

# **VI Almaty Interbank Conference of CIS and Baltic States**



## **Major market and rating trends in the Kazakh, Russian, Ukrainian and other CIS banking industries**

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**The Regent Ankara  
Almaty**

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## Agenda

- **CIS banking systems: mixed prospects, but common risks**
- **Market dynamics and financial performance development in Kazakhstan, Russia and Ukraine**
- **Rating trends and drivers**
- **Related researches and contact details**



## Mixed regional picture with a varying trend of improvement overlaying divergent regional and national profiles

- **Significant progress since the early 1990s in transition to market economies**
- **Better regional cooperation is positive for trade and economic development (certain progress in transport and infrastructure cooperation)**
- **Promising longer-term growth prospects and investment opportunities (range from big oil, gas and mining deals to family-owned bakeries, middle-sized lumber businesses, small-scale hydro-power producers, dairies and growing textile mills), despite varying resource endowments**



## But significant challenges remain

- **Worrisome disparities between the countries in the region**
- **Slow and uneven economic and political transformation**
- **Remaining vestiges of the command economy system and big government**
- **High poverty, ethnic tensions, slow pace of reform and high indebtedness combine to pose a threat to regional security**
- **Pent-up social frustration born of a lack of opportunity may heighten tensions, even extremism**



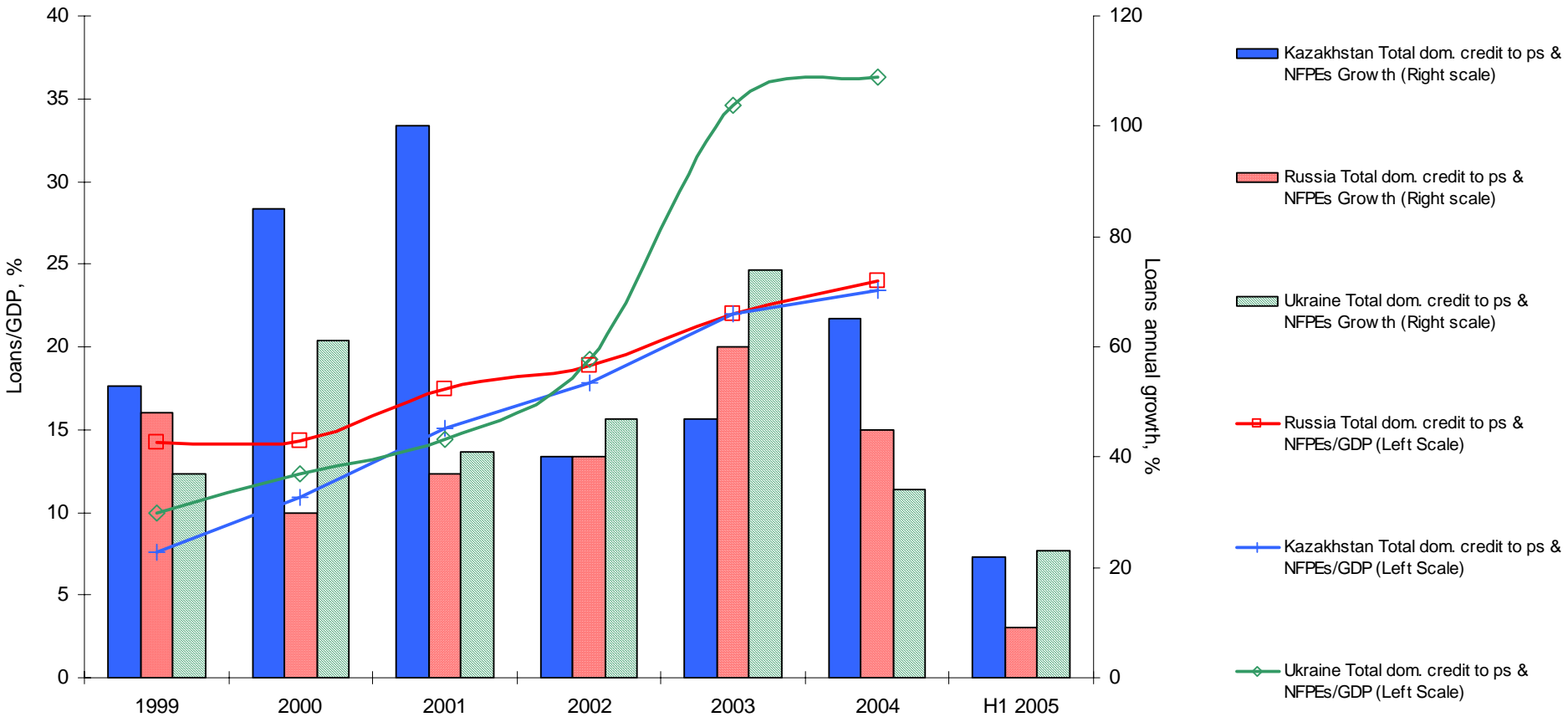
## CIS banking systems: mixed medium-term prospects, but common risks

