



INTERNATIONAL BANK  
OF AZERBAIJAN

# INVESTOR PRESENTATION

July 2016



IBA AT A GLANCE

AZERBAIJAN MARKET AND BANKING SECTOR OVERVIEW

IBA - FINANCIAL OVERVIEW

APPENDIX



## IBA OVERVIEW

- ❑ **State-owned bank with main shareholder – The Ministry of Finance of the Republic of Azerbaijan (82.23%)**
- ❑ Was incorporated in 1991 as a fully state-owned bank and became a joint-stock commercial bank in 1992
- ❑ Market leader in terms of assets (37.9% market share), customer loans (32.5%) and deposits (26.5%)
- ❑ Strong position in corporate market segment: maintains accounts of largest companies operating in Azerbaijan
- ❑ Strong presence in retail business (both loans and deposits)
- ❑ Second largest branch network (35 branches) in the country and largest ATM network
- ❑ Prudent risk management and conservative approach to consumer lending
- ❑ Wide domestic territorial coverage and international presence via subsidiaries and representative offices

### Key role in economy and developing banking system

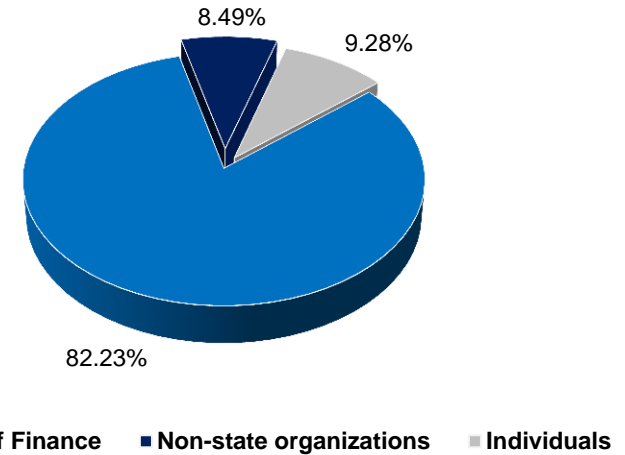
- ❑ Plays a key role in developing the Azerbaijani banking system, contributing to the stability of the system
- ❑ Receives significant support from government resulted in the clean-up of IBA's balance sheet
- ❑ Significant support will improve asset quality, capitalization and liquidity

## RATINGS

<b>Fitch Ratings</b>	<b>Long term IDR</b>
	<b>BB (negative)</b>
<b>Moody's</b>	<b>Senior unsecured</b>
	<b>Ba3 (stable)</b>

Source: IBA, IFRS, Fitch, Moody's

## SHAREHOLDER STRUCTURE



## KEY FINANCIALS

<b>Total Assets</b>	<b>AZN 13.7 bln</b>
<b>Total Liabilities</b>	<b>AZN 12.9 bln</b>
<b>Total Equity</b>	<b>AZN 714 mln</b>
<b>Net Interest Income</b>	<b>AZN 117 mln</b>
<b>Total CAR</b>	<b>17.61 %</b>
<b>Tier 1</b>	<b>10.49%</b>
<b>NPL Ratio</b>	<b>7.4%</b>



## NATIONWIDE AND INTERNATIONAL BRANCH NETWORK

- ❑ IBA's strategy - large and medium-size branches instead of numerous small points of service
- ❑ Growing operations in e-banking contribute to reduction of small and medium service points
- ❑ 35 Branches
- ❑ 42 Sub-branches & 4 service points
- ❑ 2 Subsidiaries (IBA Moscow & IBA Georgia)
- ❑ 2 Representative offices (London & Frankfurt)

## SUBSIDIARIES OVERVIEW



### INTERNATIONAL BANK OF AZERBAIJAN





On July 22nd, 2015 the Extraordinary Shareholders Meeting appointed the Board Members of "International Bank of Azerbaijan". Mr. Elmar Mammadov was appointed as the Chairman of the Board and Mr. Ulvi Mansurov and Mr. Murad Shiraliyev as Deputy Chairmen.



Mr. Elmar Mammadov – Chairman of the Board

During 2009-2013 worked as a Chairman of the Board at the Kapital Bank and on the same position at Azer-Turk Bank in 2014-2015. In 1995-2004 Mr. Mammadov worked at the various positions at the International Bank of Azerbaijan. Has around 30 years of working experience. Mr. Mammadov is a graduate of Azerbaijan University of Economics and Baku State University.



Mr. Ulvi Mansurov – Deputy Chairman of the Board

Previously worked as a CEO at Bank Technique and at various positions, including deputy CFO at IBA. 15 years of experience in banking. He is a graduate of Azerbaijan University of Economics and University of Warwick. Has PhD in Economics.



Mr. Murad Shiraliyev – Deputy Chairman of the Board

Mr. Shiraliyev worked as a deputy CEO at Kapital Bank. Has over 15 years of banking experience. Studied General Management at Harvard Business School and is currently doing MBA at Manchester Business School. Mr. Shiraliyev is also a graduate of Azerbaijan Construction Engineering University with a bachelor degree and from the Azerbaijan Architecture and Construction University with a master degree in Economics and Management.



### ASSETS SALE PROCESS AS THE SIGNIFICANT SUPPORT FROM GOVERNMENT

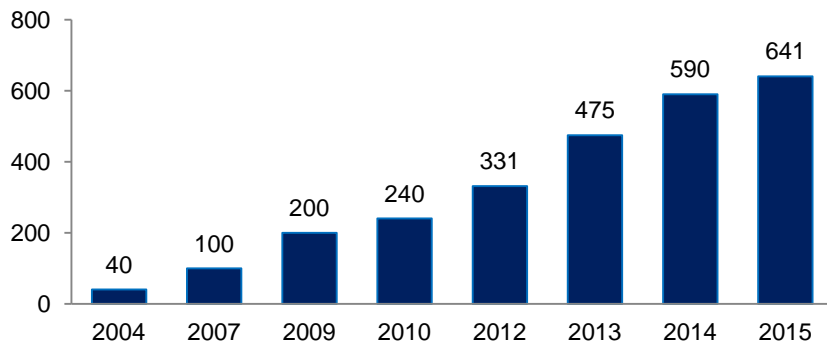
- On July 15<sup>th</sup>, 2015, The President of the Republic of Azerbaijan, Mr. Ilham Aliyev, signed a Decree on measures to improve IBA's financial stability in order to prepare the bank for privatization. The potential privatization is expected to take place in coming years.
- On August 11, 2015 IBA, Aqrarkredit, Ministry of Finance and the Central Bank of Azerbaijan signed a Master Agreement, where they agreed in principle that IBA would transfer its problematic (bad and high risky) loan portfolio to Aqrarkredit in a number of tranches over a number of years from 2015 to 2017.
- **The First Round of the Assets Transfer completed in January 2016 for the total amount AZN 3 billion. The transfer was done on a gross book value plus accrued interests.**
- On December 28, 2015 IBA received a Guarantee and Commitment letter from Aqrarkredit that it would reimburse IBA in line with the “Master Agreement” (noted above) for loans on the balance sheet of IBA and IBA Moscow totaling AZN 5.7 billion.
- **In the beginning of this year due to change in the exchange rate Government reconsidered the AZN 5.7 bn to AZN 7.5 bn. As of today IBA has already received full amount in several tranches.**
- The recovered provisions from the Assets Sale process is treated as “additional paid-in capital” under IFRS, therefore it is included into the Balance sheet, not the Income Statement. Due to this methodology factor the loss in statements has only technical issue and mitigated from the received back amount of provisions.



## CBAR's SUPPORT

- Central Bank of Republic of Azerbaijan has provided timely support when IBA needed capital and liquidity.
- After the global economic crisis of 2008 to avoid non-compliance with capital adequacy ratios, CBAR provided IBA in a consistent manner with subordinated loans in February 2012 AZN 150 mln (Tier 1 – local standards) with 5 years tenor, December 2012 AZN 100 mln (Tier 2) with 7 years tenor, June 2013 AZN 100 mln (Tier 2) with 7 years tenor.
- As a result of devaluation in February 2015, further support was granted with AZN 250 mln (Tier 2) sub-debt with 7 years tenor.

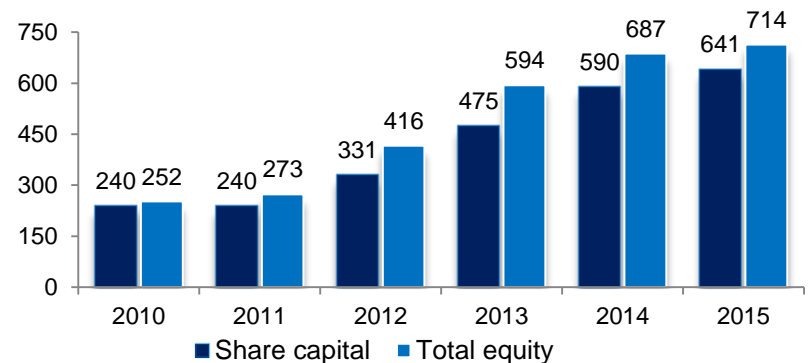
## IBA'S CAPITAL PLAN (AZN millions)



## SHAREHOLDERS' SUPPORT

- In 2012, Shareholders approved an AZN 100 mln increase of IBA's share capital with an intention to increase it up to AZN 340 mln.
- In October, 2013, Shareholders approved a 4-year capital increase program in the amount of AZN 500 mln. First injection in the amount of AZN 200 mln was made in July 2014.
- Second tranche in the amount of AZN 100 mln was approved in January, 2015 and the Government already contributed AZN 51 mln in March 2015.
- As at July 2015, the capital increase program has been postponed, due to the change in the Management of the Bank. Instead, an asset disposal program was launched after the Presidential Decree. Hence, the gain from the sale and decrease in the provisions will positively affect the capital.
- Due to the change in the strategy, the Government repurchased shares from minority shareholders in the amount of AZN 174 mln, increasing its' stake from 54.96% to 82.23%.
- Capital injection from the Ministry of Finance in the amount of AZN 500 million is expected during the course of 2016.

