

AccessBank Azerbaijan:
Strategic plan

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1 Executive Summary

AccessBank Azerbaijan is the leading provider of microfinance in the country, enjoys an important position in SME lending, and enjoys the trust of the population at large as witnessed by a broad and growing base of retail depositors.

Following the devaluation and the subsequent recession in Azerbaijan, the bank completed a recapitalization and significant changes to the management team in 2019 and is now positioned for renewed growth.

Improving operating efficiency is a key priority for 2020 and beyond. Increasing business volumes significantly while maintaining a constant staff base will allow for an improving cost-income ratio, while delivering services to clients in a more efficient and attractive way.

A second priority is to strengthen the functioning of risk management. A dedicated CRO at the Management board will ensure the independence of the risk function and newly developed policies, procedures and tools for analysis and reporting will ensure that the bank complies with national requirements and international best practice.

The third priority for the period of the strategy is the expansion of business volumes. After the financial crisis business volumes decreased sharply as the attention was diverted towards consolidation and recovery of bad loans and new disbursements were curtailed.

The outcome of succeeding on these three priorities will be to ensure a stable institution producing long-term sustainable financial results to the benefit of shareholders and clients.

2 Institutional Overview

The vision of AccessBank is to be a leading bank in the country, supporting the development of small businesses and financial inclusion of the population of Azerbaijan.

The mission of AccessBank is to contribute to the sustainable development of Azerbaijan by providing responsible financial services and solutions to households and micro, small and medium enterprises, using internationally recognized best banking practices. We are committed to delivering value for our clients, shareholders, employees, and society at large. The mission is based on our values: integrity and openness, professionalism, commitment to customers, team work, and social and environmental responsibility.

The bank aims to provide simple, straightforward banking services in a fair and transparent manner. Through its intimate knowledge of entrepreneurship in Azerbaijan, it is able to provide products that are tailored to the needs of the business clients, with a focus on speed of delivery. A careful analysis of the financial situation of borrowers allows the bank to keep credit risk under control.

The strategic goals of the bank include:

- To keep the market position as a leading financial service provider for micro and small business customers
- To continue improving the customer experience by streamlining processes, enhancing digitalization, and further tailoring financial services to customers' needs
- To maintain strong risk management, high underwriting standards, strict compliance and internal control mechanisms.
- To strengthen operational efficiency by investing in the development of our employees to ensure high levels of professionalism and an excellent customer experience

- To ensure a sustainable impact and financial return to the investors

3 Customer segments

3.1 Micro entrepreneurs

ABA is a market leader in this segment. ABA's key competitive advantages include the long history of working with micro clients. An additional advantage is the experienced micro loan officers who are skilled in the financial and social analysis of micro clients. ABA's credit processes are considered among the best in the market, with a fast decision-making process. The products are simple and appropriate for the target segment, with a straightforward annuity loan making up almost the entire portfolio.

Key projects for 2020 in this regard include new software to more efficiently manage the entire credit cycle from application to disbursement and the development of scoring/rating mechanisms that can reduce the time spent by loan officers on analysis. The bank will abstain from foreign currency lending in this segment, as the typical client is not prepared to handle the impact of currency fluctuation and does not have foreign currency income.

3.2 SME and Corporate clients

Typical loan products required by SME and Corporate clients include working capital financing, longer-term investment loans, and overdraft facilities. In addition, these clients often have a significant need for account services.

The new direction in SME and corporate lending has the following main characteristics:

- Greater reliance on local currency lending with maximum 20% lending in foreign currency and mainly to clients engaged in import-export activities.
- Bringing in the whole client business – not only the lending, but also the deposits and transaction business.
- Require proper accounting documentation and avoid clients that operate informally.
- Consolidated analysis across all related businesses in a group to evaluate the full picture.
- Develop rating systems for offering pricing and collateral benefits to prime clients.

