

Regulation on liquidity risk management in banks

1. General provisions

1.1. This Regulation has been developed according to Articles 34.2.4 and 34.5 of the *Law of the Republic of Azerbaijan ‘on Banks’* and determines minimum liquidity risk management requirements in banks, as well as local branches of foreign banks (hereinafter – banks) and liquidity indicators.

1.2. The organizational structure of liquidity risk management in banks, including other matters related to liquidity risk management not determined with this Regulation are regulated with the *‘Corporate governance standards in banks.’*

2. Definitions

2.1. The definitions used in this Regulation bear the following meanings:

2.1.1. liquidity – the ability of the bank to fulfill its balance and off-balance sheet liabilities (hereinafter – liabilities), to effectively regulate changes in the sources of funds occurred and/or expected, as well as finance planned growth of assets without incurring unexpected costs.

2.1.2. liquidity risk – the risk of inability to meet planned and unexpected liabilities in a timely and effective manner, obtaining additional liquid funds, as well as lower possibility of immediately disposing of bank's assets with minimal loss.

2.1.3. liquidity risk appetite – the amount of liquidity risk that the bank wants to assume within its risk-taking capacity to achieve its strategic goals.

2.1.4. liquidity gap – a maturity mismatch between assets and liabilities. When assets are above or below liabilities, a positive or negative liquidity gap arises.

2.1.5. instant liquidity ratio (ILR) – the ratio of the average daily amount of current assets to the average daily amount of current liabilities.

2.1.6. liquidity coverage ratio (LCR) – the ratio of high-quality liquid assets to total net cash *outflows* ~~within the period specified in Item 7.4 herein.~~

2.1.7. overnight deposit – a deposit placed for one day.

2.1.8. high quality liquid assets (HQLA) – assets that can be used as collateral when there is a need to attract additional funds for on-balance-sheet and off-balance-sheet

operations, which can be converted into cash immediately and with minimal loss, and which are free of any legal or internal banking restrictions on their use.

2.2. The definitions *'bank metals' used herein bear the meaning specified in the 'Law of the Republic of Azerbaijan on Precious Metals and Precious Stones,' 'freely convertible currency,' and 'non-convertible currency' in the 'Regulation on setting open currency position in banks,' 'risk management', 'risk appetite', 'risk limit', 'risk profile', 'risk taking capacity', 'risk appetite statement', 'stress-test', 'bank product' used herein bear the meanings specified in the 'Corporate governance standards in banks.'*

3. The liquidity risk management system

3.1. The liquidity risk management system in banks consists of the following elements:

3.1.1. risk appetite, policy, and internal rules on liquidity risk management.

3.1.2. liquidity risk identification and assessment.

3.1.3. liquidity risk mitigation measures.

3.1.4. liquidity risk monitoring, reporting and internal control over the liquidity risk.

3.1.5. liquidity management contingency plan.

3.1.6. organizational structure of the liquidity risk management.

4. Risk appetite, policy, and internal rules on liquidity risk management

4.1. Every bank defines the liquidity risk appetite considering its general goals, strategic targets, banking system positioning and overall risk appetite. Liquidity risk appetite should be addressed in the bank's risk appetite statement.

4.2. The bank should develop liquidity risk management policy and internal rules in harmony with the nature of its activity and volume of operations. Credit, market, operational and other risks affecting liquidity should be considered when developing policies and internal rules.

4.3. The liquidity risk management policy should address the composition, maturity and management methods of bank's assets and liabilities, the diversity and stability of funding sources, the approach to liquidity management in different currencies, the approach to intraday liquidity management, the range of banking products, and assumptions on disposal of assets considering the overall strategy of the bank.

4.4. Internal rules should comprehensively regulate liquidity risk-generating activity and the liquidity management process and should guide the implementation of the bank's liquidity risk management policy. Internal rules should designate a structural unit for liquidity management that performs centralized control over the bank's liquidity position, and determine its powers and subordination, as well as reporting procedures and relations with other structural units of the bank.

4.5. The Supervisory Board should approve the risk appetite, policy, and internal rules for liquidity risk management, revise at least once a year and make appropriate changes if required.

