

**March 12, 2007**

RECOMMENDATION	BUY
COMMON PRICE	\$0.156
PREFERRED PRICE	—
FAIR VALUE	\$0.209
UPSIDE	34%
MARKET CAP	\$3,277 mln
ENTERPRISE VALUE	—
PFTS TICKER	BAVL
ADR TICKER	—

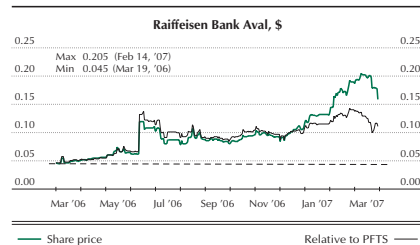
Note: All prices and performance figures based on March 5 close, unless noted otherwise.

**Key data**

	2005	2006	2007E	2008E
<b>FINANCIALS (UAS), \$ mln</b>				
Net interest income	168	281	401	561
Net fee and commission income	125	154	209	367
Total revenues	328	469	665	989
Operating income	63	183	264	393
Net income	4	67	111	165
BVPS, \$	0.016	0.030	0.043	0.058
EPS, \$	0.000	0.003	0.005	0.008
<b>OPERATIONS</b>				
Assets, \$ mln	3,814	5,500	7,847	10,373
Equity, \$ mln	346	636	891	1,207
ROAE	1.3%	13.6%	14.5%	15.7%
ROAA	0.1%	1.4%	1.7%	1.8%
Cost/income ratio	80.8%	60.9%	60.3%	60.2%
<b>PRICE RATIOS</b>				
P/assets	0.9	0.6	0.4	0.3
P/BV	9.5	5.2	3.7	2.7
P/E	859.8	49.0	29.5	19.8
<b>SHARES ISSUED</b>				
Common			20,950	
Preferred			—	

**Price performance, %**

	1 mo	3 mo	6 mo	1 yr
Common	-3.6	65.4	103.9	288.2
Relative to PFTS	4.7	69.4	95.7	269.1



Source: Bloomberg, Troika Dialog

**Average daily turnover**

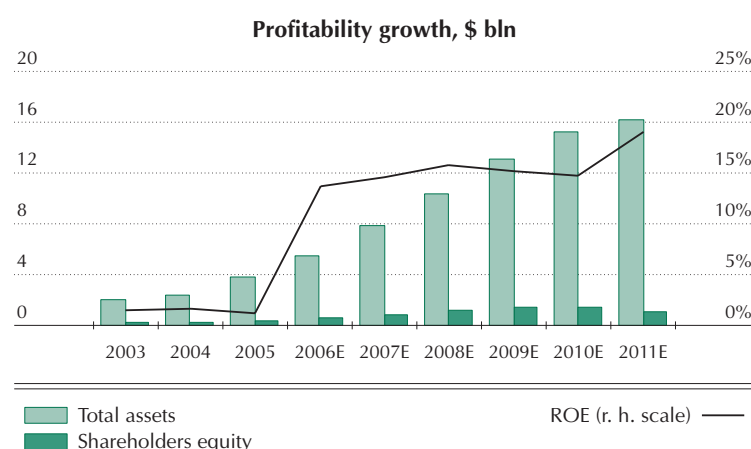
ADT, 30 days, \$	140,000
ADT, 100 days, \$	152,000
MCap/ADT, days	25,427

## Raiffeisen Bank Aval

# Growth Strategy Leads to Impressive Earnings

*Raiffeisen Bank Aval is Ukraine's second largest bank in terms of assets, which are expected to rise 43% to \$7.85 bln in 2007. This will be driven mainly by implementation of the bank's growth strategy, which implies three key factors: (1) further extension of its loan portfolio (should reach \$5.98 bln in 2007), (2) implementation of cost optimization program in core operations (should help improve ROE from 14% in 2006 to 15% in 2007), and (3) improvement of its regional network (should stimulate 25% growth in the bank's customer base).*

- After the recent market downturn, Raiffeisen Bank Aval's share price has risen 20% YTD to \$0.156, reflecting its strong financial performance. On 2007E P/E, the bank trades at a 37% discount to its local peers' average, while its mid-market price now offers an attractive 34% upside growth potential to our DCF-derived fair value of \$0.209 per share, warranting a BUY recommendation on the stock.
- In 2007, the bank's net interest income should rise by 43% to \$401 mln, driven by its continued focus on loan portfolio expansion.
- Building out its network and introducing additional services should push fee income up 35.7% to \$209 mln in 2007.
- Expected strong financial performance in 2007 makes the stock an attractive investment; it now trades at a 34% discount to our DCF-derived fair value of \$0.209 per share. This becomes particularly evident when we take into account the forecast ROE growth, set to climb from 13.6% in 2006 to 15.7% in 2008.



Source: Company, Troika Dialog estimates

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## Investment Summary

### ■ Expanding loan portfolio will drive up assets and net interest income

Raiffeisen Bank Aval's net interest income should rise 43% y-o-y to \$401 mln in 2007, driven by its continued focus on loan portfolio expansion; we expect customer loans to rise 45% to \$5.98 bln in 2007 and 35% to \$8.07 bln in 2008.

### ■ Introducing new services will boost fee income

In 2006, the bank launched a lease financing company, simultaneously continuing to expand in Ukraine's regions. Together with newly introduced services, this should boost fee income 35.7% to \$209 mln in 2007 and 75.5% to \$367 mln in 2008.

