

INTERNATIONAL BANK OF AZERBAIJAN

Banking Sector of Azerbaijan

Trends, Challenges and Opportunities

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Banking Sector of Azerbaijan

IBA – Goal and Role in the Banking Sector

Trends, Challenges and Opportunities



National Bank of Azerbaijan

The National Bank of Azerbaijan serves as the country's central bank which pursues a uniform state monetary policy to ensure the national currency stability.

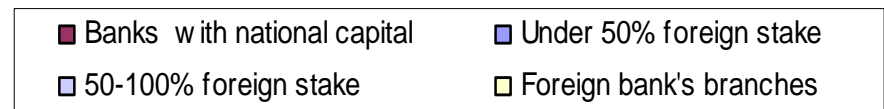
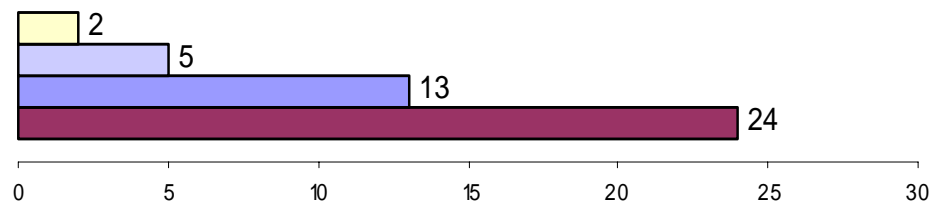
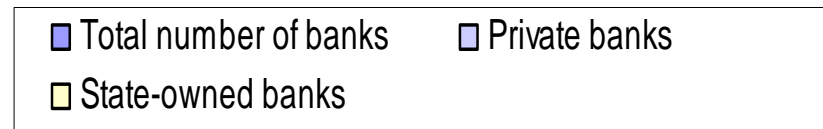
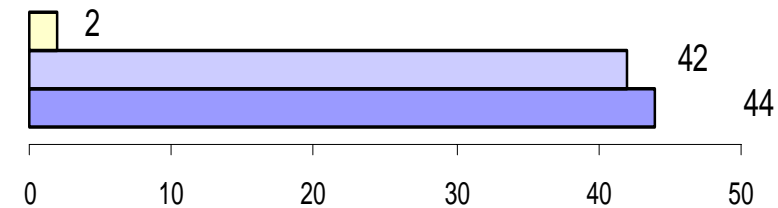
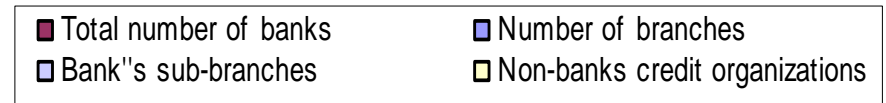
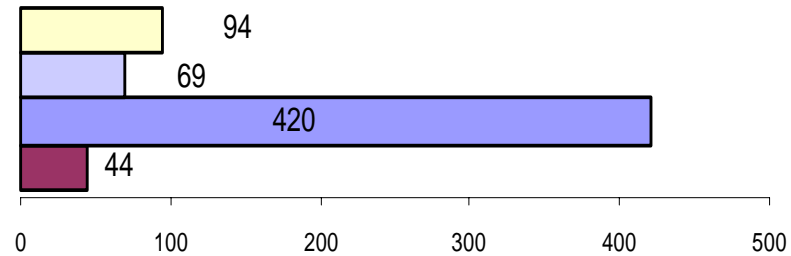
Commercial banks

Commercial banks are formed as joint-stock companies. The range of commercial banks activities includes: deposits, loans, cash and settlement services, foreign exchange operations and other services to individuals and legal entities.