## SHARE CAPITAL (AZN millions)





IBA AT A GLANCE

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## MOODY'S

A3

• Latvia

Baa3

• Kazakhstan

Baa2

• Romania Bahrain

Ba1

• Azerbaijan, Russia

Ba3

• Georgia

B1

• Serbia



STANDARD & POOR'S  
RATINGS SERVICES  
McGraw Hill Financial

BBB  
+

• Kazakhstan

BBB-

• Bahrain, Turkey,  
Romania

BB+

• Azerbaijan

BB

• Croatia

B+

• Georgia, Serbia

## FitchRatings

BBB-

• Kazakhstan, Romania

BB+

• Azerbaijan, Russia,  
Turkey

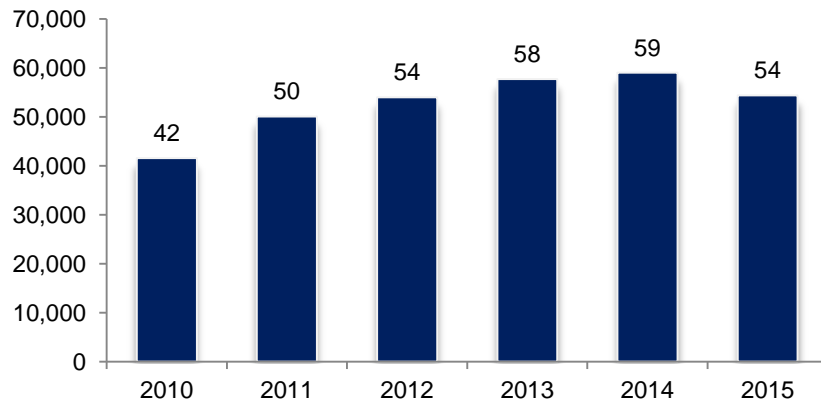
BB

• Bahrain

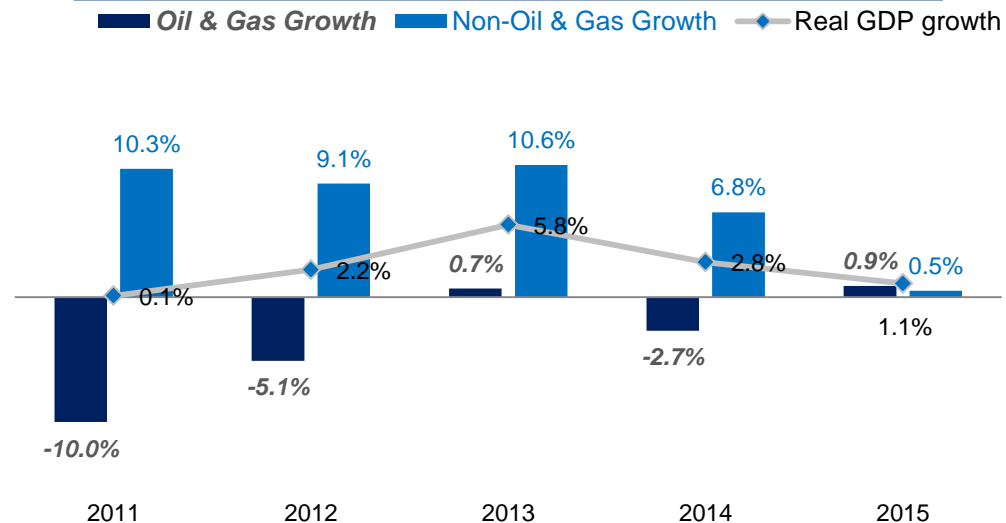
B+

• Serbia

## NOMINAL GDP (AZN billions)



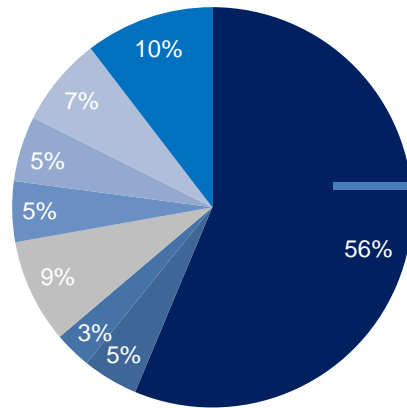
## OIL, GAS and GDP





## REAL GDP BREAKDOWN, BY SECTOR (AS % OF TOTAL)

2010



■ Oil and Gas

■ Agriculture, forestry & fishing

■ Communication

■ Construction

■ Transport & storage

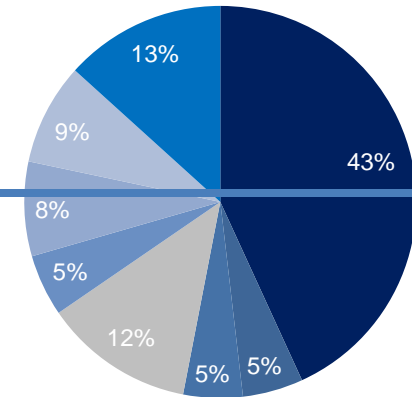
■ Wholesale & retail trade

■ Social & other services

■ Others

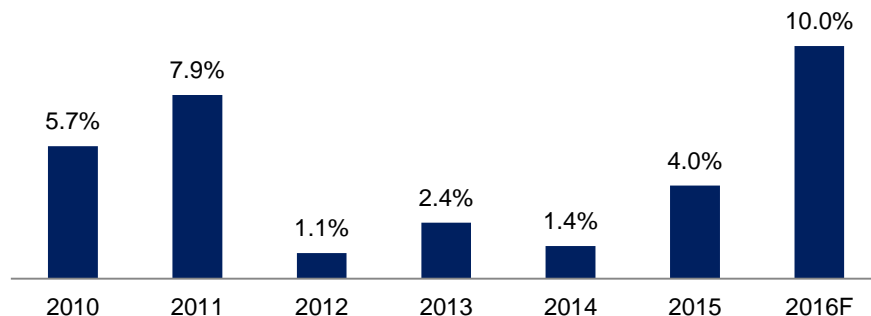
## COMPARED TO...

2015



Oil & Gas  
decreased by  
13%

## INFLATION

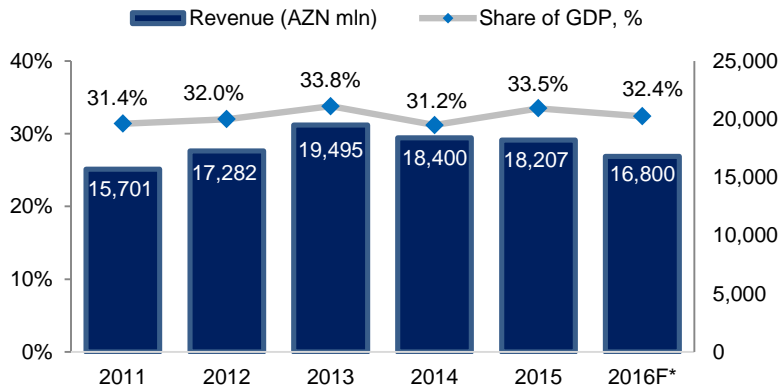


## COMPLETED & PLANNED PROJECTS

- ❑ The launch of production at Shah Deniz 2, the Southern Gas Corridor between the Caspian region and Europe.
- ❑ Shamkir Chay water reservoir.
- ❑ The launch of the 2<sup>nd</sup> space satellite.
- ❑ Trans Adriatic Pipeline AG (TAP) project with BP, SOCAR, Total and Fluxys.
- ❑ Development of petrochemical complexes in Sumgayit.
- ❑ Modernization of farming industry.
- ❑ Development of Tourism.
- ❑ Development of the International Sea Trade Port in Alat.



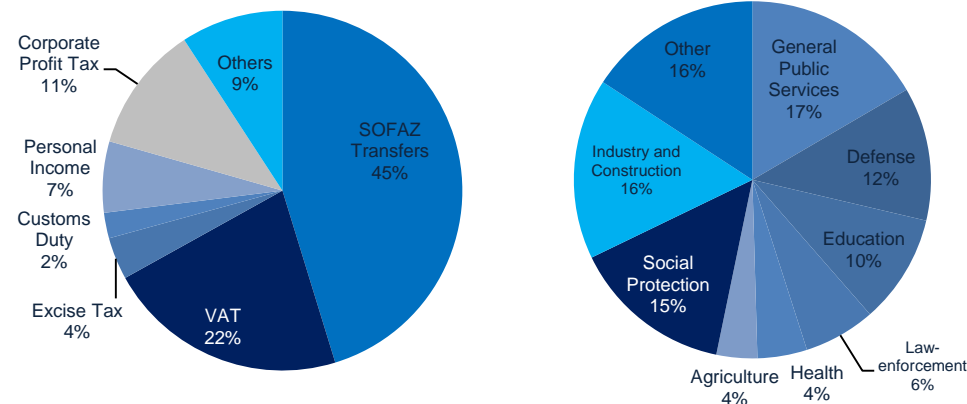
### STATE BUDGET REVENUE (forecasted at 25 US\$/bbl)



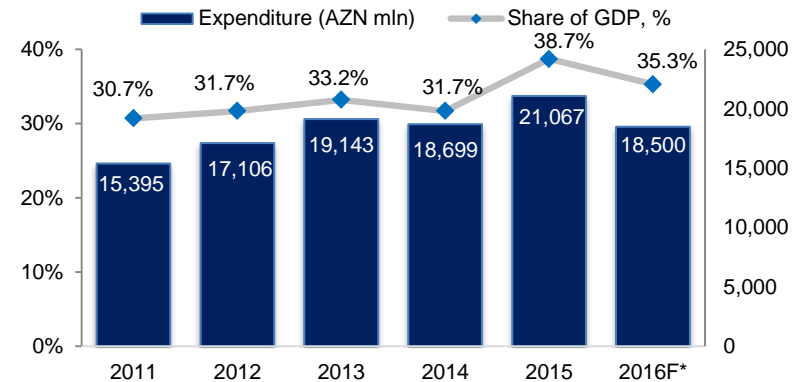
### STATE BUDGET BREAKDOWN 2016 (as % of TOTAL) [2016F]

