

Managing Market Demand: VABank's Retail Focus



Banking on Ukraine
London
21 February 2006

VA BANK
Vseukrainsky Aktsionerny Bank

Overview

■ Full name	Vseukrainsky Aktsionerny Bank
■ Short name	VABank
■ Established	2nd July 1992
■ License	#35 of 03.12.2001
■ Auditor	Deloitte&Touche
■ Country ranking*	18th (by assets) 14th (by capital) 15th (by loan and investment portfolio)
■ Moody's rating	E+ (Financial Strength Rating) B2/NP (Foreign Currency Deposits) Stable Outlook

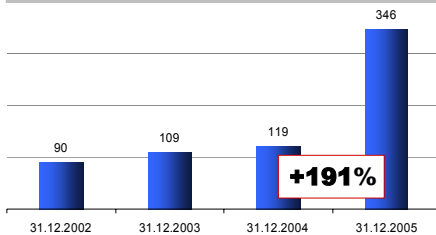
*According to the Ukrainian Banks Association as of 31/12/2005

Assets and Capital Dynamics

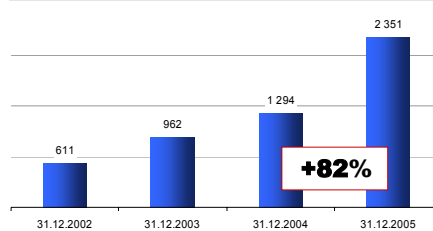
- On 23 December 2005, the Bank registered the 18th stock issue with the National Bank of Ukraine
- TBIF Financial Services BV has purchased 9.55% shares of the bank

- VABank growth rates in terms of assets and capital significantly surpassed that of the banking system in 2005

Capital Dynamics, UAH millions



Assets Dynamics, UAH millions



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New Business Strategy for 2006-2008

Our MISSION is to create added value for customers, shareholders and Bank's personnel

- Regaining by 2008 position among **top-12** Ukrainian banks
- A **market share** of the bank should not be less than 2.6% in terms of assets and 2.2% in total credit portfolio (3,9% - in retail loans)
- Significant **intensification and diversification** of activity by customers segments and products.
- Becoming **the best** via criteria:
 - Cost** – Transparent fees, no hidden commissions
 - Quality** – Match Expected to Received
 - Time** – Effective management of client's time

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Key Financial Targets

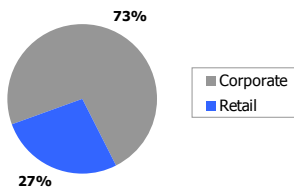
USD millions	31.12.2006	31.12.2007	31.12.2008
Assets	800	1400	2 535
Loans	500	985	1 950
Regulatory capital	110	120	180
Net profit	5.6	10.9	26.7
Market share (assets)	1.4%	1.9%	2.6%
Market share (corp. loans)	1.3%	1.8%	2.2%
Market share (retail loans)	1.1%	2.1%	3.9%
Country ranking (assets)	15 th	14 th	12 th

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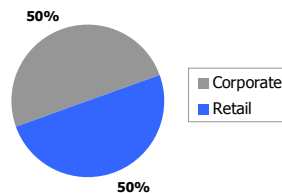
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Retail Focus – main orient of the Strategy

Loan Portfolio Structure, start of 2006



Target Loan Portfolio Structure, 2008



- Expand retail business in 2006-2008
- Individuals deposits growth rate in Bank's liabilities – more than 75% a year (share in liabilities remain at 27-28%)
- Reaching **new strategic financial figures** in 2008:
 - Retail loans share in the total loan portfolio – 50% (UAH3,6 bn)
 - Retail loans market share – 3,9%
- Grow retail loan portfolio at 140% a year

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WHY RETAIL?



