards SME lending implies high diversification by customers; average size of a loan is around \$6 thd. Due to the fact that this bank's target group are mostly SMEs and its operations in retail business is limited, average growth rates of the bank are lower than across the system.
- Due to affiliation with ProCredit network, since foundation the issuer has mastered the lending techniques for small businesses. They ensure high speed in customer servicing with safeguard factor maintenance.
- The bank's resource base is characterized by high diversification. This is provided by a great share of individuals' accounts in liabilities and access to external borrowings due to shareholders' structure.
- Assets and liabilities are balanced both in terms and currencies. The bank's resource base is highly diversified. At availability of steady external financing sources the bank issues bonds and realizes deposit programs in order to attract hryvnia funds. Three Series of local bonds totally amounting to UAH 225 mn. are currently outstanding.
- As at 01.10.2007 ProCredit Bank equity is UAH 200.9 mn, Equity/Assets ratio is 9.1% considerably lagging behind average banking ratios.
- The bank's Net profit in 2006 amounted to UAH 21.9 mn. having no significant changes since 2005. This entailed drop in the bank's profitability.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	2164,9	1 850,1	1 073,6
Credit portfolio	1784,8	1 508,6	874,9
Loans to individuals	1240,2	1 047,1	505,2
Loans to legal entities	544,6	461,5	369,8
Shareholders' equity	200,9	134,7	112,9
Liabilities	1964,1	1 715,4	960,7
Due to other banks	118,1	89,6	64,8
Individuals' accounts	810,8	629,8	297,1
Legal entities' accounts	670,0	569,8	448,1
Net Profit	11,3	21,9	20,7

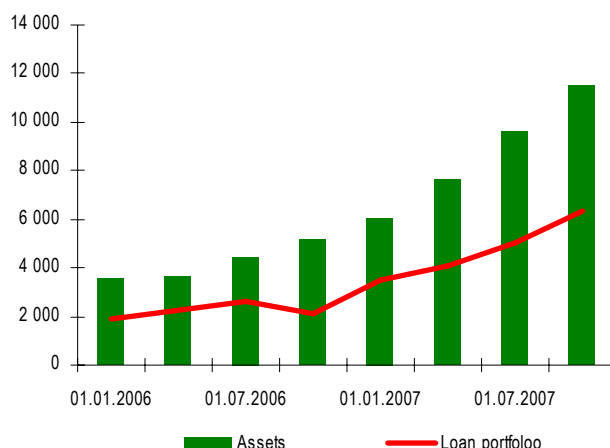
International credit ratings

Fitch Ratings	BB-/Positive
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CJSC «FUIB»

- CJSC «FUIB» (First Ukrainian International Bank) ranks among top Ukrainian banks under NBU classification being the 11th bank by assets size (as at 01.07.2007). Bank is controlled by SCM Group. Branch network comprises 81 outlets. One of the key targets of the bank set to be reached before the end of 2008 is expansion of its network up to 125 outlets.
- SCM is the biggest managing company in Ukraine that owns and manages assets in metallurgy, machinery, energy, coal and communication sectors and other Ukrainian industries. It is controlled by Rinat Ahmetov who is the owner of 90% stake in SCM.
- As at 01.10.2007 FUIB assets amount up to UAH 11.5 bn. Over 2006-2007 assets growth rates outstripped considerably those of average banking. In 2006 bank's assets grow up 1.7 times which helped to strengthen its market position. For 9M2007 FIUB assets have grown up practically by 90%. The main driver of assets growth in 2007 was active operations on the interbank market.
- CJSC «FUIB» is traditionally a corporate bank. At the same time as publicly reported the bank's shareholders have made a decision to develop the bank in retail direction with further its selling to the strategic investor.
- Due to the traditional orientation to the corporate business more that 81% of the bank's loan portfolio is loans to legal entities. At the same time, in 2006 retail banking dynamics essentially outstripped that of corporate segment, mainly because of the low launching base. Gradual increase in volumes of retail loans heightens level of loan portfolio diversification. The level of active operations concentration decreased and now maintains a middle level. "Big" loans (loans equaling more than 10% of regulatory capital) at 01.01.2007 were 17% of all bank's assets (30% as at 01.01.2006).
- As at 01.10.2007 interbank loans account for about 40% of the bank's liabilities. This situation sparked due to the high level of liquidity in the interbank market that helped to make the bank's resource base cheaper. Decrease in corporate accounts was resulted from servicing SCM group companies.
- In February 2007 FUIB made Eurobond issue for total amount of \$150 mn. In 2Q2007 the second Eurobond issue for total amount of \$125 mn took place.
- As at 01.10.2007 FUIB equity is UAH 1.4 bn, Equity/Assets ratio is 12.2%. For allowable capitalization and further assets growth support on 4 June 2007 shareholders made a decision to increase share capital to UAH 1.7 bn (+UAH 757.5 mn).
- The bank's Net profit in 2006 amounted to UAH 81.9 mn. Profitability traditionally keeps a high level.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	11 523,9	6 082,9	3 577,3
Credit portfolio	6 349,6	3 504,7	1 892,2
Loans to individuals	1 301,3	462,1	71,8
Loans to legal entities	5 048,3	3 042,6	1 820,4
Shareholders' equity	1435,6	980,5	492,20
Liabilities	10088,4	5 102,4	3 085,1
Due to other banks	4031,9	1 941,0	611,7
Individuals' accounts	1602,3	1 012,1	663,3
Legal entities' accounts	3203,4	2 033,3	1 726,0
Net Profit	51,5	81,9	55,1

