

BANKING MARKET IN UKRAINE 2008-2010 RESEARCH BRIEF



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Intelace Research
Stryjenskich 13c m78
02-791 Warszawa, POLAND

Tel. +48502512178, Fax.
+48223492140

email: info@intelace.com
website: www.intelace.com

EU VAT ID: PL-1230807095
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Bank: BRE Bank, Mickiewicza 10,
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TABLE OF CONTENT (1/2)

1. Macroeconomic overview

Slide 1: Executive summary

Slide 2: Ukraine - General overview

Slide 3: Key macroeconomic indicators, GDP, inflation, FX rates, 2002-2008H1

Slide 4: Foreign trade statistics, C/A balance, 2002-2008Q1

Slide 5: Unemployment rate, average salary, 2002-2008H1

Slide 6: Central bank rates, market interest rates, 2002-2008H1

2. Banking market

Slide 7: CEE banking markets + Ukraine: Size vs. growth matrix, 2005-2007

Slide 8: CEE banking penetration benchmarks - International comparison, 2007

Slide 9: Evolution of banking assets LCU vs. EUR, 2002-2008H1

Slide 10: Concentration of the banking market, 2008H1

Slide 11: Top 12 commercial banks, market shares, ownership, 2008H1

Slide 12: Client deposits by customer segment evolution, 2002-2008H1

Slide 13: Client loans by customer segment evolution, 2002-2008H1

3. Retail banking

Slide 14: Retail deposits by maturity and currency, 2002-2008H1

Slide 15: Retail loans evolution by type and currency, 2002-2008H1

Slide 16: Market shares of banks on the retail market, 2008H1

Slide 17: Top cards issuers, 2008H1

Slide 18: Banks shares in payment infrastructure: ATM, POS, Cash advance, 2008H1

4. Corporate banking

Slide 19: Corporate deposits by maturity and currency, 2002-2008H1

Slide 20: Corporate loans evolution by type and currency, 2002-2008H1

Slide 21: Market shares of banks on the corporate market, 2008H1

SAMPLE

TABLE OF CONTENT (2/2)

5. Banks profitability

Slide 22: Interest margins, 2002-2008H1

Slide 23: Commercial banks aggregated Profit & Loss composition, 2007

Slide 24: Commercial banks profitability tree: Privatbank, Aval, Ukrsibbank, Ukrsotsbank, Ukreximbank, 2007

6. Banks valuation and M&A activity

Slide 25: 2005-2007 banking M&A deals in Ukraine: P/A, P/BV, P/E multiples (1/4)

Slide 26: 2005-2007 banking M&A deals in Ukraine: P/A, P/BV, P/E multiples (2/4)

Slide 27: 2005-2007 banking M&A deals in Ukraine: P/A, P/BV, P/E multiples (3/4)

Slide 28: 2005-2007 banking M&A deals in Ukraine: P/A, P/BV, P/E multiples (4/4)

Slide 29: Average valuation ratios in 24 M&A transactions 2005/2007, Valuation of major banks

