

DEVELOPMENT OF THE BANKING SECTOR in AZERBAIJAN

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Los Angeles, May 31, 2007

Strengthening Banking Sector

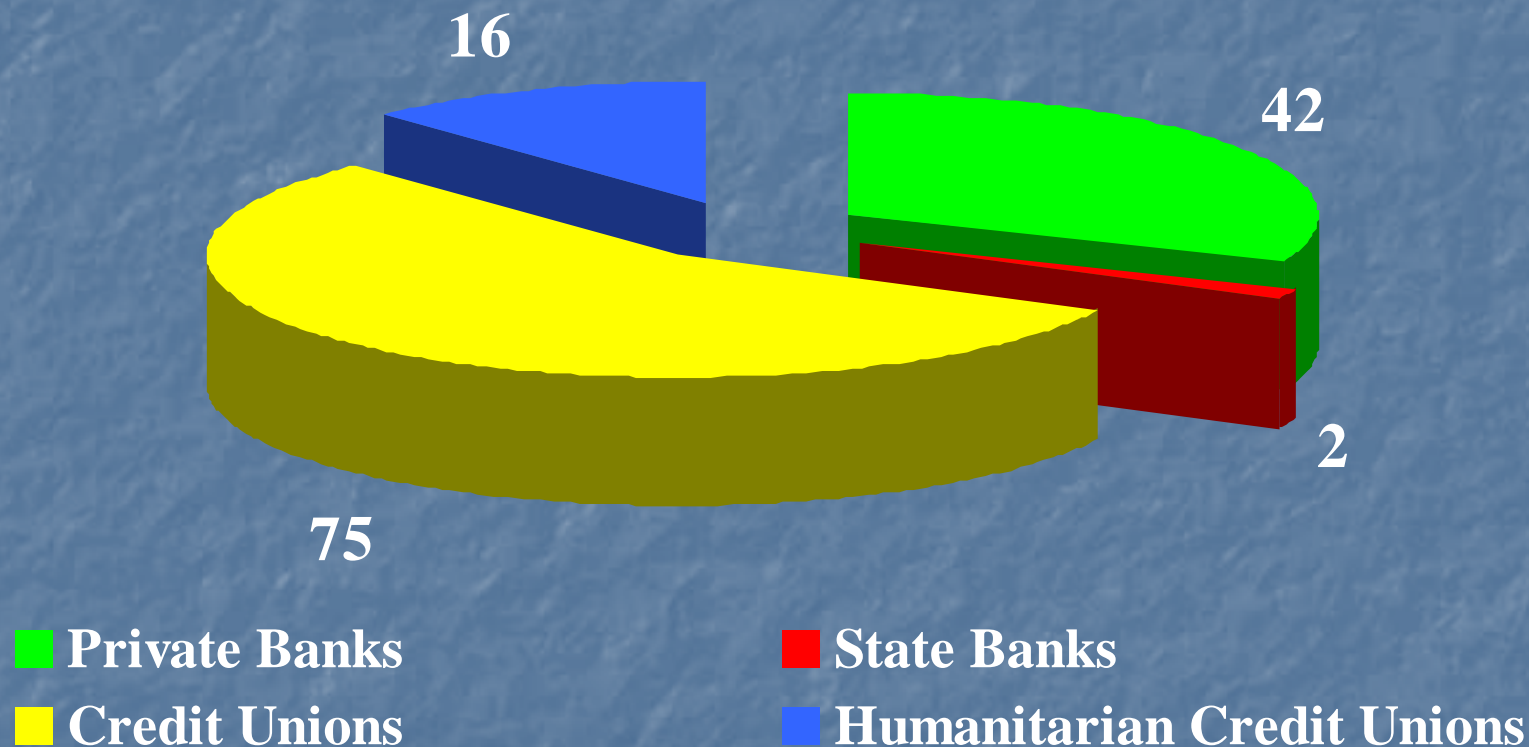
Banking is the major artery of the economy. It is the vehicle to allocate the funds in an efficient, effective and targeted manner throughout all sectors of the economy.

Banking sector in Azerbaijan has undergone significant changes and improvements; combined with favorable investment climate, it is posed for further growth and enhancement.

Banking sector significantly contributes to the diversification of the economy and will continue to do so under the guidance of the NBA, prominent IFOs and the forces of the market driven economy.

Overview of Banking Sector

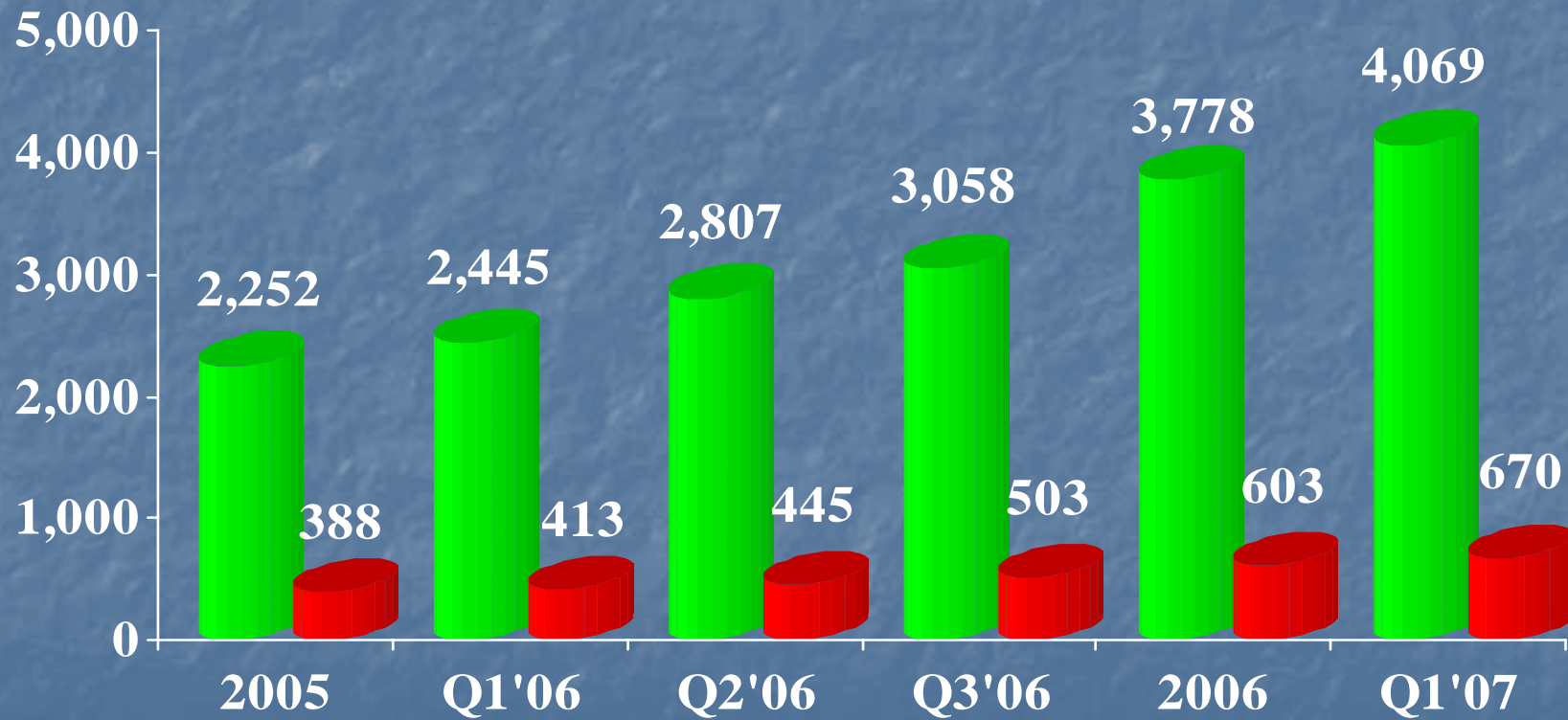
As of March 31, 2007, there were 135 credit organizations in Azerbaijan. Out of 42 private banks, 21 included foreign capital