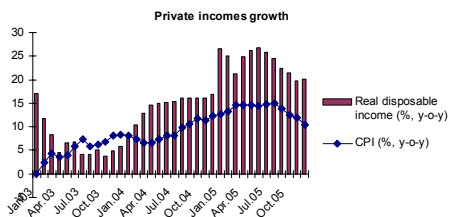
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Macroeconomic Reasoning 1

■ Growing real wage

■ Real disposable incomes grew faster (although were eroded by high annual inflation in mid-2005)

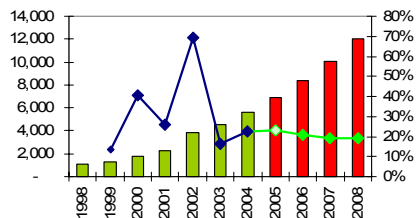


■ As a result, consumer confidence is rising, substantially increasing the demand for retail banking products

■ Active macro economical development

- Economic annual growth rate of 6%
- Real disposable income annual growth rate of 10% (in 2005 was 21%)

Nominal income per person and its Growth Rates



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Macroeconomic Reasoning 2

- Share of retail loan to GDP is very low in comparison to most European countries highlighting the potential of Ukrainian retail market
- Especially since evident rapid growth (from 3.3% in 2003 to 8.3% in 2005) is being driven by increased contribution of consumption to GDP

Country	Share of retail loans in GDP	Reporting date
Great Britain	70.5%	2004
Switzerland	60%	2004
Germany	45%	2004
Poland	19.5%	2004
Slovenia	9.5%	2004
Russia	5.04%	2005
Hungary	14.7%	2005
Ukraine	8.31%	2005

Sources: Erste Bank Hungary, CBR, NBU, VABank calculations

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Macroeconomic Reasoning 3

- Strong Emergence of Middle Class
- More than 8% of Urban population have used retail loan facility
- More than 8% of Urban population show interest in retail loan facilities
- Taken that average loan per person is \$100, potential is huge as 2/3 of urban adult population use bank services

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VABANK Retail Expansion



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1. Expanding Branch Network



- Operating branches and outlets
- Planned for 2006

Today

- Head Office in Kyiv
- 65 branches and outlets
- 1180 employees
- Representative office in Budapest, Hungary
- 130 ATMs

2006 Plan

- 150 branches and outlets
- outlets in all oblast centres of Ukraine
- 210 ATMs

2008 Plan

- 250 branches and outlets
- 370 ATMs

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2 . Improving Branch Experience



- ➔ Branch makes up sales-orientated retail shops: Branches Out- Retail In
- ➔ Everything communicates: Walls, windows, stands, style-chairs
- ➔ Standardized branch image: Strong Identity

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2 . Improving Branch Experience



- ➔ Improvement of physical experience at branch: bright, open plan spacious sales floors with use of natural wooden tops to bring 'comfort feel' and touch of metal for hi-tech
- ➔ Enhance psychological experience: client manager meeting the client, reading material
- ➔ Redesigned to focus on different customer segments
- ➔ Increase of selling time by automating the systems

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3 .E ffective use ofH um an R esources

→ Staff training

- Foundation of Retail School: selling skills, interpersonal relations, product knowledge
- Front Office key qualities: Intelligence, Competency, Friendliness

→ Service standardization

- Concept of 'one-stop-shop' : full product spectrum sold to client through one manager
- Introduction of Quality Benchmark for all front office personnel

→ Corporate Culture

- All levels of hierarchy working towards one clear goal (constantly communicated)
- Quarterly team gatherings, internal site, internal corporate magazine

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3 E ffective use ofH um an R esources



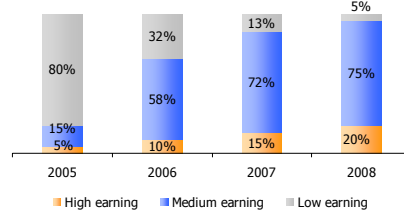
- Designed corporate uniform for front-office that is in line with VABank corporate style and International Standards

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4 Clients Segmentation & Product Development

- Focus on attracting Target Segments: Medium Earners and High Earners
- Product development according to segments: Mortgage, Car Loans, Commercial Mortgage, Consumer Finance