7. Top banks profiles

Slide 30: Bank profile: Privatbank

Slide 31: Bank profile: Raiffeisen Bank Aval

Slide 32: Bank profile: Ukrsibbank

Slide 33: Bank profile: Ukrsotsbank

Slide 34: Bank profile: Ukreximbank

8. Mid-term forecasts

Slide 35: Banking assets forecast, 2008-2010

Slide 36: Key retail volumes (deposits & loans in LCU) forecast, 2008-2010

Slide 37: Key corporate volumes (deposits & loans in LCU) forecast, 2008-2010

9. Note on methodology

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EXECUTIVE SUMMARY – BANKING MARKET IN UKRAINE 2008-2010

- **Macroeconomic situation.** Since early 2006 the Ukrainian economy has been experiencing a robust growth with GDP rising quickly at 7% p.a. Factors like: massive foreign investments (9 bn US\$ FDI in 2007), improved results of enterprises, low unemployment and rising wages have contributed to significant economic expansion. Only within last three years the country's GDP has doubled (in EUR terms), while the GDP per capita reached EUR2400 (as of 1H2008). Unfortunately also some unwanted side-effects of quick growth are increasingly apparent. The accelerating inflation (29% yoy in June 08) and mounting C/A imbalance negatively affect the economy and may pose a significant threat for future stability.
- **Banking sector.** The latest development of banking sector reflects current condition of Ukraine`s economy. Banking assets more than doubled (in EUR terms) during last two years. Retail banking business expanded particularly fast, especially driven by mortgage and consumer lending. High and stable interest margins and increasing commissions, including bank cards fees contributed to significant growth of sector profit pool. In 2007 total revenue of banks operating in Ukraine amounted to EUR 5.5 billion while the combined profit after increasingly suffering from bad loans write-offs. The credit portfolio increased to EUR 7 billion. The credit to GDP ratio increased in 2008.
- **Market structure.** Ukrainian banking sector is still extremely low concentration ratios (HHI* Index =332) the market is still dominated by foreign players (24 significant M&A transactions during 2007). Among 12 major banks (ranked by assets) there are 6 controlled by foreign investors, 4 remain in hands of local individuals / corporates and only 2 are publicly owned. 78 licensed banks in the country and very low consolidation. The recent entry of various banks has significantly changed the market structure so far.
- **Future prospects are good.** In our base scenario we assume that the Ukrainian economy will sustain GDP growth accompanied by relatively high inflation, which will convert into a quite positive climate for the banking sector. We expect that the total banking assets will exceed UAH 1.3 trillion through 2010. In the mid term perspective retail banking is likely to be the key driver of growth with strong consumer lending and mortgage expansion. Interest margins are likely to inch higher, being supported by rising nominal interest rates due to inflation.

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* Herfindahl-Hirschman Index

TABLE OF CONTENT

- **Macroeconomic overview**
- **Banking market**
- **Retail banking**
- **Corporate banking**
- **Banks profitability**
- **Banks valuation and M&A activity**
- **Top banks profiles**
- **Mid-term forecasts**
- **Notes on Methodology**

UKRAINE – GENERAL OVERVIEW

Ukraine - Country Map



Ukraine - Key facts, 2008

Area: 604 thousand square km.

Population: ~ 46.2 million, of which:

- 54% female, 46% male
- 86% aged 15 and over
- 68% urban population

Average life expectancy: 65Y male, 76Y female

Major cities (inhabitants in thousand): Kiev (2610), Kharkiv (1470), Dnipropetrovs'k (1060), Odessa (1030), Donetsk (1020)



Number of in keeps falling slowly. Emigration and still poor living conditions are key reasons of this trend

Ukraine - Overview

Political developments:

In late 2004 mass protests broke out across country in reaction to the manipulated run-off presidential election. Events known also as "Orange Revolution" have led in a peaceful way to repeated election, won by the opposition leader: Viktor Yushchenko. Despite initial success, opposition was not able to build a sustainable coalition and repeated early election was necessary in autumn 2007. Today the political situation is still far from stable. The fragile "Orange" coalition is subject to repeated attacks by opposition and according to observers another political turmoil is not excluded even before upcoming presidential election set for October 2009

conomic situation

ars 2006-2007 the Ukraine economy has rebounded d growth of GDP exceeding 7%p.a. Particularly favorable reign investments, increasing corporate spending and stic demand driven by improved situation of households. the latest trend in raw material prices and excessive (resulting from fixed FX rate and massive FDIs) accelerating price inflation which is today posing a