Overview of Banking Sector

The Banking sector has been growing rapidly as evidenced by growth dynamics in assets and total capital:

In Million AZN
(1 AZN = 1.16 USD)



Overview of Banking Sector

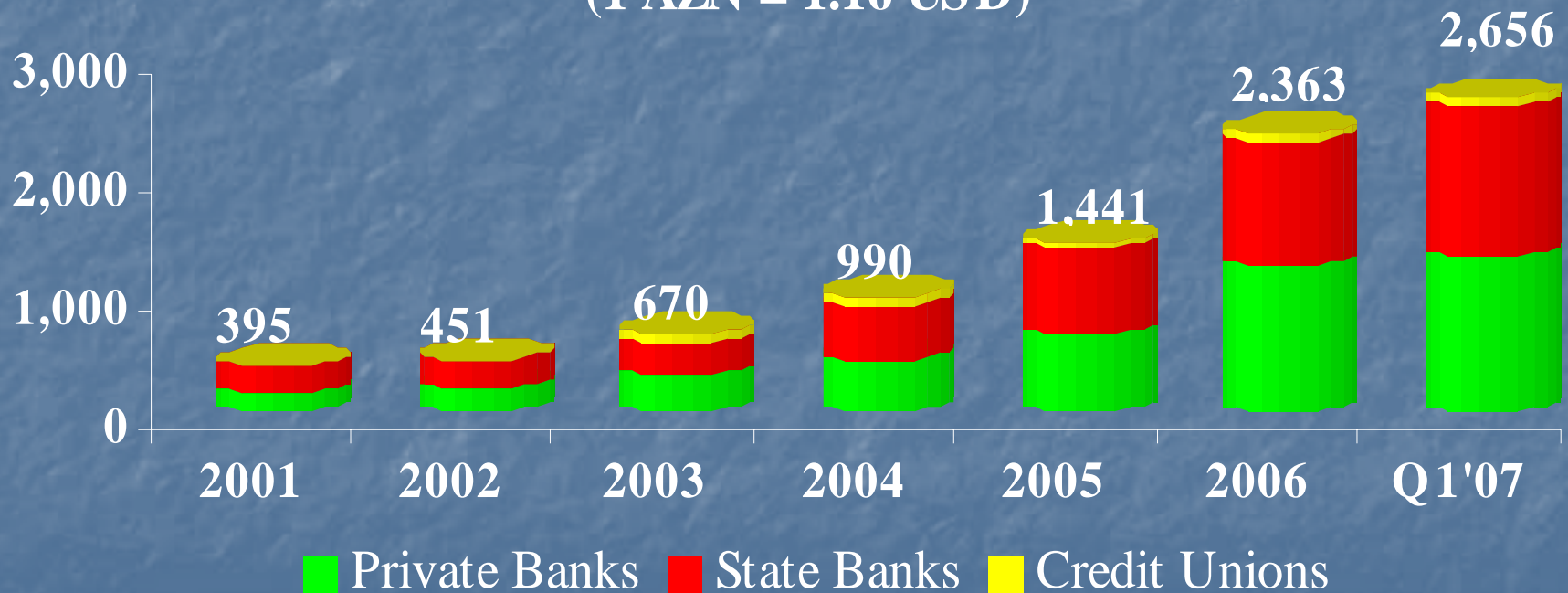
Confidence in banks has increased significantly and was further reinforced by the launch of the NBA's Deposit Insurance program:



Overview of Banking Sector

Banking sector continues to play the pivotal role in fueling the rapid growth of our economy...