5. Liquidity risk identification and assessment

5.1. Liquidity risk identification and assessment methods are applied according to the bank's risk profile and complexity of its operations. Applied methods and their assumptions are regularly reviewed and appropriate changes are made if required.

5.2. Frequency of liquidity risk assessment should correspond to the volume and characteristics of the risks arising from bank's activities.

5.3. The liquidity risk is identified and assessed at least by means of the gap analysis, concentration of sources of attracted funds, liquidity risk norms (the instant liquidity ratio and the liquidity coverage ratio), stress tests and an early warning system.

5.4. **The gap analysis** is conducted not less than once a month as follows:

5.4.1. for the intra-bank gap analysis, assets and liabilities with the same maturity should cover at least instant, monthly periods from 1-7, 8-14, 15-30, 30 days up to one year, as well as 1-2, 2-3, 3-5 and over 5 years. The bank may determine this breakdown for shorter periods.

5.4.2. maturity breakdown of assets and liabilities should base on their residual term and be included in the calculation in the amount specified in the agreement.

5.4.3. bank's cash funds in national and foreign currencies, as well as correspondent accounts with *the Central Bank* and other banks, assets such as 'overnight' deposits with banks and correspondent accounts of other banks with the bank, demand deposits of legal entities and individuals, overdue liabilities, liabilities such as bank 'overnight' deposits should qualify for the 'instant' maturity in full.

5.4.4. the investment portfolio should qualify for the following maturities in gap analysis:

5.4.4.1. investments in the capital of legal entities with a minimum 'A-' credit rating (or equivalent) issued by international reputable rating agencies (Standard & Poor's, Fitch Ratings, Moody's, hereinafter – international rating agencies) – up to maximum 15 (fifteen) day maturity.

5.4.4.2. investments in the capital of legal entities not qualified for sub-item 5.4.4.1 herein with a minimum investment rating – '15 – 30' day maturity.

5.4.4.3. investments in the capital of other legal entities not qualified for sub-item 5.4.4.2 herein – the last (longest) maturity.

5.4.5. overdue loans, fixed assets, intangible assets, other non-current assets, and components of the bank's capital should qualify for the last (longest) maturity in the gap analysis.

5.4.6. to control the liquidity position in foreign currency, the bank should conduct a separate gap analysis on the foreign currency, recognize it in the maturity breakdown table in manat equivalent according to the exchange rate of the Central Bank as of the reporting date, and evaluate total demand for foreign currency. Considering results of the gap analysis on foreign currency, the bank should constantly monitor the possibility of obtaining debt funds from foreign and domestic markets, the possibility of immediate

conversion of one currency into another one, exchange rate changes and related adverse trends in the value of assets.

5.4.7. individual (for any period) and cumulative (for all periods) negative liquidity gaps should be analyzed and compared with the limits established by the bank according to the requirements of this Regulation during the gap analysis.

5.4.8. gap analysis results should be documented, proposals for the implementation of appropriate measures based on the results should be prepared by the risk management unit and submitted to the Supervisory Board, the Risk Management Committee (hereinafter - RMC) and the Management Board. Based on results of the gap analysis, proposals for the implementation of relevant measures are approved by the Management Board (except for the issues related to powers of the Supervisory Board and the RMC).

5.5. Concentration of sources of attracted funds should be calculated depending on the nature of the bank's activity, the type of its products and markets it operates in. At that, the following is considered:

5.5.1. concentration of sources of attracted funds should be calculated at least on:

5.5.1.1. diverse types of liabilities.

5.5.1.2. depositors/creditors (individuals and legal entities, public authorities (institutions), banks and other financial institutions etc.) and areas of their activities.

5.5.1.3. maturities.

5.5.1.4. geographical location (e.g., country, region, etc.).

5.5.1.5. the amount of funds and interest rate and/or other payments.

5.5.2. Concentration of sources of attracted funds can be defined with the Herfindahl-Hirschman Index (HHI). Approximation of the HHI to one stand for high concentration in funding sources, while its approximation to 0 stands for their diversification. The HHI is calculated with:

$$HHI = \sum_{i=1}^n \left(\frac{X_i}{\sum_{i=1}^n X_i} \right)^2$$

where: X_i – i funding source or the duration of funding in maturity analysis (e.g., depositor, creditor, maturity, etc.).