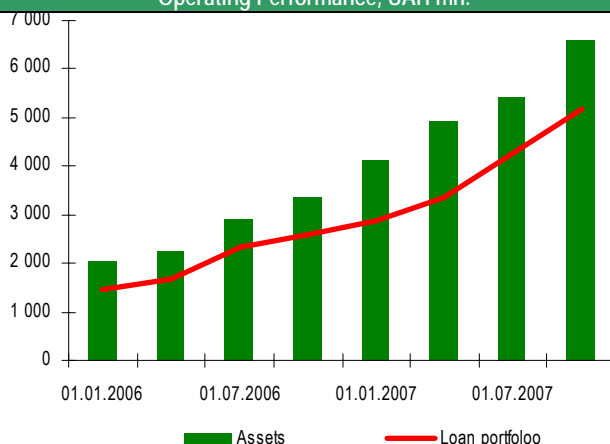
International credit ratings

Moody's Investors service	B2/Positive
Fitch Ratings	B-/Stable

TAS-Commerzbank

- TAS-Commerzbank ranks among big Ukrainian banks under NBU classification being the 20th bank by assets size (as at 01.10.2007). TAS-Commerzbank also owns 100% stake of TAS-Investbank. Total assets of these 2 banks amount UAH 9.4 bn.
- Till 2007 bank was subsidiary of industrial-financial group TAS controlled by Sergey Tyhypko. In 2007 bank was bought by Sweden bank group. Deal price reached \$735 mn. enclosing a contribution of \$50 mn. made in the bank's share capital. The completion of the deal was announced in June 2007.
- Swedbank is the banking group operating in the North European and Baltic States. The group runs over 470 outlets in Sweden, 280 outlets in Baltic States. In 2005 the group's total assets arrived at EUR 130 bn.
- For 2006 TAS-Commerzbank assets doubled up to UAH 4.1 bn. In 2007 the bank has retained high growth rates (a 60% assets increase for 9M2007). The bank's strategy is geared at retail segment development. Regional network includes 168 outlets.
- Loan portfolio has been growing in line with assets dynamics with key driver of loans to individuals (a 3.4-fold increase for 2006). The bank's activity in retail market triggered shift in loan portfolio structure: a share of loans to individuals grew from 23% up to 42% (as at 01.10.2007).
- Strategic development of retail banking reflected in the bank's liabilities structure. Since 01.01.2006 deposits from individuals have tripled. To date the bank has not used external debt instruments. At the same time, having merged with the structure Swedbank, TAS-Commerzbank will get possibility to raise cheap funds in Eurobonds market. Few bonds issues are currently circulating in the local market. TAS-Investbank has issued two Series of bonds totally amounting to UAH 150 mn.
- The bank's equity is UAH 577 mn, Equity-to-Assets ratio is 8.7%. TAS-Commerzbank capitalization lags behind that of the banking system in all however being rather allowable. We expect after merger with Sweden group, the capital level will be maintained requisite for robust development.
- In 2006 Net profit of the bank was UAH 17.8 mn. over doubling vs. 2005. Therewith the bank's profitability is quite low.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	6604,2	4 123,0	2 024,2
Credit portfolio	5179,3	2 879,5	1 445,5
Loans to individuals	2235,8	1 161,5	342,6
Loans to legal entities	2943,5	1 717,9	1 102,9
Shareholders' equity	577,1	571,9	267,2
Liabilities	6027,1	3 551,1	1 757,0
Due to other banks	2471,3	936,6	256,2
Individuals' accounts	1428,9	1 286,8	580,6
Legal entities' accounts	1053,3	1 161,3	859,2
Net Profit	8,4	17,8	9,4