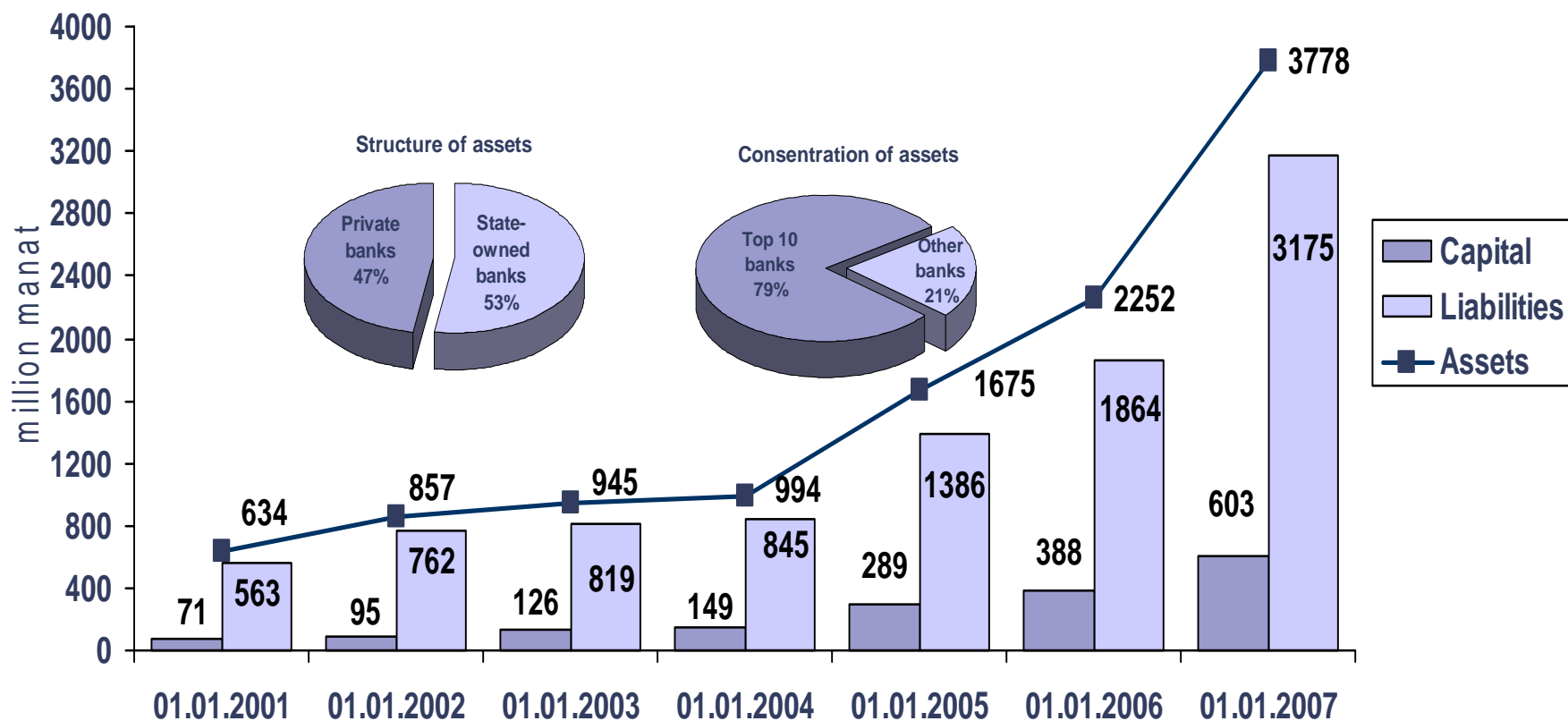
Banking system of Azerbaijan

- Banks - 44
- Branches – 420
- Sub-branches - 69
- Non-bank credit organizations – 94
- Banks with foreign capital – 20
- Banks with local capital - 24



