

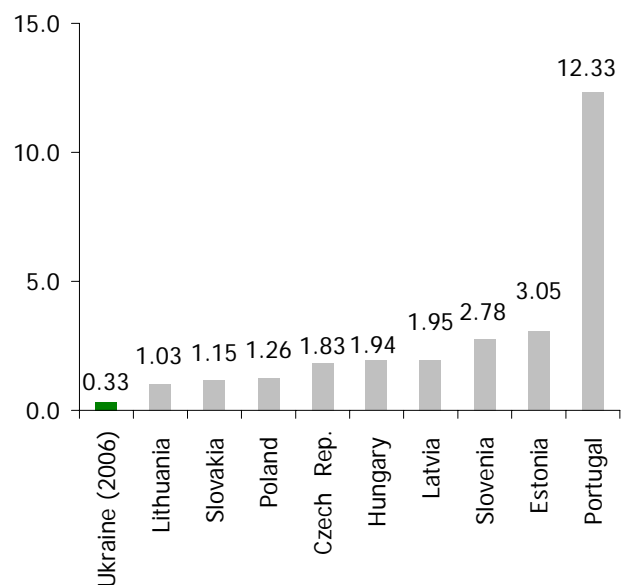
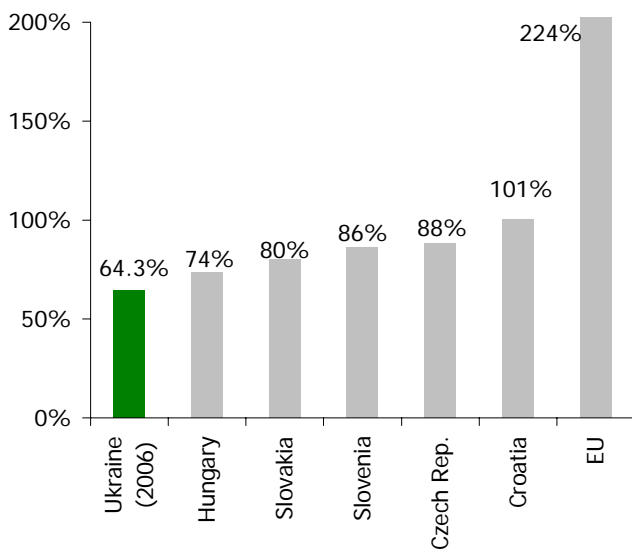
Ukrainian Banking Sector Overview

Since 2000, total assets in the Ukrainian banking sector have increased at an average annual rate of 45%, reaching \$67bn last year. Economic recovery, substantial growth in personal and corporate incomes and the gradual elimination of the country's massive shadow economy have been the key growth drivers, stimulating demand for financial services. The low penetration of banking services and gradual abolition of barter and offset schemes have also supported the sector's growth.

Strong banking sector growth driven by economic expansion

Despite this impressive asset growth, the domestic banking sector still falls relatively short compared to CEE countries in terms of penetration: Ukraine's banking assets/GDP stood at only 64.3% in 2006 compared to 74-101% in Hungary, the Czech Republic, Croatia, Slovenia and Slovakia, and 224% on average in the European Union in 2005. Domestic retail lending stood at 0.33% of Ukraine's GDP in 2006, or just \$330 per capita (compared to \$1,000 to \$3,000 per capita for Eastern European peers). It should be noted that actual domestic banking penetration in Ukraine could be even lower taking into account the shadow economy (estimated at 30% of official GDP).

Banking penetration remains low...



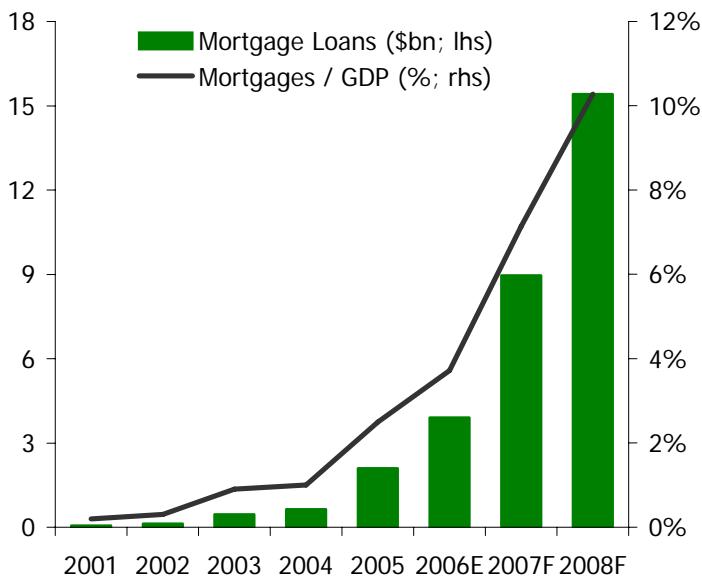
Ukraine vs. International Peers: Total Assets/GDP (2005)