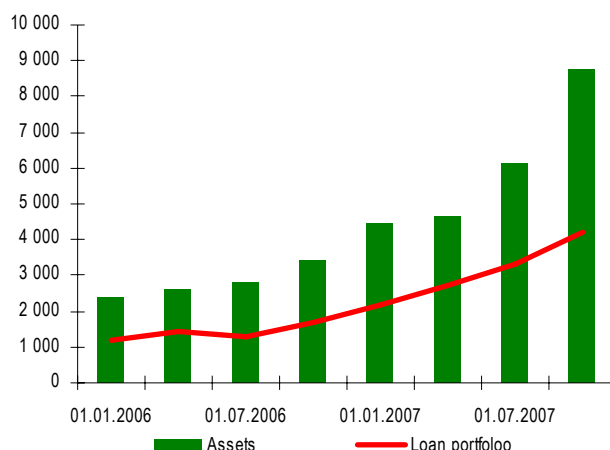
International credit ratings

Moody's Investors service	B2/Stable
Fitch Ratings	B-/Stable

OJSC "Ukrgazbank"

- OJSC "Ukrgazbank" ranks among top banks of Ukraine holding the 17th position by assets size under NBU classification (as at 01.10.2007). The bank's branch network comprises 195 outlets.
- The bank is controlled by the deputy of Verkhovna Rada of Ukraine of the fifth convocation, Vasily Gorbali. Altogether, Ukrgazbank is publicly reported as one of the potential targets for acquisition by a foreign financial group.
- As at 01.10.2007 the financial institution's assets are UAH 8.8 bn. The bank's assets growth over 2006-2007 has tangibly been in advance that of average banking. In 2006 assets grew 1.9-fold giving the bank possibility to strengthen its market positions. The most significant growth was fixed in 3Q2006 and 2Q2007 (+32%) and in 3Q2007 (+43%).
- OJSC "Ukrgazbank" is conventionally corporate bank. In the loan portfolio structure about 71% of originated loans accounts for loans to legal entities. At the same time since 2006 increasing interest towards retail lending has been observed. This was triggered by general market trends and by high earning capacity of this segment. In addition retail segment development gives rise to the bank's attractiveness for potential foreign investors. One of the foreground directions of retail banking is mortgage lending sector.
- In contrast to assets structure, in liabilities individuals' accounts prevail with 32%-share. Considerable share of individuals' accounts results in high level of the bank's resource base diversification and, in the mean time, increases cost of raised funds. In 2007 interbank liabilities demonstrated the most significant growth.
- On Mar 1, 2007 the bank has initiated placement of UAH 50 mn. three-year mortgage bonds. Such issue became a pioneer of assets securitization in the local Ukrainian market. It's performed by the bank cooperating with the Pragma Corporation within the project of USAID "Access to Credit Initiative".
- Aiming at further diversification and resource base cost reduction, in 2007 Ukrgazbank intends to perform a debut three-year Eurobond issue amounting to \$100 mn. and to raise syndicated loan. Total amount of planned borrowings will come at \$140-200 mn.
- As at 01.10.2007 the bank's equity is UAH 635.5 mn, Equity/Assets ratio is 6,8%. Ukrgazbank capitalization is lower than average banking system's level. In May 2007 the bank raised its share capital by 33.3% (by UAH 100 mn.) up to UAH 400 mn. through extra equity issue placement in order to ensure further assets growth.
- Ukrgazbank Net profit for 2006 was UAH 30.8 mn. that almost doubled since 2005. Herewith, the bank's profitability retains low level.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	8759,1	4 460,8	2 387,3
Credit portfolio	4221,9	2 164,5	1 200,5
Loans to individuals	1193,7	591,3	145,7
Loans to legal entities	3028,2	1 573,2	1 054,8
Shareholders' equity	635,5	476,6	217,0
Liabilities	8123,7	3 984,2	2 170,3
Due to other banks	3167,0	1 010,2	531,5
Individuals' accounts	2640,7	1 724,0	1 049,6
Legal entities' accounts	1530,3	964,4	482,2
Net Profit	58,7	30,8	16,7

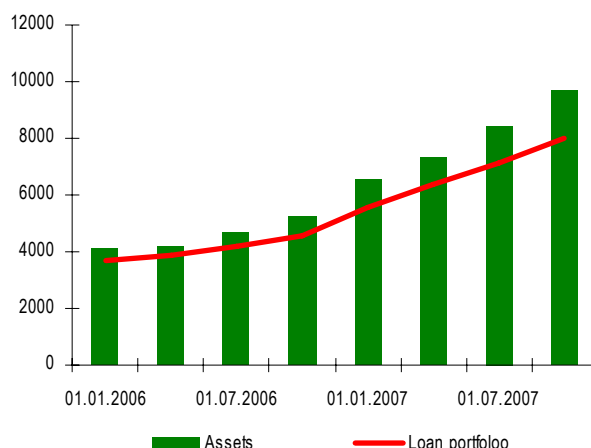
International credit ratings

Moody's Investors service	B2/ Stable
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Ukrprombank