- **High economic and industry risks**
- **Volatility to economic cycles**
- **Vulnerable to asset quality risks**
- **Weak confidence to banking system**
- **Low intermediation levels**
- **Low operating efficiency**
- **Lack of capital and core deposits**
- **Weak financial flexibility**
- **Regulatory and legal systems under-developed**
- **Opaque risk management**
- **Varying accounting practices**



# Continuous upward path (1)

Annual growth in total system loans and loans to GDP in Kazakhstan, Russia and Ukraine (1999-H1 2005)

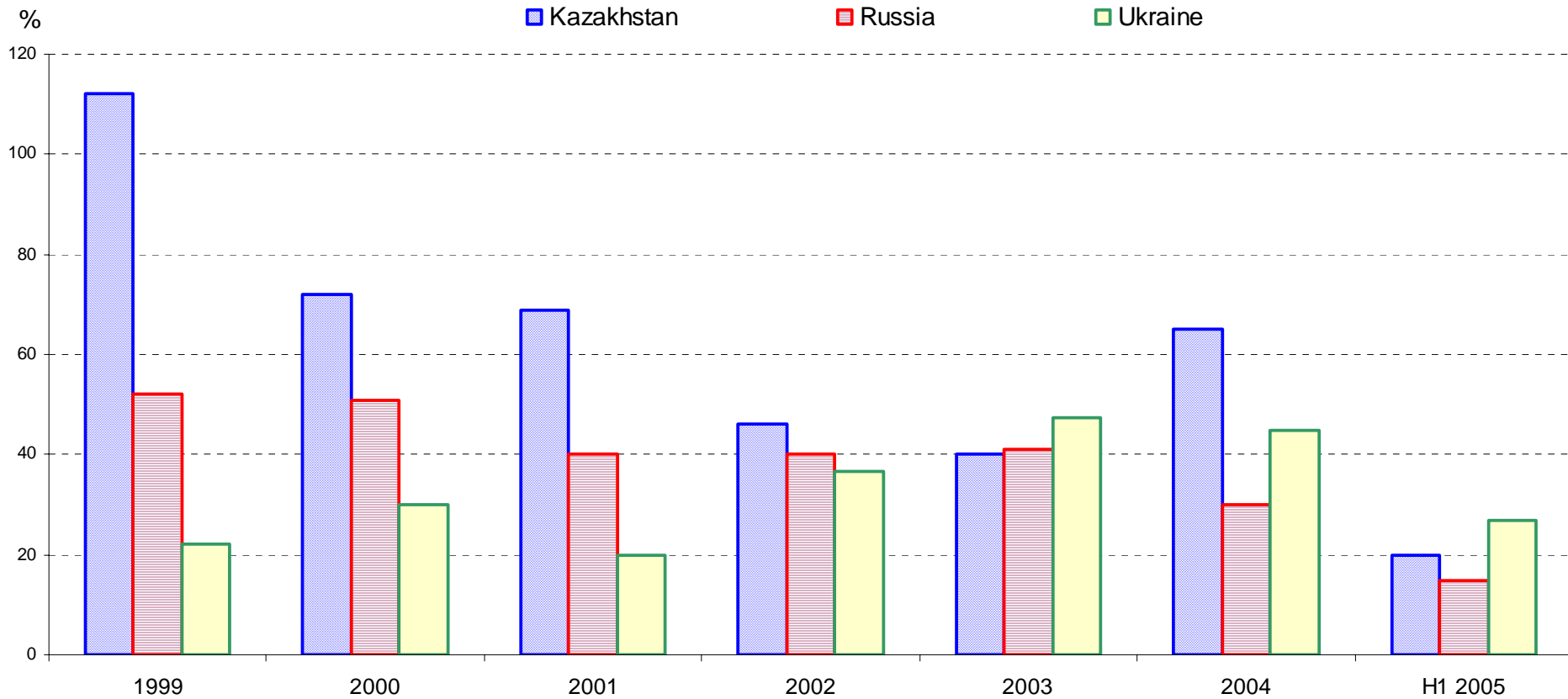


Sources: Standard & Poor's, respective central banks. H1 2005 data not annualized.