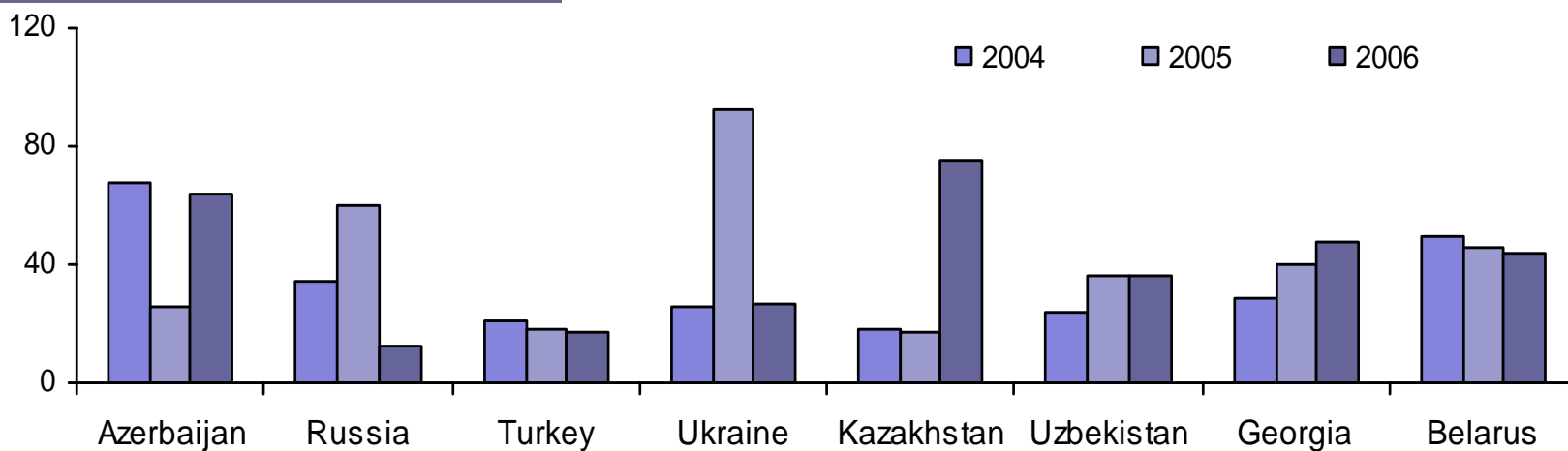
Dynamics of Growth (Assets and Capital)

Dynamics of assets and capital

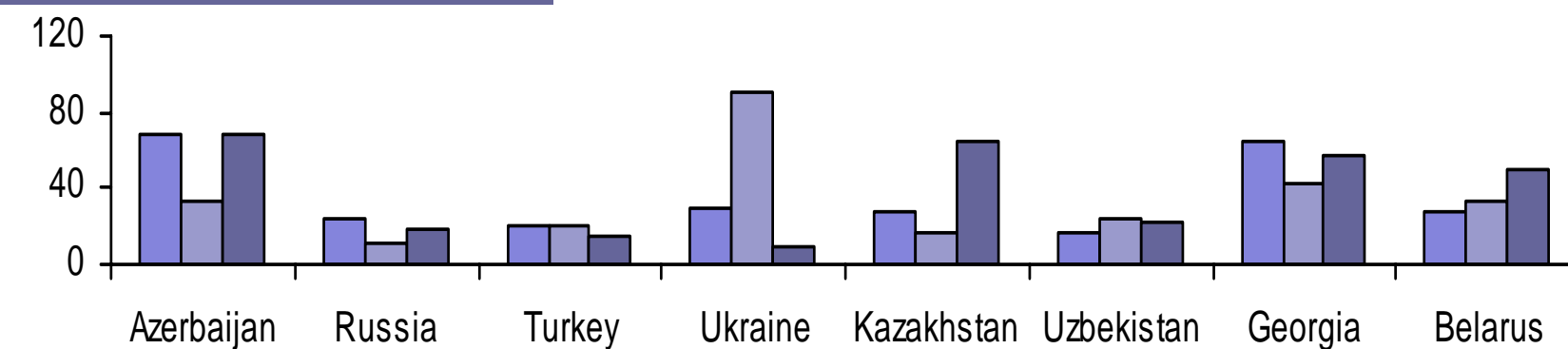


Comparative Dynamics of Loans and Deposits

Dynamics of Deposits (%)