Ukraine vs. CEE Peers: Retail Loans/Capita (\$ '000; 2005)

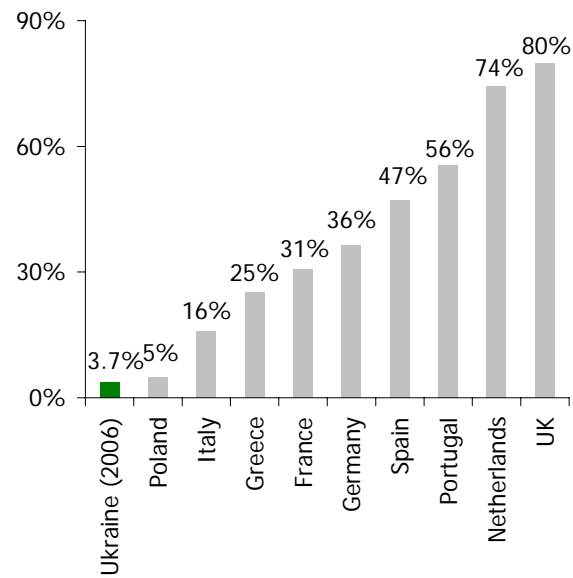
Sources: State central banks, European Central Bank, National Bank of Ukraine, Dragon Capital estimates

The Ukrainian banking sector's total mortgage portfolio (with 74% of it retail mortgages) grew at a CAGR of 148% between 2002 and 2006, to \$5.3bn (or 5.0% of GDP). The explosive growth in issuances in recent years can be attributed to increased political stability, creation of a regulatory base for mortgages, growth in personal income (20% CAGR over 2004-06) and growth in real estate prices (30- 50% in 2006). In 2006, USD-denominated mortgage rates stayed relatively stable, at 12%-13%. The national mortgage market is dominated by USD-denominated loans (80% of all such loans issued). Even though nearly 100 banks offer a mortgage product, the top 10 players dominate the market with a share of more than 80%. IMB Group, a leading mortgage specialist, in just two years of credit lending operations secured about 2.2% share of the Ukrainian mortgage lending market by disbursements and over 10% share within its addressable market (currently Home Acquisition and Home Equity loans in Kiev, secured against mortgages on secondary market apartments only) in Kyiv, Ukraine's capital. On a per capita basis, the stock of outstanding retail mortgage loans in Ukraine (of about \$85/capita) sits considerably below that in Poland (\$703/capita at end-2006), implying massive growth potential over the next decade, especially for IMB Group. This year, we expect total mortgage loans in the sector to surge 109% y-o-y, to \$11bn (or 8.7% of GDP), with retail mortgages accounting for 82% of this amount.

...especially with respect to mortgages...



Ukraine Mortgages (\$bn) and Mortgages/GDP



Ukraine vs. International Peers: Mortgages/GDP (2005)

Source: Central Banks, ECB, NBU, Dragon Capital estimates

Over 2002-06, the Ukrainian consumer lending market (including POS loans, cash loans, credit cards and other consumer loans) increased more than 10-fold, to an estimated \$6.8bn. Apparently, Ukraine follows growth trends of consumer finance markets in other CEE countries but is developing much faster thanks to currently low levels of market penetration, the utilization of CEE experience, strong macroeconomic fundamentals, rapid growth in personal incomes and the accelerated entry of foreign players. Ukraine should catch up with the current per capita lending level of its CEE peers within five to six years, implying 100% annual growth in consumer lending from current levels over the next five years. Ranking among the top players in POS Loans, IMB Group is pursuing a market leadership strategy, aiming to create a strong recognizable and reliable nationwide brand supported by a full range of the Groups products in each region of Ukraine. This should lead to a sizable market share in the next 5 years – just under 4%.