major threat to the future growth of the economy

Investment Climate

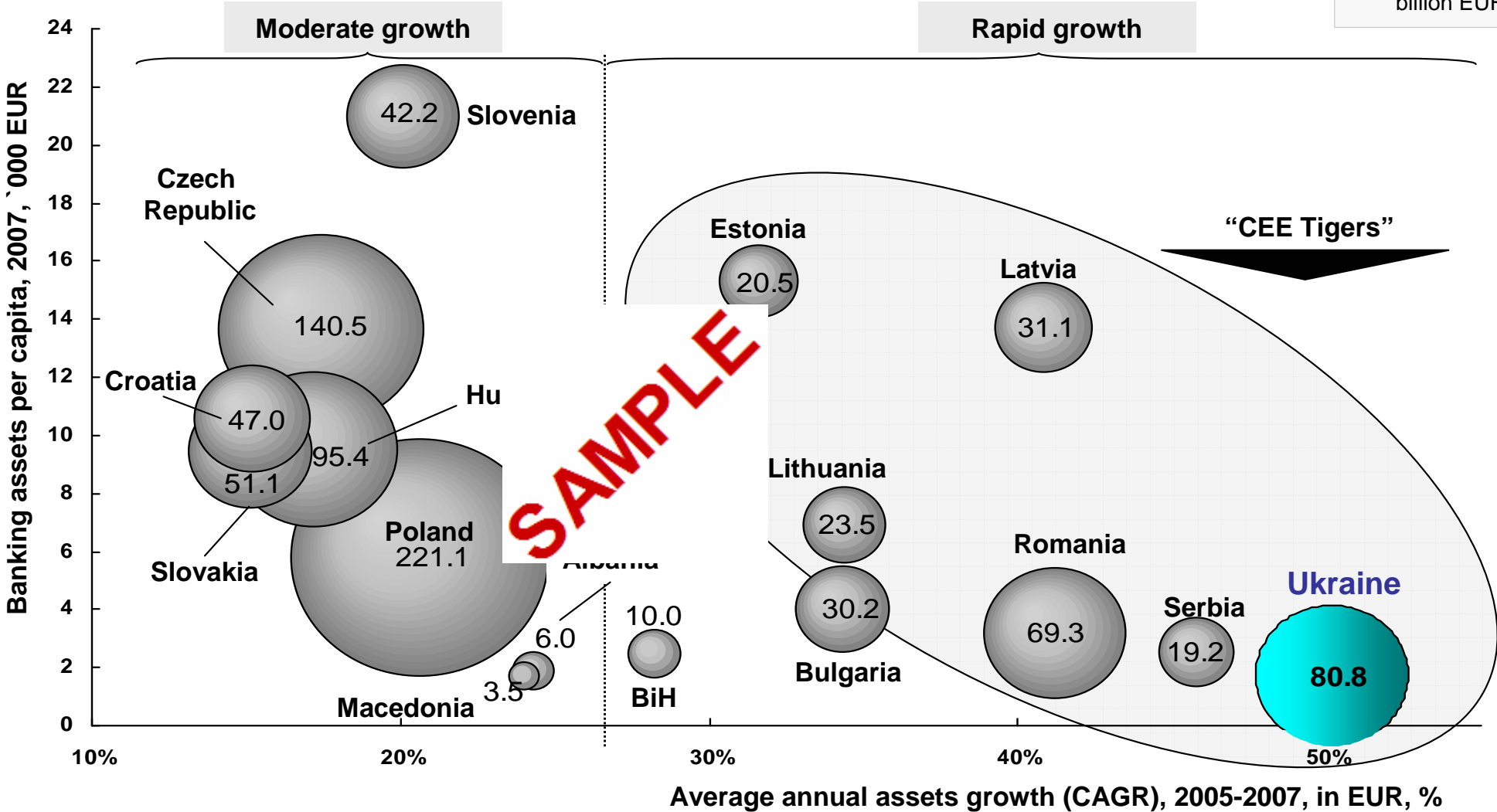
Despite political turmoil, the current investment climate is still relatively good. In 2007 Ukraine has benefited from over ~9bn US\$ of direct foreign investments, which were attracted by cheap labor force and 46m+ consumers large retail market

