

Quarterly Bank Survey

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November 2007

- Banks rather satisfy with current economic conditions and no deteriorations is expected in next three months.
- Banks do not expect to increase in interest rates for short- and long-term loans and deposits.
- Competitive position of banks in the private clients segment has improved more significantly than in the corporate sector.
- Banks inform about growth of demand at summer and expect the tendency to be kept by the end of the year.
- Demand from private clients is less, than from corporate ones, changes of this tendency is not expected.
- Banks informed about growth of incomes in summer, tendency will continue to the end of the year.
- Banks expect substantial growth of net profit by the end of 2007.
- Competition in a sector and shortage of skilled employees are the main obstacles for development of business in a sector.

Mail survey of 156 banks for monitoring of assessments and expectations of managers about changes in general business climate and performance.

In this issue: results of a survey conducted during 30 July- 10 August

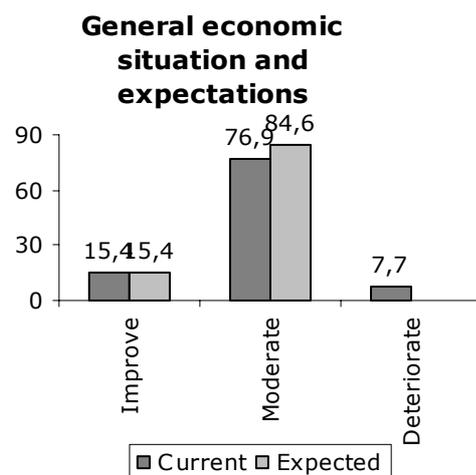
Indexes: Aug'07 to Jul'07

Expectations: Nov' 07 to Aug' 07

Business climate: index Aug 07, expectations for 6 months

Business climate

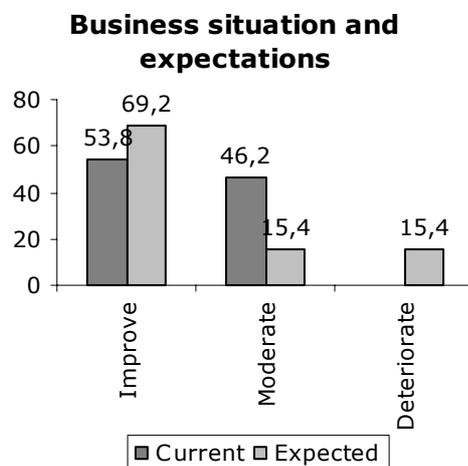
76.9% of respondents assess the overall economic situation in a country as satisfactory for banking. Other 15.4% polled give positive, and 7.7% — negative assessments. The respective *index* value equals 0.07. Majority of the polled representatives of banking sector do not expect any significant changes of the overall economic conditions in a country — the 84.6% of polled are sure that nothing will change during next six months, but 15.4% of managers expect that general economic situation for bank business will be improved. None of respondents expects worsening of situation.



CURRENT TENDENCIES AND EXPECTATIONS

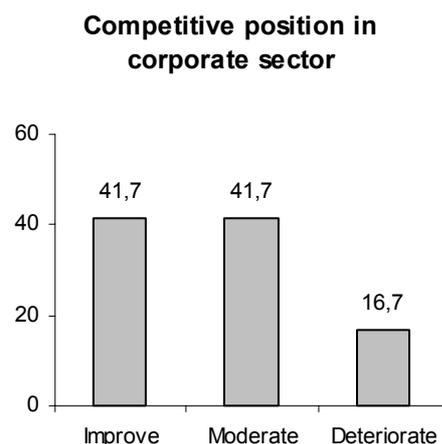
Business situation and expectations

Respondents assess the present business situation of banks positively and have positive expectations for next 6 months. 53.8% of managers provide with a positive assessments of business situation of the bank, 46.2% — satisfactory. In the next 6 months 69.2% of polled expect that business situations of their bank will be improved, 15.4% — that it will remain without changes, and 15.4% — expect worsening of business situation of bank.



Demand

In the 3rd quarter almost all polled informed about growth of demand (value of the proper *index* is 0.91). To the end of year all of the polled banks expect that demand will increase significantly (*index* 1). The rates of growth of demand from the corporative clients are higher, than for private ones. Thus 92.3% of banks informed about growth of demand from the corporative clients in summer compared to spring, while only 66.7% of polled banks informed about growth of demand from private clients at this time (the values of the respective





indexes equals 0.92 and 0.50). Continuations of these growth tendencies are expected to the end of a year 83.3% of polled expect growth of demand from the corporative clients and 72.7% — for private clients. Although it should be noted that none of polled expects decline of demand from the corporative clients, but in the same time 27.3% polled expect reduction of demand from individual persons in autumn compared to summer. In general it is possible to state that the positive growth tendency of demand will proceed, despite insignificant decline of demand from private clients.