### ■ High credit ratings assigned by Moody's and Ukraine's Credit Rating agency

Both Moody's and Ukraine's Credit Rating agency have awarded Raiffeisen Bank Aval high credit ratings, which should help to build up the bank's credibility in the eyes of its clients, thereby increasing customer loyalty and boosting its deposit portfolio. We expect total customer deposits to climb 35% y-o-y to \$4.57 bln in 2007, while regional expansion should increase the bank's clientele by 25% in 2007.

### ■ Transferring modern IT solutions from Raiffeisen International should improve asset quality

In 2007-08, we believe that Raiffeisen Bank Aval will continue integrating its core business lines into Raiffeisen International's operations. Melding its central database with that of the parent company and implementing a new-risk management platform should further improve asset quality, in turn helping boost ROA from 1.4% in 2006 to 1.7% in 2007 and 1.8% in 2008. And by optimizing costs, the bank's cost/income ratio should improve from 61.0% in 2006 to 60.3% in 2007 and 60.2% in 2008.

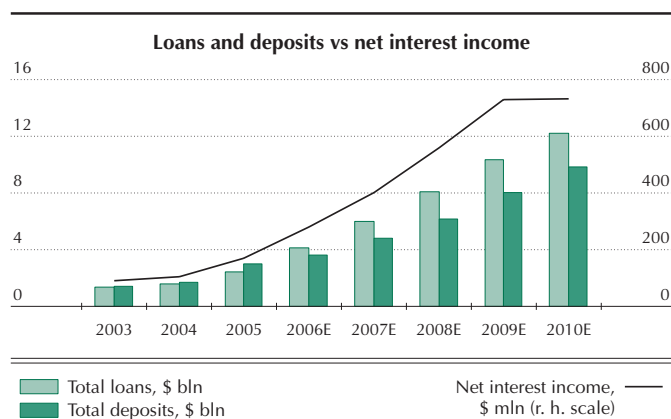
### ■ Solid financial results combined with strong expected performance in 2007-08

Raiffeisen Bank Aval's solid financial results, which are expected to remain strong going forward, make the stock an attractive investment. The bank's share price has risen 20% YTD to \$0.156, supported by strong financial performance in 2006 as well as impressive growth potential over 2007-08. At current prices, Raiffeisen Bank Aval trades at a 2007E P/BV of 3.7 and P/E of 29.5, or at a 12% premium on P/BV and a 37% discount on P/E to its local peers' respective averages. After the recent market correction, the stock now trades at an attractive 34% discount to our DCF-derived fair value of \$0.209 per share. Given the forecast ROE growth (set to climb from 13.6% in 2006 to 15.7% in 2008), we feel confident in our BUY recommendation.

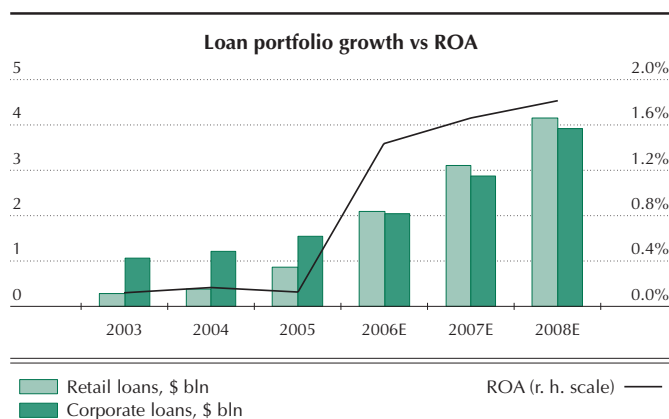
## Raiffeisen Bank Aval should continue to impress in 2007-08

### NET INTEREST INCOME TO RISE 43% Y-O-Y DUE TO LOAN PORTFOLIO EXPANSION IN 2007

In 2007, Raiffeisen Bank Aval's net interest income should rise 43% to \$401 mln, driven mainly by the continuing focus on expanding its loan portfolio. The bank's strategy, which was announced by its management in January 2007, is to expand loans to corporate customers by at least 40% this year. Such an impressive growth in corporate loans is also expected due to the bank's introduction of long-term loans with flexible terms for small and medium enterprises. We estimate that its net corporate loan portfolio should reach \$2.87 bln in 2007 and \$3.91 bln in 2008. At the same time, this should help Raiffeisen Bank Aval to retain its corporate loan market share of 4% in 2007-08. We forecast that on the back of introducing flexible loan terms to private clients, the bank's retail loans should grow by 49% to \$3.11 bln, further supported by favorable economic developments and growing consumer spending. We expect that in 2007, Raiffeisen Bank Aval's loan portfolio will comprise 52% retail loans and 48% corporate loans, and its all-round growth in loans will further facilitate an increase in the bank's assets to \$7.85 bln.