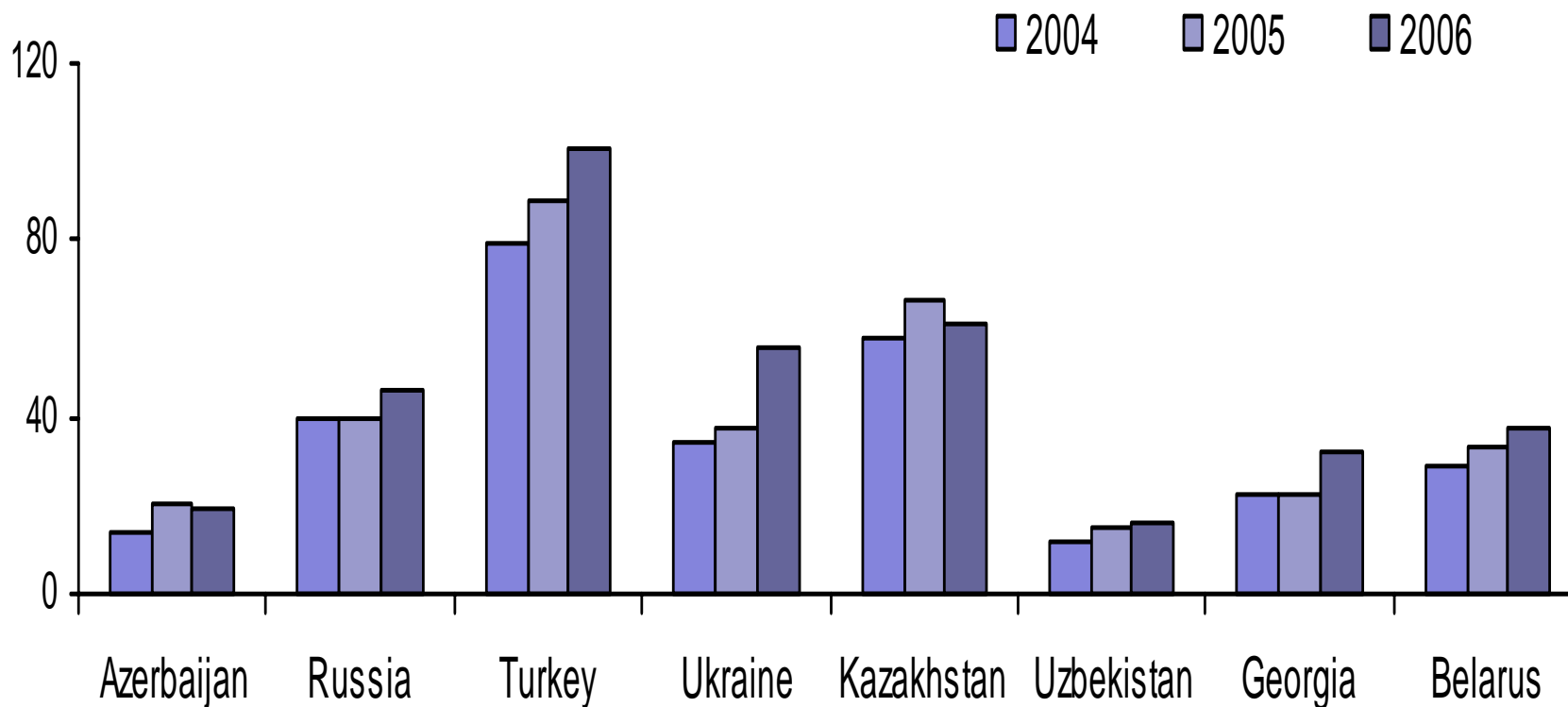


Dynamics of Loans (%)



Comparative Development of Assets to GDP

Dynamics of Assets to GDP (%)



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IBA: Competitive Advantages

Extensive branch network and broad product range

Sound business strategy, targeted at delivering value growth for all stakeholders and a consistent diversified earnings stream

Corporate governance system in line with the best international practices

Large and stable customer base. Strong and stable credit and rating history



Significant experience in international trade and investment projects

Effective and efficient management, risk assessment and compliance systems

Implementation and application of advanced, modern banking technology and software



Ratings & Awards



- In 2006 the Fitch International Rating Agency confirmed the Bank's long-term rating at the "BB+" and Bank's short-term and individual ratings at "B" and "D/E" level respectively