LP Structure Dynamics according to Target Segments, %



- Application of Horizontal Cross Strategy for Product selling (Product Line)
- Concentrate on Pushing:
 - Interconnected Products (ones that support sales of others)
 - Most popular products in Packages (promoting through bonuses for quantity buying)

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5 Technologies

- **Increase business-processes automation**
- **Introduction of Scoring System**

GOAL: develop competitive Credit Cycle while:

- Control the Credit & Fraud Risk
- Maintain speed of Credit Cycle
- Build cost-effective process



Decision: Centralized Risk Management

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5 Technologies

Employment of new technologies helps to minimize costs by increasing migration to alternative channels

- Call-centre
- CRM Systems
- Self-service kiosks
- Cash-Ins
- Set-up an in-house processing

6 Brand

- Position VABank as retail orientated bank with 'human face' that works by international standards with understanding of Ukrainian locality
- Emotional connection with consumers: VABank supports through all life stages from purchase of first home by mortgage, helping to save for child's education to depositing for calm retirement
- Prioritize Social Responsibility of the Bank, support of clients social welfare through products

RETAIL CLIENTS

Individuals

SME



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Why SME in Retail?

- close to individuals
- quick decision making
- high growth rate
- higher margin
- standartised

SME Loans share in GDP, %

Country	Share of SME loans in GDP	Reporting date
Lithuania	21%	2003
Czech Republic	26%	2003
Slovakia	12%	2004
Hungary	45%	2004
South Africa	22%	2004
Ukraine	4.3%	2005

Sources: Various National Banks data, Erste Bank, VABank calculations

Bank estimated small retail business realization volume less than USD 100k in a year (SME).

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W a y s t o g r o w S M E

Build on our 10 Year experience of cooperation with EBRD, Eurasia Foundation and World Bank on SME programs

- Specific Banking platform for SME: Designated Branch areas with SME managers
- International Credit Lines: EBRD
- Implementation of Scoring system
- Design of specialized products
- Create neighborhood understanding and feel

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INDIVIDUALS



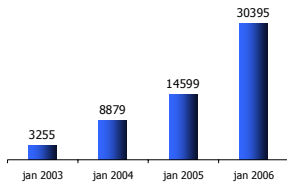
W h a t P r o d u c t s
o n O f f e r ?

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LOANS – Market Potential

- High market growth
- High demand in target segments (high and middle earning)

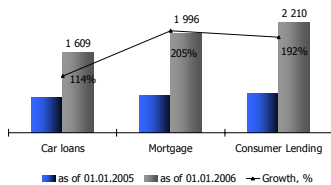
Lending Dynamics, UAH mn



Average retail loans rates (as for Dec 2005)

	2003	2004	2005
in USD	13.9%	14.4%	13.7%
in UAH	21.1%	19.7%	19.9%

Products Dynamics, USD mn



High demand for retail loans has not caused the substantial decrease in rates on the background of declining lending rates for business sector

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LOANS – Market Potential

Further drivers of high demand for retail loans in Ukraine:

- Growing real wage
- Rapid development of retail branches, thus individuals are getting more familiar with benefits of retail loans
- Higher population growth rates in mid-80s as compared to other European states, which implies higher proportion of younger people now (main focus group for retail loans)
- Market value of assets to be used as collateral has almost tripled due to real estate price inflation

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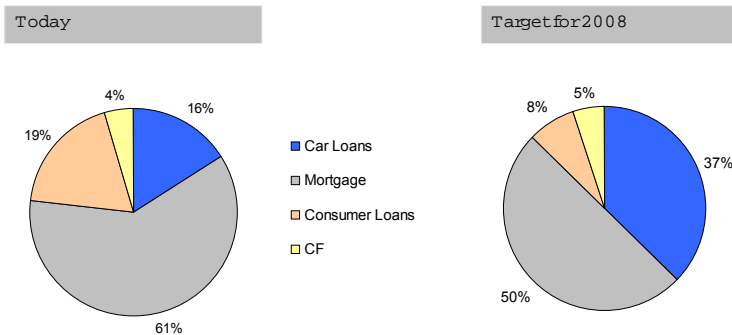
LOANS – Targets