Source: Company, Troika Dialog estimates



Source: Company, Troika Dialog estimates

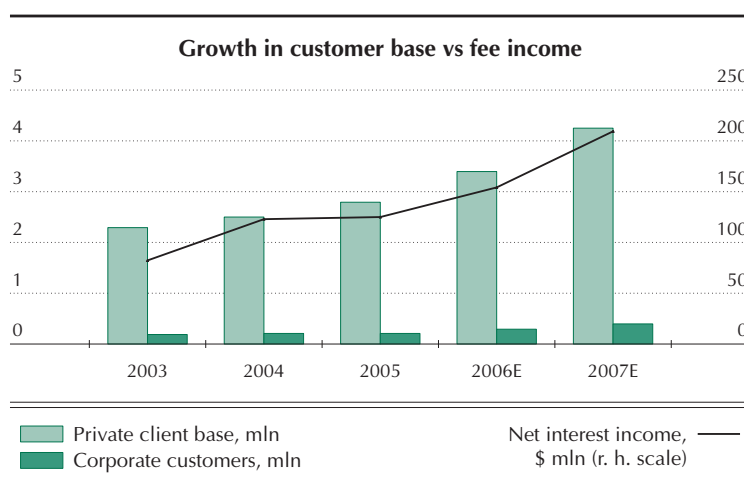
**Loan and deposit trends, \$ mln**

	2003	2004	2005	2006	2007E	2008E	2009E	2010E
<b>DEPOSITS</b>								
Retail deposits	850	994	1,832	2,296	3,014	3,829	4,978	6,073
y-o-y	–	17%	84%	25%	31%	27%	30%	22%
Total market	11,282	14,735	25,307	37,213	43,056	47,863	55,308	67,476
y-o-y		31%	72%	47%	16%	11%	16%	22%
Raiffeisen Bank Aval market share	8%	7%	7%	13%	7%	8%	9%	9%
<b>Corporate accounts</b>	<b>580</b>	<b>699</b>	<b>1,171</b>	<b>1,319</b>	<b>1,772</b>	<b>2,327</b>	<b>3,025</b>	<b>3,737</b>
y-o-y		20%	68%	13%	34%	31%	30%	24%
Total market	7,600	10,991	17,430	22,688	24,608	27,375	32,880	39,338
y-o-y		45%	59%	30%	8%	11%	20%	20%
Raiffeisen Bank Aval market share	8%	6%	7%	9%	7%	9%	9%	10%
<b>LOANS</b>								
<b>Retail loans</b>	<b>277</b>	<b>382</b>	<b>864</b>	<b>2,086</b>	<b>3,107</b>	<b>4,155</b>	<b>5,288</b>	<b>6,215</b>
y-o-y		38%	126%	141%	49%	34%	27%	18%
Total market	1,758	2,891	6,566	15,397	22,195	29,679	37,768	44,393
y-o-y		64%	127%	135%	44%	34%	27%	18%
Raiffeisen Bank Aval market share	16%	13%	13%	14%	14%	14%	14%	14%
<b>Corporate loans</b>	<b>1,064</b>	<b>1,218</b>	<b>1,541</b>	<b>2,049</b>	<b>2,869</b>	<b>3,913</b>	<b>5,040</b>	<b>5,971</b>
y-o-y		14%	26%	33%	40%	36%	29%	18%
Total market	16,078	21,301	33,178	51,136	68,314	88,934	111,994	127,048
y-o-y		32%	56%	54%	34%	30%	26%	13%
Raiffeisen Bank Aval market share	7%	6%	5%	4%	4%	4%	5%	5%

Source: Company, Central Bank, Troika Dialog estimates

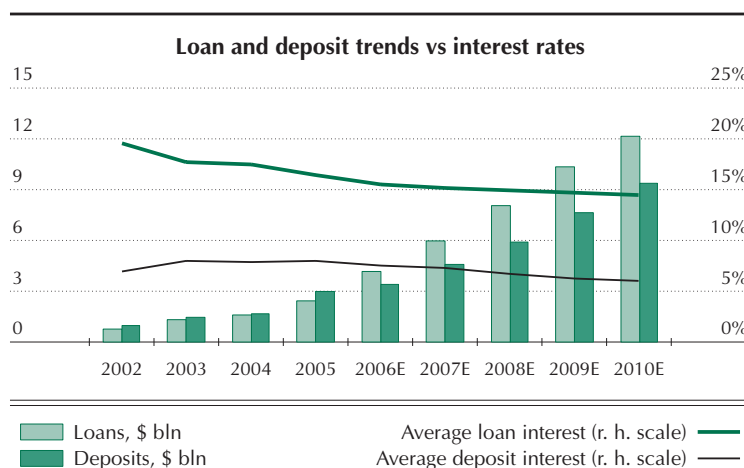
**INTRODUCTION OF NEW SERVICES WILL STIMULATE GROWTH IN THE BANK'S FEE INCOME**

Besides increasing its loan portfolio, Raiffeisen Bank Aval should also continue its domestic regional expansion. Under the bank's strategy to increase its market share up to 20% by 2020, the regional expansion should be implemented in two main forms; by opening new branches and by cooperating with other banks in terms of cross-selling products to customers. Thus, the bank opened its 1,800th ATM in December 2006. The bank's development strategy also envisages increasing the number of ATMs and regional service centers by a minimum 15% in 2007. We estimate that this regional expansion should increase Raiffeisen Bank Aval's retail base by 25% to 4.25 mln customers. We also forecast that the increased branches should boost fee income by 35.7% to \$209 mln in 2007, and by 75.6% to \$367 mln in 2008.



