

Bankers Confidence Index Rebounded Slightly and Banking Sector

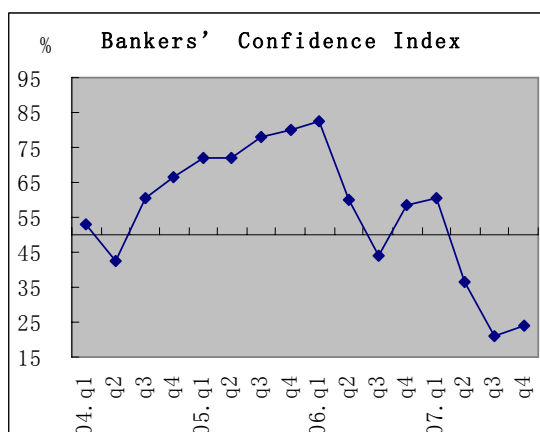
Remained in Favorable Condition

Report of the Bankers Questionnaire Survey Results for the Fourth Quarter of 2007
Results of the Bankers Questionnaire Survey (BQS) for the fourth quarter of 2007 jointly conducted by the People's Bank of China and the National Bureau of Statistics showed that bankers confidence index rebounded slightly, and the bankers expected continuous upsurge of the macro economy; banks were in sound financial situation with the highest number of banks reporting profits, and the banking business index reached a new high again.

1. The bankers' confidence index

In the fourth quarter, the proportion of bankers who regarded the current macroeconomic performance as "trending towards overheating" reached 81.3 percent, representing a slight decline from that of last quarter, still the second highest level ever. Therefore, the bankers' confidence index rose somewhat to 24.1 percent, and yet remained within the unfavorable band. In addition, nearly 70 percent bankers expected that the economy would continue the trend towards overheating in the first quarter of 2008. In particular, the proportion of bankers who expected the economy to be "overheating" in the next quarter stood at 5.8 percent merely, implying that bankers' concern over an overheating economy in the future has not worsened.

Bankers' confidence Index Unit: %	
Quarter	Confidence Index
04.q1	53
q2	42.4
q3	60.5
q4	66.7
05.q1	72
q2	72
q3	78.2
q4	79.9
06.q1	82.4
q2	59.9
q3	43.8
q4	58.4

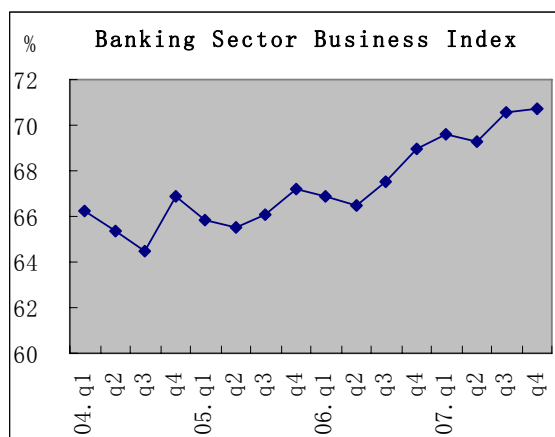


07.q1	60.6
q2	36.7
q3	21.0
q4	24.1

2. The banking sector business index

As shown in the survey, the banking sector business index of the fourth quarter reached a new high of 70.7 percent again. Bankers' expectations on favorable banking performance mainly rooted in their remarkably improved operation income and profit margin. Among all the financial indicator indices, interest spread income index reached a record high of 62.2 percent, representing a sharp increase in comparison with that of the previous quarter and the corresponding period of last year. It showed that interest spread income of banking sector had remained in favorable condition during the whole year. Other financial indicator indices witnessed slight quarterly increases with an exception of the index of net revenue from transactions between financial institutions, which decreased by 0.5 percentage points and 0.9 percentage points compared with that of last quarter and the corresponding period of last year respectively. That mainly resulted from tightened funding condition of banks and decreased inter-bank lending in the fourth quarter.

Banking Sector Business Index		Unit:%
Quarter	Confidence Index	
04.q1	66.2	
q2	65.4	
q3	64.5	
q4	66.9	
05.q1	65.8	
q2	65.5	
q3	66.1	
q4	67.2	
06.q1	66.9	
q2	66.5	
q3	67.5	
q4	69	
07.q1	69.6	

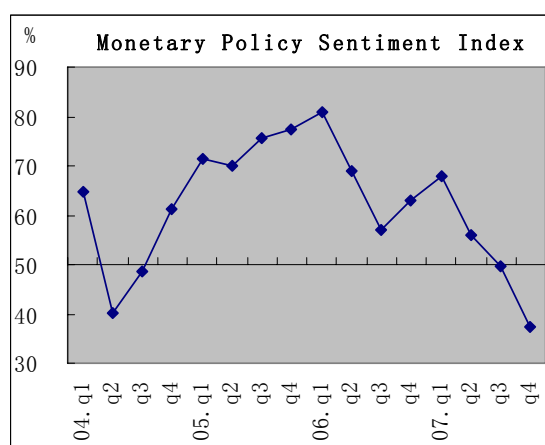


q2	69.3
q3	70.6
q4	70.7

3. The monetary policy sentiment index

The monetary policy sentiment index of bankers (the proportion of bankers regarding the stance of monetary policy as appropriate) dropped to a record low of 37.5 percent, while the proportion of bankers who considered the stance of monetary policy as tight reached a record high of 54 percent, representing an increase of 17.3 percentage points following the sharp increase of last quarter. Meanwhile, nearly 60 percent of bankers held the expectation that interest rate would continue to rise.