- Ukrprombank ranks the 15th among the largest banks of Ukraine by assets volume as at 01.10.2007. As at early 2007 the bank's regional network includes 238 branches and outlets.
- As at 01.10.2007 Ukrprombank assets are UAH 9.7 bn. In 2006 assets growth rates were 59%, almost moving in line with the banking system dynamics. Thereat, from 2005 till 01.04.2006 the bank lost two positions in the rating of Ukrainian banks by assets size. In 9M2007 the bank's assets grew by 48%.
- In the structure of loan portfolio loans to legal entities prevail (81%). Despite, on the back of advancing growth of Ukrainian banking retail, loans to individuals have almost tripled since early 2006, their share has still remained low due to low base parameters. A share of overdue and doubtful loans doesn't come over 0.3% of the portfolio.
- Around 63% of the bank's liabilities accounts for individuals' accounts, 93% out of which is term deposits. Such liabilities structure assigns Ukrprombank to savings banks that imposes a number of restriction on its activities. In particular, the bank is restricted in amounts of originated loans to counterparties and insiders and also it's obliged to stand to higher liquidity requirements. Since 2006 the bank has begun more actively using interbank market: by 01.10.2007 it increased 'due to other banks' almost 6 times. At the same time, legal entities accounts have been gradually waning.
- As at 01.10.2007 the bank's equity is UAH 1099.2 mn. Equity/Assets ratio is 11,5% considerably lagging behind average banking ratios but remaining rather allowable. In the nearest time the bank's plans don't envisage share capital increase.
- The bank's assets and liabilities structure implies low profitability of the financial institution due to high cost of raised resources (being typical for retail market) on the back of relatively low profitability of corporate lending. Despite Net profit growth in 2006 by over two-fold (up to UAH 54.1 mn), ROA and ROE are 0.826 and 6.43 respectively that is lower than average banking indicators.
- The bank has not been rated by any leading international agencies and has not attracted funds via local bond issues or Eurobonds. At the same time, in Apr 2007 Ukrprombank raised syndicated loan amounting to \$33 mn. (1-year maturity, LIBOR+2.95%).

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	9 665,7	6 553,4	4 109,1
Credit portfolio	8 020,30	5 585,9	3 692,6
Loans to individuals	1503,9	747,5	285,2
Loans to legal entities	6516,5	4 838,4	3 407,4
Shareholders' equity	1099,2	938,6	632,4
Liabilities	8566,5	5 614,8	3 476,6
Due to other banks	1280,1	1 073,1	240,3
Individuals' accounts	5419,6	3 577,2	2 178,1
Legal entities' accounts	1706,6	801,0	946,2
Net Profit	59,9	54,1	23,9