# Continuous upward path (2)

## Deposit Growth Rates in Kazakhstan, Russia and Ukraine (1999-H1 2005)



Sources: Standard & Poor's, respective central banks. H1 2005 data not annualized.



**ONE-MILLION DOLLAR QUESTION:**

**HOW MUCH OF THE RECENT  
DEVELOPMENTS**

**ARE**

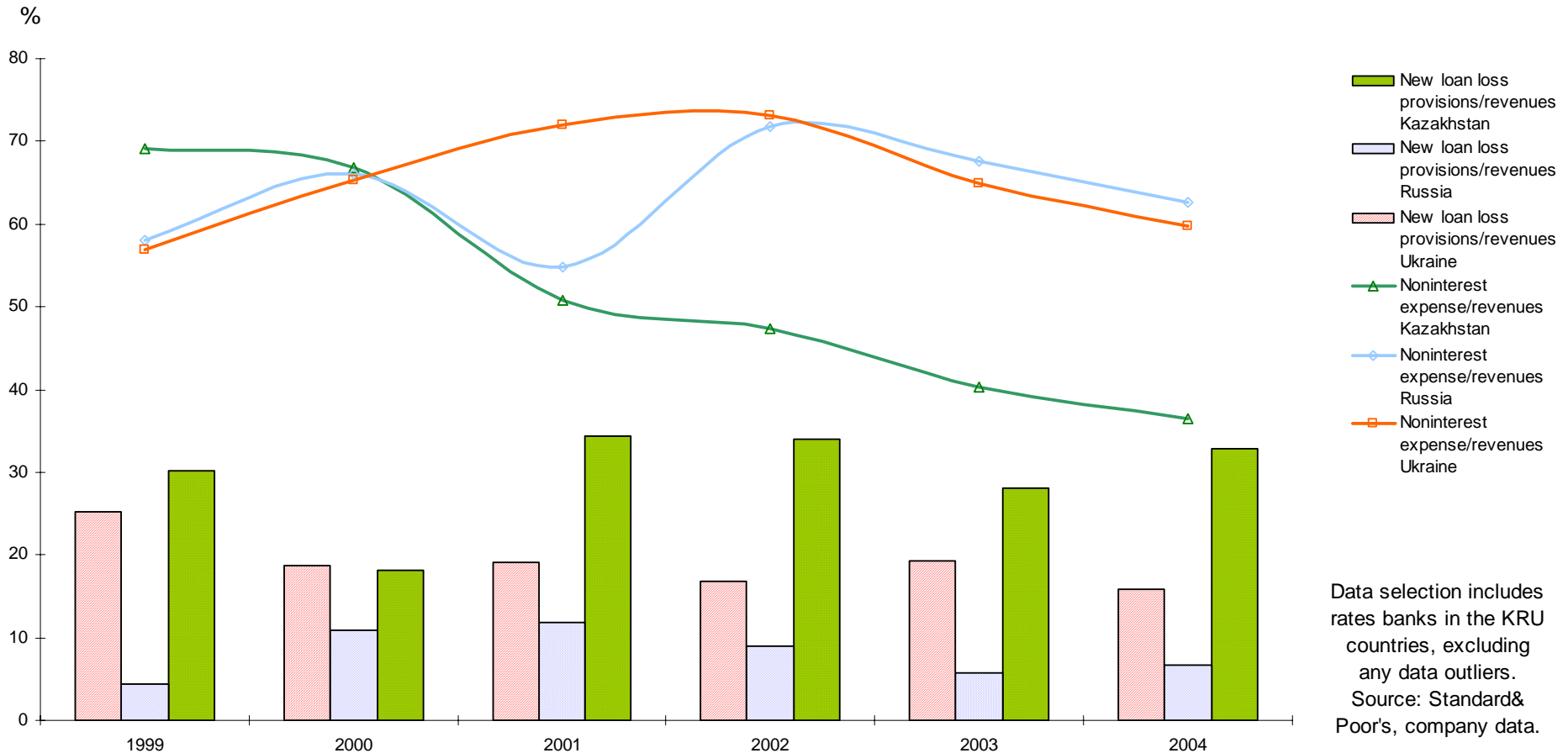
**CYCLICAL OR FUNDAMENTAL?**





# Core profitability improves, but costs are high

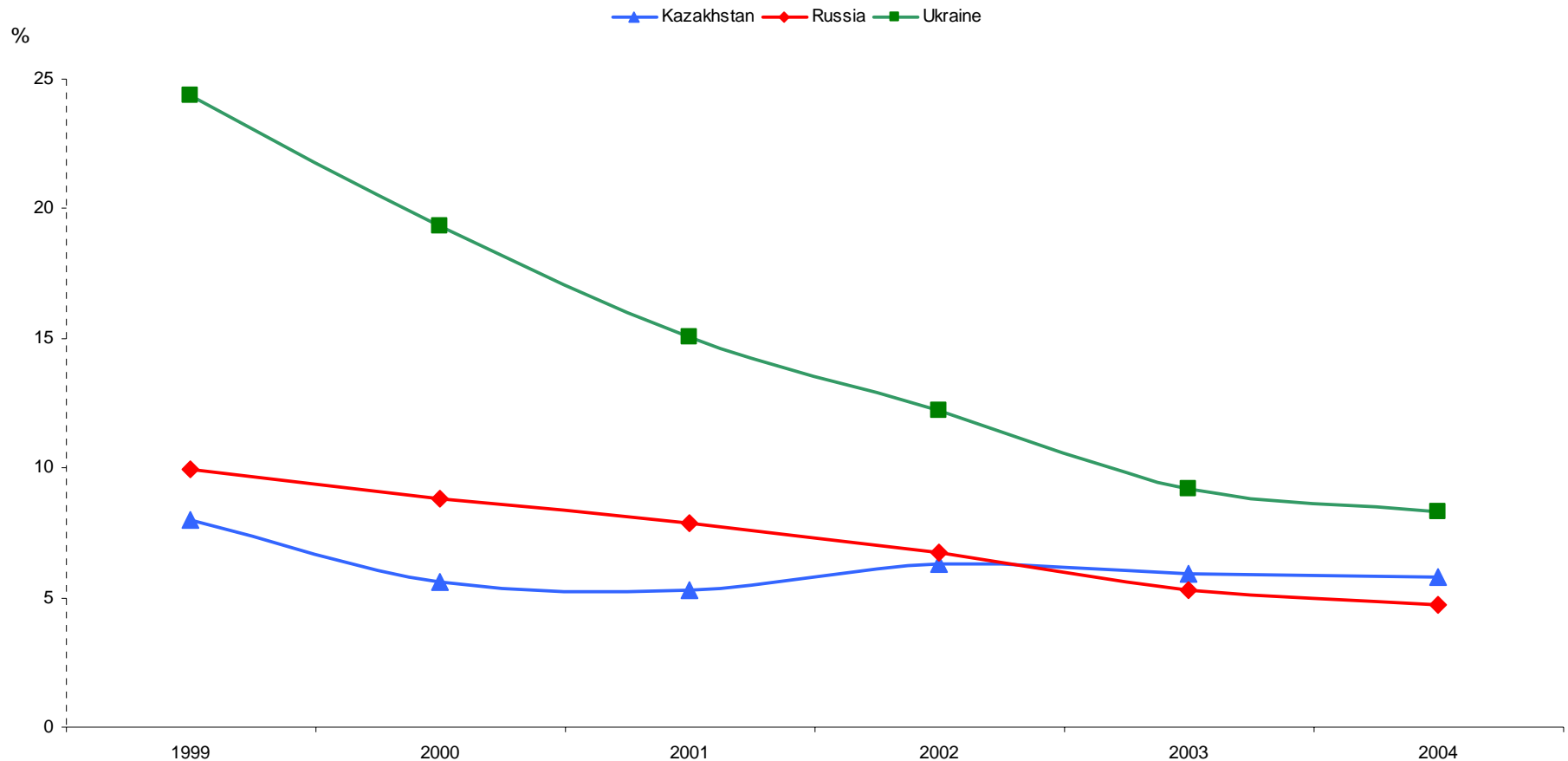
High operating and credit costs of banks in Kazakhstan, Russia and Ukraine.