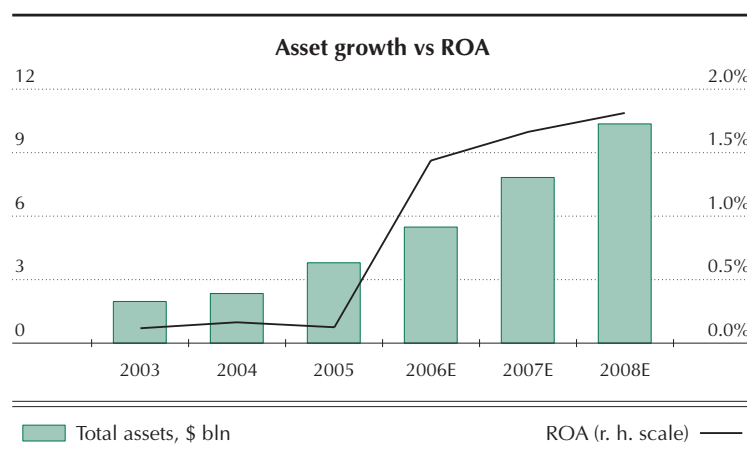
### HIGH CREDIT RATING RAISES CUSTOMER LOYALTY AND STIMULATES GROWTH IN DEPOSITS

We observe that after Austria's Raiffeisen International acquired 93.5% of the bank, Raiffeisen Bank Aval substantially improved its corporate governance according to Western standards. We also partly assign the 16-fold jump in the bank's net income last year (from \$4 mln in 2005 to \$67 mln in 2006 under UAS) to the improvement in the bank's financial transparency. In August 2006, Raiffeisen Bank Aval obtained a long-term credit rating of 'uaAA-' and 'stable' outlook from Ukraine's Credit Rating agency. In October 2006, the bank also received a long-term credit rating of 'Baa1/P-2' from Moody's, which is also one of the highest ratings in Ukraine. We believe that the assigned credit ratings will help the bank to raise confidence and credibility among its potential customers, which should also stimulate growth in customer deposits in 2007-08. We estimate that customer deposits should rise 31% to \$3.01 bln in 2007 and 27% to \$3.83 bln in 2008.



**TRANSFERRING IT TECHNOLOGY TO CORE OPERATIONS TO PUSH ROA TO 1.7% IN 2007**

We believe that the main goal of transferring technology from Raiffeisen International to Raiffeisen Bank Aval is to provide sustained and efficient support for the bank's core operations. Following the implementation of the risk management activities in the bank's core business lines, Raiffeisen Bank Aval should improve the quality of its assets via a wider diversification of its loan portfolio, as well as through better management of credit risk. In our view, the transfer of the new IT platform to Raiffeisen Bank Aval's operations will help the bank to increase its ROA from 1.4% in 2006 to 1.7% in 2007 and to 1.8% in 2008.

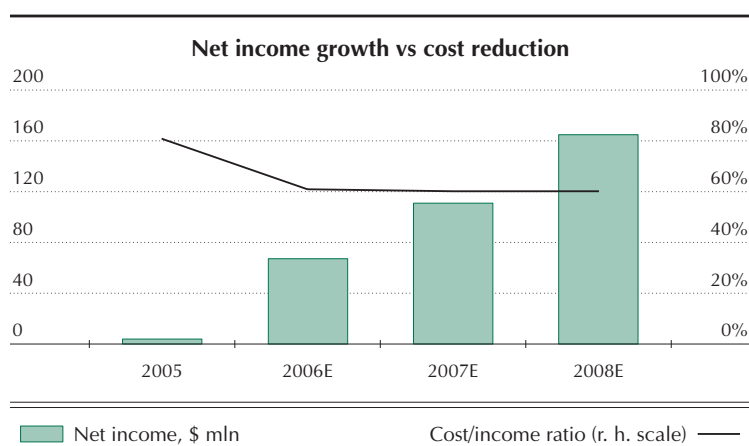


Source: Company, Troika Dialog estimates

**IMPLEMENTING COST OPTIMIZATION PROGRAMS SHOULD HELP IMPROVE ROE**

In 2006, Raiffeisen International launched the implementation of a new IT platform in Raiffeisen Bank Aval's sales and marketing department. The main goal of this application was to improve the Ukrainian bank's customer relationship management, as well as to save time on any customer-related transactions. We believe that after the installation of this new platform, the bank's operations should substantially improve, since the programs will handle marketing activities such as planning and holding events, customer information management and sales reporting. We estimate that the bank will also be able to reduce its administrative costs and this will lead to an improvement in its cost/income ratio from 61.0% in 2006 to 60.3% in 2007 and to 60.2% in 2008.

Overall, we expect that implementation of the growth strategy, combined with cost reduction and cost optimization, will enable Raiffeisen Bank Aval's net income to rise 66% to \$111 mln in 2007 and 49% to \$165 mln in 2008. This should lead to a rise in ROE from 13.6% in 2006 to 14.5% in 2007 and to 15.7% in 2008.



Source: Company, Troika Dialog estimates

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## Valuation

We base our valuation on the combination of two approaches:

- Comparative multiples-based valuation (P/BV and P/E)
- DCF analysis based on Edwards-Bell-Ohlson (EBO) model

### Peer group multiples

We base our peer group evaluation of Raiffeisen Bank Aval on P/E and P/BV multiples, which we believe are the most appropriate for the banking industry. We compare the bank with peers from Ukraine, Russia, and Central/Eastern Europe.

On P/BV, the bank trades at deserved premiums of 11% (2006) and 12% (2007E), respectively, to its local peers' averages. The premiums are explained by the rapid equity capital expansion that Raiffeisen Bank Aval plans to conduct in 2007. We estimate that the bank's equity capital should rise by at least 40% to \$891 mln in 2007. This 40% growth in equity capital stems from the bank's continuing rapid development, which requires additional resources in order to support fast asset growth throughout 2007-08.