The new approach includes several competitive advantages vis-à-vis the competition: A full business relationship with the client allows the bank to target its product offerings and create a better, more competent client service without the need for the client to negotiate with different counterparts inside the bank. Well trained staff, streamlined procedures, and a proper financial analysis allows the bank to understand the credit risk levels and to be more flexible on collateral and pricing for the best clients.

3.3 Retail clients

Retail clients account for the majority of the bank's customer funds. Additionally, the Bank started a project of reorganizing credit products and processes to attract clients for consumer loans. Other products, such as payment and credit cards offer the potential to increase fee income.

Competitive advantages of ABA include the bank's international shareholder structure and independence of local business groups, as well as the friendly customer service. Key projects include:

- Product development to simplify the cards lineup, while adding features in line with market expectations, such as cashback from merchants.
- Credit scoring for automated decision making,
- Streamlining of processes and new software to make the entire credit cycle more efficient,
- Strengthening of digital advertising and increasing the use of call center and digital channels.

4 Delivery channels

The bank has a wide network of 28 branches. Comparatively speaking, the Bank has a good network coverage in the regions, which has helped the bank build its strong franchise in micro lending. All branches are equipped with ATMs and Cash-in payment terminals. In several branches these are organized as a 24/7 self-service zone. In addition, the bank has a network of 10 off-site ATMs in Baku.

The bank has been actively moving towards digital and self-service solutions and offers its clients mobile banking well as internet banking service. ABA's vision is to continue this trend towards self-service. The objective is to gradually transform the branch premises into points of sale rather than points of transaction. The objectives for 2020 include:

- Upgrading of 5 branch premises with 24/7 self-service zones and renovation of the premises.
- Upgrading the mobile platform with a strengthened technical platform and a user-friendly interface
- Additional services in internet banking, including document upload for business clients.
- Expand the usage of debit cards for business clients.
- Introduction of credit cards as an effective delivery mechanism for low value consumer loans.
- Introduction of cash-in ATMs
- Modernizing the network of POS terminals to utilize NFC technology

5 Human resources

AccessBank is an internationally-owned bank, run according to European principles of HR management. The bank has a strong corporate culture and experienced employees who take pride in their place of work.

The objectives of the bank in this area include:

- To attract the most talented new employees with a positive employer brand.
- To develop our existing employees with increased efforts on training.
- To execute the HR processes excellently, with improved employee communication.
- To foster a performance oriented corporate culture with clear KPIs, rewards and consequences.
- To engage employees with common values.

6 Risk management

The bank has recently appointed a dedicated CRO and the process of strengthening the risk management area is currently underway. The strengthening of risk management should serve as a guarantor for a balanced business growth that ensures the bank's long-term viability and profitability. The bank develops its risk management approach in line with international best practice as well as the regulation of FIMSA. Key projects for the period of the strategy include

- Improving the IFRS9 methodology to allow for regular bank-internal reporting in accordance with international standards
- Implementing and revising key policies and procedures for finance and risk management.
- Strengthening the Bank's AML function to ensure the bank can never be inadvertently used as a vehicle for money laundering
- Revision of the Disaster recovery plan to ensure it is in line with the current structure and risk map.

The CRO supervises the area of Financial restructuring and Recovery. The main directions include:

- Continuously improving the efficiency of the recovery work.
- Monitoring the work of outsourced recovery agencies.
- Improving the speed of recovery, including through out-of-court settlements
- Actively using restructuring for clients that can return to regular servicing of their loans
- Increasing the speed of selling repossessed assets.

7 IT

The IT infrastructure requires significant upgrades in order to ensure support for the Banks business targets. This entails the following key objectives for IT:

- Ensure reliable operations with zero downtime for core business processes.
- Support the planned efficiency improvements through automation and expansion of self service
- Support the expansion of business volumes planned by the Bank

Key projects for the period of the strategy include:

- Large scale replacement of servers, workstations and communication devices
- Improving reliability of key communication channels
- Development and implementation of a CRM/BPM solution, to take over the key credit workflows.
- Build the internal capacity for the area for T24 development