# Although trending downward, credit costs might be volatile

## Loan loss reserves / gross customer loans



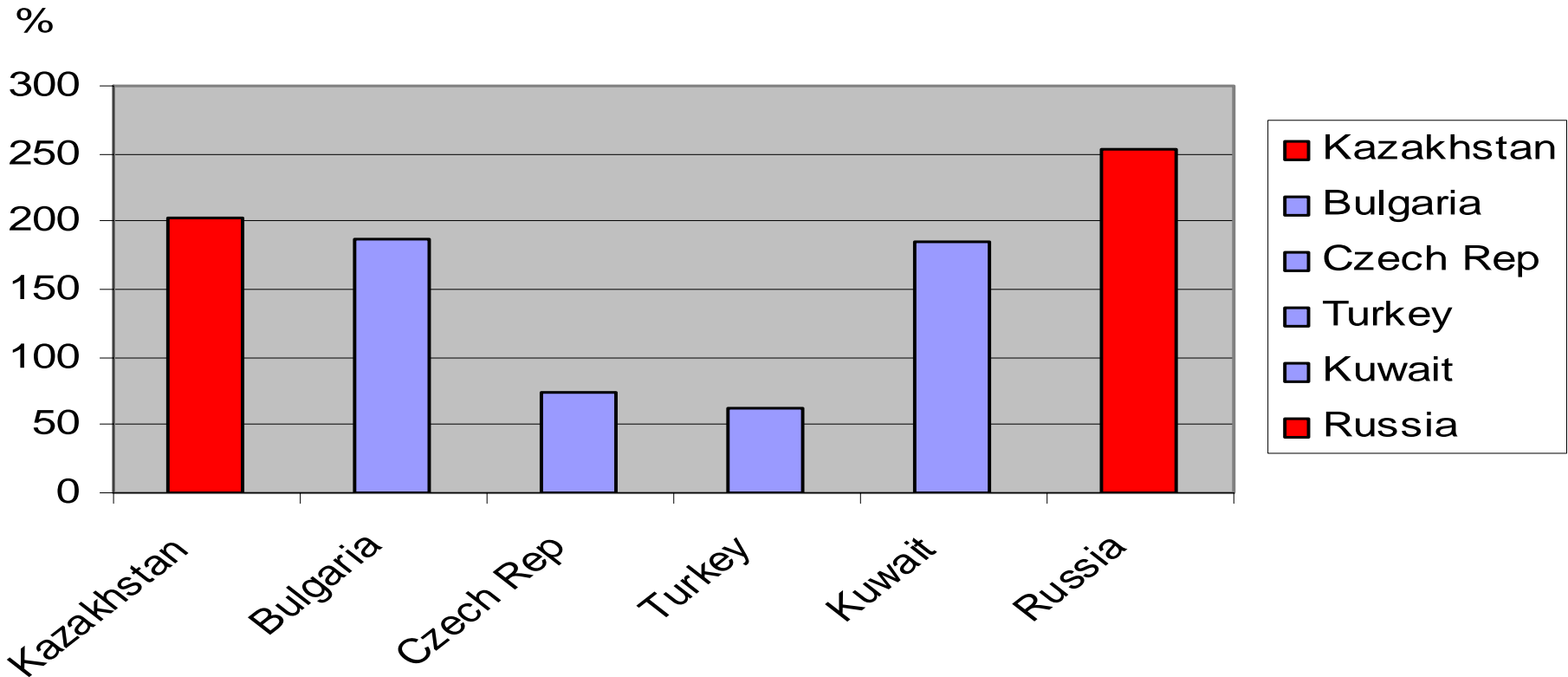
Data selection includes rates banks in the KRU countries, excluding any data outliers. Source: Standard& Poor's, company data.