- The bank embarked on the program aimed to increase the portfolio of loans issued to individuals

	2005	2006F	2007F	2008F
Individuals Loan Portfolio	UAH 130mn	UAH 515mn	UAH 1160mn	UAH 3790mn

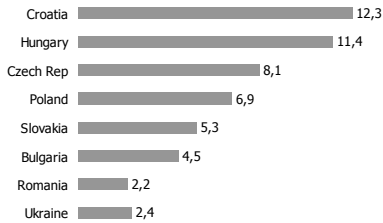
LOANS – Targets

Loan Products Share in the Individuals Loan Portfolio, %



Mortgage – key retail product

Mortgage as % of GDP (2005)



- **Ukraine has high potential in this sector as still mortgage takes up only 2.4% of GDP**

- First time mortgage clients - Young families – Beginning of Life Cycle
- Collateral is main possession – Home – Strong Consumer Loyalty
- Clients has contact with Bank at least every month for 20-25 years – Good opportunity to cross sell

Average Residential Area per Person, sq m

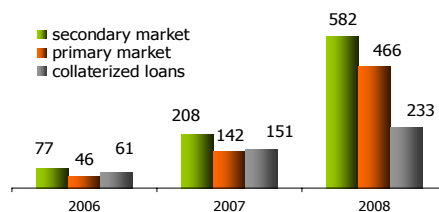
Country	Sqm .
Denmark	49
Sweden	47
Norway	43
France	32
Finland	30
UK	27
Spain	24
Ukraine	21

Mortgage – Targets

Achieve through:

- ➔ VABank's work with FFC: mortgage schemes for development projects
- ➔ Working with National Programs for certain segments e.g. young clients
- ➔ Refinancing Programs
- ➔ Bridge Loans
- ➔ SME Loans collateralized by mortgage

VABank Mortgage Sales Targets, UAH mn



CarLoans Market Potential

Car loan market (2005) - **USD720-760mn***
Forecast 2006 - USD 1,5-1,7bn*

Average year Car Loans market growth	2005	F2006
	114%	120%

Further drivers of high demand for car loans in Ukraine:

- ➔ Low car density per capita as compared to European states
- ➔ Status item

Private Cars per 1000 Population

USA	746
Western Europe (average)	417
Germany	658
Ukraine	127

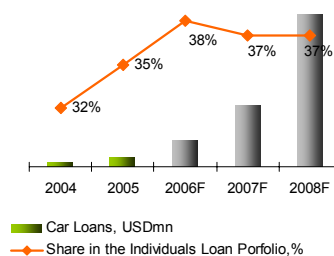
*Source:AAAID

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CarLoans -Targets

VABank CarLoans Dynamics & Target Growth



Achieve through:

- ➔ Scoring systems improvement
- ➔ Tightening cooperation with car dealers and importers
- ➔ Variable interest rate schemes
- ➔ Leasing programs

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Consumer Finance

- **High growth potential**
- **Due to high consumption, retail sales reached its all-time record value in 2005**



Achieve through:

Scoring implementation

Using TBI Experience

Expansion of sales channels (branches, retailers, agents, Internet, Call-centre etc.)

Cross-selling

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Plastic Cards Targets

- ➔ 1 000 000 active cards by the end of 2008
- ➔ 70% growth a year with main figures
- ➔ Innovative co-brand projects
- ➔ Strengthening cooperation with VISA, becoming a principal member of MasterCard Europe
- ➔ Expanding acquiring services

New items	2 006F	2 007F	2 008F
1. ATMs	210	300	370
2. Self-service kiosks	25	60	100

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Non Trading Services

Increasing commissions driven products in the income structure

■ Non-trading operations development :

- Increase volume of bill payments by 70-80% a year
- Money transfer operation growth at 30% a year
- Increasing currency exchange volumes - 30% a year
- Precious metals - 30% a year
- Numismatic operations development (investment or "bullion" coins)

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Thank you for your attention

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