#### Revenues

#### Expenditures



### STATE BUDGET EXPENDITURE (forecasted at 25 US\$/bbl)

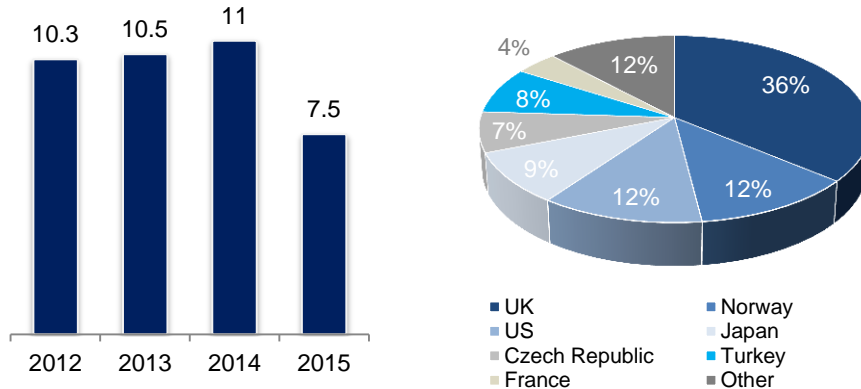


### 2016 STATE BUDGET: HIGHLIGHTS

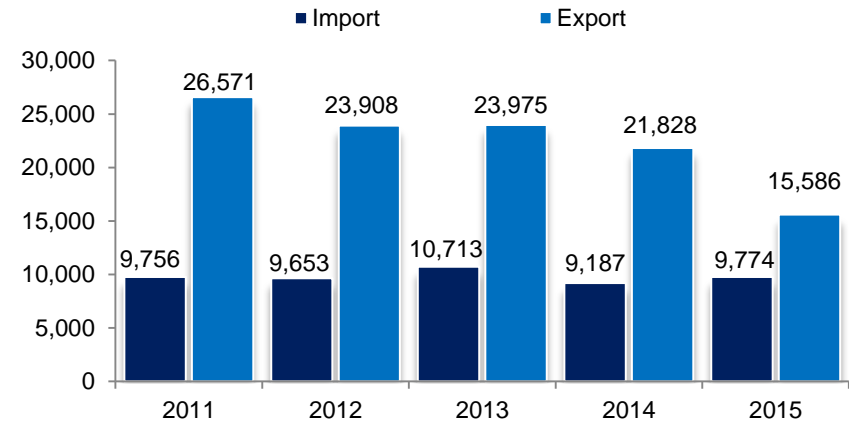
- An amended 2016 state budget was proclaimed into law by the President on 2 March 2016. The budget is based on an average Brent oil price of \$25/bbl.
- The budget seeks to balance the need for social expenditures in the current economic downturn while continuing to fund the investments to achieve growth and diversification.
- The Government's fiscal strategy rests on using its strong balance sheet to finance the budget gap in the context of a steady process of fiscal consolidation.
- The government continues to develop new sources of revenue to offset the decline in oil and gas revenues.



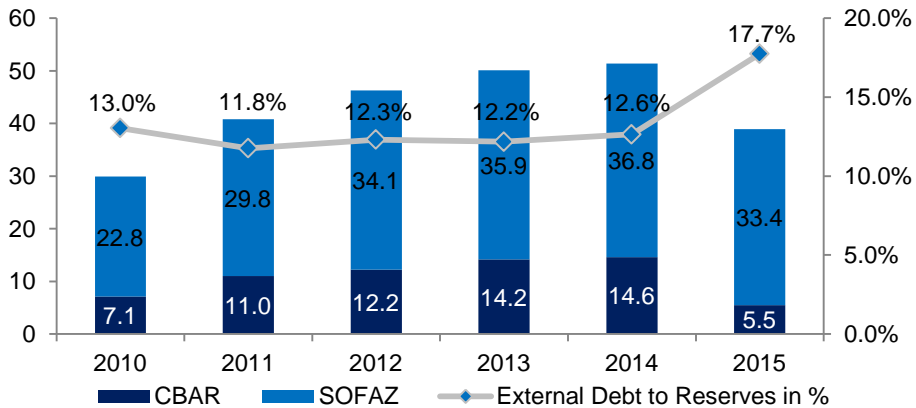
## FOREIGN INVESTMENTS (USD billions)



## FOREIGN TRADE (USD millions)

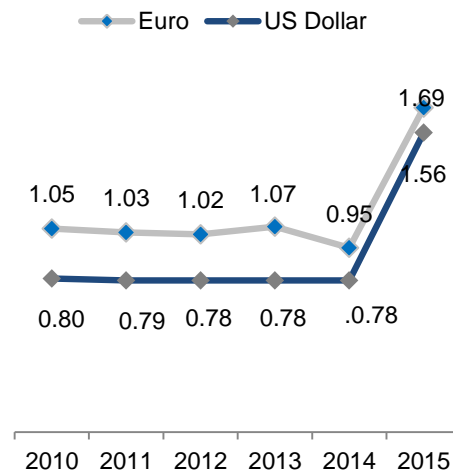


## EXTERNAL DEBT & FX RESERVES (USD billions)



## BACKGROUND ON EXCHANGE RATE REGIME

- The steep drop in oil prices and recessions in the economies of key trading partners have resulted in balance of payments difficulties for Azerbaijan.
- The nature of external shocks on the Azeri economy throughout 2015 led the Central Bank of Azerbaijan to implement material shift in the exchange rate regime.
- On 21 February 2015 the CBA set the exchange rate of USD against AZN at AZN 1.05 (devaluation of the Manat by approximately 34%), in order to ease the strain of lower oil prices on budget revenues and make Azerbaijan's exports more competitive.
- On 21 December 2015, the CBA moved to a managed floating exchange rate regime, as a result, the Manat fell by 47% to the USD.





## OVERVIEW OF THE BANKING SECTOR

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- Basel 1 type regulator standard implemented (Timing around Basel 2/3 uncertain)
- 37 banks out of which 20 have foreign interest in their capital
- 2 state banks – one of which is International Bank of Azerbaijan
- 763 bank branches of which 35 belong to IBA
- 163 sub-branches (divisions)
- 11 bank units operating abroad (affiliate banks - 5, representations – 7)
- 4 local representations of foreign banks
- 157 non-bank credit organizations
- 103 credit unions
- Licenses of 6 banks were revoked by the CBA as part of the banking system restructuring in January 2016.
- Moreover, the CBA announced that around 5 banks may merge in 2016
- The assets, loan portfolio and total capital of the banking sector surpassed AZN 34.9 billion, AZN 21.1 billion, and AZN 3.6 billion, respectively in December 2015

## DEPOSIT INSURANCE FUND

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- The proportion of bank deposits covered by the Deposit Insurance Fund was 68.4% as of 31 December 2015
- The Deposit Insurance Fund only had to provide compensation to protected depositors of Royal Bank OJSC, totaling AZN 15 million
- Currently, Deposit Insurance Fund makes compensation payments to the depositors of three out of six banks, deprived of their licenses
- The amount of payments equaled to AZN 101 million as of March 2016

## BANKING SECTOR REFORMS

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The CBA has provided the following measures in order to counter against the challenges faced by the financial sector:

- Decreased the reserve requirements to strengthen liquidity and lending capacity of banks
- More than AZN 1 billion of financial support was given to local banks
- Within the loan restructuring reduced provisioning requirements to stop the loan portfolio deterioration.
- A new swap tool was introduced to support the local lending
- Capital adequacy and leverage ratios were lowered

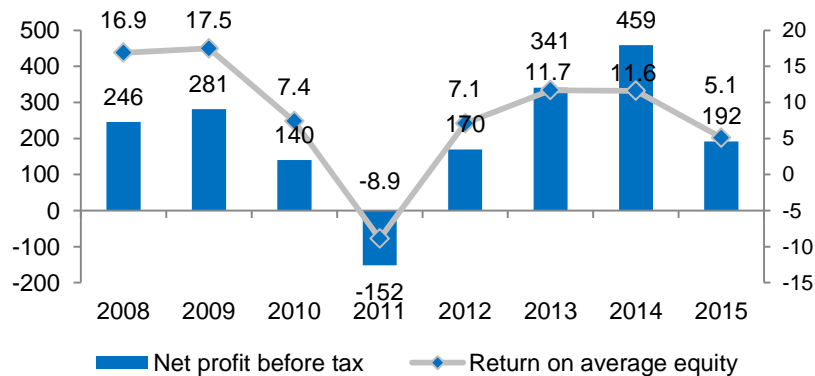


## REGULATION

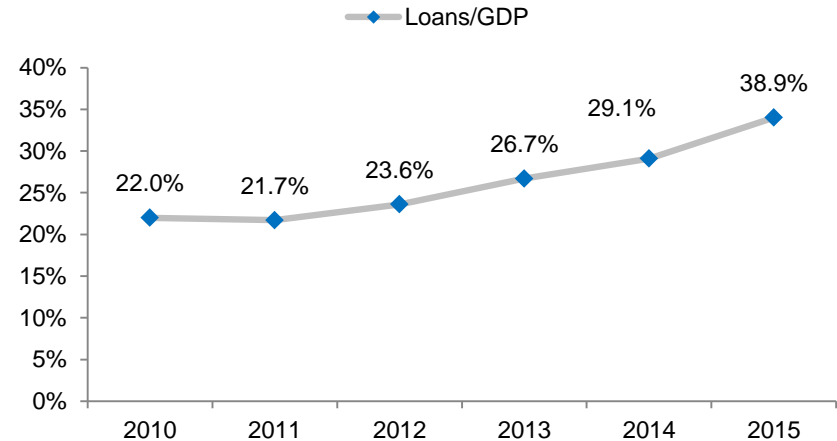
### CENTRAL BANK OF AZERBAIJAN (CBA)

Minimum capital requirement	AZN 50 mm
Minimum CAR requirement	10.0% (December 2015)
Minimum Tier 1 requirement	5.0% (December 2015)
Reserve requirements for deposits	1.0% for USD , 0.5 for AZN
Deposit insurance	All deposits are fully ensured for 3 years if their interest rate don't exceed 3% in USD and 12% in AZN since 2016.