5.6. The bank should calculate **liquidity risk norms** (the instant liquidity ratio and the liquidity coverage ratio) according to the requirements of Part 6 and 7 herein.

5.7. Stress-tests should be conducted to identify sources of potential liquidity risk of the bank under stress, assess the consistency of the liquidity position with the liquidity risk appetite, measure probable liquidity demand, as well as assess probable adverse effects on cash flows, short- and long-term liquidity positions, and profitability according to the requirements of Part 8 herein.

5.8. An **early warning system** (EWS) is a system that identifies, and monitors increases in risks or vulnerabilities on the bank's liquidity position or potential sources of funding. The EWS should consist of regularly monitored quantitative and qualitative criteria and cover at least:

- 5.8.1. excessive growth of assets, in particular assets backed by liabilities with a high probability of recall.
- 5.8.2. increasing concentration of assets and liabilities by types.
- 5.8.3. increase in liquidity gaps.
- 5.8.4. reduction of average weighted maturities of liabilities.
- 5.8.5. regular proximity in limits established, failure to comply with internal limits and limits established herein.
- 5.8.6. adverse cases on bank's main products (e.g., a high compliance risk).
- 5.8.7. sharp decline in bank's profitability indicators, deterioration of asset quality and overall financial standing.
- 5.8.8. price slide of bank's shares and bonds, as well as securities the bank invested in.
- 5.8.9. increasing funding costs.
- 5.8.10. bank's creditors requiring additional security.
- 5.8.11. closure of lines of credit opened for the bank or the credit line limit cut.
- 5.8.12. deposit run-off, including unmatured deposits.
- 5.8.13. difficulties in attracting long-term funding.
- 5.8.14. difficulties in placing short-term liabilities.
- 5.8.15. public information that may have adverse impact on the bank.
- 5.8.16. reduction of ratings assigned by rating agencies.
- 5.8.17. deterioration of bank's reputation.

6. Requirements for the instant liquidity ratio and its calculation

6.1. A bank whose LCR is below 100% (one hundred) in aggregate and separately in *national* currency should maintain the ILR not less than 30% (thirty).

6.2. The ILR is calculated with the below formula:

$$\text{Instant liquidity ratio} = \frac{\text{average daily amount of current assets}}{\text{average daily amount of current liabilities}}$$

6.3. The calculation of the ILR for **current assets** incorporates the following asset categories:

- 6.3.1. cash in national and freely convertible foreign currency.
- 6.3.2. government securities of the Republic of Azerbaijan, and securities issued by the Central Bank.
- 6.3.3. securities issued by governments or central banks of countries with a minimum 'AA-' country debt rating (or equivalent) issued by international rating agencies.
- 6.3.4. backed securities issued by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan (hereinafter – the Fund).
- 6.3.5. funds in the correspondent account with the Central Bank except for required reserves.

6.3.6. funds in correspondent accounts and 'overnight' deposits with banks operating in the Republic of Azerbaijan and foreign banks with a minimum investment rating issued by international rating agencies.

6.3.7. securities issued by multilateral development banks with a credit rating of 'AAA' (or equivalent) issued by international rating agencies.

6.3.8. assets placed for a period of 7 (seven) days and unconditionally secured by the assets specified in sub-items 6.3.1 - 6.3.3 herein.

6.4. When calculating an ILR on **current liabilities**, the following types of liabilities are included:

6.4.1. banks' correspondent accounts and 'overnight' deposits.

6.4.2. demand deposits.

6.4.3. term liabilities with 7 (seven) days or less until maturity.

6.4.4. matured liabilities.

6.4.5. credit lines with no restrictions on the date of starting to use the funds according to the agreement and cannot be recalled.

6.5. The following assets and liabilities are not considered in the calculation of the ILR:

6.5.1. blocked portion of assets and liabilities specified in Items 6.3 and 6.4 herein for next 7 (seven) calendar days and more.

6.5.2. debt funds attracted from the Central Bank.

6.6. If the bank has overdue liabilities due to its depositors and other creditors (including debts to the Central Bank and other banks), the bank's ILR is considered violated, regardless of compliance with the requirements of Item 6.1 of herein.