# High single-name concentrations – major risk for banks in the region

## Top 20 borrowers to banks adjusted common equity (%)

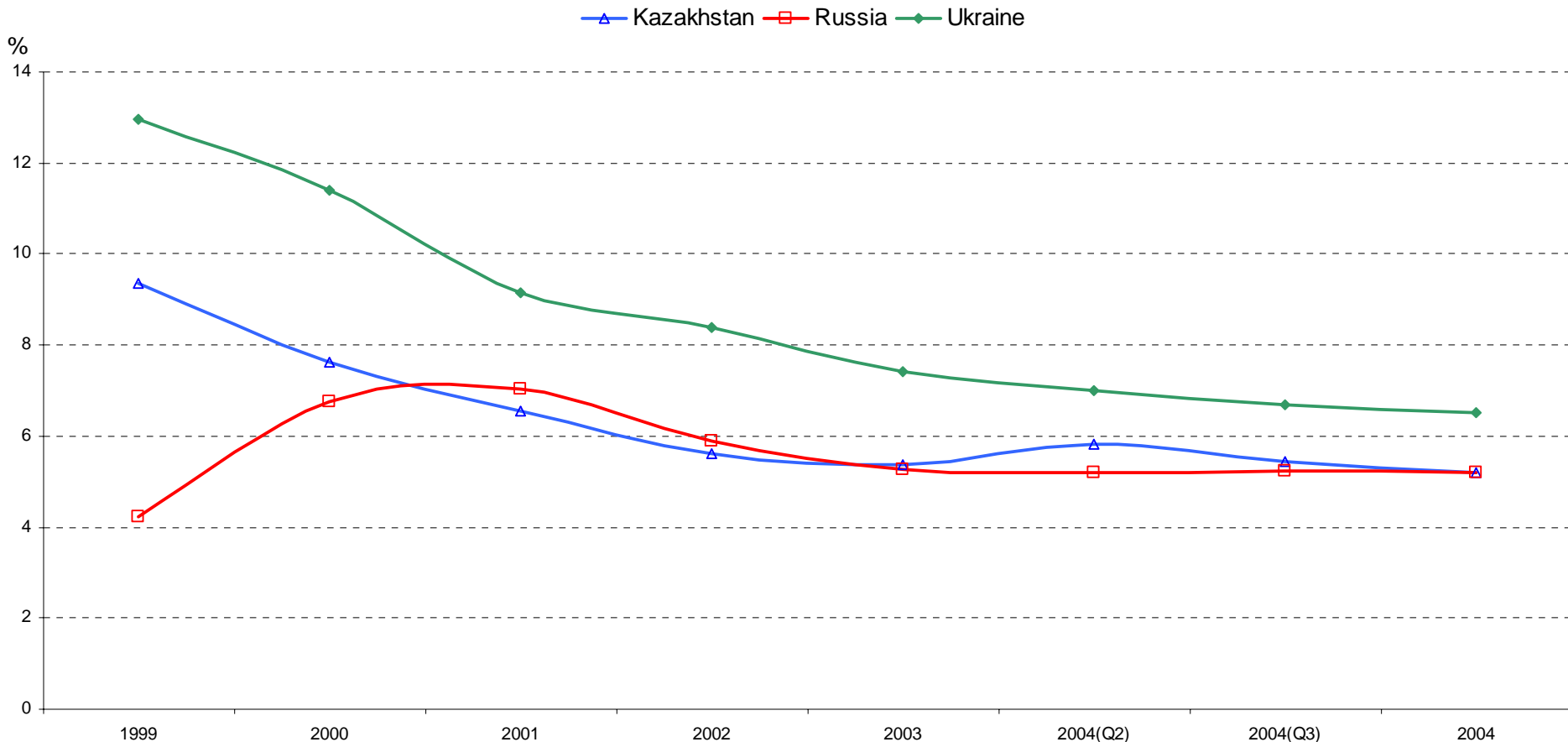
Data for rated banks





# Interest margins remain healthy, despite some