Moody's Investors Service

- In 2006 the Moody's Investors Service international ratings agency has assessed the Bank's long-term rating at the level of "Baa2" and short-term rating at "Prime-2"(P-2)



- 1997 – 2004, 2006 Awarded as the **Best Bank in Azerbaijan** by *Euromoney* magazine



- 2000 – 2004, 2006 Awarded as the **Bank of the Year in Azerbaijan** by *The Banker* magazine

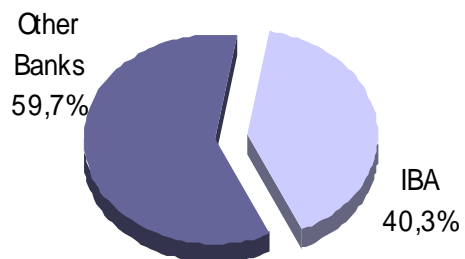
- 2001 – 2007 Awarded as the **Best Bank in the World's Emerging Markets** by *Global Finance* magazine

- 2007 Became a *full member* of **World Economic Forum's Community of Growth Companies**

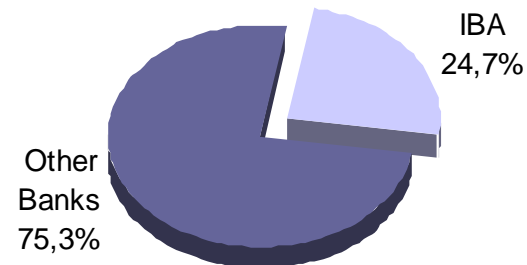


IBA on the Azerbaijan Banking Market

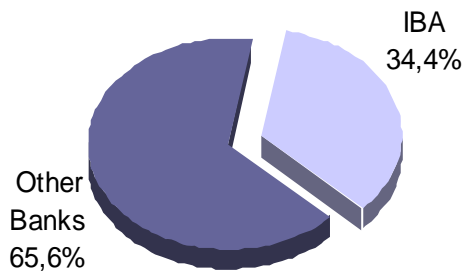
Assets



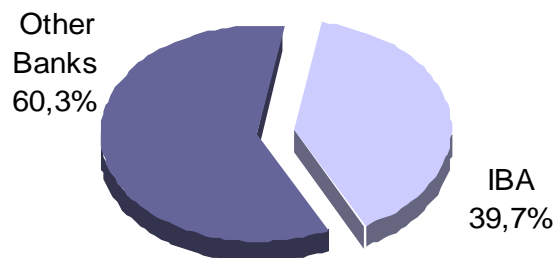
Total capital



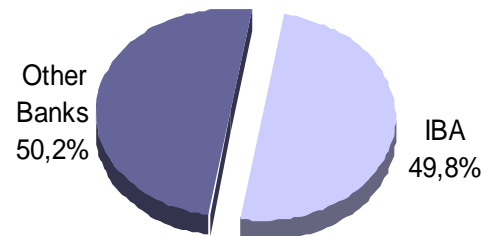
Profit



Loans



Customer accounts



Strategy: Innovative Retail and Advanced Corporate Banking

Retail Banking

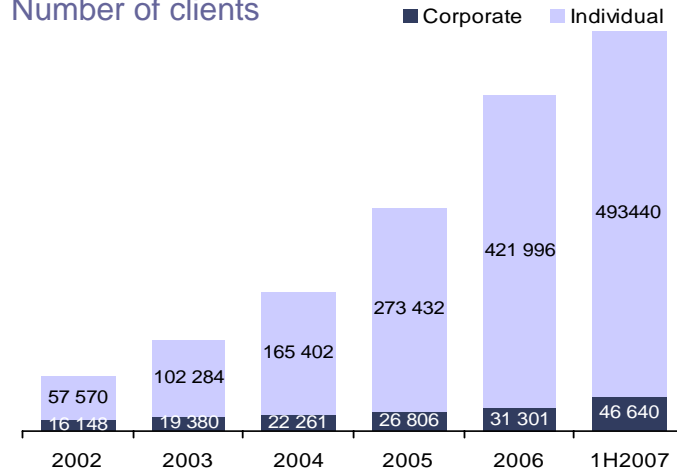
- Strong service network – branches / sub-branches at majority of locations of the country
- Comprehensive ATM and POS network
- Diversified product offering
- Strong growth of deposits and loan portfolio
- Introduction of new products and new information technologies

Corporate Banking

- Relationship with all the large corporate in the country
- Flexible pricing
- Advanced financial products
- Numerous financial schemes including lending and investment, plastic card operations, documentary instruments, etc.