6.7. The ILR report should be prepared as prescribed by the prudential reporting system and be submitted to the Central Bank as part of prudential reports.

7. Requirements for the liquidity coverage ratio and its calculation

7.1. *The bank should calculate the LCR both on an aggregate basis and separately in the national currency, and maintain it at a level not lower than the limits specified in the table below:*

Bank groups		after 1 August 2025	after 1 December 2025	after 1 June 2026	after 1 December 2026	after 1 June 2027	after 1 December 2027
Other banks, excluding systemically important banks	Aggregate	90%	100%	100%	100%	100%	100%
	National currency	40%	55%	70%	80%	90%	100%
Systemically important banks	Aggregate	100%	100%	100%	100%	100%	100%
	National currency	50%	65%	80%	90%	100%	100%

~~7.2. As of 1 December 2023, banks with a LCR of 100% (one hundred) or more in aggregate and separately in a foreign currency should ensure that those ratios do not fall below 100% (one hundred).~~

~~7.3. As of 1 December 2023, banks with a LCR below 100% (one hundred) in aggregate and separately in a foreign currency should provide it at a level not less than the limits specified in the below table:~~

Bank groups	-1 June 2024	1 December 2024	1 June 2025	1 December 2025
Other banks, excluding systemically important banks	70%	80%	90%	100%
Systemically important banks	80%	90%	100%	100%

7.4. The LCR is calculated with the below formula:

$$\text{Liquidity coverage ratio} = \frac{\text{high-quality liquid assets}}{\text{total net cash outflow}}$$

7.5. The following types of assets are included to **high-quality liquid assets (HQLA)** in calculation of the LCR:

7.5.1. **Level 1 assets** include the following assets and are considered in calculation in full:

7.5.1.1. *cash in national and foreign currency held in bank's cash offices, cash vault, its representative offices, divisions and branches, ATMs and other payment terminals, as well as in-transit (the amount of cash in non-convertible foreign currency should not exceed total net cash outflow amount in that currency).*

7.5.1.2. *funds in correspondent accounts opened with the Central Bank (except for required reserves), funds placed with the Central Bank under repo transactions, deposits placed with the Central Bank for up to thirty (30) days, as well as overnight deposits placed with the Central Bank and with banks.*

7.5.1.3. *government bonds in the national currency issued by the Republic of Azerbaijan, securities issued by the Central Bank.*

7.5.1.4. *securities issued by governments or central banks of countries with minimum 'AA-' country debt rating (or equivalent) issued by international rating agencies.*

7.5.1.5. *backed securities issued by the Fund.*

7.5.1.6. *securities issued by multilateral development banks with a 'AAA' credit rating (or equivalent) issued by international rating agencies.*

7.5.2. **Level 2A assets** include the following assets and are considered in calculation by 85 (eighty-five) percent:

7.5.2.1. *government bonds issued by the Republic of Azerbaijan in a foreign currency.*

7.5.2.2. securities issued by governments or central banks of countries with a minimum 'A-' country (sovereign) debt rating (or equivalent) issued by international rating agencies not qualified for Level 1 assets.

7.5.2.3. non-backed securities issued by the Fund.

7.5.2.4. securities issued by multilateral development banks with a minimum investment rating issued by international rating agencies not qualified for Level 1 assets.

7.5.2.5. corporate debt securities of non-financial institutions with a minimum 'AA-' credit rating (or equivalent) issued by international rating agencies.

7.5.2.6. ~~corporate debt securities of non-financial institutions~~ unconditionally backed by the state guarantee, as well as securities accepted as collateral for instruments used by the Central Bank for the implementation of monetary policy.

7.5.3. **Level 2B assets** include the following assets and are considered in calculation by 50 (fifty) percent:

7.5.3.1. corporate debt securities of non-financial institutions with a minimum investment rating issued by international rating agencies not qualified for Group 2 A assets.

7.5.3.2. ~~corporate debt securities of non-financial institutions~~ unconditionally secured by government bonds issued by the Republic of Azerbaijan in a foreign currency.

7.5.3.3. *bank metals*.

7.5.4. 2 The considered portion of Level 2B assets should not exceed 15% (fifteen) of HQLA, and the considered portion of total Level 2 assets should not exceed 40% (forty) of HQLAs.