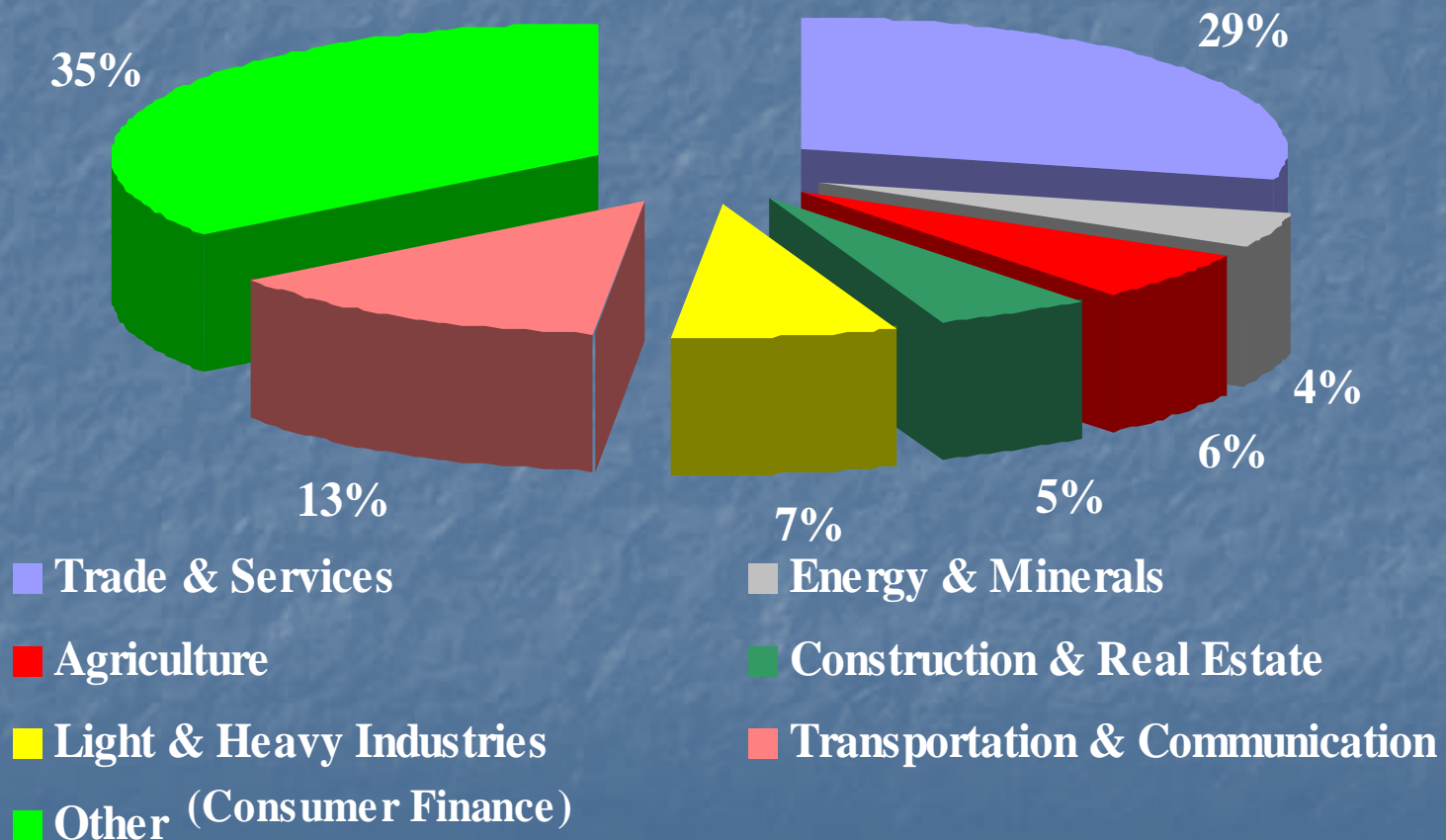
Credits in Million AZN
(1 AZN = 1.16 USD)



Overview of Banking Sector

...and has been active in exploring the vast opportunities in non-oil sectors:

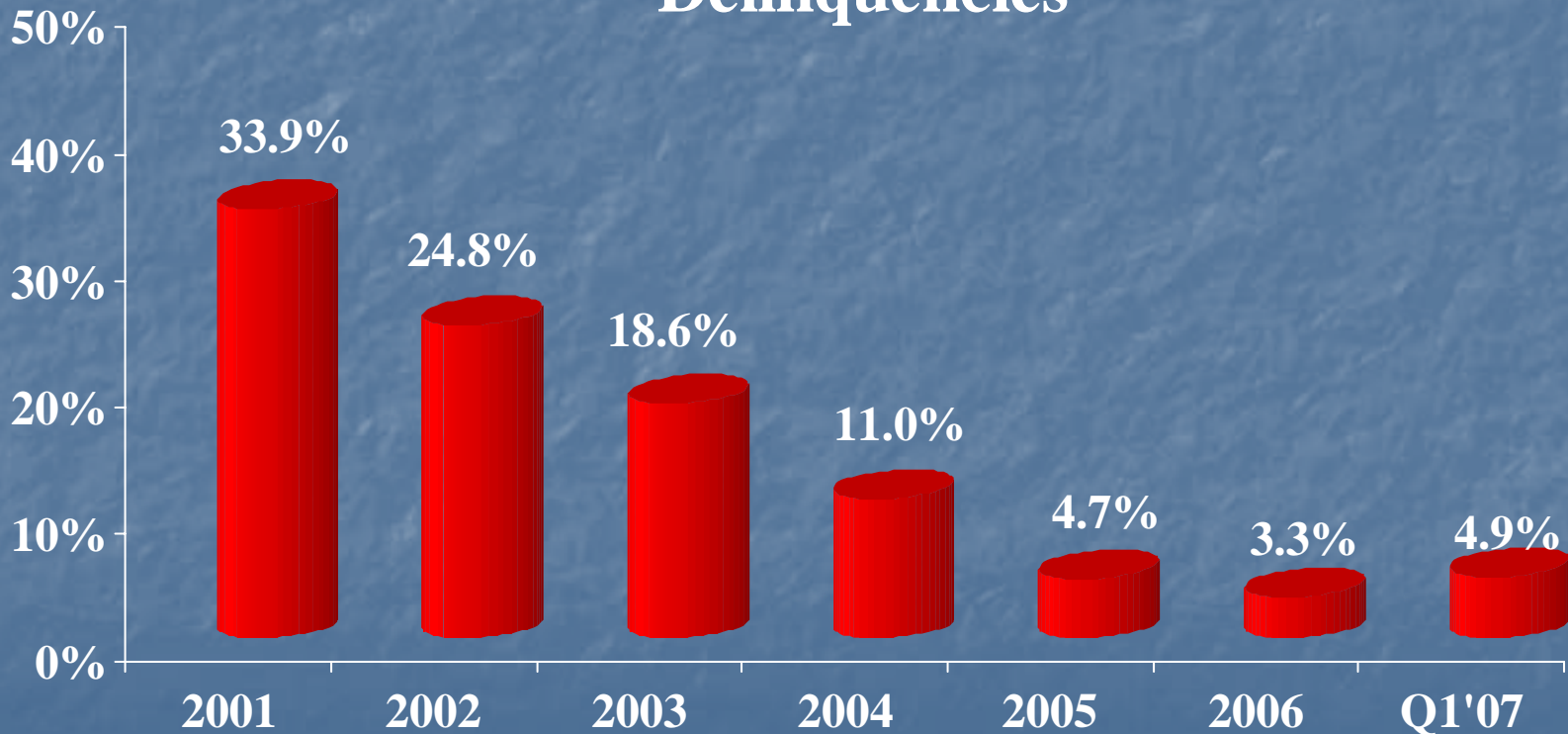
Credit Contribution by Sector



Overview of Banking Sector

Corporate governance projects undertaken throughout the banking sector, spearheaded by NBA, supported and amplified by IFOs, as well as the creation of the Credit Registrar by the NBA, further enhance and strengthen banks' abilities to mitigate risks in a timely and effective manner:

Delinquencies



Overview of Banking Sector

Banks continue to post strong results and add value to investors:

**Profits in Million AZN
(1 AZN = 1.16 USD)**



Future of Banking in Azerbaijan

In the nearest future, banks in Azerbaijan will be able to offer the full spectrum of financial products and services in order to further stimulate and support diversification trends within the economy:

- Large scale mortgage financing
- Co-financing in collaboration with IFOs and western banks
- Credit, FX, Interest rate and other derivative products
- Asset Backed Securitization
- Trading & Brokerage via direct access to international financial markets
- Investment banking
- Asset management & Private banking
- Electronic banking

Future of Banking in Azerbaijan

Banks will continue to intensify efforts in stimulating the growth in non-oil sectors in collaboration with IFOs and western banks via:

- **Targeted and efficient allocation of funds generated and contributed by the oil exports**
- **Utilization of financing programs offered by IFOs within developing sectors**
- **Expansion of the regional branch networks to stimulate lending activities, especially within the agro sector**
- **Utilization of opportunities provided by EXIM banks globally to stimulate trade**
- **Raising the financial awareness within the business community and providing sound financial advice and planning**

Favorable Environment for Investing

Azerbaijan's ability to provide safer investment environment and yield maximum ROI is supported by:

- Political stability
- Prudent legislative base
- Growing economy with stable local currency
- Lower corporate taxes
- Vast investment opportunities in non-oil related sectors
- Growing international trade
- Strengthening banking & insurance sectors

Favorable Environment for Investing

In addition, exemplary business ethics, prudent anti-money laundering policies, professional code of conduct, transition to IAS along with the development and implementation of sophisticated

- Client Profitability
- Behavioral Scoring
- Cost Calculation
- Valuation
- Pricing
- Asset-Liability Management

models and techniques, banks will be able to provide even safer, more profitable and transparent environment for investments in Azerbaijan.

**Let's shape the prosperous future of
Azerbaijan together!**

Afgan Isayev

VP, Strategic Planning and Development

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Bank of Baku



The Modern Bank of an Ancient City

Legal Information

Name: Open Joint Stock Commercial Bank “Bank of Baku”

Address: 42 Ataturk Avenue, Baku, AZ1069, Azerbaijan Republic

Tel: (994 12) 447 0055

Fax: (994 12) 498 8278

E-mail: root@bankofbaku.com

Web: www.bankofbaku.com

SWIFT: JBBKAZ22

Telex: 142318 JBBK AI

Tax ID: 0137010007944 (Ministry of Taxes of Azerbaijan)

Auditor: Deloitte & Touche LLC

Regulator: National Bank of Azerbaijan

License: Banking License # 247

Shareholder Structure

Azpetrol Oil Company (Baku, Azerbaijan): 28.89%

NAB Dis Ticaret Holding (Istanbul, Turkey): 40%

Azinvest Company (Baku, Azerbaijan): 9.895%

Mr. Rafiq Aliyev (Baku, Azerbaijan): 11.215%

Mr. Elchin Isayev (Baku, Azerbaijan): 10%

General Overview

Vision:

To become a premier financial institution in Azerbaijan that brings the widest spectrum of innovative and quality financial products and services to retail, small and medium enterprises, as well as large corporations

Mission:

Bank, being dynamic, innovative and transparent, pursues maximum level of customer satisfaction by utilizing personalized approach and presenting innovative solutions tailored towards clients' needs.

Bank protects the interests of and adds value to shareholders, customers and employees

HISTORY

February 1994: Registered as one of the first commercial Banks in Azerbaijan under the name of “Tugay” Bank

February 1997: Changed name to “Bank of Baku”

May 1997: Became the member of Baku Interbank Currency Exchange

August 1997: Re-registered as a Joint Stock Commercial Bank

December 1998: Became a member of S.W.I.F.T

March 2001: Became a partner of KFW within the program of German-Azerbaijan Fund in providing credit to small and medium enterprises in Azerbaijan (€2 million clean credit line extended until 2010)

January 2002: Shifted focus from the Interbank market to Retail, SME and Corporate segments

February 2002: Became a partner of Association of Savings Banks of Germany (Sparkasse) within the program of Corporate Management

HISTORY

February 2004: Secured \$1 million clean credit facility from EBRD for financing of SMEs

June 2004: Secured \$1 million clean credit facility from EBRD under the TFP program for trade finance needs

October 2004: Became member of MasterCard International

October 2004: Changed legal status to “Joined Stock Commercial Bank of an Open Type”

November 2004: Completed the implementation of IAS / IFRS under the USAID / Bankworld Inc. technical assistance program;

December 2004: Signed equity participation MOU with EBRD

January 2005: Signed leasing and corporate governance MOU with IFC

February 2005: Merged with OJSC “Ilkbank”

February 2005: Secured additional \$1 million clean credit facility from EBRD for financing of SMEs

HISTORY

April 2005: Signed \$5 million co-financing MOU with EBRD

July 2005: Secured \$0.5 million clean credit facility from Societe Generale for trade finance needs

October 2005: Signed the shareholders' and subscription agreements with EBRD pertaining to EBRD's 25% equity participation in Bank of Baku

December 2005: Opened a correspondent account with American Express Bank in New York

December 2005: Commenced the sale of Amex Travelers Cheques

May 2006: Secured additional \$4.5 million clean credit facility from EBRD for the financing of SMEs and Micro lending

May 2006: Secured additional \$1 million clean credit facility from EBRD under TFP for trade finance needs

September 2006: Secured additional \$2 million clean credit facility from EBRD under TFP for trade finance needs

HISTORY

September 2006: Issued 2-year corporate bonds for private placement (AZN 2 million); purchaser – UK based private equity fund

October 2006: Secured \$1 million clean credit facility from American Express Bank for trade finance needs

November 2006: Issued 1-year corporate bonds for private placement (AZN 1 million); purchaser – non-resident private equity fund

December 2006: Signed Revolving Credit Agreement with EBRD for the financing of pre-export and post-import needs of trade related clients

December 2006: Signed \$5 million co-financing agreement with EBRD for the financing of large corporate clients

January 2007: Secured \$2.5 million clean credit line from Bank of Georgia

February 2007: Secured \$3.4 million general purpose loan from Swedish based private equity fund

May 2007: Issued 15-month corporate bonds for private placement (AZN 2 million); purchaser – non-resident private equity fund

Infrastructure, Client Base & Employees

<u>Number of Employees</u>	301
<u>Branches</u>	12
<u>Express Points of Sale “BoB Express”</u>	3
<u>ATMs</u>	21
<u>POS Terminals</u>	116
<u>Premises Owned</u>	4
<u>Active Retail Customers</u>	68,000
<u>Active Corporate Customers</u>	1,770
<u>Issued Debit Cards</u>	10,261
<u>Issued Credit Cards</u>	21,131