On 2006 P/E, Raiffeisen Bank Aval trades at a discount of 31% to its local peers. And on the 2007E multiple, the average discount to its local peer group increases to 37% in anticipation of the bank's net income surging an impressive 66% to \$111 mln this year.

Comparing Raiffeisen Bank Aval with its Russian peers suggests that the bank trades at discounts of 13% and 15% on 2006 and 2007E P/BV, respectively, and at average premiums of 53% and 13% on 2006 and 2007E P/E. Extending our analysis, the premium on 2008E P/E decreases substantially to 3%. This is also due to continuing growth in the bank's net income, which should increase further to \$165 mln in 2008.

We believe that Raiffeisen Bank Aval deserves to trade at a premium to its local peers in terms of P/BV, being one of the most profitable domestic banks and belonging to a group of banks outperforming the same peers on ROE. Besides, its assets and net income should continue to grow apace in 2007-08, and we expect more positive information about further strategy in 2008-20 to become available in 2H07.



## Peer group multiples

			Price	MCap	P/BV			P/E			ROE		
	Country	Ticker	\$	\$ mln	'06	'07E	'08E	'06	'07E	'08E	'06	'07E	'08E
UKRAINE													
Raiffeisen Bank Aval	Ukraine	BAVL UZ	0.156	3,277	5.2	3.7	2.7	49.0	29.5	19.8	13.6%	14.5%	15.7%
Ukrgazbank	Ukraine	UGZB UZ	0.97	289	3.1	2.5	1.8	47.4	39.6	27.2	8.3%	6.9%	7.7%
Bank Forum	Ukraine	FORM UZ	9.05	562	3.7	2.2	2.0	102.2	95.6	91.0	4.9%	2.9%	2.3%
Megabank	Ukraine	MEGA UZ	1.33	153	4.1	2.8	1.9	68.3	28.2	13.4	7.4%	11.9%	16.8%
Ukrsotsbank	Ukraine	USCB UZ	0.61	2,250	5.9	3.7	2.7	39.5	27.5	18.9	19.9%	16.5%	16.3%
Rodovid Bank	Ukraine	RODB UZ	1,515	530	5.9	4.8	4.2	118.9	60.0	36.0	7.2%	8.9%	12.5%
Ukraine average					4.6	3.3	2.6	70.9	46.7	34.4	10.2%	10.3%	11.9%
RUSSIA													
Sberbank	Russia	SBER RU	3,470	68,830	6.6	3.2	2.8	25.0	19.1	15.9	31.4%	19.1%	18.8%
Bank of Moscow	Russia	MMBM RU	69.92	8,607	7.6	5.2	4.5	42.9	32.0	25.2	19.9%	32.0%	19.2%
Vozrozhdenie Bank	Russia	VZRZ RU	71.86	1,543	8.1	3.9	3.4	51.7	29.5	20.1	20.4%	29.5%	18.1%
Sibacadembank	Russia	SABPP RU	2.38	1,772	7.2	5.2	4.0	31.6	17.9	12.8	32.4%	17.9%	35.1%
Promstroibank	Russia	PCBS RU	1.76	2,219	3.5	—	—	13.2	—	—	31.2%	—	—
Rosbank	Russia	ROSN RU	7.19	4,889	5.0	4.3	3.9	39.2	32.6	27.9	14.0%	32.6%	14.5%
UralSib	Russia	USBN RU	0.034	6,942	3.6	—	—	21.0	—	—	19.5%	—	—
Russia average					5.9	4.3	3.7	32.1	26.2	20.4	24.1%	26.2%	21.2%
CENTRAL AND EASTERN EUROPE													
Erste Bank	Austria	EBS AV	78.36	24,209	2.5	2.2	2.0	20.5	15.3	12.7	15.2%	15.3%	16.6%
BA-CA	Austria	BACA AV	163.87	24,095	2.2	1.9	1.7	15.1	12.6	n/a	20.5%	15.0%	13.9%
Raiffeisen													
International	Austria	RIBH AV	149.21	21,304	4.5	3.8	3.1	18.3	20.6	16.0	17.0%	19.0%	19.4%
PKO BP	Poland	PKO PW	16.11	16,114	4.8	4.3	3.8	23.5	20.4	18.4	21.7%	21.7%	21.6%
BPH	Poland	BPH PW	332.07	9,536	4.2	3.9	3.5	22.3	19.9	18.1	19.4%	20.2%	20.7%
BZW	Poland	BZW PW	81.14	5,920	5.0	4.7	3.9	25.3	23.6	21.6	20.3%	21.1%	18.7%
BRE	Poland	BRE PW	128.13	3,775	4.6	3.7	3.3	29.9	19.2	18.8	16.7%	21.4%	18.5%
Bank Pekao	Poland	PEO PW	80.50	13,428	4.5	4.2	3.9	23.3	20.9	18.8	19.9%	21.7%	21.8%
Bank Handolwy	Poland	BHW PW	30.02	3,922	2.2	2.1	n/m	17.5	17.2	15.4	12.4%	12.3%	13.5%
OTP	Hungary	OTP HB	44.73	12,523	3.4	2.8	2.4	13.2	11.6	10.4	29.6%	27.3%	25.2%
Komercni Bank	Czech Rep.	KOMB CP	149.92	5,698	2.4	2.2	2.0	13.5	12.3	11.1	17.9%	19.1%	18.6%
Denizbank	Turkey	DENIZ TI	8.84	2,795	3.2	2.6	n/a	13.8	13.5	13.5	24.9%	22.6%	n/a
Yapi Kredi	Turkey	YKBNK TI	1.92	6,047	2.3	n/a	n/a	12.6	10.3	10.3	12.4%	23.5%	n/a
Finansbank	Turkey	FINBN TI	4.21	5,261	3.6	2.6	2.1	10.0	10.9	9.6	32.2%	29.5%	25.2%
Akbank	Turkey	AKBNK TI	6.86	16,467	2.8	2.4	2.0	13.8	11.4	8.8	24.2%	24.7%	25.7%
Garanti Bank	Turkey	GARAN TI	3.85	8,095	2.3	2.0	1.7	11.1	9.4	8.4	23.8%	24.8%	24.8%
Isbank	Turkey	ISCTR TI	4.67	12,869	1.7	1.7	1.5	13.6	11.0	9.4	13.7%	17.0%	17.8%
CEE average					3.3	2.9	2.6	17.5	15.3	13.8	20.1%	20.9%	20.1%

