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## *Analyst's Notebook*

Ukraine/Banking  
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**\*\*Editor's Note:** The Analyst's Notebook is Concorde Capital's fast response tool for keeping our coverage of the Ukrainian market as up to date as possible. Unlike our more in-depth desk notes and reports, Analyst's Notebook provides rapid feedback on breaking news in the Ukrainian market. Analyst's Notebook gives you our analysts' first impressions of a situation and may set the table for further investigation. Our analysts will use their experience in their sectors to take a look at the situation and provide insight or speculate on possible scenarios. We want to emphasize however, this product consists mostly of the analyst's intuition and may require further analysis.

### **Raiffeisen To Put Its Ukrainian Subsidiary On The Auction Block?**

On April 4, 2006 Austria's Raiffeisen International (RI) announced that it was starting negotiations for the sale of 100% of its stake in its Ukrainian subsidiary, Raiffeisenbank-Ukraine (RBU). The announcement came as a bit of a surprise, Aval Bank has already scheduled an AGM on April 21, 2006 to approve the merger of RBU into Aval. If the sale, planned for this month, fails to take place, then RBU and Aval Bank will be merged as planned. If RI finds a buyer, it will re-brand Aval, Raiffeisen Bank Aval.

#### **For How Much?**

Raiffeisenbank-Ukraine has been in operation since 1998, and by the end-2005 the bank's total assets of USD 1.4 bln, made it the seventh largest in Ukraine. Despite the lust shown by international banks for the market this year, we don't expect RBU's sale to exceed the record-high level (Credit Agricole acquired a 98% stake in Ukraine's #21 bank at P/B x6.1). Unlike its Ukrainian peers, RBU does not possess an extensive branch network and is focused primarily on the corporate segment. Additionally, by separating from its parent company, RBU would likely lose more than 1/3 of its liability accounts, connected to RI, if it is sold. Moreover, RI would likely persuade a large number of its customers to leave RBU and work with AVAL.

According to a statement from Raiffeisen International, the company will not sell RBU for less than USD 500 mln (half of what they paid for a 93.5% stake in Aval in August, 2005), that would translate into P/B x4, based on RBU's book value-2005 of USD 124 mln. However, the large number of global banking majors fighting to get into the upper echelons of the Ukrainian banking sector could drive up the price.

#### **Why?**

1. RBU's sale eliminates the cost of the merger with Aval Bank which seems to have turned out to be more complicated and expensive than expected;
2. The sale will provide RI with a substantial gain (given a P/B multiple implied to its book value) which could be used to improve Aval Bank's banking operations;
3. The decision to sell RBU confirms RI's commitment to Aval Bank and allows it to concentrate on Aval's transformation into large Western-style bank;
4. The sale of mainly corporate-oriented RBU means RI is shifting its focus on Ukraine's fast-growing and higher-yield retail segment (Aval Bank is Ukraine's #2 retail lender).

### Shareholders' Point Of View

The activity surrounding RBU will have a positive effect on Aval's operating performance. However we maintain our **HOLD** recommendation with the target price under review until the bank finalizes its merger plans. If RBU is sold, Aval Bank is likely to endorse an additional share emission in order to meet the National Bank's capital adequacy requirement. We estimate the issue would be roughly USD 99 mln (+33%) at par of USD 0.0198 with the current market price of USD 0.10. This would be a good opportunity for investors and current shareholders to reduce their average cost of investment into the stock

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