Main Correspondent & Trade Finance Relations

American Express Bank (New York, USA):

USD Clearance
Trade Finance

Alfa Bank (Moscow, Russia)

RUB Clearance

Dresdner Bank AG (Frankfurt, Germany)

EUR Clearance
Trade Finance

KBC Bank (Brussels, Belgium)

EUR Clearance

EBRD (London, UK)

Trade Finance

Societe Generale (Paris, France)

Trade Finance

RZB (Austria, Vienna)

EUR, GBP &
Other Clearance

Memberships

- **American Chamber of Commerce**
- **Azerbaijan Bank Association**
- **Azerbaijan Leasing Association**
- **Azerbaijan Export and Investments Promotion Agency**
- **Baku Stock Exchange**
- **Baku Inter-Bank Currency Exchange**
- **MasterCard International**
- **“Millikart” Processing Centre**
- **National Mortgage Fund**
- **National Entrepreneurs Fund**

Ownerships in Legal Entities

<u>International Bank of Azerbaijan</u>	0.09%
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<u>Baku Stock Exchange</u>	5.56%
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<u>“Millikart” Processing Centre</u>	1.00%
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<u>“BoB Broker LLC”</u>	100%
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Technical Assistance Partners

EBRD

Trade Finance

GTZ

Corporate Management

IFC

**Leasing & Corporate
Governance**

Sparkasse

**Analytical & Branch
Management**

USAID / Bankworld Inc.

IAS & IFRS

PRODUCTS AND SERVICES

- Local and international clearing
- Trade finance services and products including issuing and confirming bank guarantees and letters of credit (confirmed by first class western banks)
- FX operations
- Money transfers (including Travelex, Western Union, Migom, Bistraya Pochta, Xpress Money) & Cash handling services
- Call and term deposits including liquidity management and retirement products
- Commercial and consumer lending products (including mortgage) & overdraft
- Commercial and consumer MasterCard products (virtual, debit, salary, credit and hybrid cards)
- On-line account access
- Financial advice, business consulting and market research
- Leasing
- Amex Travellers Cheques
- Payment of Utility bills

Strategic Plan (2006 – 2009) – Brief Overview

- **Institutional Development (Line of Business organizational structure)**
- **Corporate Governance (100% completed with IFC)**
- **Acquisition and Installation of New Core Banking System (On-going)**
- **Enhancement of Analytical Capabilities (On-going)**
- **Enhancement of Reporting Capabilities (100% completed with EBRD)**
- **Development of New Products and Services (ABS, e-banking, etc.) (On-going)**
- **Expansion of the Corporate Customer Base (On-going)**
- **Expansion of Branch, ATM and POS Networks (On-going)**
- **Penetration into Rural Markets (On-going)**
- **Expansion of the Network of International Financial Institutions (On-going)**
- **Implementation of selected BIS II Standards (On-going)**
- **Establishment of Insurance and Investment Banking Subsidiaries (On-going)**
- **Acceleration of Growth via Non-Organic Means (M&A) (On-going)**
- **Sale of 25% of equity to IFOs (On-going)**
- **Access into International Capital Markets (On-going)**

Management

Bank of Baku retains one of the best executive management teams in the financial sector. The team is renowned and respected by the industry for its professionalism, experience, education, integrity and ethical standards. Half of the executive management team was educated and experienced in the USA.

Financial Overview

(as of 30/4/2007, 1 AZN = 1.154 USD)

2007 indicators are based on management financials

Total Assets (000' AZN)

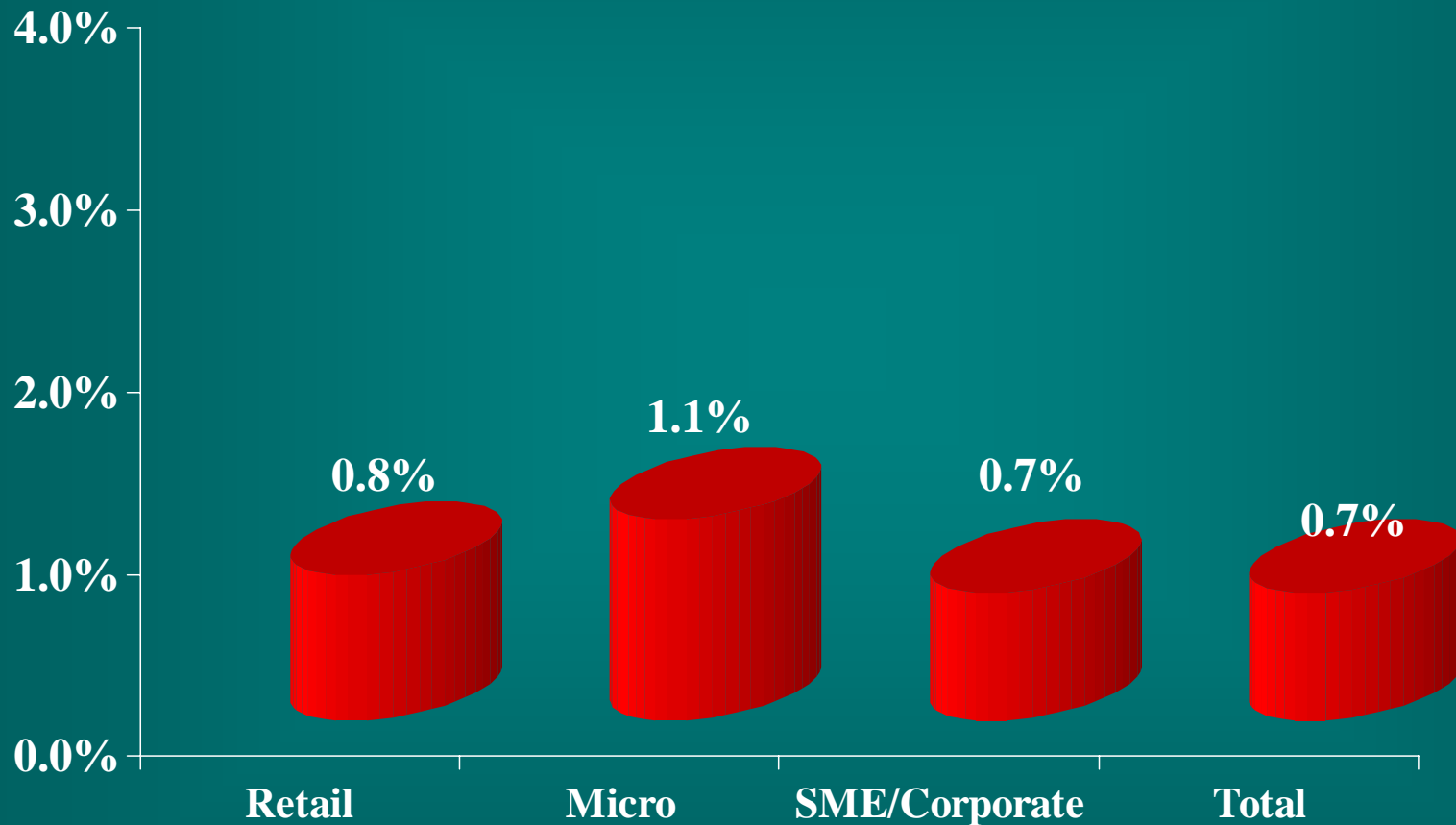


Total Credit Portfolio (000' AZN)