Source: Companies, Troika Dialog estimates

## EBO valuation

We build our EBO model by calculating banks' expected capital adequacy ratios, Raiffeisen Bank Aval's historical beta (3.38), an estimated cost of equity (9.2%), and an implied long-term growth rate (9.0%). While estimating the risk-based capital ratios, we assign each asset and off-balance-sheet item to one of four broad risk categories that correspond to the requirements of the international Basel agreement. To calculate Raiffeisen Bank Aval's CAR, we estimate its Tier 1 and Tier 2 capital. In the first calculation, we include capital that can absorb losses without the bank being required to cease its operations, for example ordinary share capital. In the second, we include items such as preferred share capital and reserves.

After calculating the capital adequacy ratios, we estimate the bank's residual income (RI), which we then discount by the cost of equity. In order to calculate a terminal value, we also apply a long-term growth rate, returning a fair value of \$0.209 per share. At the stock's current mid-market price of \$0.156 per share, Raiffeisen Bank Aval trades at an attractive 34% discount to its fair value, warranting a BUY recommendation.

### Capital adequacy ratios, \$ mln

	2004	2005	2006	2007E	2008E	2009E	2010E
Growth in assets	19%	62%	44%	43%	32%	26%	17%
BIS Tier 1 capital	225	316	483	840	1,196	1,339	1,414
BIS Tier 2 capital	93	134	182	316	424	537	634
Capital adequacy ratio	16%	16%	14%	19%	23%	24%	22%

Source: Company, Troika Dialog estimates

## Company Overview

Bank Aval was established in 1992 and is today, as Raiffeisen Bank Aval, one of the most reputable and recognized banks in Ukraine. It is currently the country's second largest bank by asset size after PrivatBank and has earned a reputation as a solid, stable financial institution with rapid growth potential and the ability to respond quickly to changing market requirements. The bank substantially improved its corporate governance reputation after a 93.5% stake was acquired by Austria's Raiffeisen International in October 2005. In January 2006, Bank Aval was re-named Raiffeisen Bank Aval, enabling the bank to strengthen its position on the market via association with the internationally recognized Raiffeisen brand name.

At present, Raiffeisen Bank Aval has the broadest client base in the country, with more than 3.4 mln private clients and over 300,000 corporate customers. Among the bank's well-known corporate customers are UMC, Ukrtelecom, Azovstal, Alchevsk Steel, Galakton, and state nuclear power monopoly Energoatom. To strengthen its position in Ukraine, Raiffeisen Bank Aval also participates in joint financing projects with such reputable financial institutions as the IFC and the EBRD. It is also a member of the Association of Ukrainian Banks and Europay International Association. While the bank currently holds 8.2% of total local market share, its management announced in January that it was aiming to raise this figure up to 20% by 2020.

### Raiffeisen Bank Aval financial snapshot, \$ mln

	2006	Market position
Assets	5,500	2
Shareholders equity	636	2
Net income	67	2
ROAE	14%	
Retail loans	2,086	2
Corporate loans	2,049	3
Retail deposits	2,296	2
Corporate deposits	1,319	3
Retail clients	>3,400,000	
Corporate customers	>300,000	
Branches	1,342	
ATMs	1,800	

Source: Company, Central Bank

### SWOT analysis

#### Strengths

- Strong growth prospects due to rapid regional expansion and introduction of new services such as lease financing
- Improved asset quality resulting from transfer of new technologies and expertise from Raiffeisen International
- Experienced management team
- Strong brand name that helps to extend and diversify customer base

#### Opportunities

- Joint projects with EBRD and IFC to strengthen domestic market position
- Long-term 'uaAA-' rating from Ukraine's Credit Rating agency and 'Baa1/P-2' rating from Moody's should ease access to foreign capital resources at competitive interest rates

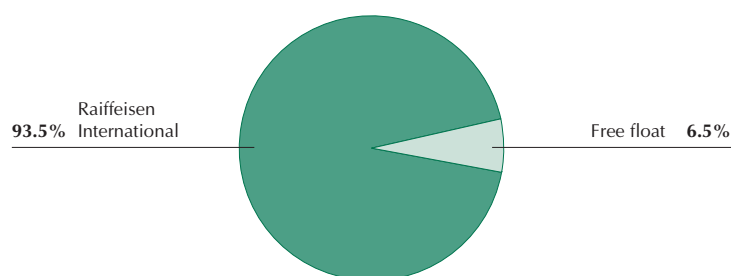
#### Weaknesses

- Perceived risky operating environment
- Rapid expansion may lead the bank to operate close to minimum capital adequacy requirements