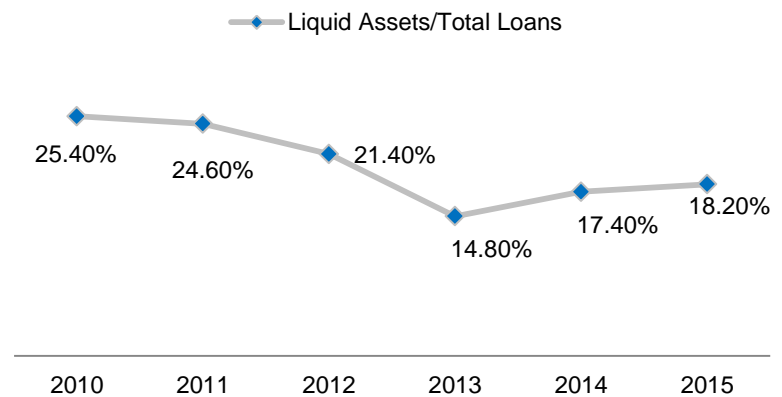
## PROFIT & RETURNS PROFILE (AZN millions)



## TOTAL LOANS TO GDP RATIO



## BANKING SECTOR LIQUIDITY





IBA AT A GLANCE

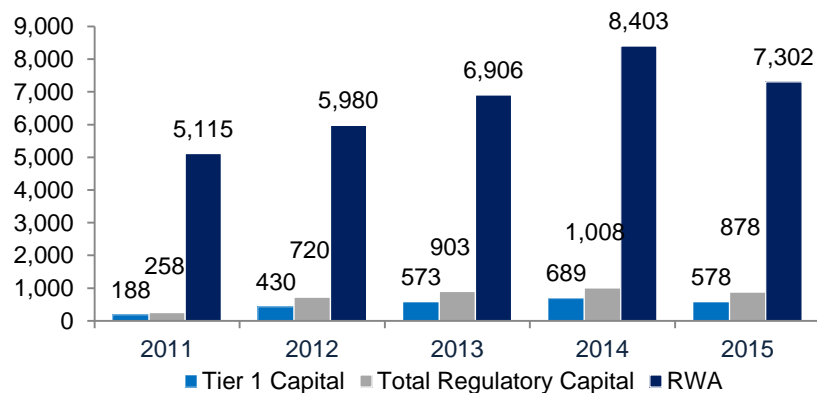
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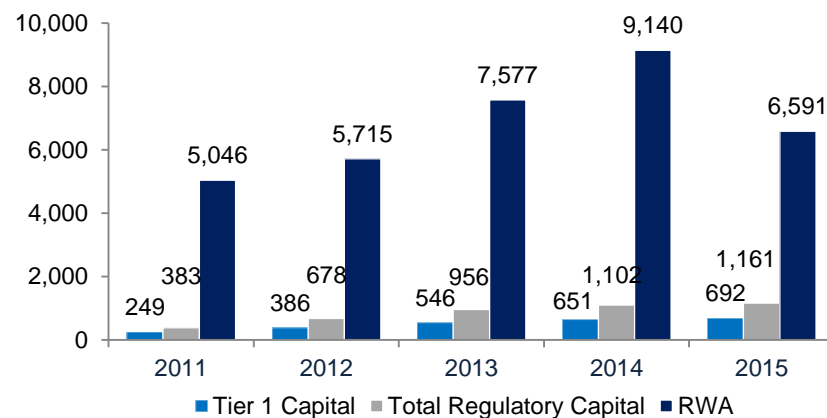
APPENDIX



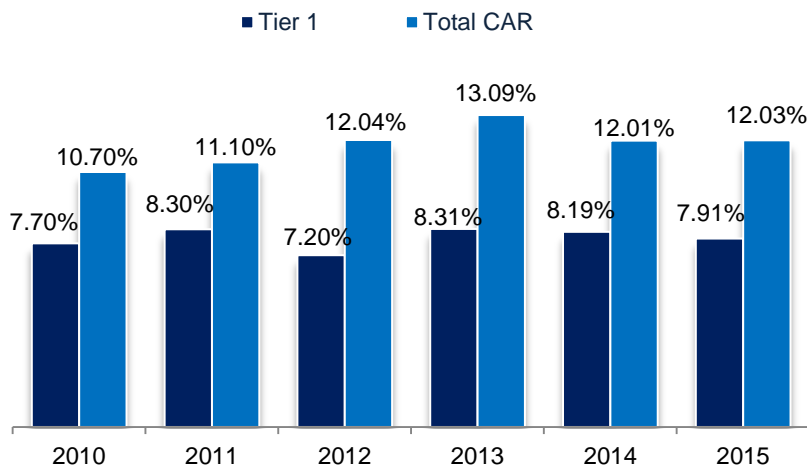
### COMPOSITION OF CAPITAL LOCAL (AZN millions)



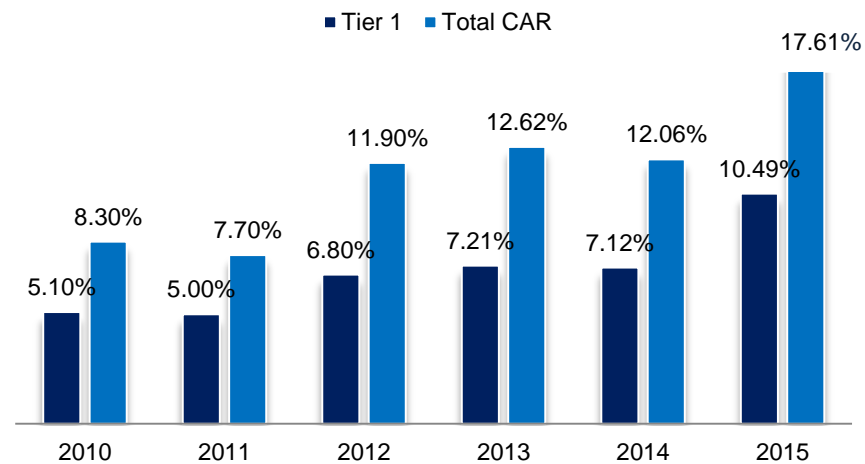
### COMPOSITION OF CAPITAL BIS (AZN millions)



### CAPITAL ADEQUACY RATIO – LOCAL STANDARDS



### CAPITAL ADEQUACY RATIO – BIS STANDARDS

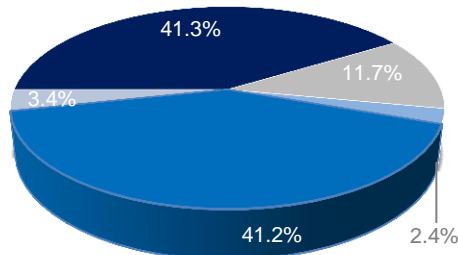






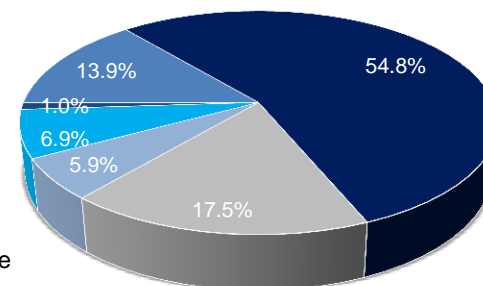
## COMPOSITION OF ASSETS

- Loans and advances to customers
- Cash & cash equivalents
- Premises, equipment & intangibles
- Receivables from Aqrarkredit
- Other assets

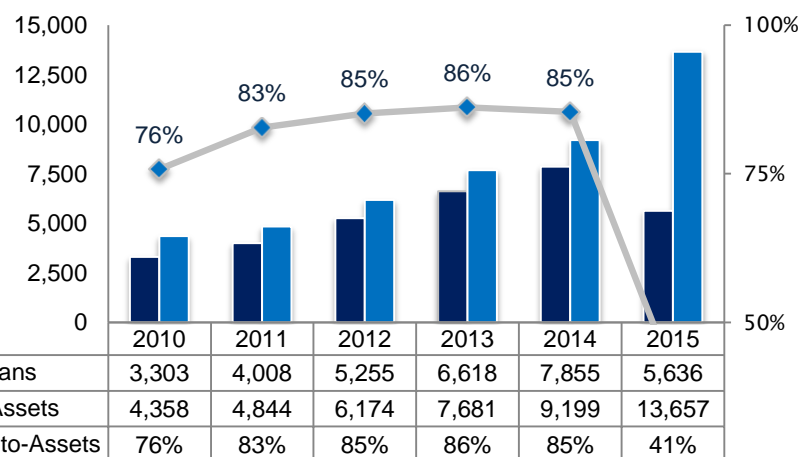


## COMPOSITION OF LIABILITIES

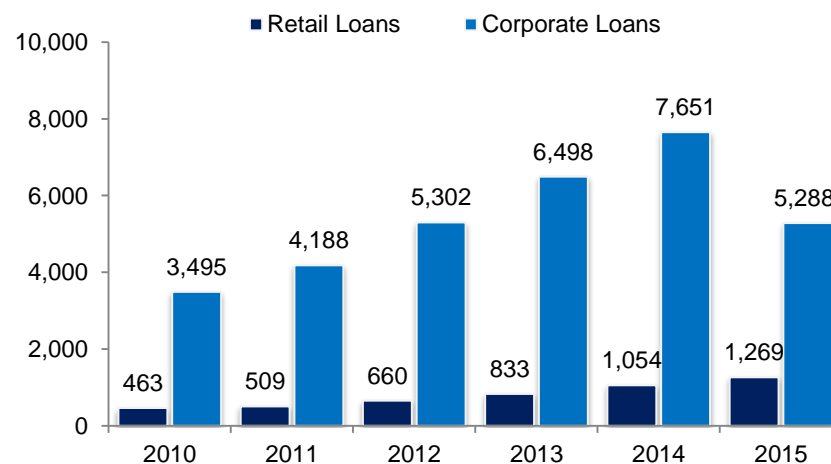
- Due to other banks
- Customer accounts
- Other borrowed funds
- Subordinated debt
- Debt securities in issue
- Other liabilities