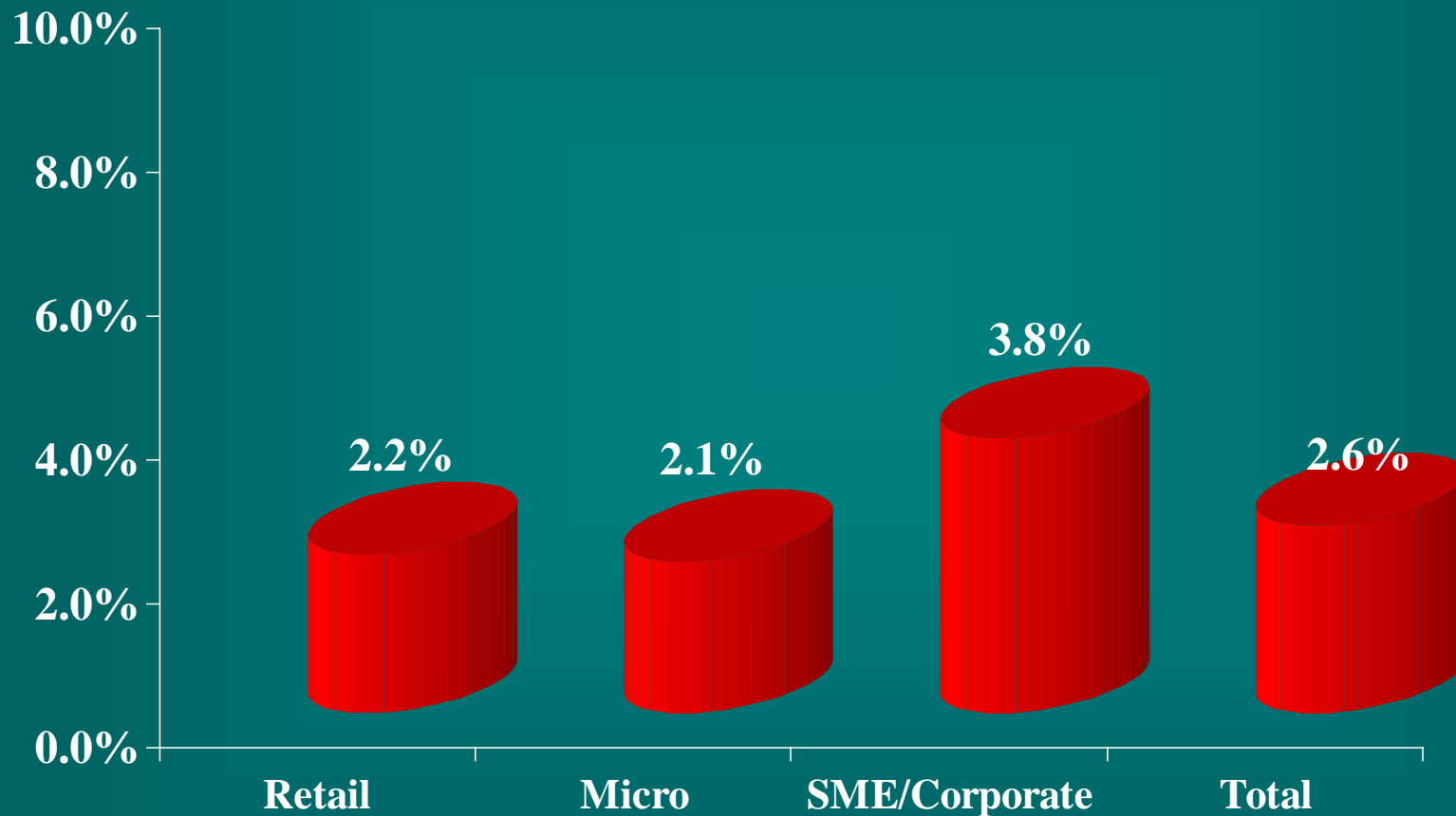
Portfolio Quality (as of 30/04/2007)

Delinquencies (% of Credit Portfolio)