International credit rating Ukrprombank

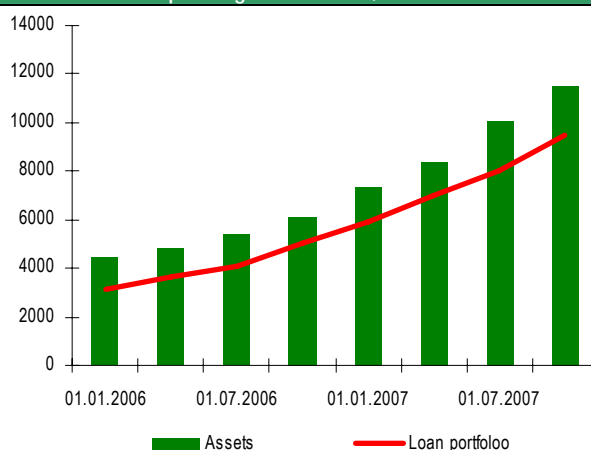
Moody's Investors service

B2/Stable

“Finance and Credit” Bank

- “Finance and Credit” Bank ranks among the largest financial institutions of Ukraine holding the 12th by assets size as at 01.10.2007. The bank is associated with the financial-industrial group “Finance and Credit” controlled by the national deputy of Ukraine (BYT), Konstantin Zhevago.
- “Finance and Credit” group incorporates a set of financial and industrial assets. The group applies its interests to mining, chemical and tyre industry, banking and machine-building sector. The largest asset of the group is Poltava mining-and-processing integrated works (MPIW) – the biggest and advanced among Ukrainian MPIW producing 40% of all iron-ore pellets and exporting 80% of production.
- As at 01.04.07 the bank’s branch network comprises 300 units in all the regions of Ukraine, including 16 affiliates, 283 outlets and Head office. During 2006 the network was expanded almost by 30%.
- As at 01.10.2007 Finance and Credit assets are UAH 11.5 bn. In 2006 the bank demonstrated outstripping assets growth rates vs. average banking dynamics (+66%). Thereat, it’s worth pointing out to equability in the bank’s assets and lending growth. In 2007 assets continue rising (+57%).
- As at 01.10.07 banks loan portfolio is UAH 9,5. In 2006 loan portfolio grew by 86.5%. In the loan portfolio structure loans to legal entities dominate (61). At the same time, retail lending dynamics is essentially coming over dynamics of legal entities segment. During 2006 loans to individuals raised by over 167%, while loans to corporate customers – just by 65%. A share of overdue and doubtful loans doesn’t exceed 0.7% of the loan portfolio.
- We have to admit increasing of the share of legal entities in bank’s liabilities in 9M2007. As at 01.10.2007 legal entities’ amounted UAH 4,2 bn. (+125%).
- Aiming at diversifying and decreasing cost of raised funds, in 2006 the bank placed \$100 mn. Eurobonds maturing in 2010.
- As at 01.10.2007 the financial institution equity is UAH 960.9 mn. Equity to Assets ratio is 8.3% that is significantly lower than average market indicator. To date there is no available information as per possible share capital increase. At the same time the bank announced its intention to sell 25%-stake through IPO. We don’t rule out that another 3%-stake owned by NJSC “Naftogaz of Ukraine” could be sold.
- Finance and Credit Net profit in 2006 surged over 6.5-fold up to UAH 101.7 mn. ROA and ROE are 1.385 and 19.593 respectively coming over similar average banking indicators.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	11502,5	7 340,3	4 421,7
Credit portfolio	9476,3	5 905,1	3 166,9
Loans to individuals	3698,1	1 786,1	666,7
Loans to legal entities	5778,2	4 119,0	2 500,3
Shareholders' equity	960,9	697,9	488,7
Liabilities	10541,6	6 642,3	3 933,0
Due to other banks	2166,4	1 517,4	610,5
Individuals' accounts	3863,6	3 089,5	1 769,4
Legal entities' accounts	4149,5	1 845,9	1 399,9
Net Profit	183,7	101,7	14,9

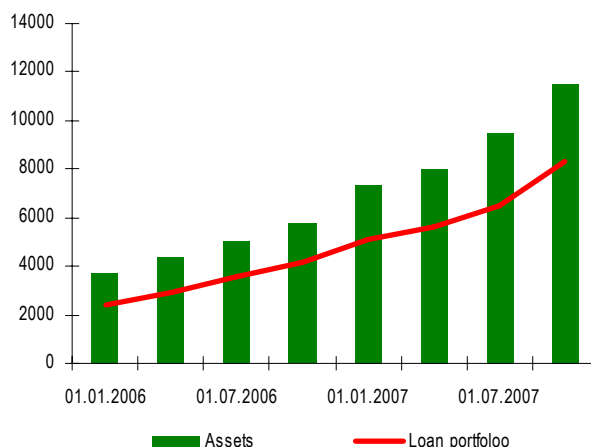
International credit ratings

Moody's Investors service	B2/ Stable
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JSCB "Forum"