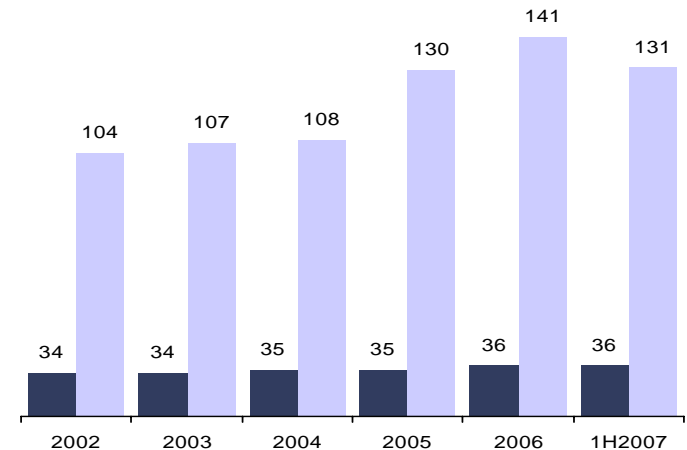
Growth of IBA's Client Base

Number of clients



Number of Branches and Sub-branches

■ Branches ■ Total (inc. sub-branches and units)



- IBA's subsidiary **IBA-Moscow** started to operate in 2002. IBA-Moscow has service network (branches) in Moscow, St.-Petersburg and Yekaterinburg.
- In 2007 registered **IBA-Georgia**. The equity of IBA-Georgia (USD 7 mln) makes it enter in top 10 Georgian banks in terms of equity. IBA-Georgia is going to take an active part in financing of all trade relationships between two countries. IBA-Georgia will participate in financing and servicing large Azerbaijani projects in Georgia
- **Representative offices** in Frankfurt-am-Main and London are also part of international business of IBA. IBA opens new Representative office in New York, and planned to open offices in Dubai, Luxembourg, Kiev, Istanbul



Activities in the international capital markets

- Syndicated Term Loan Facility in 2005 – USD 56 mln
- Syndicated Term Loan Facility in 2006 – USD 130 mln
- Syndicated Term Loan Facility in 2007 – USD 140 mln
- Syndicated Term Loan Facility for IBA-Moscow in 2007 – USD 50 mln
- CLN 10 NC5 structure (Sub-Debt) in 2007 – USD 100 mln
- In 2008 we plan
 - Eurobond issue – USD 200 mln
 - First Securitization (DPR Deal) – USD 200-300 mln
 - 2 Syndicated Term Loan Facilities – USD 200-300 mln



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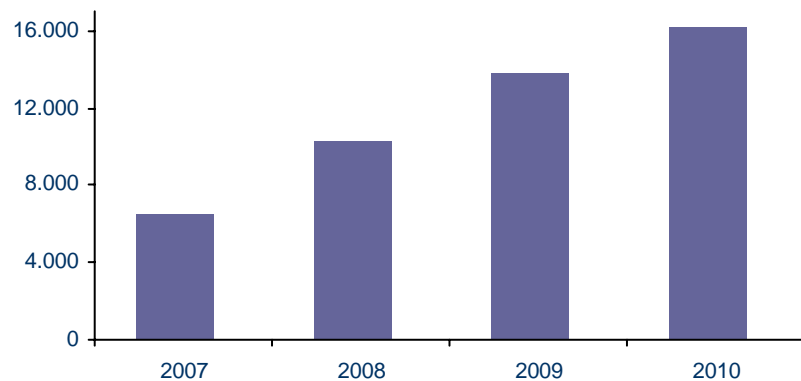
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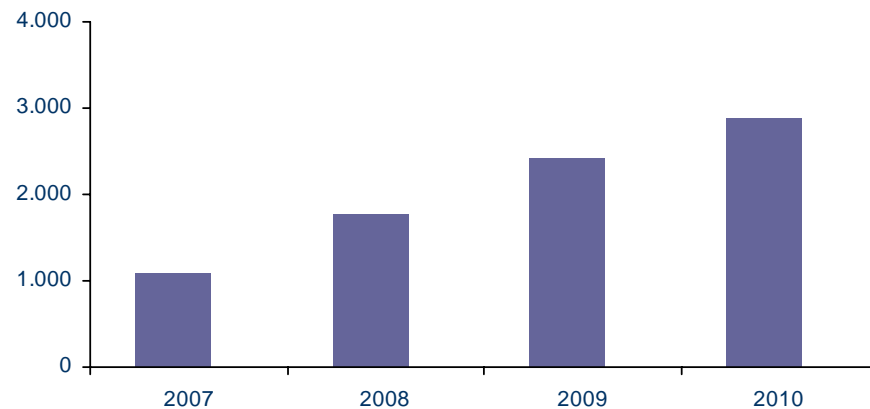