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UKRAINE HAS A BIG AND DYNAMIC BANKING MARKET

CEE15 banking markets & Ukraine - Size vs. growth matrix, 2005-2007

x.x Total banking assets, 2007 in billion EUR



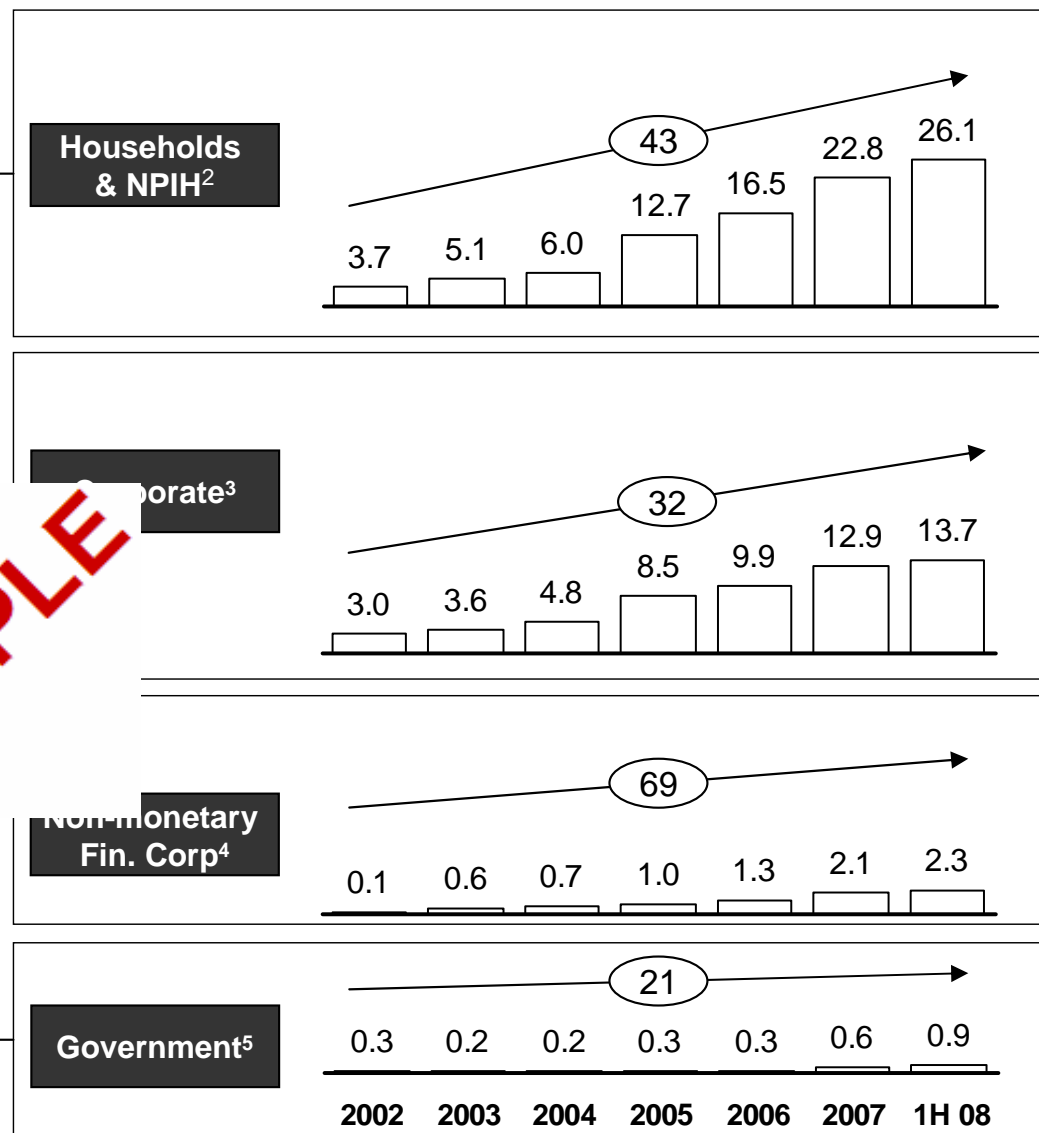
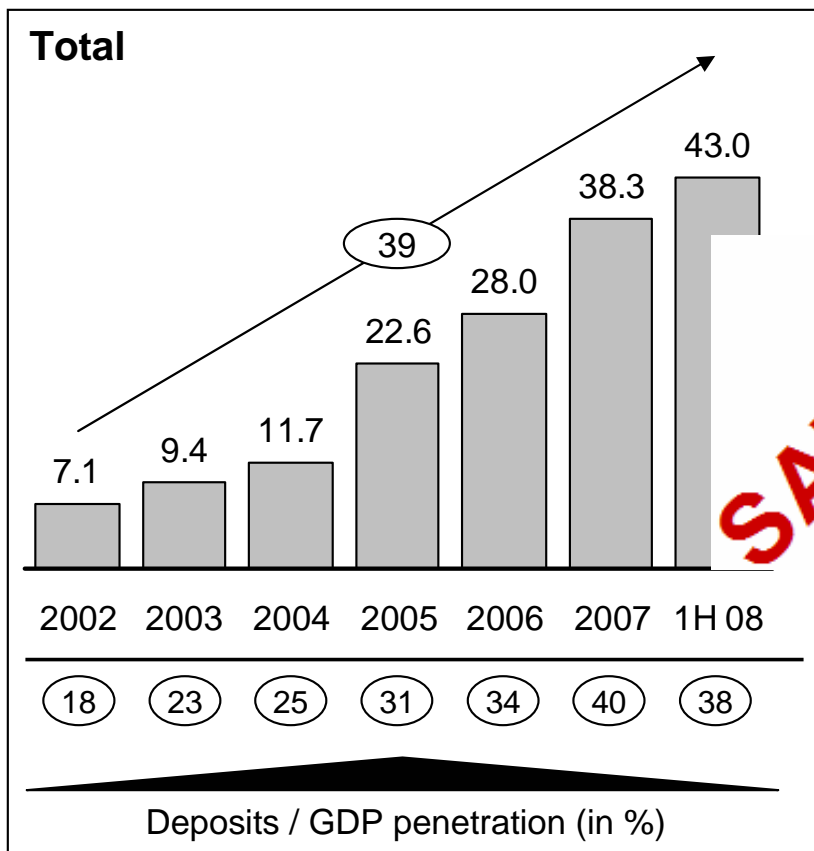
Banking Market in Ukraine - Research Brief 2008