Income

Growth of banks' income surpasses the growth of net profit. The *index of income* is equal 0.66 — 75.0% banks informed about growth of income, 8.3% about reduction and the 16.7% of polled consider that their income remained without changes. To the end of year 84.6% of polled banks expect continuation of income growth, 15.4% - think, that income will remain without changes (*index of expectations* is 0.84). The *index of net profit* is equal 0.38. The 61.5% of polled informed about growth of net profit, 23.1% informed about decrease of net profit, and 15.4% of respondents reports no changes of the indicator. To the end of a year 76.9% of respondents expect net profit to be increased, 15.4% of them consider that it will not change, and only 7.7% of respondents expect decrease of net profit comparing summer months (*index of expectations* 0.69). Generally banks have positive expectations regarding to all types of incomes. Though the worst assessments is for the change of interest incomes for bank securities: *index* is 0.30. To the end of a year respondents expect acceleration of growth rates of this *index* (*index of expectations* — 0.46).

Impediments to business development

Competition in a sector is the most important factor that limits the increase of volumes of operations for banks (76.9% of polled banks). Next factors in the impediments rating are shortage of skilled employees (53.8%), unfavorable political situation and unfavorable regulatory climate (both 46.2%). Less important factors are low demand (30.8%) and tax pressure (23.1%). 15.4% of the respondents consider that there are no impediments to development of their business.

Loans and interest rates

Indexes of expectations of interest rates for the both loans and deposits have negative value. This means that banks expect reduction of interest rates in future. It concerns interest rates for short- and long-term deposits as well as loans. Exceptions are interest rates for short-term loans — *the index of expectations* equals zero. 83.3% of banks expect that rates will remain without any changes and the equal shares of respondents plan to increases and decrease of rates (8.3%). The *index of expectations* for long-term loans equals -0.16, in particular, 25.0% of polled plan to reduce the rate, 66.7% — will leave it without changes and 8.3% — think about increasing it. None of the polled banks plan to increase rate on short-term deposits (the value of the proper *index*

Indexes

	Q2'07 Ex post	Q3'07 -Q4'07 Ex Ante
1. Indexes:		
Present business situation	0.53	0.53
General economic conditions	0.07	0.15
2. Performances' index:		
Demand	0.91	1.0
Demand from corporative clients	0.92	0.83
Private clients sector demand	0.50	0.45
Net profit	0.38	0.69
Net interest income from loan for private clients	0.84	0.92
Net interest income from bank securities	0.30	0.46
Net fee and commission income from banking transaction	0.46	0.41
Net fee and commission income from transactions with clients	0.69	0.76
Net trading income	0.46	0.66
Gross Operating Income (GOI)	0.66	0.84
Personnel expenses/(GOI)	0.46	0.53
Number of employees	0.92	0.76
Loans to private clients		0.92
Loans to corporate clients		0.76
3. Interest rates		
Short-term loans		0.00
Long-term loans		-0.16
Short-term deposits		-0.33
Long-term deposits		-0.25
4. Staff		
Front office	-0.69	
Back office	-0.07	
5. Competitive position		
- Services for private clients	0.41	
- Services for corporate clients	0.25	



equals -0.33). General situation with long-term deposits shows a reduction tendency — 33.3% of polled forecast decreasing, 58.3% expect invariability of rates on these deposits, although 8.3% polled banks plan to increase a rate.

Competitive position

Banks mention strengthening of their competitive position for the last three months both on the market of services for private clients and for corporative ones. Thus in private clients segment banks estimate own competitive advantages higher than on the market of corporative clients. Values of the proper *indexes* are 0.41 and 0.25. If 50.0% of banks informed about improvement of the competitive position on the market of services for private clients, the respective value for competitive position on the market of services for corporative clients is 41.7%. The share of respondents informed about worsening competitive position in the respective markets are 8.3% and 16.7%.

Special question: Industries attractive for investment

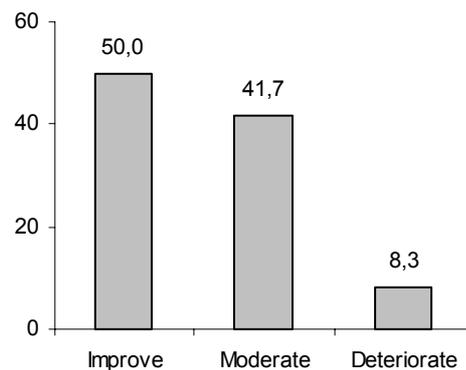
According to banks constriction industry is most attractive one for investment during the next half-year is building (92.3% of respondents). Service sector and retail trade are followed (respectively 53.8% and 46.2%). Manufacturing industry appeared to be the least attractive for investment — 7.7%.

Methodology of research

Survey bases on the standard questionnaire, which contains questions concerning overall economic conditions in the country, business situation in the bank, impediments to business activity, expectations about interest rates for loans and deposits. Total universe of banks contains 156 entities, which are constantly presented on a market.

All of indexes are calculated by unified methodology. We count answers as +1, when bank answers that index increased, 0 - if it did not change and -1 - if decreased. For example, if from 100 respondents 20 noted growth of profits, 50 respondents reported about their reduction, and 30 marked that situation remained without changes, the proper value of index will be — -0.30 . The positive (negative) value of index means that a part of banks whose' profits have grown is more than (less than) a part of those, whose' profits have reduced. Every index bigger than +0.09 or smaller than -0.09 is statistically significant and differs from a zero with probability of error 5%. For details please contact to Oksana Kuziakiv (Kuziakiv@ier.kiev.ua)

Competitive position in private individual sector



Industries attractive for loaning