## LOANS AND ASSETS (AZN millions)

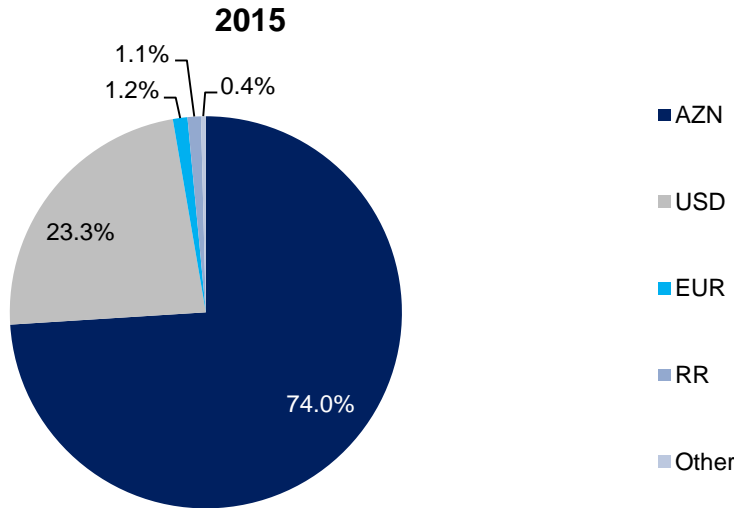


## RETAIL vs. CORPORATE LOANS (AZN millions)

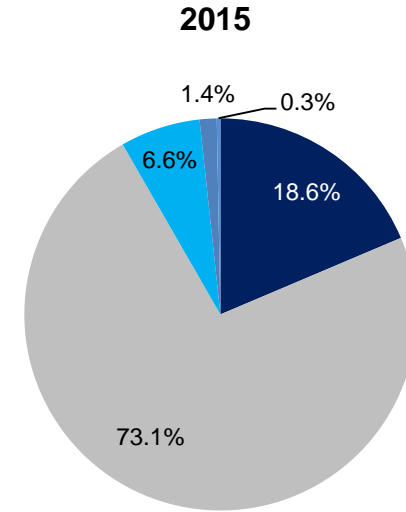




## STRUCTURE OF ASSETS BY CURRENCY (AFTER ASSETS DISPOSAL)



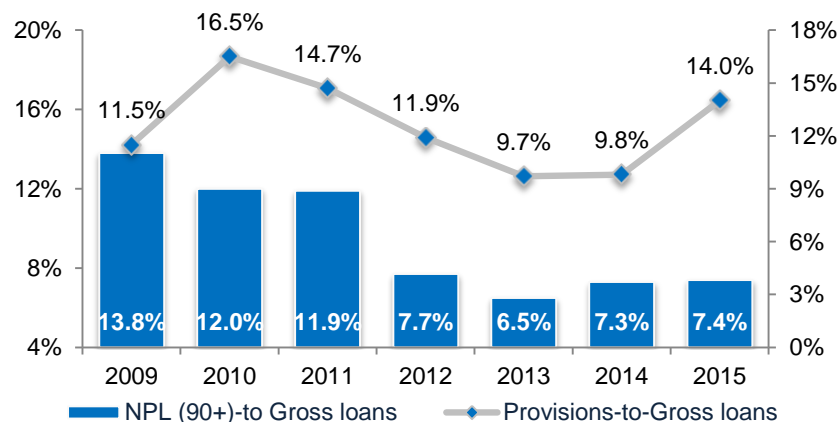
## STRUCTURE OF LIABILITIES BY CURRENCY



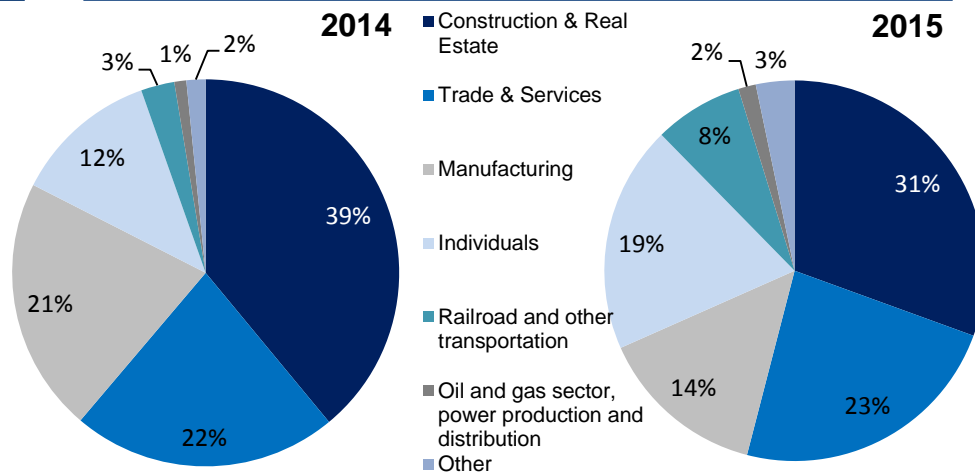
- ❑ As of 31, December 2015 Bank had assets in AZN totaling AZN 9.8 billion (as of 31, December 2014 was AZN 4.5 billion) and liabilities in AZN totaling AZN 2.4 billion (as of 31, December 2014 was AZN 2.7 billion) . The amount of assets in USD was AZN 3.1 billion (as of 31, December 2014 was AZN 3.2 billion) and liabilities AZN 9.4 billion (as of 31, December 2014 was AZN 4.5 billion), bringing a short position in USD to AZN 5.7 billion (as of 31, December 2014 was AZN 1.3 billion) considering the swap transaction.
- ❑ This huge discrepancy is coming from the fact that problematic (bad and high risky) loans in AZN equivalent equals to 5.7 billion have been reclassified as Receivables from Aqrarkredit.
- ❑ Historically, the Bank has been receiving funds for problematic (bad and high risky), foreign currency dominated loans from Aqrarkredit in AZN and writing-off the loan from books after exchanging the AZN to hard currency in order to predict increase in short position.
- ❑ Currently IBA is discussing with the authorities the strategy of closing the open currency position.



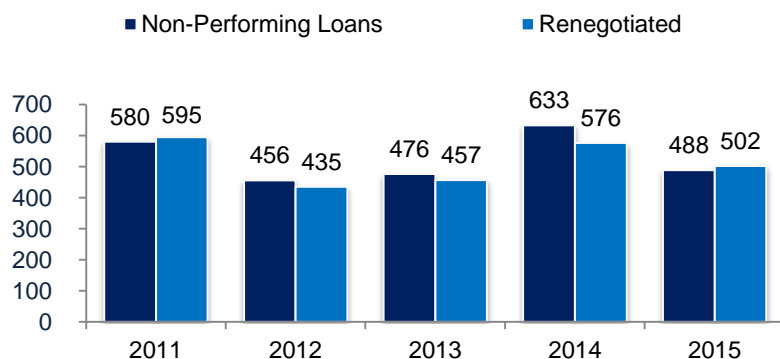
## NPL (overdue +90 days) & PROVISIONING RATIOS



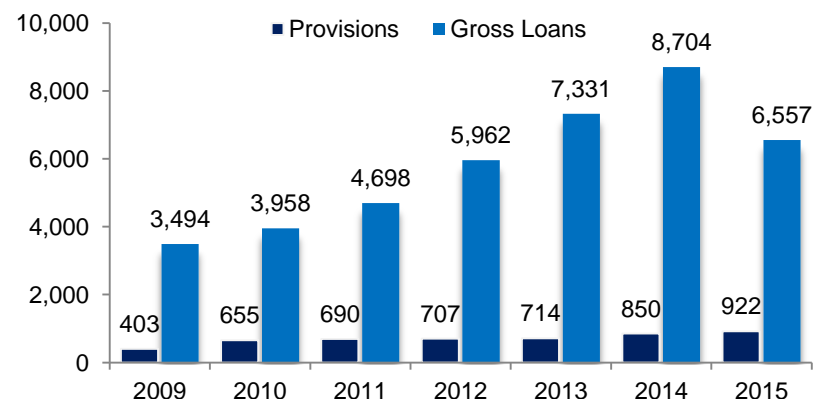
## LOAN PORTFOLIO BY SECTORS (2014 VS 2015)