Source: Central banks, IMF, Intelace Research

DEPOSITS INCREASE ACROSS ALL CLIENT SEGMENTS

CAGR →

Client deposits¹ by segment, 2002-1H08
In EUR billion



¹ Broad definition – all types of deposits with exception of deposits from other banks

² Non-profit organizations serving households






Source: NBP, Intelace Research

³ Private and public non-financial corporations

⁴ Non-monetary financial institutions: insurers, funds etc.

⁵ Central & Local government

RECENT BANK M&A DEALS IN UKRAINE (1/4)

Date	Buyer (Country)	Target	Stake & Price**	Valuation multiples*		
				P/A	P/BV	P/E
2006	Sberbank (RU)	 Банк НРБ	<ul style="list-style-type: none"> • 100% NRB Bank • 80 million EUR 	0.53	4.5	42.1
2006	PPF (CZ)	ПРИВАТИНВЕСТ	<ul style="list-style-type: none"> • 100% Privatinvest • 14 million EUR 	0.28	1.8	23.3
2006	PPF (CZ)	 АГРОБА	<ul style="list-style-type: none"> • 100% Agrobank • 24 million EUR 	0.24	2.4	60.0
2005	BNP Paribas (FR)	 УКРСИБ	<ul style="list-style-type: none"> • 100% UkrSibbank • 20 million EUR 	0.44	4.9	83.4
2005	Raiffeisen Bank (AT)	 АВАЛ БАНК	<ul style="list-style-type: none"> • 90% AVAL bank • 830 million EUR 	0.37	4.2	402.4
2005	SEB (SE)	 АЖІО БАНК	<ul style="list-style-type: none"> • 98% of Aggio bank • 24 million EUR 	0.51	2.0	30.6