- JSCB "Forum" is one of the major banks ranking the 14th by assets size. The shareholders as of 1H2007 were represented by insurance company "Provita" (66,63%) and LLC "Elmak Ltd" (10,8%). The financial institution was controlled by Konstantin Yurushev. In September, 2007 the control stake of 60%+1 has been sold to german Commerzbank. The deal has to be completed in 4Q2007..1Q2008.
- In Oct 2005 the bank's 10%-stake was placed among 12 foreign investors in the amount of \$20 mn. The placement was performed on the basis of GDR issued by Bank of New York.
- Over 2002–2006 Forum demonstrated outrunning growth. In 2007 its assets amounted to UAH 11.5 bn. (2.6% of market vs. 0.15% as early in 2003). Within 2007-2008 the bank plans to increase significantly its regional presence with concentration on fast-growing market segments (e.g. consumer lending).
- As at mid-2007 Forum branch network comprises 209 outlets. The network is currently on the way of buoyant expansion on the back of retail banking development (in 2006 growth rates attained over 30%). Subsequently, retail banking dynamics essentially outstripped that of corporate segment. Loans to individuals for 9M2007 grew by 115% (54% as per loans to legal entities). Growth of deposits from individuals reached 89.6% (3.4%).
- At the same time, loans to legal entities still prevail in loan portfolio structure (circa 76% vs. 85% in 2005).
- As at 01.10.2007 the bank's equity attained UAH 1304.5 mn. Subsequently, Equity-to-Assets ratio is 11.3%.
- To finance its growth the bank uses actively instruments of debt market and enters foreign debt markets as well. In 2006 the bank raised \$60 mn. syndicated loan and placed \$100 mn. Eurobonds. UAH 100 mn. local bonds are outstanding.
- Buoyant network development in 2006 entailed decrease in the bank's profitability. In 2006 Net profit was UAH 27.8 mn, a 32.4% YoY decrease. Consequently, Forum holds only the 27th in AUB rating by profit size. ROA and ROE are 0.376 and 4.5 (average banking indicators are 1.3 and 15.9 respectively).
- The bank has experience of cooperation with EBRR on a number of programs including SME lending and trade finance. Also the bank has collaborated with Ukrainian-German Fund on microfinancing programs.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	11489,4	7 378,3	3 752,7
Loan portfolio	8332,3	5 093,2	2 378,6
Loans to individuals	1764,7	820,3	332,3
Loans to legal entities	6567,6	4 253,7	2 041,5
Shareholders' equity	1304,5	766,7	367,6
Liabilities	10184,9	6 611,6	3 385,1
Due to other banks	2992,1	3 285,3	1 107,8
Accounts from individuals	3368,9	2 103,7	1 109,5
Accounts from legal entities	3515,8	1 093,5	1 057,5
Net profit	36,8	27,8	32,4

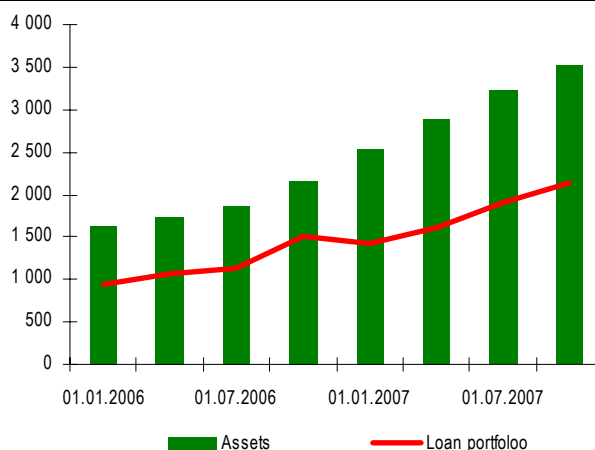
International credit ratings

Moody's Investors service	B2/Stable
Fitch Ratings	B-/ Stable

JSCB "Imexbank"

- JSCB "Imexbank" (Odessa) is among major Ukrainian banks ranking the 31th by assets (as of 01.10.2007). Honorary President of the bank is the deputy of the Verkhovna Rada (faction of the Party of Regions) – Leonid Klimov. The bank is associated with the large-scale regional financial industrial group de facto - "Primorye" that incorporates industrial, construction, trade, agricultural enterprises and hotel & tourist complexes.
- The bank has a wide regional network embracing all the territory of Ukraine. It comprises 20 branches and 347 outlets. Over 2006 Imexbank expanded substantially its branch network (almost by 50%). Besides, in 2006 the bank opened its rep offices in Vienna (Austria) and Capetown (RSA).
- Priority-oriented region for the bank is the south of Ukraine. The bank holds leading positions in Odessa region standing down by number of outlet only to Oschadbank. About 15% of all banking outlets in Odessa region accounts for Imexbank.
- In 2006 bank's assets grew by 56% up to UAH 2.5 bn. Growth rates of assets moved in line with an average banking dynamics (+59%). In 9M2007 the bank's assets growth rates have reached 38%.
- Loan portfolio is composed of about 60% of the bank's assets having increased by 49% over 9M2007. Thereat, a share of non-performing loans is just 0.7% of total portfolio. It's worth mentioning that the loan portfolio is highly diversified, considerable loans (>10% of the regulatory capital) account for max. 30% of the portfolio.
- Accelerated boost of retail lending is related to significant branch network expansion over 2005-2006 with effect showing itself early in 2006. Retail network development reflected in the bank's resource base structure. Imexbank magnified accounts of individuals by 80% (+15% - as for accounts of legal entities), therefore, their share in liabilities rose up to 50%.
- The bank's equity is UAH 381.2mn, Imexbank Equity to Assets ratio is 10,9% being below an average banking level. Despite comparatively low level of equity, the bank has no difficulties in adherence to requirement for capital adequacy ratio. On March 6 it was resolved to increase share capital by UAH 60 mn. up to UAH 295 mn.