pressure

Net interest spread of selected KRU banks rated by Standard & Poor's



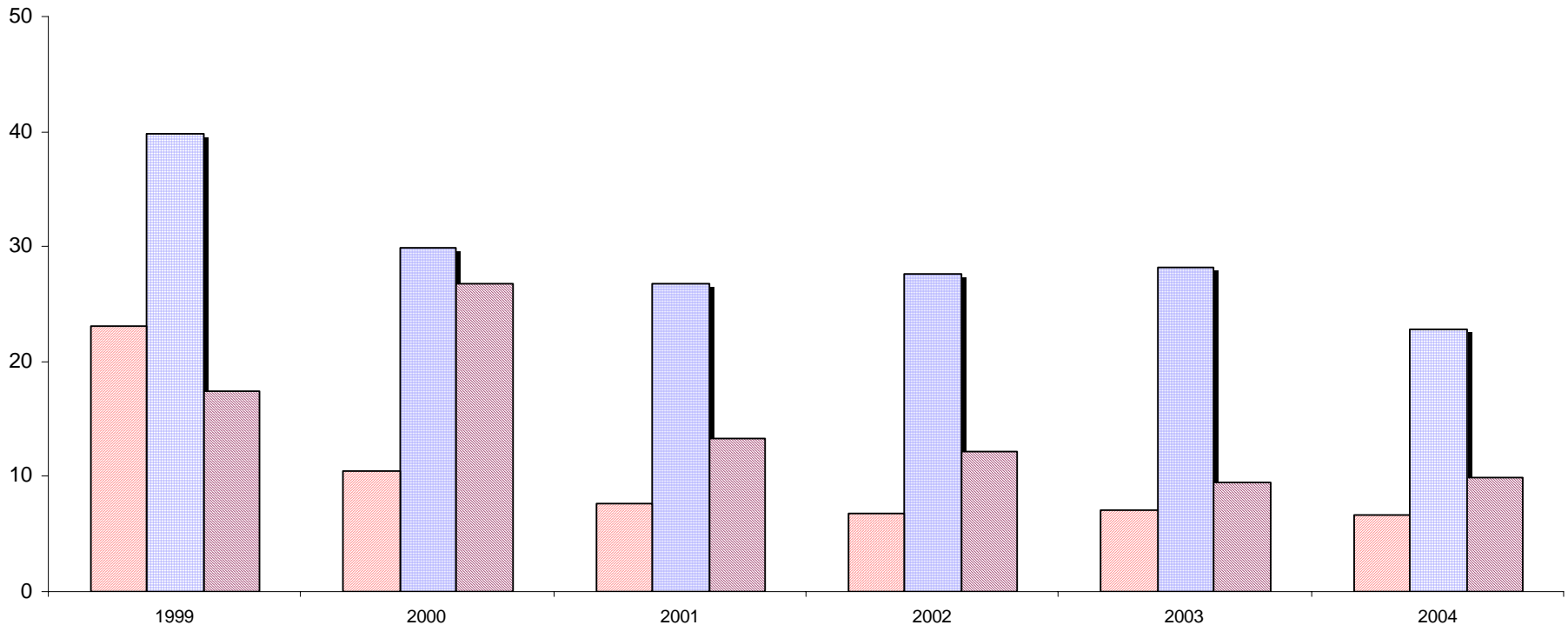
Data selection includes rates banks in the KRU countries, excluding any data outliers. Source: Standard & Poor's, company data.