## NPL AND RENEGOTIATED LOANS (AZN millions)

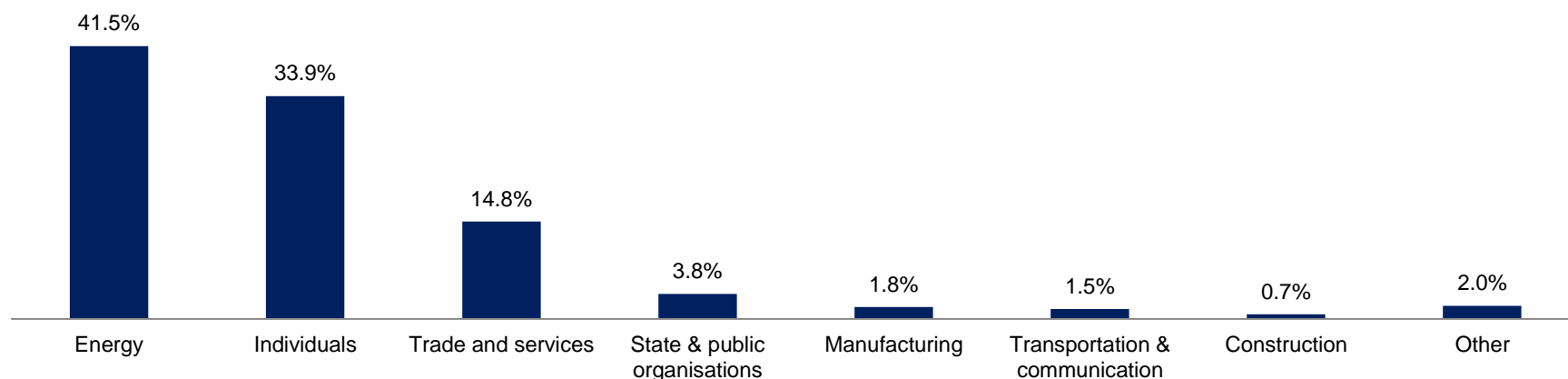


## LOAN PROVISION DYNAMICS (AZN millions)

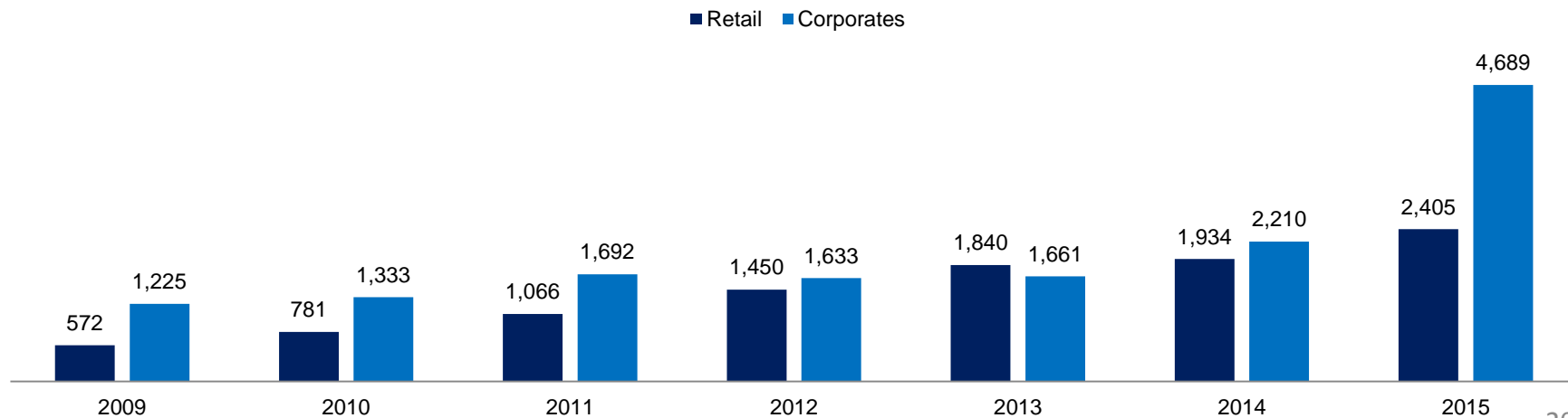




### CUSTOMER ACCOUNTS BY SECTORS (2015)



### CUSTOMER ACCOUNTS including DEPOSITS (AZN millions)





### LOAN REPAYMENTS (AZN millions)

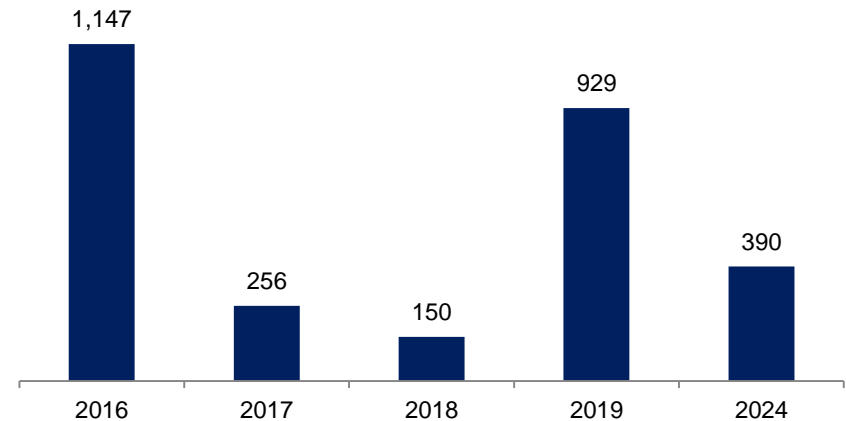
	Amount	Maturity
2016		
Bilateral Loan	83	January
European Commercial Papers	105	February
Bilateral Loan	78	March
Bilateral Loan	94	April
Syndicated Loan	320	April
Amortising Bilateral Loan	100	August
Private Placement	329	October
Private Placement	39	November
Total Amount	1,147	
2017		
Private Placement Sub Debt	156	May
Amortising Bilateral Loan	100	August
Total Amount	256	

### KEY BORROWING PRINCIPLES

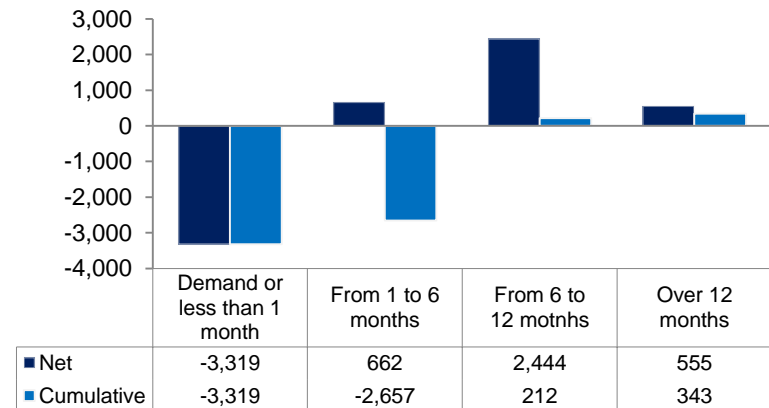
- ❑ Diversify across investor base, geography and instruments
- ❑ Optimize tenor and funding costs
- ❑ Minimize liquidity risk
- ❑ Focus on proactive management of liabilities
- ❑ Decrease the level of existing covenant package and be in compliance with all required financial ratios