Trends in Banking System

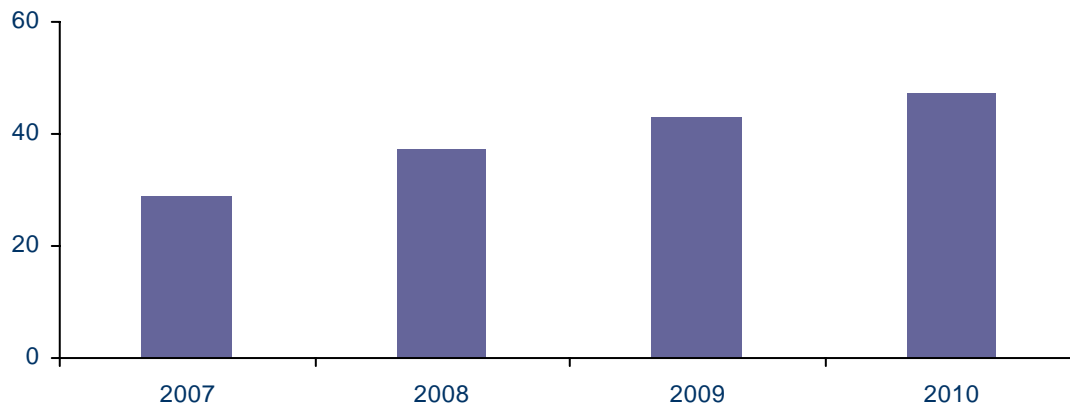
Assets (in million manats)



Capital (in million manats)



Financial Intermediation - Assets to GDP (%)