#### Threats

- Industry consolidation results in increased competition
- Need for good banking legislation and effective enforcement

### Ownership structure

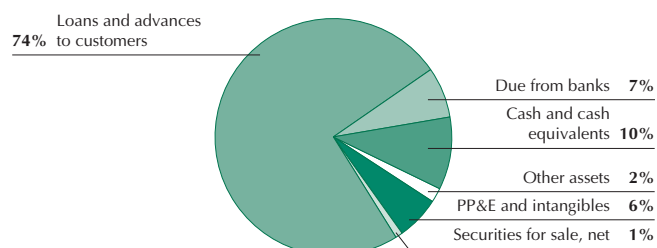


Source: Company

### Asset structure

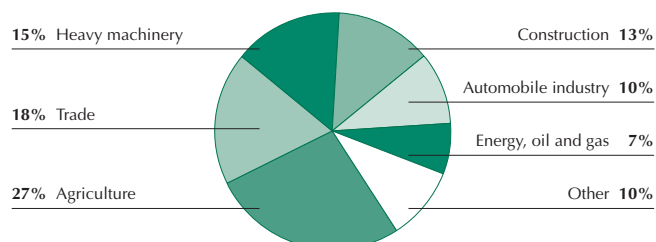
In 2006, Raiffeisen Bank Aval increased its assets by 44% y-o-y to \$5.5 bln. Such impressive asset growth was due mainly to a 72% rise in the bank's loan portfolio. Loans and advances to customers accounted for almost 75% its total assets. While analyzing the quality of the bank's assets, we noticed that it has reduced its position in risky assets, such as investments in securities, while focusing mainly on mortgage and car loans, which are secured largely by underlying assets. Currently, Raiffeisen Bank Aval is also the leader in terms of mortgage loans, with the Ukrainian National Mortgage Association reporting that its mortgage loans grew 79% in 1H06, compared with 65% for UkrSotsbank and 38% for UkrSibbank. In 2007, Raiffeisen Bank Aval will focus on expanding its corporate loans. As of end 2006, the bank's corporate loans represented 49.6% of its total loan portfolio. During the year, it mainly financed the agriculture, trade and heavy machinery sectors.

Asset structure, 2006



Source: Company, Central Bank

Corporate loan portfolio

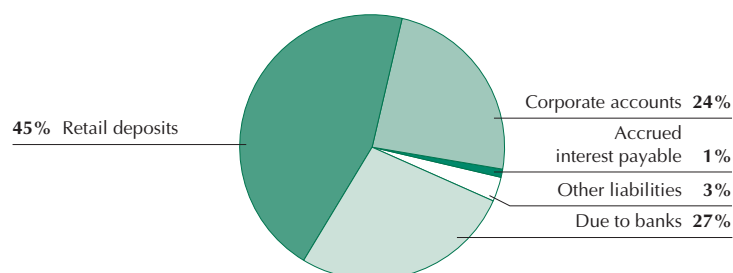


Source: Company

### Liability structure

In 2006, Raiffeisen Bank Aval's total deposits rose 20% y-o-y to \$3.38 bln. Deposits to private and corporate customers accounted for 69% of the bank's total liabilities. However, we need to underline that the growth rate for customer deposits was less than half of that in 2005, due mainly to the bank reducing deposit rates by an average of 0.5-1.0%, prompting customers to switch their accounts to other banks with higher deposit rates. At the same time, Raiffeisen Bank Aval's deposits from other banks grew almost threefold, from \$335 mln in 2005 to \$1,320 mln in 2006. Last year, deposits from other banks represented 27% of its total liabilities compared with only 10% in 2005. In 2007, we expect Raiffeisen Bank Aval's corporate accounts to grow faster than its retail deposits, due mainly to the bank's ability to offer full-scale service to corporate clients that operate internationally. At the same time, growth in retail deposits should slow down due to the lower deposit rates that it offers compared with other fast-growing banks in Ukraine. Nevertheless, we expect that corporate deposits will grow 34% this year to \$1.77 bln, while retail deposits should rise 31% to \$3.01 bln.

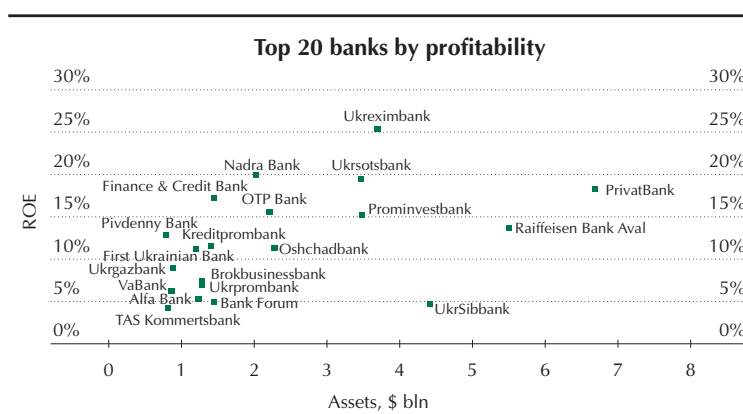
Liability structure, 2006



Source: Company, Central Bank

### Raiffeisen Bank Aval's main competitors

Among the bank's main competitors are Ukraine's largest banks such as PrivatBank, UkrSibbank and Ukreximbank. In terms of net income growth, Raiffeisen Bank Aval also competes with Bank Nadra and Ukrsotsbank. However, we expect that the implementation of Raiffeisen Bank Aval's growth strategy will enable the bank to retain its market leadership position in 2007-10. This should also help it to achieve a market share up to 10% in terms of assets by 2010.



