



CONCORDE CAPITAL

Bet On Raiffeisen To Play Fair

BUY

19 Sep 2005

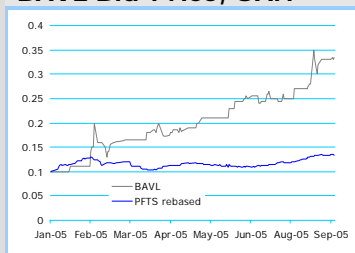
USD 0.07

Target

Pending

Alexandr Viktorov
+380 44 206 8370
av@con-cap.com

BAVL Bid-Price, UAH



Market Information

PFTS	BAVL
Bloomberg	BAVL UZ
No of Shares, mln	14.950
Market price, USD	0.07
MCap, USD mln	1046.5
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%

We believe trying to capture the value derived from Aval-Raiffeisen synergies is a fair bet. Currently Aval trades at USD 0.07. If Raiffeisen chooses to treat investors fairly, Aval shareholders can expect to reap the value unlocked by the merger. We confirm our BUY recommendation. At this point there is not enough information to estimate the exact upside, therefore the target is pending.

Aval's Shares Skyrocket, Acquisition Details Remain A Mystery.

News of Raiffeisen's acquisition of Aval pushed the stock price up by 25%, to our target of USD 0.07, in one trading day. This happened because the market was scrambling to establish the undisclosed merger price. For three weeks after the sale, despite limited free float of 6.5%, Aval was the leader on the PFTS in terms of trading volume. The acquisition is strategically positive for both Raiffeisen and Aval, however, the lack of integration data about the deal has left everyone in the dark. Although nothing was officially said about the price, we believe it to be ~USD980 mln for a 93.5% stake implying USD 0.07 per share.

Aval, Raiffeisenbank-Ukraine To Merge By 2008. Just after the acquisition was completed Raiffeisen International (RI) announced the two banks would merge. Raiffeisenbank-Ukraine is a structural division of RI. Aval's minority shareholders will have the right to sell their shares to Raiffeisen up to six months after the final legalization of the merger, at the deal price (USD 0.07 estimated). The transaction is expected to be fully registered with the Austrian and Ukrainian authorities between mid October and December 2005. This plan is a break from the Raiffeisen acquisitive strategy that we have seen for last five years. Before RI either only had a subsidiary in a CEE country or acquired a local top bank upfront. Moreover, there is still some uncertainty about the company's intentions to take Aval private:

What's Next For Minority Shareholders? For those shareholders who refuse to sell to RI now and bet on capturing the synergy-caused value, we believe the following scenarios are possible:

1. Mandatory "squeeze-out". Unlikely: Ukrainian law has no mandatory sell provision.
2. After the merger RI allows free float circulation, in effect turning Raiffeisenbank-Ukraine into a publicly traded company, if the Aval share is exchanged for the consolidated share in a fair manner.
3. RI buys out all the remaining free float at a fair price at the time of the merger, for higher than what they are going to offer now.
4. The Aval-Raiffeisen exchange ratio will be set at a discount, leaving shareholders with no upside.

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

What Ukrainian Law Says. Here are some facts about Ukrainian law for investors:

Are minor shareholders obliged to sell their stakes?

- Ukrainian legislation **has NO provision requiring minority shareholders to sell to the buyer of the majority stake**, the so called “squeeze out” provision, that is common in other countries;

Is Raiffeisen obliged to buy out minority stakes?

- Ukrainian legislation also **does NOT oblige** the buyer of a major stake in a company to buy-out stakes from minority shareholders. Nor does it have a mechanism for price-setting in such buy-out.

What will the buy-out price be?

- Security and Exchange Committee decree #221 states that any joint stock company (Aval) that decides to reorganize (merge) is required to carry out an assessment and buy-out the stakes of shareholders, who demand this, if these shareholders did not vote for the reorganization. For this to happen the shareholders must submit a written request to the company. **These shares are bought out at a price agreed upon by the both parties but not less than par value (USD0.02 for Aval)**. Therefore the buy-out price may be different for each shareholder.

What will the exchange ratio be?

- The exchange ratio of shares in a target company (Aval) for shares in the acquiring company (Raiffeisenbank), **is established in accordance with a reorganization agreement**. This agreement is approved by shareholders at a general meeting held by the company being merged (Aval).

Concorde Capital
72 Chervonoarmiyska St.
2nd entry, 6th floor
Kiev 03150, UKRAINE

Tel +380 44 206 8370
Fax: +380 44 206 8366
www.concorde.com.ua
office@con-cap.com

CEO

Igor Mazepa

im@con-cap.com

Chief Operating Officer

John David Suggitt

js@con-cap.com

Director, International Equity Sales

Peter Bobrinsky

pb@con-cap.com

Equity Sales

Marina Martirosyan

Lucas Romriell

Alexis Stenbock-Fermor

mm@con-cap.com

lr@con-cap.com

asf@con-cap.com

Director of Research, Strategy

Konstantin Fisun, CFA

kf@con-cap.com

Utilities (Telecom, Energy)

Alexander Paraschiy

ap@con-cap.com

Oil & Gas, Pipes, Non-Ferrous Metals

Andriy Gostik

ag@con-cap.com

Ferrous Metals

Viktor Koval

vk@con-cap.com

Machine Building, Chemicals

Olga Pankiv

op@con-cap.com

Banking & Macroeconomics

Alexander Viktorov

av@con-cap.com

Editor

Nick Piazza

np@con-cap.com

Disclaimer

This report has been prepared by Concorde Capital investment bank for informational purposes only. Concorde Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Concorde Capital may have a conflict of interest that could affect the objectivity of this report.

Concorde Capital, its directors and employees or clients may have or have had interests or long or short positions in the securities referred to herein, and may at any time make purchases and/or sales in them as principal or agent. Concorde Capital may act or have acted as market-maker in the securities discussed in this report. The research analysts, and/or corporate banking associates principally responsible for the preparation of this report receive compensations based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and investment banking revenues.

The information contained herein is based on sources which we believe to be reliable but is not guaranteed by us as being accurate and does not purport to be a complete statement or summary of the available data. Any opinions expressed herein are statements of our judgments as of the date of publication and are subject to change without notice. Reproduction without prior permission is prohibited. © 2005 Concorde Capital