# Russian banks dependant on trading gains

## Trading income / revenues ratio

■ Kazakhstan    ■ Russia    ■ Ukraine

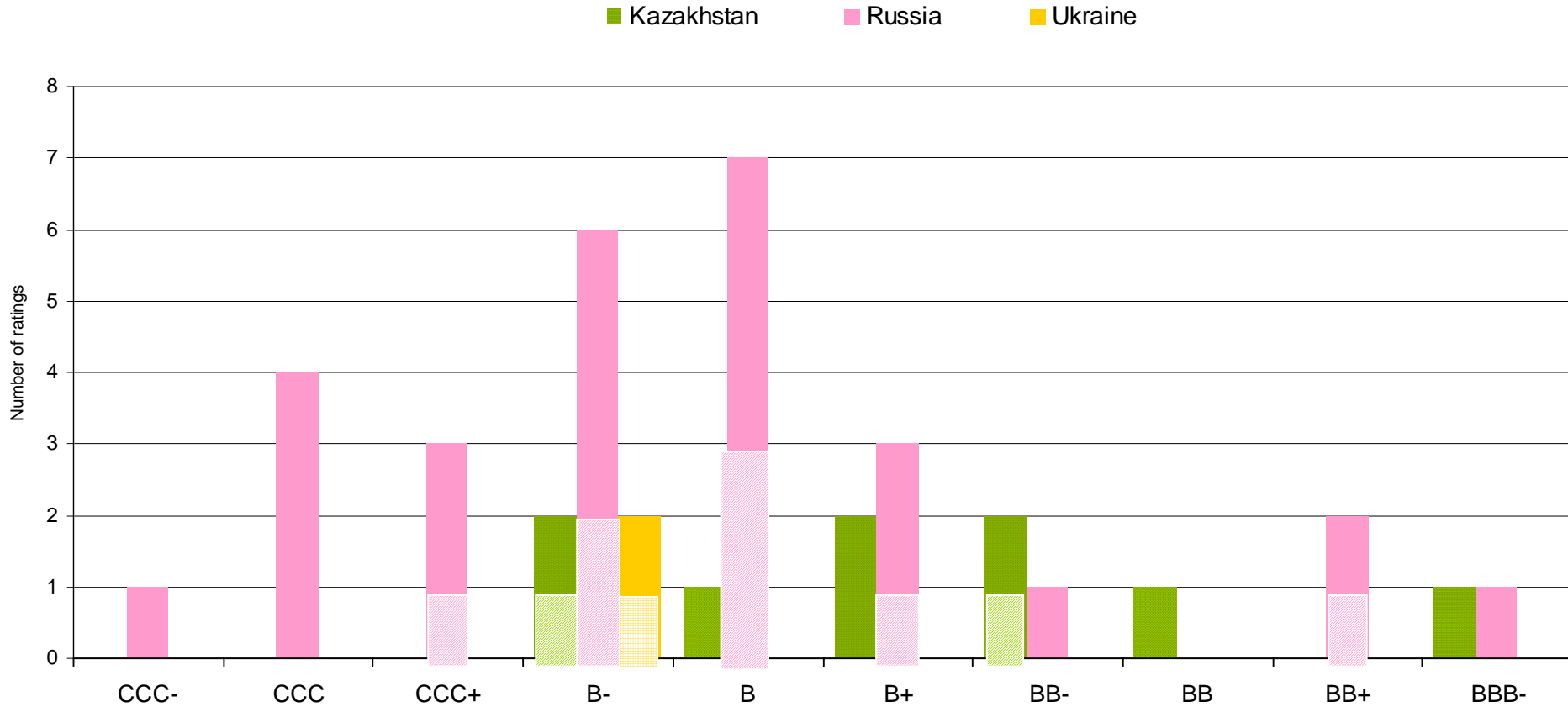


Data selection includes rated banks in the three countries, excluding any data outliers. Sources: Standard & Poor's, company data.



# Large divergence of bank ratings in the region

## Banks Ratings Distribution in Kazakhstan, Russia and Ukraine



Data as of September 15, 2005. Diagonally hatched columns represent banks with positive rating outlooks. Large grid column represents a bank with a developing outlook. No banks in Kazakhstan, Russia or Ukraine had negative outlooks at this date.



## Trend in improving creditworthiness continues in Russia, but many challenges remain

- Positive macroeconomic environment likely to continue
- Improving, but still highly fragile, customer confidence
- Regulatory stance gradually tightening, but no major changes expected in the near term
- Sector ripe for consolidation, but no major changes in the industry landscape expected in 2005 and 2006
- Foreign banks playing an increasingly important role in shaping competitive dynamics, but FDIs are rare
- Retail banking emerging as a key business line
- Financial performance is back on track after 2004 year turbulence, but still dependent on trading gains
- High growth likely to continue
- High risks factors including likelihood of market turbulence continue to be factored into low ratings of banks in Russia



## Further reforms needed in Kazakhstan to retain its leadership position

- Improvements in the economic and operating environment
- The strongest bank regulatory framework in the region
- Better liquidity in the system
- High lending growth
- Declining capitalization
- Lack of certainty about the owners' ability to inject fresh capital into banks
- Growing international borrowings lead to repayment concentrations and refinancing risks
- Relatively high credit risks (low ownership transparency, limited business diversification, a relatively unstructured corporate sector, high loan concentrations by industry and individual borrowers, and a high proportion of foreign currency lending)
- Intensifying expansion into other higher risk CIS markets, mainly Russia, is a concern





## Political instability creates uncertainties for Ukrainian banks

- **Stability restored after the turbulent period in 2004, but still highly vulnerable**
- **Major uncertainties**
  - political situation,
  - re-privatisation and related changes in standing of any FIGs,
  - whether past supportive stance of the National Bank will continue.
- **Purchase of Aval Bank by Raiffeisen – by far the largest one-time bank FDI in CIS**
- **Relatively good macroeconomic prospects, but risks linger**



## Related articles recently published by Standard & Poor's

- **Industry Report Card: Major Banks In Kazakhstan, Russia, And Ukraine** *(01-Sep-2005)*
- **CIS Banking Systems: Mixed Prospects but Common Risks** *(06-Dec-2004)*
- **Bank Industry Risk Analysis: Russian Federation** *(28-June-2005)*
- **Bank Industry Risk Analysis: Kazakhstan** *(24-Aug-2004)*
- **Stability of Ukrainian Banking System Restored, But Risks Linger** *(23-Jun-2005)*
- **Russia Must Persevere With Banking Reform Despite Shaky Start** *(07-Sep-2004)*
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- **Comparative Statistics: Russian Banks** *(15-Apr-2005)*
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By John Chambers, CFA, New York

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