Source: Central Bank

## Financial Statements

### Balance sheet, UAS, \$ mln

	2003	2004	2005	2006	2007E	2008E	2009E	2010E
<b>ASSETS</b>								
Cash and cash equivalents	146	210	789	537	492	381	406	512
Due from banks	231	180	316	369	913	1,461	1,900	2,090
Loans and advances to customers	1,341	1,600	2,405	4,135	5,976	8,068	10,327	12,186
Securities for sale, net	26	64	35	28	28	25	24	22
Securities held to maturity, net	19	1	1	1	0	0	0	0
Investments in subsidiaries	7	7	5	1	6	7	7	7
PP&E and intangibles	129	182	189	332	335	341	349	352
Other assets	68	104	74	97	96	89	84	92
<b>Total assets</b>	<b>1,966</b>	<b>2,348</b>	<b>3,814</b>	<b>5,500</b>	<b>7,847</b>	<b>10,373</b>	<b>13,096</b>	<b>15,262</b>
<i>y-o-y asset growth</i>		19%	62%	44%	43%	32%	26%	17%
<b>LIABILITIES</b>								
Due to banks	281	335	335	1,316	2,106	3,033	3,791	4,208
Retail deposits	960	1,101	1,952	2,199	2,968	3,829	4,978	6,073
Corporate accounts	517	593	1,051	1,184	1,598	2,062	2,680	3,270
Accrued interest payable	13	13	38	39	40	49	49	67
Other liabilities	15	49	91	126	244	193	190	160
Total liabilities	1,787	2,090	3,468	4,864	6,956	9,166	11,689	13,778
Shareholders equity	180	258	346	636	891	1,207	1,408	1,484
<b>Total liabilities and shareholders equity</b>	<b>1,966</b>	<b>2,348</b>	<b>3,814</b>	<b>5,500</b>	<b>7,847</b>	<b>10,372</b>	<b>13,096</b>	<b>15,262</b>

Source: Company, Troika Dialog estimates

### Income statement, UAS, \$ mln

	2003	2004	2005	2006	2007E	2008E	2009E	2010E
Interest income	186	242	343	513	762	1,052	1,348	1,574
Interest expense	95	137	175	232	360	491	618	842
<b>Net interest income</b>	<b>91</b>	<b>105</b>	<b>168</b>	<b>281</b>	<b>401</b>	<b>561</b>	<b>730</b>	<b>731</b>
Fee and commission income	88	133	139	171	242	411	478	572
Fee and commission expense	6	10	14	16	33	45	57	68
<b>Net fee and commission income</b>	<b>82</b>	<b>123</b>	<b>125</b>	<b>154</b>	<b>209</b>	<b>367</b>	<b>421</b>	<b>504</b>
Net trade dealings	0	23	31	30	49	54	59	65
Other operating income	15	3	4	3	6	8	10	12
<b>Net revenues</b>	<b>189</b>	<b>254</b>	<b>328</b>	<b>469</b>	<b>665</b>	<b>989</b>	<b>1,220</b>	<b>1,312</b>
Staff costs	52	80	106	139	206	317	403	433
Operating expenses	106	138	160	146	195	279	345	371
<b>Operating income</b>	<b>32</b>	<b>35</b>	<b>63</b>	<b>183</b>	<b>264</b>	<b>393</b>	<b>473</b>	<b>508</b>
Provisions	28	30	51	82	106	157	189	203
<b>Pre-tax income</b>	<b>4</b>	<b>5</b>	<b>12</b>	<b>102</b>	<b>159</b>	<b>236</b>	<b>284</b>	<b>305</b>
Tax	2	2	8	35	48	71	85	91
After-tax income	2	4	4	67	111	165	198	213
<b>Net income</b>	<b>2</b>	<b>4</b>	<b>4</b>	<b>67</b>	<b>111</b>	<b>165</b>	<b>198</b>	<b>213</b>

Source: Company, Troika Dialog estimates

## DISCLOSURE APPENDIX

### IMPORTANT US REGULATORY DISCLOSURES

WITHIN THE LAST 12 MONTHS, AN AFFILIATE OF TROIKA DIALOG USA MANAGED OR CO-MANAGED A PUBLIC OFFERING OF THE SECURITIES OF SIBACADEMBANK, VOZROZHDENIE BANK.

WITHIN THE LAST 12 MONTHS, AN AFFILIATE OF TROIKA DIALOG USA HAS RECEIVED COMPENSATION FOR INVESTMENT BANKING SERVICES FROM SIBACADEMBANK, VOZROZHDENIE BANK.

IN THE NEXT 3 MONTHS, AN AFFILIATE OF TROIKA DIALOG USA EXPECTS TO RECEIVE OR INTENDS TO SEEK COMPENSATION FOR INVESTMENT BANKING SERVICES FROM SIBACADEMBANK, VOZROZHDENIE BANK.

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