



CONCORDE CAPITAL

Ukraine/ Banking Aval

Raiffeisen Buys 93.5% Stake

BUY

02 Aug 2005

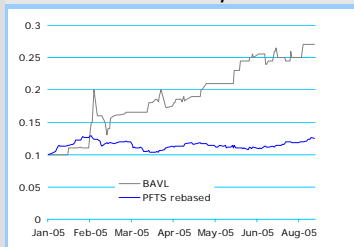
USD 0.060

12m Target

USD 0.070

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BAVL Bid-Price, UAH



Market Information

| | |
|----------------------|------------|
| PFTS | BAVL |
| Bloomberg | BAVL UZ |
| No of Shares, mln | 14.950 |
| Market price, USD | 0.06 |
| MCap, USD mln | 897 |
| Free Float, % | 6.5% |

Stock Ownership

| | |
|--------------------------|--------------|
| Raiffeisen International | 93.5% |
| Other | 6.5% |

Ratios 2004

| | |
|------------------|-------|
| Net Int. Margin | 6.0% |
| ROE | 22.5% |
| Capital Adequacy | 10.1% |
| Cost/Income | 86.2% |

On August 20 Raiffeisen International Bank-Holding AG (Austria) completed the acquisition of a 93.5% stake in Bank Aval. The deal will make Raiffeisen Ukraine's new market leader, turning it into the largest bank in terms of assets, loans, deposits and capital. The size of the deal was not made public. We estimate the acquisition was made for ~USD 900 mln, or a current market share price of USD 0.06. We maintain our BUY recommendation with a 12m target of USD 0.07 per share.

Aval's estimated acquisition parameters. According to our estimates, the deal was closed for ~USD 900 mln (P/E x 27.4, P/BV x 5.4, P/Assets x 0.4, P/Loans x 0.6, P/Deposits x 0.6). The estimated transaction parameters imply a price per share at USD 0.06, which is equal to the current market. The table below shows M&A deals in the Ukrainian banking sector in 2004. We chose transactions that include acquisitions of controlling stakes in Ukrainian banks by foreign investors.

M&A deals in the Ukrainian banking sector in 2004

| Buyer | Target | Acquired stake | P/E | P/BV | P/Assets | P/Deposits |
|--|-------------|-----------------------|------|------|----------|------------|
| PKO Bank Polski (Poland) | Kredit Bank | USD 30 mln for 66.65% | 30.5 | 1.6 | 0.18 | 0.24 |
| Vilnius Bankas (Lithuania) (member of SEB group) | Azhio | EUR 23.2 mln for >90% | 24.5 | 1.5 | 0.39 | 0.77 |

Aval will benefit from new ownership. The acquisition by Raiffeisen International will benefit Aval's operating performance. We believe Aval's profitability will improve through the implementation of advanced cost efficiency methods, increased investments in modern banking technology, access to cheaper international resources, as well from Raiffeisen's management expertise. The most important benefit for Aval is that Raiffeisen will provide sufficient capital inflows and resolve the problem of undercapitalization, which is common among Ukrainian banks. This will provide Aval with a notable advantage over many Ukrainian banks, allowing the bank to expand its lending activity without running the risk of violating the minimum level of capital adequacy required by the National Bank.

We expect Aval will turn into a real western-style bank in the next few years by its new owner. Raiffeisen will retain the Aval brand as it is widely recognized among Ukrainians.

KEY FINANCIAL DATA, USD mln

| | Assets | Net Loans | Total Revenue | Net Income |
|----------------|--------|-----------|---------------|------------|
| 2004 | 2 142 | 1 496 | 244 | 33 |
| 2005E | 3 052 | 2 164 | 291 | 40 |
| 2006E | 3 934 | 2 932 | 364 | 53 |
| Spot Exch Rate | 5.05 | | | |

KEY RATIOS

| | P/E | P/BV | P/Loans | P/Assets | P/Deposits |
|-------|------|------|---------|----------|------------|
| 2004 | 27.3 | 5.4 | 0.6 | 0.4 | 0.6 |
| 2005E | 23.1 | 3.0 | 0.4 | 0.3 | 0.4 |
| 2006E | 17.0 | 2.7 | 0.3 | 0.2 | 0.3 |

Raiffeisen is now #1 in the Ukrainian banking segment. Austria's RZB entered the Ukrainian market in 1994, when it established a representative office. JSCB Raiffeisenbank-Ukraine (100% owned by Raiffeisen International) started operations in 1998. Since then, Raiffeisenbank-Ukraine has rapidly developed and is currently the seventh-largest bank in Ukraine and the largest among the country's international banks.

In March 2005, Raiffeisenbank announced its plans to create a network of 450 subdivisions throughout Ukraine and acquire a Ukrainian bank for this purpose. In February 2005, Raiffeisen started official talks with Aval on the acquisition of a controlling stake in the bank. Now that the final six-month negotiations are complete, the aggregate banking assets of Aval and Raiffeisenbank-Ukraine amount to USD 3.9 bln, giving it a market share of 11.9%. In addition, Aval's well-developed branch network (the second-largest in the country) with more than 1,400 outlets, will provide Raiffeisen with a strong presence in Ukraine's regions.

Top-10 Ukrainian Banks

| | Total Assets | % of all Ukr | Loan Portfolio | % of all Ukr | Total Deposits | % of all Ukr |
|----------------------------------|--------------|--------------|----------------|--------------|----------------|--------------|
| Aval & Raiffeisenbank | 3895 | 11.9 | 2705 | 13.5 | 2913 | 12.7 |
| Privatbank | 3561 | 10.9 | 2128 | 10.6 | 2826 | 12.3 |
| Prominvestbank | 2592 | 7.9 | 1966 | 9.8 | 2175 | 9.5 |
| Ukrsotsbank | 1887 | 5.8 | 1006 | 5.0 | 1474 | 6.4 |
| Ukrsibbank | 1423 | 4.4 | 932 | 4.7 | 838 | 3.6 |
| Ukreximbank | 1352 | 4.1 | 867 | 4.3 | 800 | 3.5 |
| Oshadbank | 1345 | 4.1 | 287 | 1.4 | 1209 | 5.3 |
| Nadra | 871 | 2.7 | 572 | 2.9 | 545 | 2.4 |
| Brokbisnesbank | 640 | 2.0 | 370 | 1.8 | 472 | 2.1 |

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