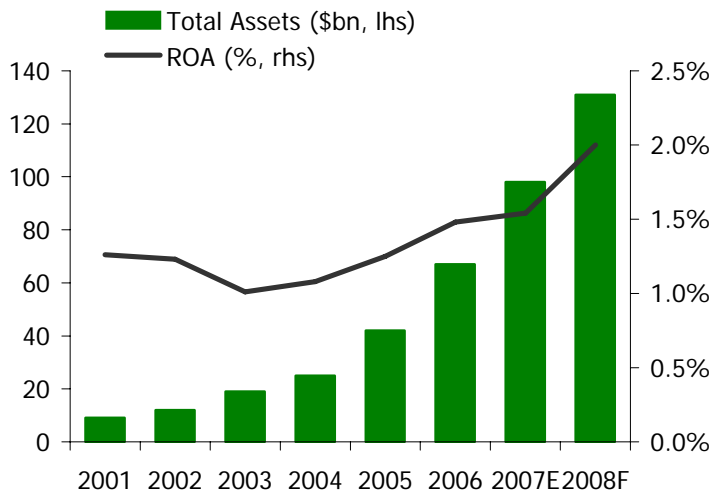
...consumer lending...

Even though the domestic market for payment cards increased by 38% in 2006, to 38 million cards, only an estimated 10-15% of these cards offer lines of credit. The key players in this respect include Privatbank, Nadra Bank, Raiffeisen Bank Aval, Pravex Bank, Ukrsofsbank and Ukrsiibbank. The domestic unsecured cash loans market virtually does not exist, though Ukraine already leads Poland with respect to per capita penetration of both payment cards (0.8 in UA vs. 0.5 in PL) and credit cards (0.22 in UA vs. 0.07 in PL). Because of the need for aggressive distribution, the cash loans market in Poland is heavily penetrated by specialists (approx. 30%). The effective use of cash loans and credit cards requires a broad database of clients (for risk analysis), which also positions specialists well in this segment. Because of its relatively well developed payment cards culture, Ukraine may be expected to use credit cards as a dominant mechanism for the disbursement of unsecured cash loans.

...cash loans and credit cards.

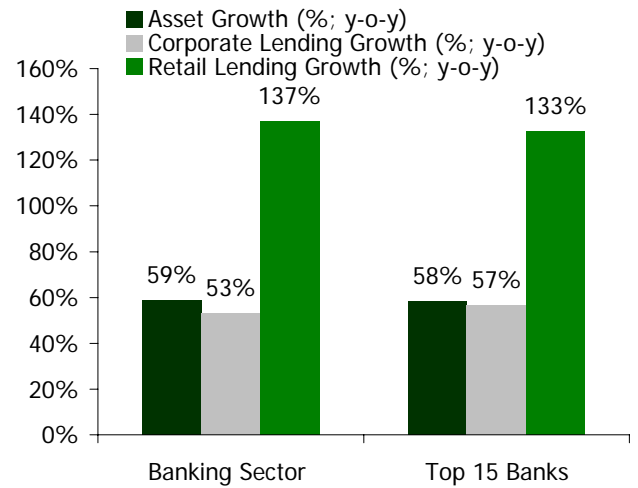
In 2006, Ukraine's banking sector continued its impressive growth. Total assets surged 59% y-o-y, to \$67.4bn (64% of 2006 GDP), thanks to a 71% increase in customer lending, to \$48.5bn, and retail lending last year accelerated by an impressive 137% y-o-y, to \$15.5bn, the sector's overall loan portfolio rising from 23% in 2005 to 32% today. Corporate lending also increased, by 53% y-o-y, to \$33bn.

Total asset growth of 59% y-o-y in 2006 was driven by retail lending...



Total Assets (\$bn) and Return on Average Assets (%)

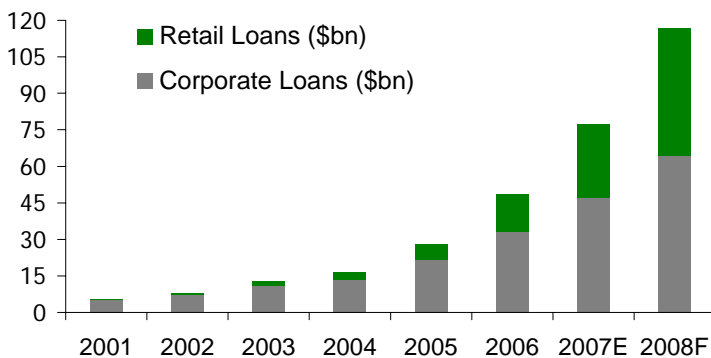
Sources: NBU, Dragon Capital estimates



Banking Sector Asset and Lending Growth in 2006 (%; y-o-y)