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* Price/Assets, Price/Book Value and Price/Earnings multiples for the year of transaction; Bank valuation adjusted to 100%

** Price paid for the acquired stake

Source: Banks, press, Intelace Research

TOP BANKS (1/5) – PRIVATBANK



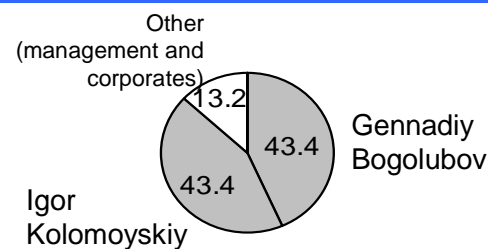
Background

- Privatbank is the largest universal bank in Ukraine. It is also a leading player in both: retail and corporate business
- Privatbank is an independent bank, owned by a group of local individual investors, corporate subjects and its management

History

- 1992 Privatbank founded as a LLC
- 2000 Organizational changes, a joint stock company is created
- 2004 Thanks to quick growth bank gains market leadership in Ukraine
- 2004-2007 International expansion: Latvia, Russia, Cyprus, Georgia
- 2007/2008 Bank raises new capital

Shareholders (as of 12/2007), %



Products

- PB offers a broad portfolio of products for both: individual and corporate clients.
- Within the retail segment PB is strong in payments cards with >15.8 million cards issued in total of which >5.6 million are credit cards (as of 1H' 08)

Channels:

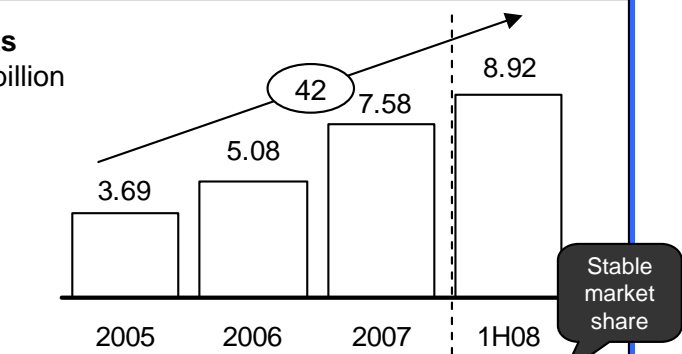
- PB has a dense distribution network with ~2900 outlets ar
- PB leads in acquiring 46,230 POS terminal the largest ATM network machines (as of 1H' 08)
- Internet access is available online banking system

Customers

- Retail business is dominating
- Bank holds:
 - 15 million retail accounts
 - 270 thousand SME accounts
 - 290 thousand corporate accounts

Results

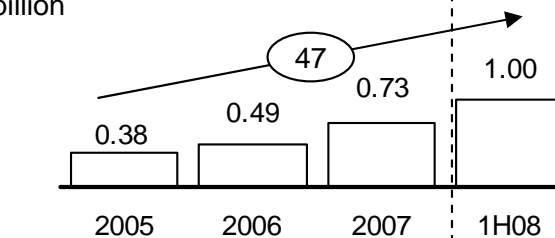
Assets EUR billion



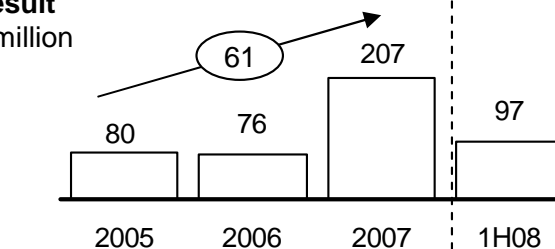
Market share*



Capital UR billion



Net result EUR million



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* By total net assets

** Compound Annual Growth Rate

Source: NBU, Bank, Intelace Research

NOTES ON METHODOLOGY

FX rates:

