

70% Charter Fund Increase

BUY

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USD 0.095

12m Target

USD 0.120

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BAVL Mid-Market, USD



Market Information

| | |
|----------------------|---------|
| PFTS | BAVL |
| Bloomberg | BAVL UZ |
| No of Shares, mln | 20,099 |
| Market price, USD | 0.09 |
| MCap, USD mln | 1,809 |
| Free Float, % | 6.5 |

Stock Ownership

| | |
|--------------------------|-------|
| Raiffeisen International | 93.5% |
| Ukrtelecom | 0.7% |
| Bank Austria | |
| Creditanstalt | 0.5% |
| Other | 5.3% |

Ratios 2005

| | |
|---------------------|-------|
| Net Interest Margin | 7.1% |
| Net Income Margin | 4.5% |
| ROE | 6.5% |
| Cost/Income | 67.0% |

On Oct. 20, 2006 Raiffeisen Bank Aval announced plans for a 70% increase of its charter fund. Aval's capital will be raised to USD 713 mln following the issuance of fifteen billion shares at par value of USD 0.02 per share. The additional share issue is on the agenda of Aval's EGM, which has been scheduled for December 8, 2006. We are keeping our BUY recommendation and target price unchanged.

Gearing Up for Higher Growth. We view this news as very positive. The planned additional share issue together with the recent 40% charter fund increase (conducted in July 2006) will significantly strengthen the bank's position, suggesting further rapid expansion. It looks like the bank is being geared up by the new owner to achieve the recently announced goal of gaining a 20% market share in retail lending by 2010.

In our latest valuation, we estimated the bank will support its CAR in 2007 via a USD 100 mln capital share increase and drawing USD 200 mln in subordinated debt from Raiffeisen International. Now, with the planned USD 297 mln charter fund increase, we assume the bank will refrain from drawing subordinated debt or not borrow as much. This will positively effect BAVL's margins. Additionally, the higher-than-expected level of capital is more suitable for high lending growth in the long-run.

We are maintaining our projections of Aval's financials until the exact parameters of the issue are available after the EGM.

Market Reaction and Effect on Price. Over the last half-year BAVL demonstrated volatility that was more significant than the overall market. However, after the period was over, the PFTS and BAVL ended with equivalent returns.

Just six months ago the bank announced a previous capital increase of 40%. Now we can observe the full life cycle of market reaction and the effect on price since the announcement through approval at the EGM. At first, the stock grew following the announcement without the slightest adjustment downward to account for a 40% increase in the number of shares. A market drop in May eliminated the speculative bubble and the price stabilized before plunging after the EGM's decision two weeks later. Generally unfavorable sentiment on the market led to an overreaction as the price fell below a justifiable adjustment level. Now the price crossed a level of USD 0.09, which indicates the market has adjusted the stock to the new number of shares.

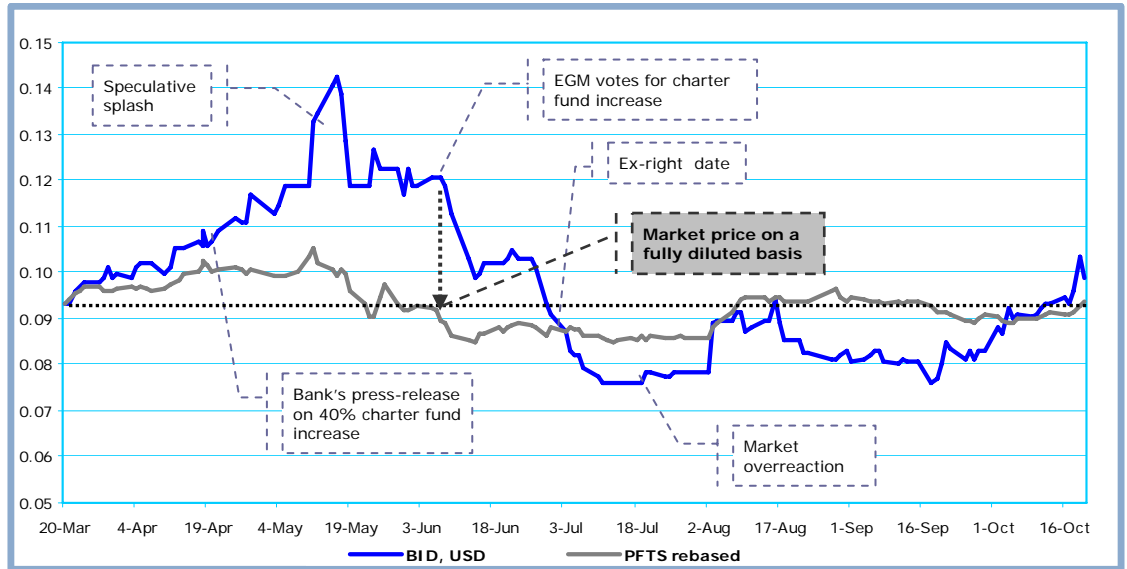
KEY FINANCIAL DATA, USD mln

| | Assets | Net Loans | Total Revenue | Net Income |
|----------------|--------|-----------|---------------|------------|
| 2005 | 3706 | 2354 | 317 | 14 |
| 2006E | 5148 | 3776 | 440 | 76 |
| 2007E | 7319 | 5709 | 650 | 131 |
| Spot Exch Rate | 5.05 | | | |

KEY RATIOS

| | P/E | P/BV | P/Loans | P/Deposits |
|-------|-------|------|---------|------------|
| 2005 | 127.8 | 6.7 | 0.8 | 0.6 |
| 2006E | 23.7 | 4.0 | 0.5 | 0.5 |
| 2007E | 13.8 | 2.8 | 0.3 | 0.4 |

Market Reaction to BAVL's Previous Share Issue



Source: PFTS

Concerning the recently announced 70% capital increase – if other factors are constant, under the efficient market assumption, the price for the stock would accommodate the new number of shares by falling from the announcement-day price of USD 0.10 to USD 0.067 per share and our target would adjust from USD 0.12 to USD 0.078, which based on the fully diluted price still provides for an upside of 17%. We maintain our **BUY** recommendation, with a target price of USD 0.12 (or USD 0.078 fully diluted).

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