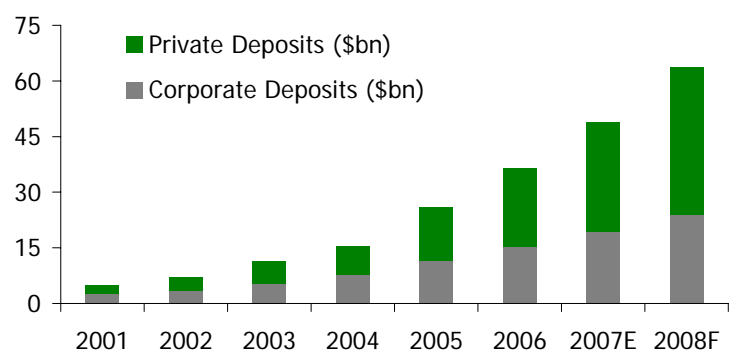
Total liabilities in the sector rose by 58% y-o-y, to \$58.8bn, driven by: a 126% y-o-y jump in inter-bank funding, to \$14.3bn; a 46% increase in private deposits, to \$21.2bn; and, a 30% growth in corporate deposits, to \$15.4bn. The sector's end-2006 equity was also up 70% y-o-y, to \$8.6bn. We expect the banking sector to continue to post strong growth in 2007, driven by increased retail and corporate lending.

...was amply funded by deposits



Growth in Banking Sector Loan Portfolio (\$m)

Sources: NBU, Dragon Capital estimates

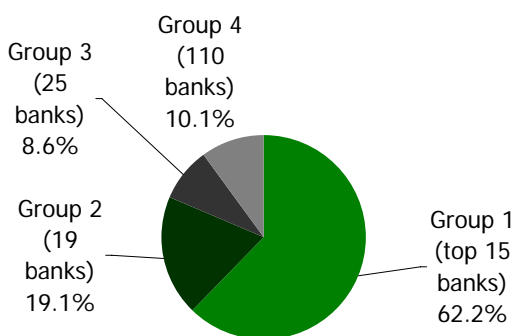


Growth in Banking Sector Deposits (\$m)

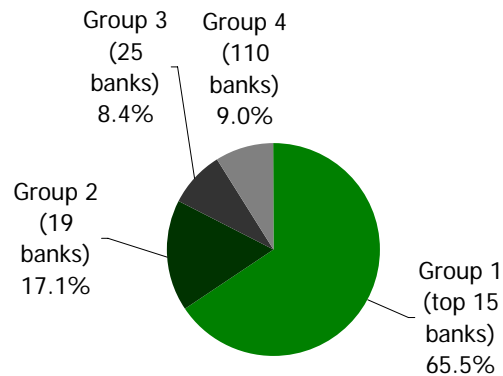
Sources: NBU, Dragon Capital estimates

Despite the large number of banks in the country (170 in 2006), sector asset and loan concentration was relatively low. The top 15 banks ("Group 1") accounted for 62.2% of the total assets in the sector last year; the next 19 ("Group 2") managed 19.1%, and the 25 banks following them ("Group 3") accounted for 8.6%. The remaining 10.1% of total assets were distributed among 110 smaller banks ("Group 4"). At the same time, Group 1 banks accounted for 65.5% of the total customer loans portfolio in the sector, Group 2 managed 17.1% and Group 3 accounted for 8.4%.

Sector concentration remains relatively low



Banking Sector Structure (% of 2006 total assets)



Banking Sector Structure (% of 2006 customer loans)

Source: NBU

Interest revenues in the banking sector in 2006 increased 59% y-o-y, to \$5,992m, while interest expenses rose 52%, to \$3,283m, bringing 2005 net interest income to \$2,709m (up 68% y-o-y). Also, banks reported net fees and commissions of \$1,497m (up 44%) and other non-interest revenues of \$579m (up 14%) over the period, bringing 2006 operating revenues to \$4,785m (up 52% y-o-y). With operating costs over the period up 38% y-o-y, to \$2,784m (implying an average Cost/Income ratio of 58.2%), net income for the sector in 2006 increased 90% y-o-y, to \$814m, implying average ROA and ROE of 1.5% and 12.0%, respectively. We expect that strong lending growth over the next three to five years, driven by massive demand for retail banking products, will result in further improvement of banking sector profitability and bring sector average ROE to over 16% in 2008.