Operating Performance, UAH mn.



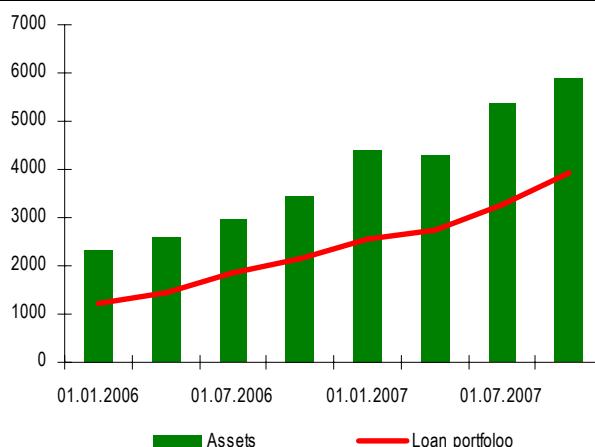
Key financials, UAH mn.

	9M2007	2006	2005
Assets	3520,1	2 536,6	1 625,8
Loan portfolio	2128,3	1 431,4	934,8
Loans to individuals	606,0	195,1	82,4
Loans to legal entities	1522,3	1 236,4	852,5
Shareholders' equity	381,2	292,9	170,4
Liabilities	3138,9	2 243,6	1 455,5
Due to other banks	583,5	335,3	159,1
Accounts from individuals	1548,9	1 119,1	621,4
Accounts from legal entities	842,9	732,1	634,4
Net profit	28,2	22,6	10,7

JSC VAB Bank

- SC VAB Bank (previously “VABank”) is the 22th by asset size in Ukraine (as at 01.10.2007), is a universal financial institution that provides a full range of banking services. VABank has operated on the market since 1992.
- The bank is controlled by Sergey Maksimov and by the international financial group TBIH Financial Services Group N.V. via its subsidiary TBIF Financial Services B.V, on the equal basis. Kardan N.V. is international investment company listed on Euronext (Amsterdam) stock exchange and Tel Aviv stock exchange. TBIH became the shareholder of VAB Bank in 2005.
- Shift in ownership structure of the financial institution was resulted in joining of a number of bank top managers having working skills in banking of the Eastern Europe. Subsequently, the bank’s management team masters unique background and technologies as for the Ukrainian banking system.
- The procedure of corporate rebranding was launched in 2005 when the strategy of the bank was developed. At the first stage of it VAB Group was founded. Thus the financial group includes, apart from VAB Bank, 8 companies that cover all segments of the financial market. The bank strategy envisages creation of universal outlets on the base of bank’s retail network. These outlets (“Financial supermarkets”) should provide fringe financial services (insurance, leasing, etc).
- As at 01.10.2007 the bank’s assets amounted to UAH 5,9 bn. For 2006 the asset growth rates moved at 87.5% outstripping general growth rates of the banking system (+59%). In 9M2007 growth rates of bank’s assets stayed on a high level moving at 34%.
- Retail network comprises 163 branches and outlets. The strategy priority of the bank is developing its branch network that is centered on the retail banking.
- Priority of the retail segment in bank’s strategy influences the loan portfolio dynamics. The bank’s loan portfolio for 9M2007 magnified almost by 54% (+110% in 2006). The most rapid growth was observed in loans to individuals segment, 96% (+297% in 2006). A share of related persons doesn’t come over 1,5% of the loan portfolio, a share of doubtful and defaulted loans doesn’t come over 1% of the loan portfolio.
- As at 01.10.07 VAB Bank’s regulative capital amounted to USD 130 mn (UAH 656.6 mn). As at 01.07.2007 H2 standard (regulative capital adequacy) was equal to 12%. This level corresponds international standards. Till the end of 2007 the strategy envisages the bank share capital increase by USD 20 mn (subordinate loan). In 2008 the shareholders of the bank plan to increase the capital to USD 200 mn. (UAH 1 bn).
- The bank’s profit for 2006 reached USD 5.2 mn, 72% YoY increase. The bank’s revenue is formed by interest income. Net profit decrease in 1H2007 stemmed from increase in expenses for network development and corporate rebranding. These expenses build a base for sales increase and financial results improving in mid-term outlook. The period of high expenses should be finished in 4Q2007-1Q2008.
- The bank was active player on the international financial market in 1H2007. The total amount of international borrowings is USD 200 mn. (USD 125 mn. via Eurobonds issue with the redemption in 2010). Another USD 51 mn. was attracted through syndicate loan.
- Pursuant to the research published by the Agency of Financial Initiative and the rating agency Standart&Poor’s, in 2006 JSC «VABank» ranked among the five most transparent Ukrainian banks.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	5898,0	4 407,5	2 351,2
Loan portfolio	3916,4	2 570,8	1 226,3
Loans to individuals	986,7	504,7	127,0
Loans to legal entities	2929,7	2 066,1	1 099,3
Shareholders' equity	646,7	552,9	295,8
Liabilities	5251,3	3 854,5	2 055,4
Due to other banks	2034,1	1 043,4	503,2
Individuals' accounts	1479,8	1 047,5	574,1
Legal entities accounts	1576,2	1 702,3	757,5
Net profit	0,1	26,3	15,3