7.5.5. Assets should be carried at the market price as of the reporting date when calculating the LCR.

7.6. **Total net cash outflows** equal to the difference between expected total cash outflows and expected total cash inflows next 30 (thirty) calendar days. At that, the following is considered:

7.6.1. ***total expected cash outflows*** are calculated by multiplying balance and off-balance sheet liabilities by the coefficient expressing their run-off or draw-down probabilities as a percentage specified in Annex No. 1 herein.

7.6.2. ***expected total cash inflows*** are calculated by multiplying the portion of assets considered in the calculation specified in Annex No. 1 herein by a coefficient expressed as a percentage and should not exceed 75 (seventy-five) percent of total cash outflows.

7.6.3. Total cash outflows are calculated with the below formula:

Total net cash outflows =

Total expected cash outflows -

minimum {expected cash inflows; 75% X total expected cash outflows}

7.7. Inflows on assets specified in Item 7.5 herein are not considered in Item 7.6 herein when calculating the LCR.

7.8. The portion of assets and liabilities specified in Items 7.5 and 7.6 herein blocked for next 30 (thirty) calendar days and longer is not considered in the calculation of the LCR.

7.8-1. *The portion of the borrower's blocked funds in the deposit account that acts as collateral for the credit exposure and is equal to the outstanding amount of the credit exposure (the unpaid portion of principal, interest, and/or other payments) is not considered in the calculation of the LCR.*

7.9. The amount of operating expenses (salaries and wages, rent, utilities and other administrative expenses) for next 30 (thirty) calendar days is not considered in HQLAs and expected total cash outflows.

7.10. Expected total cash inflows do not include income to be earned from unexpected activities within next 30 (thirty) calendar days.

7.10-1. *The liquidity coverage ratio is calculated on a daily basis.*

7.11. A report on the LCR should be developed as per Annex 2 herein and submitted to the Central Bank monthly together with prudential reports.

7.12. *When the bank's LCR falls below the thresholds established under Item 7.1 herein, the bank sends a written notice to the Central Bank within one business day. Until the LCR is restored to the required level, the bank submits the report prescribed by this Regulation to the Central Bank on a daily basis. If the bank fails to meet the required thresholds for five (5) consecutive days, it submits to the Central Bank, within the subsequent five (5) business days, an action plan for restoring its liquidity position. The action plan should cover a period not exceeding 45 (forty-five) days from the date on which the bank first failed to meet the thresholds for the LCR established by this Regulation.*

8. Stress-testing

8.1. Scenarios used in stress-testing should base on assumptions about the current and forecasted bank-related situation in the market, and the nature of its activity (type of bank operations and products, sources of attracted funds).

8.2. Stress-test scenarios may include the following:

8.2.1. Scenarios on sources of attracted funds:

8.2.1.1. changes in the value of liquid assets in the market.

8.2.1.2. pre-mature withdrawal of term liabilities.

8.2.1.3. decrease in funds in current and correspondent accounts.

8.2.1.4. withdrawal of large deposits.

8.2.1.5. pre-mature recall of funds obtained from banks and other financial institutions.

8.2.1.6. options for access to funding sources.

8.2.1.7. correlation between or inefficient diversification of funding sources.

8.2.1.8. violation of conditions of credit line agreements (groundless refusal of the promise to lend, failure to allocate specified funds in full or on time).

8.2.1.9. access to Central Bank resources on liquidity support.

8.2.2. Scenarios on the liquidity requirement:

8.2.2.1. fulfillment of off-balance sheet liabilities.

8.2.2.2. changes to the reserve requirement by the Central Bank.

8.2.2.3. decrease in the volume of liquid assets in the bank.

8.2.2.4. additional collateral requirement on attracted funds.

8.2.2.5. probability of unhealthy growth of the balance sheet.

8.2.3. *Other scenarios:*

8.2.3.1. change of the currency of customer deposits.

8.2.3.2. the deterioration of access to the foreign exchange market.

8.2.3.3. sharp fluctuation of the exchange rate.

8.2.3.4. reduction in ratings issued by international rating agencies.

8.2.3.5. restrictions on conversion of assets into liquid funds.

8.2.3.6. non-timely or delayed repayment of loans (the liquidity risk related to the credit risk).