Robust financial performance...

In 2006, the National Bank of Ukraine reduced obligatory reserve requirements for banks operating in Ukraine, thereby effectively loosening monetary policy, a move meant to fuel lending growth and reduce borrowing costs. This move was further supported by an NBU decision to cut its discount rate 10 bp, from 9.5% to 8.5% in June 2006. With these moves in mind, we expect the domestic banking sector will maintain its robust lending and asset growth in 2007. With the domestic economy continuing to expand and disposable incomes growing, we expect these trends and the low saturation of consumer markets in the country to continue to fuel demand for loans.

...imply sector's bright outlook

To capitalize on the retail lending boom, foreign investors have jumped into the Ukrainian banking sector with both feet since 2004 when the first two foreign acquisitions were registered – the purchase of a 94% stake in Agio Bank by Sweden's SEB and a 66.65% stake in Kredyt Bank Ukraine by PKO BP of Poland.

Consolidation via M&A started in 2004...

Buying a 93.5% stake in Aval, Ukraine's 2nd largest bank by assets, for \$1,028m in fourth quarter of 2005, and valuing it at a P/BV of 3.65, Raiffeisen International brought the sector into a next wave of M&A activity. Shortly, BNP Paribas acquired a 51% stake in Ukrsybbank, the 5th largest bank, at a P/BV of 3.70. The following year, from the very beginning, proved to be another hot season for banking sector M&As. In January 2006, Sberbank bought 100% in NRBUkraine, followed by Banca Intesa (now Intesa Sanpaolo) submitting a bid for an 88.55% stake in Ukraine's 5th largest bank, Ukrsotsbank, in February, initially valuing it at \$1.3bn or at a P/BV of 6.60 and lifting its offer for the stake by 6.9% in September, valuing the bank at \$1.4bn (P/BV of 4.76). The deal, however, fell through and Ukrsotsbank owners are now planning to announce a new tender. In March, Credit Agricole agreed to pay \$263m for 98% of Indexbank, implying a P/BV of 5.78. Further, OTP Bank bought 100% of Raiffeisenbank Ukraine for \$833m, valuing the corporate bank at a P/BV of 5.06; and EFG Eurobank paid 49m for a 99.3% stake in Universal Bank, valuing it at a P/BV of 3.01. Finally, Austrian Erste Bank acquired 100% of Bank Prestige for \$104m (for an implied P/BV of 1.76).

...accelerated over 2005-06...

In 2007, Sweden's Swedbank agreed to acquire 100% of TAS-Komerzbank, Ukraine's 19th-largest bank, for \$735m, implying a P/BV of 5.39. Cyprus-based Marfin Popular Bank announced its acquisition of a 99.2% stake in Marine Transport Bank, the 44th-largest bank in Ukraine, for \$137m, implying a market cap of \$138m, P/BV of 5.13 and P/Assets of 0.57. Additionally, the National Bank of Greece plans to acquire a bank in Ukraine. This and several other announcements by foreign banks trying to enter Ukraine confirm the continued interest of foreign strategic investors towards local banks.

...and does not seem to be loosing steam this year

Bank	Acquired by	Stake (%)	Stake Price (\$m)	Implied MC* (\$m; fully diluted)	Implied P/BVPS (x)*
2005 Deals					
Aval	Raiffeisen International	93.5%	1,028	1,099	3.65
Ukrsibbank	BNP Paribas	51.0%	360	706	3.70
2006 Deals					
NRB-Ukraine	Sberbank	100%	100	100	4.59
Ukrsotsbank (February Offer)**	Banca Intesa	88.1%	1,160	1,317	5.27
Indexbank	Credit Agricole	98.0%	263	268	5.78
Prestige Bank	Erste Bank	100.0%	104	104	1.76
Universal Bank	EFG Eurobank	99.3%	49	49	3.01
Raiffeisenbank Ukraine	OTP Bank	100.0%	833	833	5.06
Ukrsotsbank (September Offer)**	Banca Intesa	88.55%	1,240	1,400	4.76
2007 Deals					
TAS-Kommerzbank	Swedbank	99.98%	735	735	4.15
Marine Transport Bank	Marfin Popular Bank	99.20%	137	138	4.84
M&A Average					4.23

Recent M&As in Ukraine's Banking Sector (2005-07)

Notes: *Accounts for banks' share capital increases; ** deal fell through, new tender expected; Source: Dragon Capital