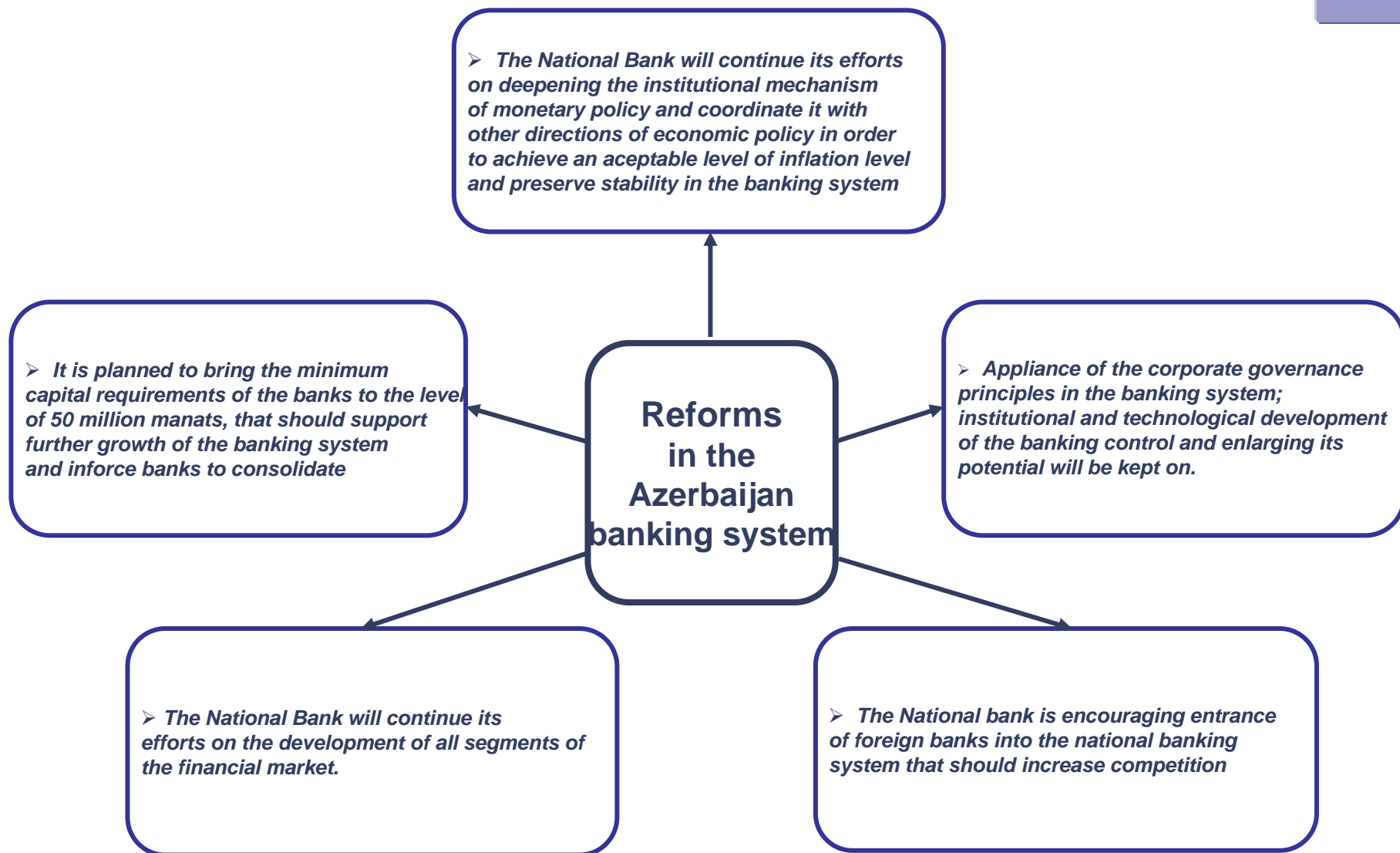


Challenges in the banking sector

- Banking regulation still has some shortcomings
- Banking sector as a whole is in need of further consolidation. Too many small banks. Only 7-8 banks have total assets bigger than USD 100 million. 44 banks is probably too large number for the country with the population of 8,5 mln. Example of Kazakhstan – 30 banks in a country with 15 mln people
- Very low capitalization of the banking system (less than USD 1 billion)
- Low corporate governance standards and low transparency
- Bank restructuring and privatization is not completed and the national banking sector is characterized by the large market share of state-owned banks.
- Very high growth rate. Some banks grow with 100%-120% each year. Are they able to manage properly loan growth and assets quality? Do they maintain adequate liquidity? How they finance the growth?
- Foreign big players are showing interest to enter the market (SG, Commerzbank, Citibank, RZB, VTB, Gazprombank and etc.). Are local banks strong enough to compete with the foreign players?
- Does the system accumulate enough confidence, reserves and expertise to overcome possible challenges coming from global world? Example – liquidity problem in Kazakhstan



Major Reforms and their impact on the future of Banking System



Opportunities in the banking sector

- **Mortgage Lending (1%-2% to GDP)**
- **All type of consumer lending (express loans, car loans, cards business and etc.)**
- **SME's financing (appr. 5%-7% to GDP)**
- **Still a lot of space in the room for lending to big corporates (banks should be more focused on the structured products)**
- **Private Banking/Wealth Management and Assets Management**
- **Project Financing (Structured Trade, Export and Commodity Finance) – segment where foreign banks have a lot of strengths**



Thank you for your kind attention

Any Questions ?

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