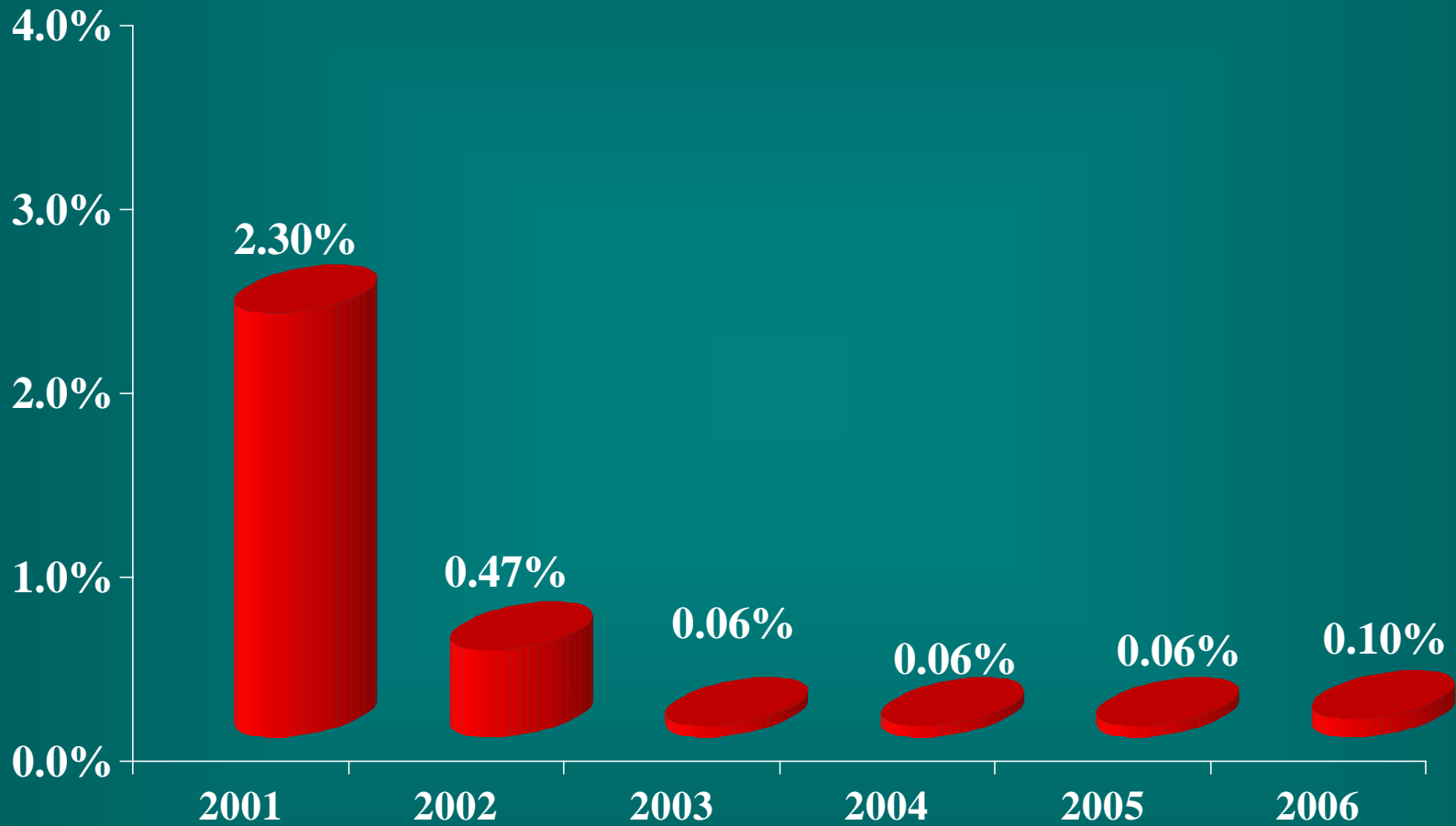
Portfolio Quality (as of 30/04/2007)

NPL (% of Credit Portfolio)



Write-Offs

Write-Offs (% of Credit Portfolio)



Total Equity (000' AZN)



Dividend payout = 30% of 2006 Net Income.

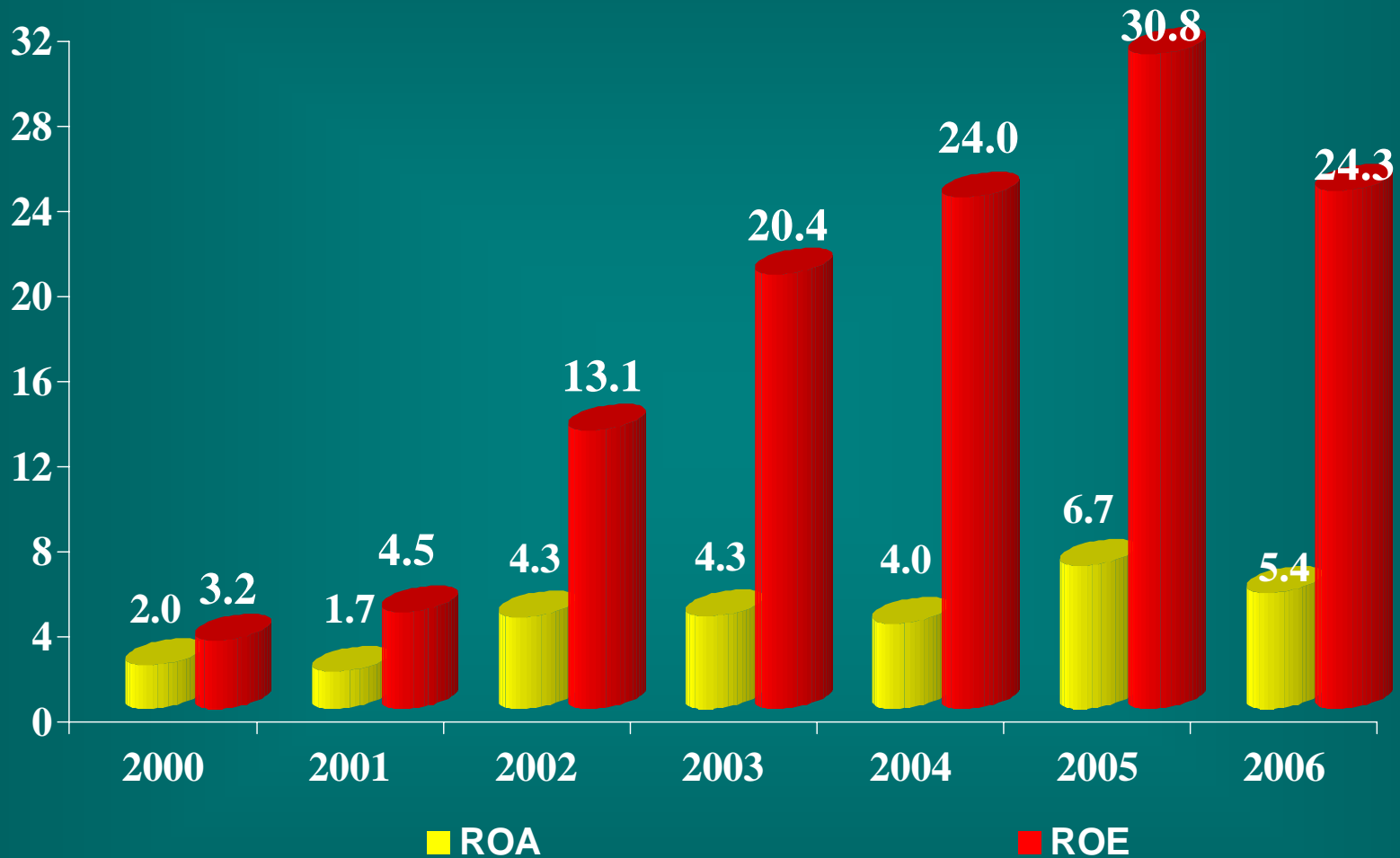
Last re-evaluation of fixed assets was conducted in May 2005.

Capital Adequacy, Total Capital Ratio (Tier I + Tier II)



Minimum required levels for total capital adequacy by NBA is 12%.