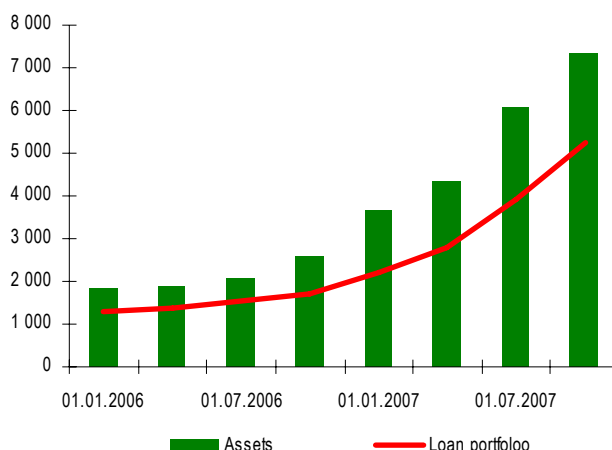
International credit ratings

Moody's Investors service	B2/ Stable
Fitch Ratings	B-/ Stable

OJSC "Rodovid Bank"

- OJSC "Rodovid Bank" ranks among big Ukrainian banks under NBU classification holding the 18th by assets size as at 01.10.2007 under NBU classification. The bank's regional network comprises 85 branches and outlets.
- Owners of 76.54%-stake of the bank that is associated with Sergey Bubka consolidated their stakes on the balance of the company RB "Capital-group". We attribute this to possible sale of the bank to foreign investor taking place by 2007-end.
- As at 01.10.2007 foreign investors have already participated in the shareholders' structure of the bank. In Apr 2006 the bank's owners sold 18.9%-stake in PFTS trading for \$36.7 mn. (in the trading course price to capital ratio was 5.4). The bank's shares were purchased by 22 foreign investors; in particular, by American investment bank Farleon (5%), Swiss bank UBS (5%) and DWS Investment (unit of Deutsche Bank (2.5%)).
- As at 01.10.2007 the bank's assets are UAH 7.3 bn. For the last 12 months ended 31.09.2007 assets over doubled (+199%), by far advancing average banking growth in Ukraine. Vigorous growth of assets has started since 2H2006 after raising sizable funds through IPO.
- Retail banking has demonstrated the most aggressive dynamics. Loans to individuals were raised almost 6 times for the last year. As at 01.10.2007 retail lending accounts for around 37%.
- In liabilities structure individuals' accounts dominate. Since early 2007 their volume has been more than doubled. Thereat, growth rates of corporate accounts lagged by far behind those of individuals. High expansion of the bank in retail market is related to strategic priority attached to this segment by the bank since 2006. Retail banking development, including branch network expansion, is resulted from general banking market trends and pre-acquisition preparation of the bank.
- As at 01.10.2007 Rodovid bank equity is UAH 1109,5 mn, Equity/Assets ratio is 15.1% being higher than average banking level.
- The bank's Net profit in 2006 amounted to UAH 22.6 mn, almost 2-fold YoY increase.

Operating Performance, UAH mn.



Key financials, UAH mn.

	9M2007	2006	2005
Assets	7344,8	3 675,2	1 829,2
Loan portfolio	5258,7	2 202,0	1 274,6
Loans to individuals	1921,2	933,3	219,5
Loans to legal entities	3337,5	1 268,7	1 055,0
Shareholders' equity	1109,5	450,1	177,8
Liabilities	6235,3	3 225,1	1 651,4
Due to other banks	1998,5	966,4	254,5
Individuals' accounts	2197,6	1 106,6	617,1
Legal entities accounts	1566,1	892,9	691,1
Net profit	38,7	22,6	11,2

International credit ratings

Moody's Investors service	B3/Positive
Fitch Ratings	B-/Stable

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