8.2.3.7. interest rate changes.

8.2.3.8. inflation rate changes.

8.3. The bank's stress-test model should ensure the measurement of effects of bank and market-specific scenarios on the bank separately and together.

8.4. A liquidity stress test of the bank's foreign branch, subsidiary bank(s) and other affiliates may be conducted separately under the procedure determined by the bank. In this case, stress test findings should be submitted to the bank's headquarters.

8.5. Depending on the scale and nature of risks arising from the bank's activity and changes in the market, it should conduct a liquidity stress test no less than once every six months.

8.6. When conducting a liquidity stress-testing the bank should consider findings of stress-tests on credit, market, operational and other risks.

8.7. Each scenario should be applied to all balance and off-balance sheet items. Changes in items should be analyzed and incorporated to forecasting of liquidity and financial indicators.

8.8. The RMC should approve stress-testing scenarios. Findings of stress testing should be submitted to the Supervisory Board, the RMC, the Management Board, and other related staff.

8.9. Findings of stress-testing should be considered in liquidity risk appetite, policy, limits, and internal rules, and in development of and making more effective the liquidity contingency plan.

8.10. Information on stress test findings should be submitted to the Central Bank on a semi-annual basis by the 15th of the month following the relevant period.

9. Liquidity risk mitigation measures

9.1. **Limits are set** in internal rules to ensure liquidity adequate to the bank's size (assets, capital, customer base, operations), nature and financial standing. At that, the following is considered:

9.1.1. Limits should be set at least on:

9.1.1.1. the ratio of individual and cumulative negative liquidity gaps to total assets.

9.1.1.2. the cap on funds attracted across the sources identified in sub-item 5.5.1 herein.

9.1.2. Internal rules should address procedures for monitoring compliance with limits, including procedures for eliminating detected incompliances, as well as the periodicity of comparing limits with actual liquidity indicators.

9.1.3. To ensure adequacy of the bank's current and projected liquidity position, limits set by internal rules should be revised every six months.

9.1.4. Violations of limits should be documented with their reasons and submitted to the Supervisory Board, the RMC, and the Management Board. Internal rules should specify measures to be taken on changing liquidity management procedures, depending on the level of violation of limits.

9.2. **Intraday liquidity management** is the effective management of the intraday liquidity position and risks to timely meet liabilities of the bank arising from payments and settlements under normal and stressed conditions. The main objective of intraday liquidity management is to identify, prioritize and replace critical liabilities with non-critical liabilities. To achieve this objective, the bank should at least:

9.2.1. forecast demand for liquidity at various times of a day by analyzing the volume and timing of expected daily inflows and outflows.

9.2.2. monitor the intraday liquidity position and prioritize payments if necessary.

9.2.3. maintain adequate amount of liquid assets against intraday liquidity demand, as well as assets that can be used as collateral if it is necessary to attract additional funds.

9.2.4. shape a management system to timely and effectively execute intraday outflows.

9.2.5. be prepared against unexpected intraday cash flow disruptions.

9.2.6. have adequate policy, procedures, and system to support performance of Item 9.2 herein.

9.3. **Collateral management** is constant monitoring of assets that can be used as collateral, if necessary, to attract additional funds on balance and off-balance sheet operations. The bank should ensure that there are no legal or internal restrictions on their instant use with as little loss as possible.

9.4. **Liquidity risk management on a new product** is the assessment of risks that may arise in advance when introducing a new product or service by the bank and analyzing the impact on the bank's liquidity position. The bank should have the capacity to effectively manage probable liquidity risks associated with the introduction of a new product or service.

10. Liquidity risk monitoring, reporting and internal control over liquidity risks

10.1. The bank should have liquidity risk monitoring procedures adequate to its risk profile and direction of activity. To monitor liquidity risks, at least the following indicators are monitored:

10.1.1. correspondent account balances.

10.1.2. quality of the lending portfolio.

10.1.3. the securities portfolio.

10.1.4. repo operations.

10.1.5. the pledgee of the assets pledged by the bank, the place where the collateral is physically kept and ownership rights.

10.1.6. assets that can be used as collateral when it is necessary to attract additional funds for balance and off-balance sheet operations.