ROAA / ROAE (%)



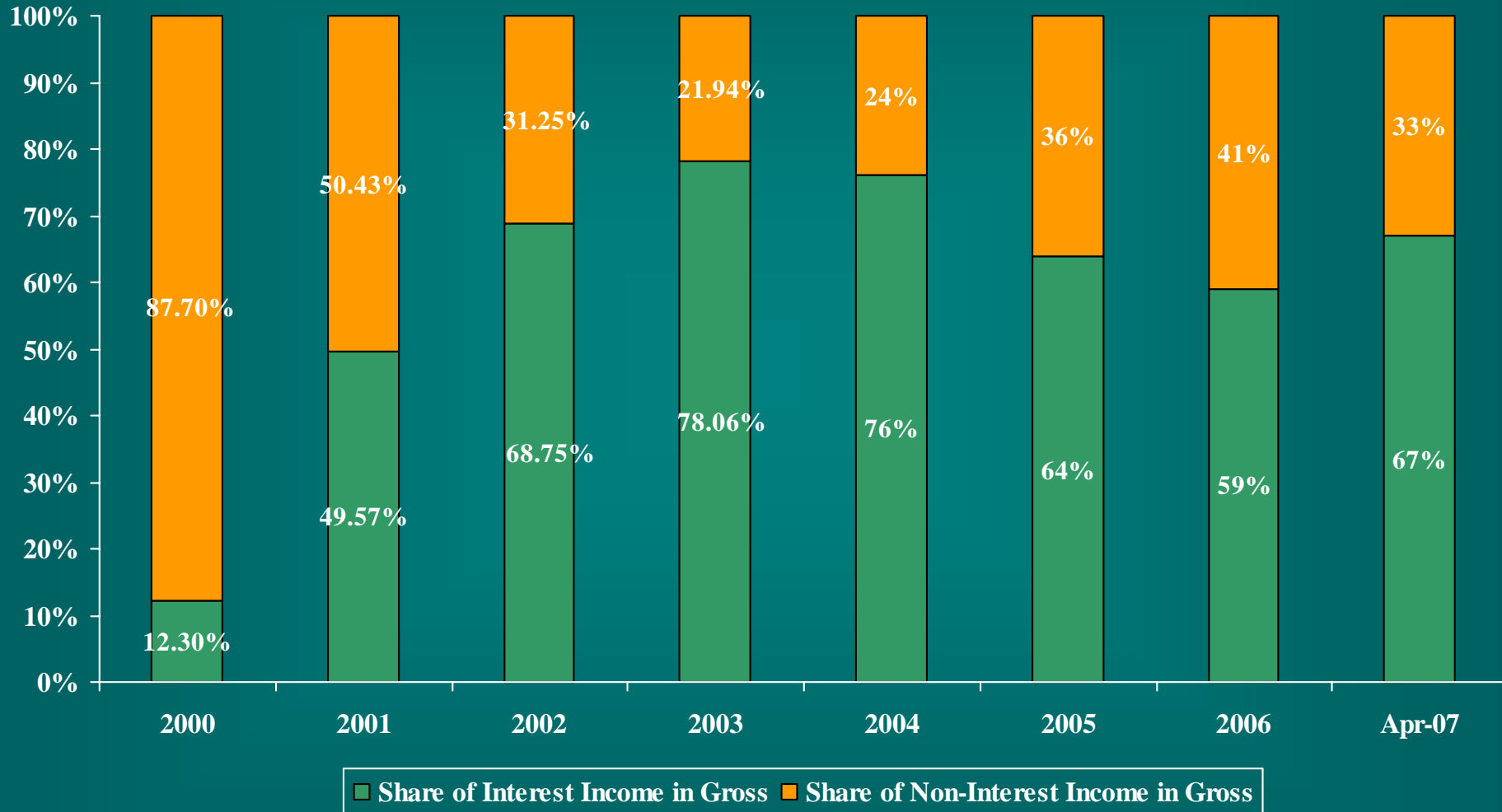
Lower ROAA & ROAE in 2006 is attributed to the expansion of branch network (over 100%), launch of new products and higher provisions due to the record number of retail credits extended

Net Income (000' AZN)



Lower growth in 2006 After-Tax Net Income is attributed to the expansion of branch network (over 100%), launch of new products and higher provisions due to the record number of retail credits extended

Operating Income Composition



Retail Banking

Retail Banking

We are the first bank in Azerbaijan to focus on retail banking. The new and unique system has been developed by the bank to analyze and underwrite consumer loans within 20 minutes. Some types of consumer loans have been introduced by the bank for the first time in Azerbaijan

Our approach to attract potential customers is quite innovative in Azerbaijan, which allows us to cover various segments of the market. The strategy of this approach, besides direct acquisition, is to choose partners through whom we acquire customers

For example, we have agreements with major universities, schools, medical centers, small and medium enterprises, under which, their students, patients, employees and customers become eligible for loans from our bank. As of today, we closely cooperate with over 800 partners in the market

Retail Banking (as of 30/4/2007)

Retail Portfolio as % of Total	60%
Consumer Credit Portfolio	33,338,543 AZN
Micro Lending Portfolio	2,735,515 AZN
Consumer Deposit Portfolio	29,085,000AZN
<i>Auto Loans (42.73%)</i>	<i>14,245,154 AZN</i>
<i>Telecom & Computers (6.23%)</i>	<i>2,077,497 AZN</i>
<i>Furniture (2.15%)</i>	<i>716,595 AZN</i>
<i>Consumer Electronics (23.19%)</i>	<i>7,731,430 AZN</i>
<i>Household Appliances (2.99%)</i>	<i>997,789 AZN</i>
<i>Mortgage (2.94%)</i>	<i>981,317 AZN</i>
<i>Credit Cards (18.90%)</i>	<i>6,300,431 AZN</i>
<i>Other Consumer Credits (0.86%)</i>	<i>288,330 AZN</i>

Retail Banking (as of 30/4/2007)

	Avg. Amount (AZN)	Avg. Term (Months)	Avg. Pricing (%)
Deposits	7,054	17	13.08
Micro Loans	1,974	13	29.36
Auto Loans	4,373	21	26.00
Mortgages	30,463	198	7.45
Other Consumer Loans	310	12	24.64

Branch Expansion Strategy for 2007

2006 was instrumental in Bank of Baku's branch network expansion. As a result, in 2006, Bank of Baku expanded its network by over 100%, establishing 4 fully operational branches and 2 express points of service "BoB Express" in Baku City. In addition, in 2006, Bank of Baku commenced the implementation of its regional expansion plan by opening the first regional branch in Sumgait.

Beginning of 2007 was marked by opening of another regional branch in Sheki and two more in Baku. Furthermore, in 2007, Bank of Baku will establish 2 new branches in Baku and another 3 within the regions (Ganja, Khachmaz and Lenkoran), bringing the total number of branches by year end to 17.