Source: IBA, IFRS

### MATURITY PROFILE (Loans, Deposits and Notes) (AZN millions)

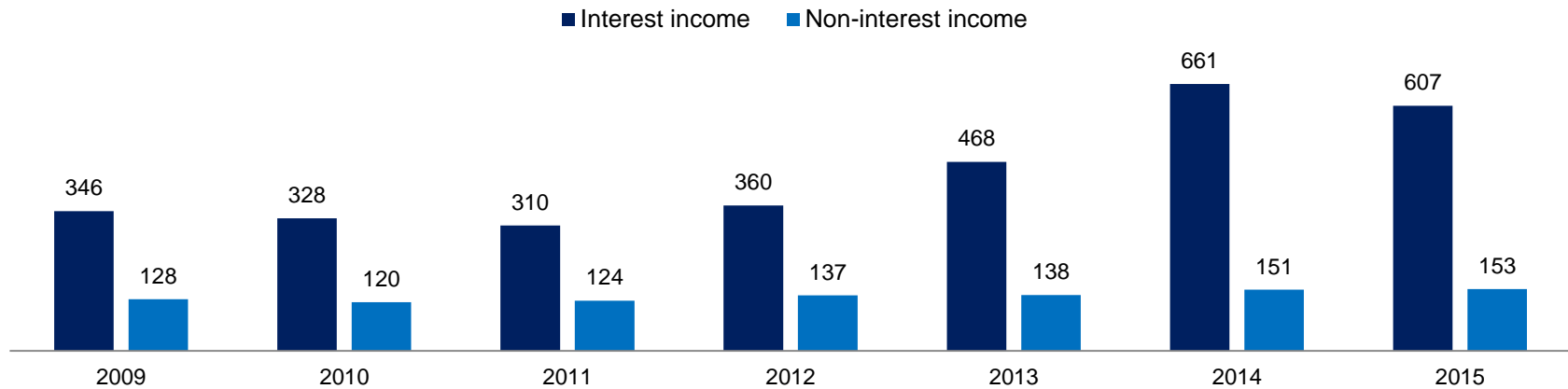


### LIQUIDITY GAP (AZN millions)

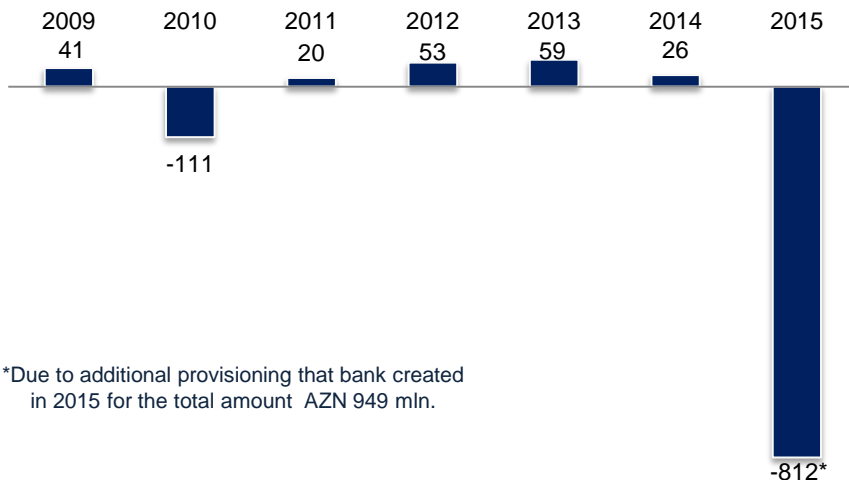




## TOTAL INCOME (AZN millions)

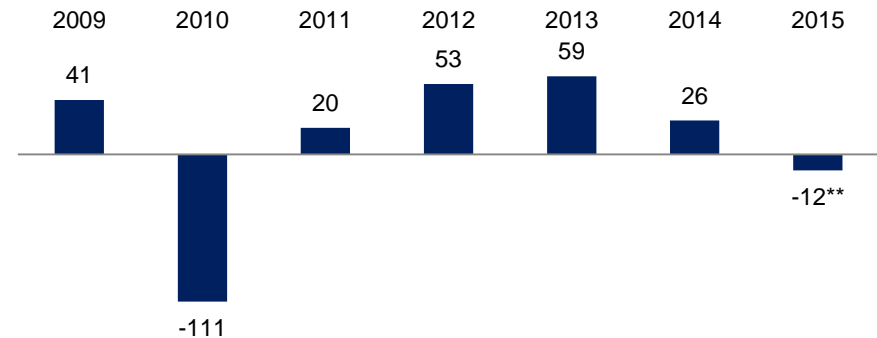


## NET PROFIT/LOSS (AZN millions) AS OF IFRS REPORT



\*Due to additional provisioning that bank created in 2015 for the total amount AZN 949 mln.

## NET PROFIT/LOSS (AZN millions) IF RECOVERED PROVISIONS ARE TREATED AS PROFIT



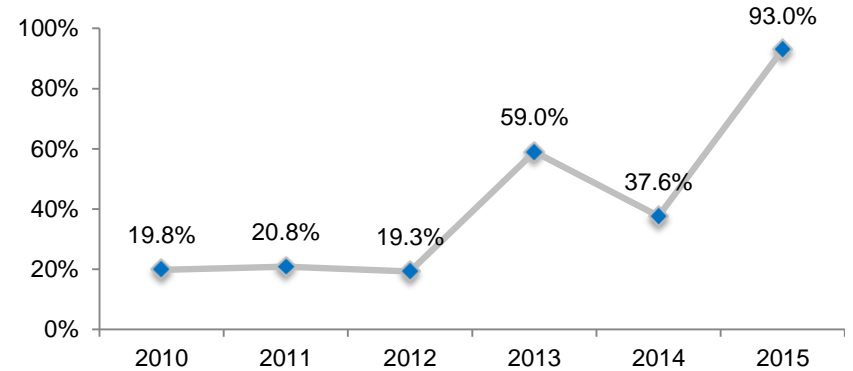
\*\*If amount of AZN 800 mln recovered provisions was reallocated to the current loan portfolio



### OPERATING INCOME VS EXPENSES (AZN millions)

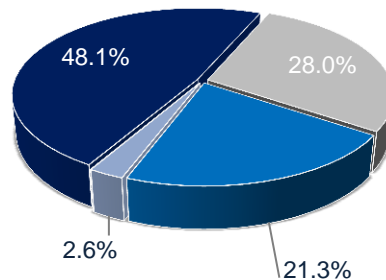


### COST-TO-INCOME RATIO



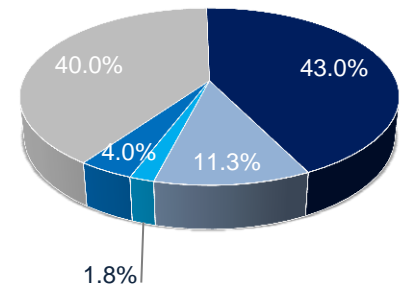
### OPERATING INCOME STRUCTURE (AZN millions)

- Net interest income (117 mln)
- Net fee and commission income (68 mln)
- Net gains and losses of trading (-52 mln)
- Net gains from insurance premiums (5 mln)



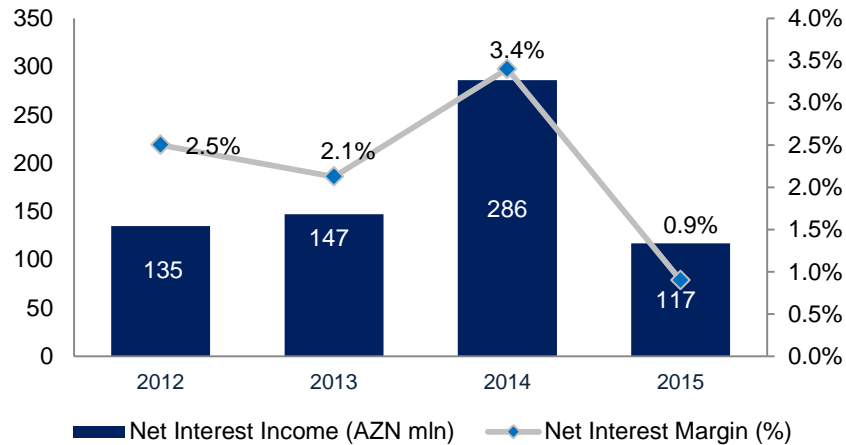
### OPERATING EXPENSE STRUCTURE (AZN millions)

- Staff costs (55 mln)
- Depreciation of premises and equipment (14 mln)
- Customs duties and taxes (2.3 mln)
- Advertising and marketing (5.1 mln)
- Other operating expense (52.6 mln)



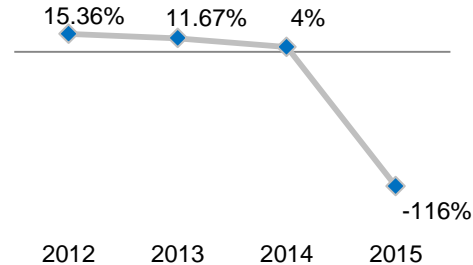


### NET INTEREST INCOME & NET INTEREST MARGIN

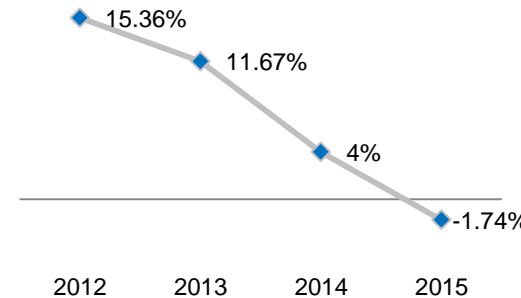


### RETURN ON AVERAGE EQUITY

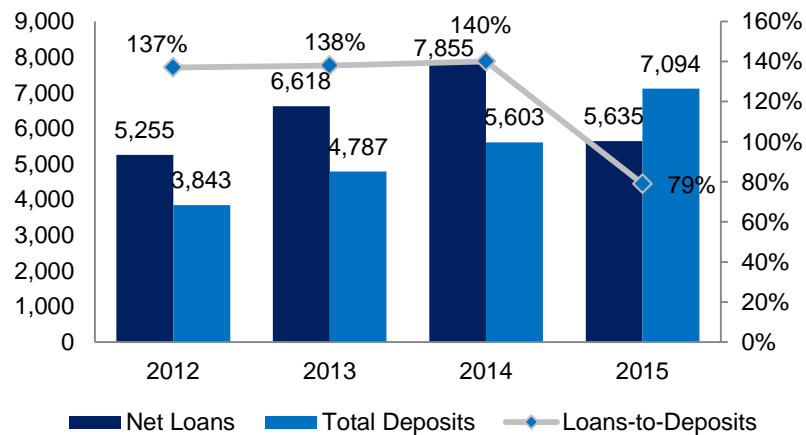
ACCORDING TO THE REPORT -  
WHEN RECOVERED PROVISIONS  
ARE TREATED AS PAID-IN CAPITAL:



IF RECOVERED PROVISIONS  
ARE TREATED AS PROFIT:

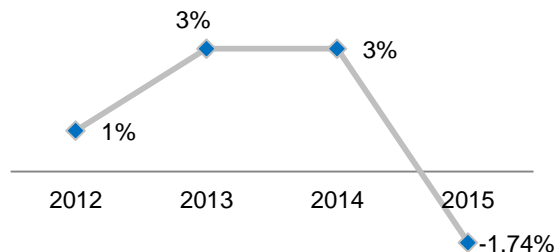


### LOANS TO DEPOSITS RATIO (AZN millions)

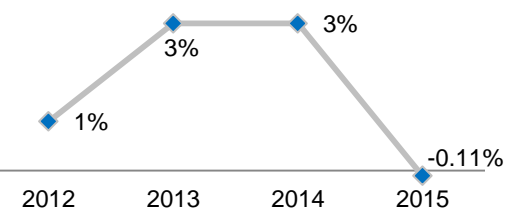


### RETURN ON AVERAGE ASSETS

ACCORDING TO THE REPORT -  
WHEN RECOVERED PROVISIONS  
ARE TREATED AS PAID-IN CAPITAL:



IF RECOVERED PROVISIONS  
ARE TREATED AS PROFIT:





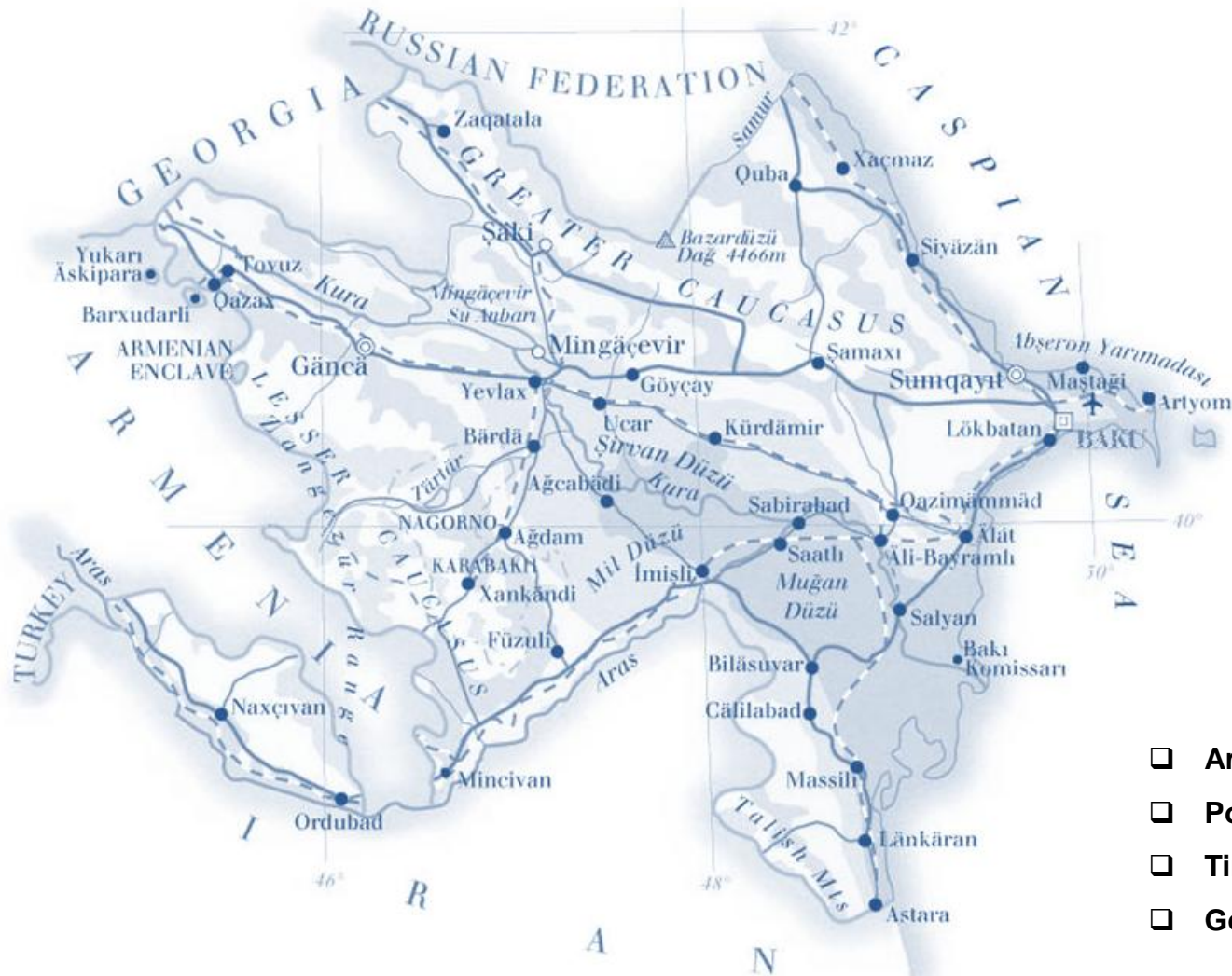


IBA AT A GLANCE

AZERBAIJAN MARKET AND BANKING SECTOR OVERVIEW

FINANCIAL OVERVIEW

APPENDIX



- **Area** – 86,600 sq.km
- **Population** – 9,600,000
- **Time zone** – GMT+4
- **Government** – presidential state



**GOVERNMENT FORM**

Presidential Unitary Republic

**LEGAL SYSTEM**

Civil Law

**HEAD OF STATE**

President

**HEAD OF GOVERNMENT**

Prime Minister

**PARLIAMENT**

Unicameral national assembly ( Milli Mejlis )\*

**JUDICIAL BRANCH**

Constitutional court, Supreme court, Court of appeals, Courts of first instance

**CLIMATE**

- ❑ The climate in Azerbaijan is majorly influenced by its geographical position, landscape and the Caspian Sea. Semi-desert, dry, sub-tropic and frigid types of climate. Azerbaijan accounts for 9 out of 11 climate zones existing in the world.

**NATURAL RESOURCES**

- ❑ Petroleum, Natural Gas, Iron ore, Non-ferrous metals, Bauxite

**INDUSTRIES**

- ❑ Petroleum and Gas, Oilfield equipment, Steel, Cement, Textiles



## TAXATION

Corporate Tax	20%
Value Added Tax	18%
Simplified Tax*	4% (in Baku)
	2% (in other regions)
Withholding tax	10%
<ul style="list-style-type: none"> <li>No Taxes in agriculture (except land tax)</li> <li>No inheritance and gift taxes</li> <li>No customs duties and VAT on non-oil production imports (specified agricultural products and items)</li> </ul>	

\* Total annual revenue of the legal entity should not exceed AZN 120,000 (approximately USD 154,000)

## EASE OF DOING BUSINESS RANK

COUNTRY	RANK
Romania	37
Bulgaria	38
Kazakhstan	41
Russia	51
Turkey	55
<u>Azerbaijan</u>	63
Ukraine	83

## GLOBAL COMPETITIVENESS INDEX

COUNTRY	RANK
<u>Azerbaijan</u>	40
Kazakhstan	42
Latvia	44
Russian Federation	45
Turkey	51
Romania	53
Bulgaria	54
Ukraine	79

## GOVERNMENT PROJECTS

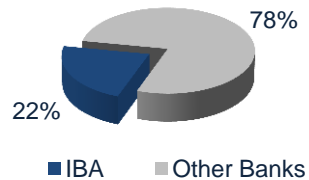
- ❑ The launch of production at Shah Deniz 2, the southern energy corridor between the Caspian region and Europe
- ❑ Trans Adriatic Pipeline AG (TAP) project with BP, SOCAR, Total and Fluxys
- ❑ Baku-Tbilisi-Kars rail line
- ❑ Baku International Sea Trade Port
- ❑ Sumgayit Chemical Industrial Park



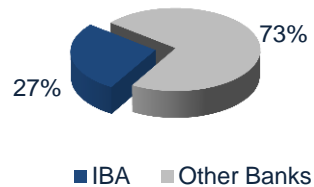
### Involvement in major retail banking projects:

- Pension debit cards: distributed about **750,000** pension and other social cards
- Salary cards: about **410,000** employees rely on this system for receipt of salaries

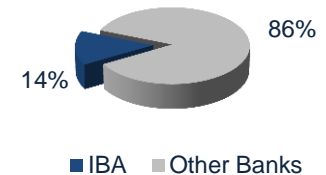
#### PLASTIC CARDS



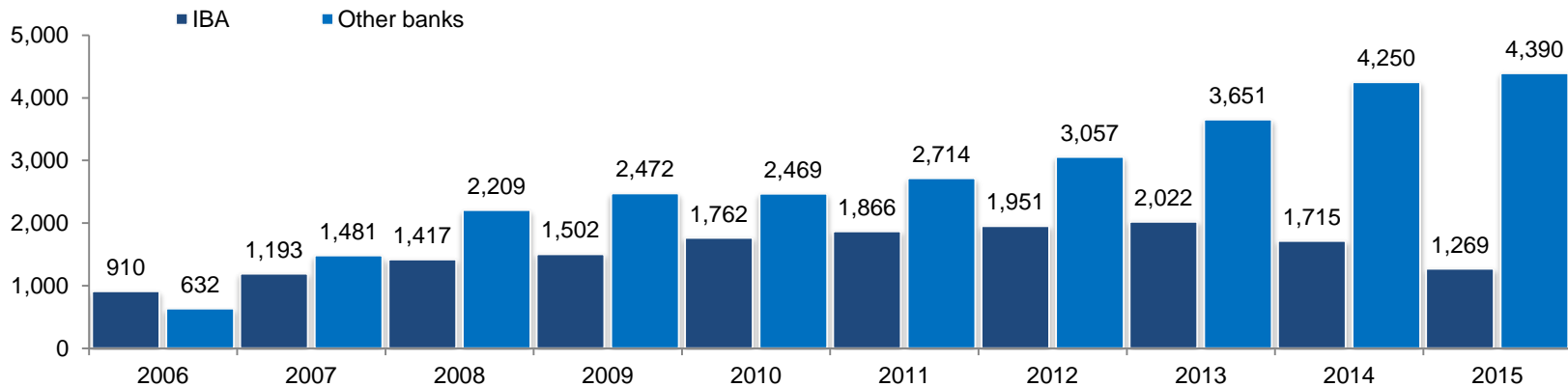
#### ATMs



#### POS MACHINES



#### PLASTIC CARD ISSUANCE ('000 pcs)



*in AZN thousands***2010****2011****2012****2013****2014****2015****Balance Sheet**

Total assets	4,358,314	4,843,626	6,173,865	7,681,218	9,198,768	13,657,275
Loans and advances to customers	3,303,431	4,008,184	5,255,151	6,617,667	7,854,991	5,635,583
Provision for loan impairment	654,500	689,509	707,252	713,665	849,804	921,793
Customer accounts	2,111,615	2,757,280	3,104,140	3,500,854	4,144,678	7,094,114
Other borrowed funds	825,657	755,870	788,286	1,219,963	1,563,366	2,262,979
Share capital	240,000	240,000	330,834	475,038	590,192	641,287
Total equity	251,511	272,516	416,237	593,578	686,584	714,041

**Income Statement**

Net interest income	159,692	116,305	135,393	147,286	286,559	116,651
Net interest income after provisions for impairment	-109,364	73,586	114,812	126,898	79,076	-905,550
Net fee and commission income	65,111	58,589	59,757	70,464	72,926	67,746
Net profit/loss	-110,605	19,561	52,912	58,946	25,510	-812,137



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**INTERNATIONAL BANK**  
OF AZERBAIJAN

**Thank you!**