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Azerbaijan Bank Issues Manat Bond

Azerbaijan, the former Soviet republic situated on the Caspian Sea, yesterday joined the ranks of emerging market countries with nascent capital markets. Unibank, a commercial bank part-owned by the European Bank of Reconstruction and Development, became the first company to issue corporate bonds denominated in manats, the Azerbaijani currency. Unibank's 5 billion manat (\$1 million) six-month issue was priced to yield 12 percent compared with 7.5 percent for equivalent government Treasury Bills.

Until now, the only form of financing for Azerbaijani companies has been the domestic loan market. Salim Krivan, head of the Baku Stock Exchange said about the new bond "The size is, of course, not very big but this is just the first issue and we hope there will soon be others. It is Azerbaijan's first transparent issue of corporate bonds – we've prepared the prospectus according to international standards". The issue becomes only the second listed security on the Baku Stock Exchange, following a \$100 million bond issued by Azer Yapi Market, the retailer. No equities are yet listed on the exchange because privatization has been slow to take off and corporate transparency remains insufficient for initial public offerings. Bids for Unibank's domestic bonds amounted to twice the amount offered, with domestic investors taking the bulk of the issue. Russian investors bought 5 percent of the deal. **The issue is part of a project funded by the European Union to advise the State Securities Commission of Azerbaijan on the development of a local securities market. Unibank was advised by Denholm Hall, a UK company specializing in securities markets in eastern Europe and the CIS.**

Azerbaijan is an energy rich but poor country, which has struggled to develop the economy following the collapse of the Soviet Union in 1991. However, high oil prices helped gross domestic product grow by 10 percent last year, with a rise of 9 percent expected for 2004. Azerbaijan remains highly unstable after October's presidential election, which led to the transfer of power from the late Heydar Aliyev to his son Ilham. A new index measuring political stability in 25 emerging market countries shows Azerbaijan is the second weakest after Nigeria. According to the Deutsche Bank Eurasia Group Stability Index, the new president's power base remains shaky following the vote, which drew international accusations of poll rigging. But Azerbaijan's energy resources have made it an important ally for the US. Multinational oil companies operating in Azerbaijan include BP and ExxonMobil.