Monetary Policy Sentiment Index		Unit:%
Quarter	Confidence Index	
04.q1	64.7	
q2	40.1	
q3	48.7	
q4	61.4	
05.q1	71.3	
q2	70	
q3	75.6	
q4	77.4	
06.q1	81	
q2	68.9	
q3	57	
q4	63	
07.q1	68	
q2	55.8	
q3	49.7	
q4	37.5	

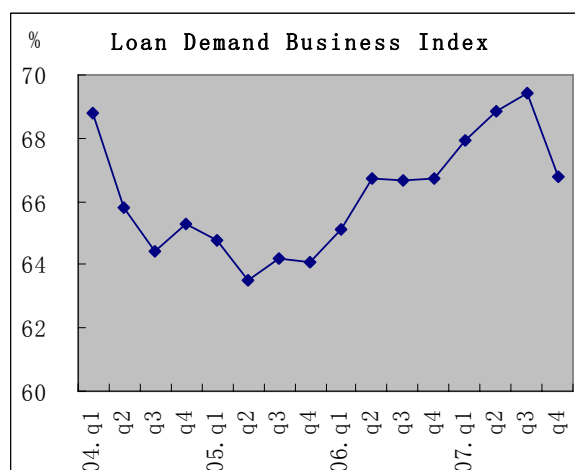


4. The loan demand business index

As shown in the survey, loan demand weakened remarkably, and the loan demand business index plunged to 66.8 percent, down by 2.6 percentage points from that of

last quarter. Bankers thought that interest rate hike was one of the factors deterring loan demand. Among various industries, real estate and education loans witnessed largest decline of demand. Among various enterprises, small enterprises saw the most remarkable decline of loan demand followed by medium-sized ones, while big enterprises only experienced slight decline of loan demand. Among various loans, individual consumption loan (especially home mortgage loan) witnessed the biggest drop of demand.

Loan Demand Business Index	Unit: %
Quarter	Confidence Index
04.q1	68.8
q2	65.8
q3	64.4
q4	65.3
05.q1	64.8
q2	63.5
q3	64.2
q4	64.1
06.q1	65.1
q2	66.7
q3	66.6
q4	66.7
07.q1	68
q2	68.9
q3	69.4
q4	66.8



Note:

Bankers' Questionnaire Survey (BQS) is a quarterly institutional arrangement jointly conducted by the People's Bank of China (PBC) and the National Bureau of Statistics (NBS). The design of the questionnaire as well as the formulation of the survey plan, the indicator system and the calculation methodologies were decided by the Financial Survey and Statistics Department of the PBC and the Service Industry Survey Center of the NBS. The Financial Survey and Statistics Department of the PBC is also responsible for conducting survey, analyzing data and preparing the survey report.

The survey results are jointly released by the PBC and NBS.

The survey adopts the methodology of comprehensive survey combined with sampling survey over about 2800 banking institutions, featuring comprehensive survey over various banking institutions above the prefecture level and PPS (probability proportional to size) sampling survey over the rural credit cooperatives. The survey is targeted at senior managers of banking institutions' head offices (including foreign commercial banks) and presidents or deputy presidents responsible for credit business in branches or sub-branches of the above institutions.

The survey report focuses on quarter-on-quarter changes. By providing quantitative description of the four indicators in the questionnaire, the report lists the proportion of different responses and the climate index. In particular, the confidence index of bankers is calculated as the arithmetic average of the proportion of bankers viewing the current economic situation as “normal” and the proportion of bankers forecasting a “normal” economic situation. The monetary policy sentiment index of bankers is equal to the proportion of bankers who consider monetary policy stance as “appropriate”. The banking sector climate index and the loan demand climate index are calculated adopting the Diffusion Index methodology by deducting numbers of banking institutions that choose the “unsure” answer, then calculating the proportion

of each item c_i and assigning respective weight (very good 1, good 0.75, normal 0.5, bad 0.25, very bad 0), and finally summarizing each item to get the index, i.e., $I = \sum_{i=1}^5 c_i q_i$. The scope of all indexes spans from 0 to 100 percent, with the index above 50 percent meaning economic expansion, while below 50 percent implying recession.