



QUARTERLY IBA'S BULLETIN – 4th Quarter 2012

January 2013

MANAGEMENT COMMENT

IBA has a clear policy function role given its size, importance and scale of operations in the country's banking system and its socio economic life. Being by far the largest bank of the system, it contributes to ongoing development of a number of industries in Azerbaijan. All key borrowers of IBA play systemic importance in the industry they operate both by size and scale of operations. The development of these industries forms fundamentals blocks of the national economy. Most importantly IBA manages financing of important government projects through normal commercial lending, which makes IBA a development Bank not by definition by the role it place in the Azerbaijan's economy.

IBA NEWS

The Central Bank's Support

On December 4, 2012 the Central Bank of Azerbaijan provided IBA with additional subordinated loan in the amount of AZN 100 mln., which brought IBA into full compliance with regulatory capital adequacy related requirement. This is naturally a clear demonstration of IBA's very high level of systemic support.

IBA has repaid USD 50 mln loan

On December 7, 2012 IBA has repaid USD 50 mln loan with accrued interest thereon. The bilateral loan was attracted on 7 December 2010 from Deutsche Bank for two year period.

IBA attracted USD 43 mln bilateral loan

On December 21 December 2012 IBA signed a bilateral with European Bank for the total amount USD 43 mln with 1 year tenor.

INVESTORS FOCUS

IMPROVING CAPITALIZATION

IBA's capitalization significantly strengthened further to AZN 100 mln capital increase decision in early 2012 and for the reporting period paid-in capital equals to AZN 90 mln. Individual shareholders have time till 1Q2013 to contribute other AZN 10 mln and we are confident about their support. Regulatory IBA's Total Car would stood at 12.08% and Tier 1 at 7.20% respectively on the back of shareholder contributions, increased profiting and subordinated loan. IBA is in compliance with all regulatory and international capital adequacy related ratios as of year end 2012 year. There are further plans to grow statutory capital by AZN 200 mln in the coming years and bring it to above AZN 500 mln.

INCREASING PROFITABILITY

There is an improving trend in profitability. During 2012 year as per statutory figures net profit made up AZN 43 mln.

ASSETS QUALITY

IBA's non-performing loans (overdue 90 days and more) ratio improved from 14.3% in 2010 to 13% in 2011; we expect NPL ratio to stand at around 12.5% by the end of the current year. Currently IBA takes complex measures to further improve asset quality and have comfortable LLP levels to fully secure NPL. The plan is to reduce NPL every year by 1%, thereby bringing it to single digit already by 2015.

IBA SNAPSHOT

IBA MARKET SHARE

	4 Quarter 2012
Assets	35%
Loans	40%
Deposits	40%
Capital	15%

	4 Quarter 2012
Azeri Tier 1 RWA	7.20%
Azeri Total CAR	12.04%
Capital % Assets	6%

Fitch Ratings

Long-term FC IDR:	BB	Stable
Short-term FC IDR:	B	off RWN
Viability Rating:	b-	
Support Rating:	3	off RWN
Support Rating Floor:	BB	off RWN

Moody's Ratings

Long term LC deposit rating	Ba3	Negative
Long term FC deposit rating	Ba3	Negative
Long term senior unsecured debt rating	Ba3	Negative
Long term FC subordinated debt rating	B1	Negative
Standalone bank financial strength rating	E+	

FINANCIAL HIGHLIGHTS

BANKING STATISTICS

(in AZN thousands)	IBA Bank	
	31.12.2012	30.09.2012
Assets	5,721,556	5,315,222
Gross Loans	4,400,463	4,052,430
Liabilities	5,369,473	5,015,347
Amounts due to Customers	2,741,691	2,777,124
Capital	352,083	299,875
Net profit	43,394	32,880

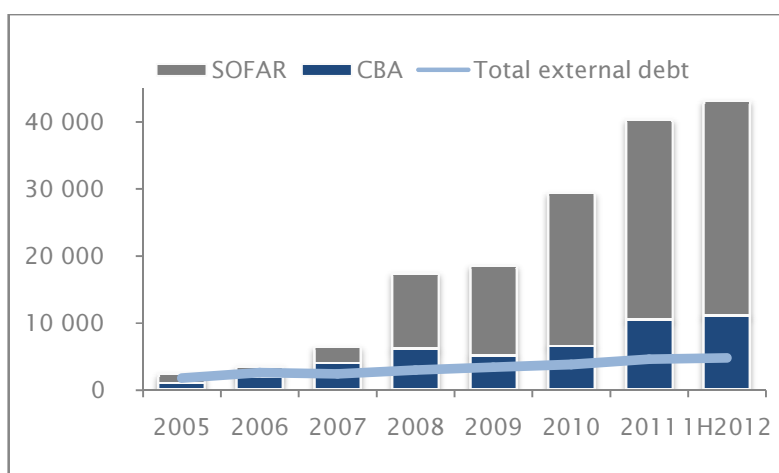
AZERI NOTES YIELD DYNAMICS

Issuer	Ratings	CCY	Amount (in mln)	Coupon (%)	Maturity	Price	Yield	Swap s spread (bps)
Int'l Bank of Azerbaijan	Ba1/n.r./n.r.	USD	130	8.50	Oct-13	101 -103	4.44-7.12	350-750
Int'l Bank of Azerbaijan	Ba2/n.r./n.r.	USD	100	6.17	May-17	92 -96	7.26 - 8.41	560-800
Azerbaijan Railways	n.r./n.r./n.r.	USD	125	8.25	Feb-16	108-111	4.23-5.22	375-474
SOCAR	Ba1/BB+/BBB-	USD	500	5.45	Feb-17	109-110	2.64-2.88	198-230

Source: Bloomberg as of 14.01.2013

AZERBAIJAN ECONOMY OVERVIEW

Azerbaijan is in transition economy where state continues to play a dominant role. It has significant oil reserves and agronomic potential based on a wide variety of climatic zones. Government of Azerbaijan projected 5.7 % growth for 2012. GDP per capital for the end of year is expecting at \$ 7000 (without PPP) and Consumer Price Index for the 9 months 2012 period equals to 1.5%. State has very low level of external debt and high level of strategic reserves (32 bln. USD belongs to SOFAZ and 11 bln. to CBA, total 43 bln. USD). By the end of the 2012 year CBA reserves increased up to 11.7 bln. USD. .Growing strategic reserve potential makes Azerbaijan even more resilient to external shocks.



At the same time, the share of non-oil sector of the economy has grown continuously and the risk of dependence of the economy of Azerbaijan on oil is reducing. The non-oil sector grew by 11.3 percent in the first half of 2012, mainly driven by a large public investment program financed via earlier receipts from oil sales. Domestic demand boosted by high public spending led to strong growth in construction and domestic trade. The construction sector grew 29.5 percent in the first half of 2012. Agriculture is the largest employer in the country and a significant potential source posted strong growth in the first half of 2012, mainly driven by increased crop production and livestock. Government investments give further boost to the continuing growth of the economy, therefore, creating favorable environment for local market players, economy and banking system. Naturally, such environment is very positive and beneficial to IBA since given its dominant position in the banking system.

At present, Azerbaijan turned to the country investing not only domestically but also to the neighboring countries. Azeri economy practically did not suffer from recent global financial crisis given its unique economic and political position.

Background

INVESTOR CONTACTS

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