- As a general rule all balances like: assets, deposits, loans etc. have been converted from the local currency into Euro using **end of year** exchange rate
- All results achieved during a period of time like: profits, revenues, new sales etc. have been converted from the local currency into Euro using **average** exchange rate
- Exchange rates used in the report:

EUR/ UAH	2001	2002	2003	2004	2005	2006	2007	1H 08
Average	4.81	5.03	6.02	6.61	6.39	6.34	6.92	7.66
End of year	4.67	5.53	6.66	7.22	5.97	6.65	7.42	7.63

Estimates and Forecasts:

- In some cases, recent or verified data was not available. Therefore, necessary short-term estimations have been done to fill the gaps. Estimates have been always indicated with the letter “E”
- When preparing forecasts we have built models using latest observed trends, available forecasts of main economic indicators, seasonal changes observed in the past and other specific factors considered important.

Multiple sources:

- In some cases multiple sources of similar data exist. In this situation we try to select the most appropriate one /in our view/. The source is indicated in the footer area of each slide. Nevertheless in specific cases, before interpreting the data it is recommended to get a good understanding on the methodology of data collection.

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Our company is specializing in value-added research services and tailored business intelligence solutions.

Through our customized research services we help our clients to better understand their consumers, competitors and overall market dynamics.

The lead researcher and founder of Intelace Research is Marcin Mazurek.

Our contact details:

Intelace Research
Stryjenskich 13c/78,
02-791 Warszawa, Poland

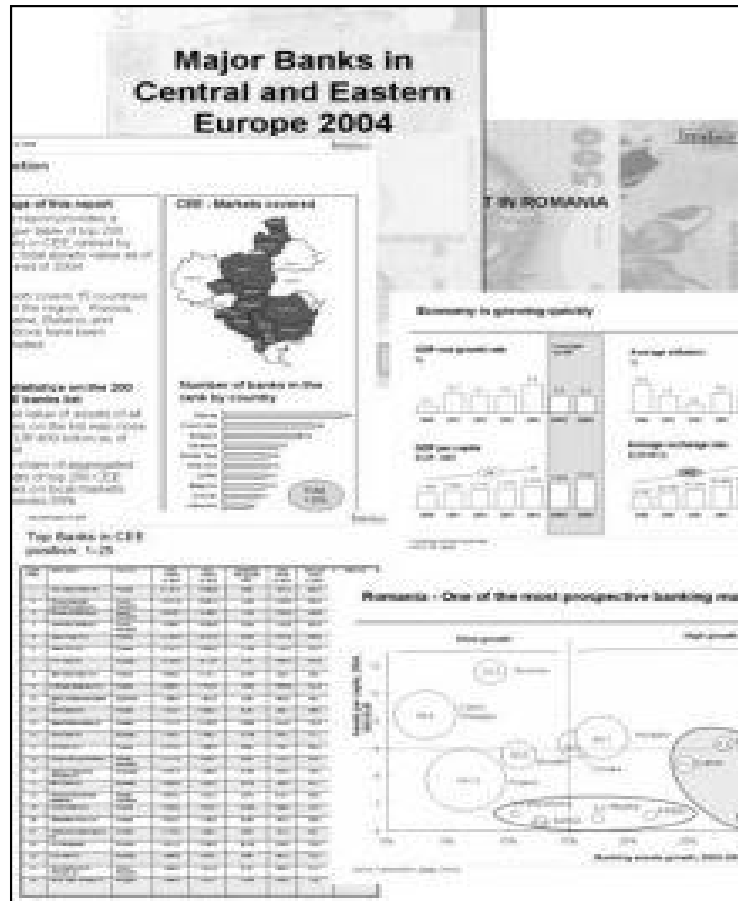
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APPENDIX – LIST OF BANKS MENTIONED IN THIS REPORT

ALFA-BANK
BANCA INTESA
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BANK OF GEORGIA
BNP PARIBAS
BROKBUSINESSBANK
COMMERZBANK
CRÉDIT AGRICOLE
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ТАС-ІНВЕСТБАНК
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