10.1.7. the liquidity position per currency.

10.1.8. the size of funds attracted by the bank considering tendencies of recent years, seasonal factors, interest rate sensitivity and other macro-economic factors.

10.1.9. maturity breakdown of assets and liabilities.

10.1.10. activities of creditors on bank's main liabilities.

10.1.11. types of liabilities, depositors/creditors, concentration on maturities and geolocation.

10.1.12. off-balance sheet liabilities.

10.1.13. compliance with prudential norms and intrabank limits.

10.2. A liquidity risk reporting framework should be created in the bank to regularly inform the Supervisory Board, the RMC, the Management Board, and other related staff on the current and probable future liquidity position, and immediately when unexpected circumstances occur.

10.3. Reports should cover the following information, in addition to the information on identification, assessment, management and control of liquidity risk:

10.3.1. a list of assets that can be sold in the shortest possible time or that can be pledged as collateral or refinanced in future if additional funds are required.

10.3.2. repayment of liabilities, plans and forecasts for financing of fixed assets and long-term investments to be acquired in future.

10.3.3. return on assets, potential funding sources, funds that the bank can realistically obtain, the required time and costs.

10.3.4. access of the bank to the market to diversify liabilities.

10.4. To ensure the effectiveness of liquidity risk reporting, the bank's management information system should at least:

10.4.1. identify, assess, manage, and control the bank's liquidity position at the periodicity determined by bank's internal rules considering the requirements herein.

10.4.2. generate higher frequency periodic reports in stressed conditions in details.

10.5. The bank determines the periodicity of monitoring and reporting depending on the scale and nature of the risks arising from its activities and changes in the market.

10.6. To improve the bank's liquidity risk appetite, policies and procedures, the information covered in liquidity risk reporting should be regularly analyzed.

10.7. The bank's internal control system should ensure adequate control of the liquidity risk management system. The main component of the internal control system is the regular independent evaluation of effectiveness of the liquidity risk management system and introduction of requirements for making necessary changes therein. Results of such evaluations should be documented and submitted to the Supervisory Board, the RMC, and the Management Board.

11. Liquidity management contingency plan

11.1. To ensure business continuity the bank should have a plan that includes procedures for attracting liquid funds in emergency situations and converting assets into liquid funds with minimal loss (hereinafter – contingency plan).

11.2. The contingency plan should be elaborated in line with the bank structure, the nature of its activities, risk profile, the volume of operations and the region of its operations.

11.3. The contingency plan should consider legal, operational and time zone restrictions on attracting funds from potential funding sources.

11.4. The contingency plan should be developed with the involvement of bank's risk management and relevant structural units and approved by the Supervisory Board.

11.5. The contingency plan is reviewed at least every six months for its relevance to current conditions and appropriate changes are made, if necessary. When revising the plan, various scenarios for internal and external factors are tested and findings of the test are considered in changes therein.

11.6. The contingency plan should address at least:

11.6.1. bank's demand for liquid funds, potential funding sources in case of an unexpected shortfall of liquid funds, considering priorities for payments, funds that the bank can realistically obtain and the required time and costs.

11.6.2. clear segregation of duties and authorities in emergencies:

11.6.2.1. formation of the crisis team to make internal coordination and decision-making more effective in the emergency case.

11.6.2.2. first, last, middle names, position, contact details of persons responsible for the implementation of the emergency plan and structural units they are engaged in.

11.6.2.3. identification of back-up staff to ensure business continuity.

11.6.3. procedures to respond to the emergency case (e.g., sequence of refusal or reduction of credit limits to customers).

11.6.4. the maximum possible period for business continuity of the bank in the event of an unexpected shortfall of liquid funds.

11.6.5. assets that can be used as collateral or sold immediately.

11.6.6. public communication to safeguard the bank's reputation and maintain public confidence

11.7. The contingency plan should address control and related reporting considering thresholds determined according to the bank's risk profile on main indicators that may affect stability of the bank (e.g., the increase in NPLs, a decrease in the capital adequacy ratio, reduction in the bank's credit rating, an increase in demand deposits, etc.).

Run-off or draw-down probabilities of balance and off-balance sheet indicators included to total net cash outflows

Items	Period until maturity			
	up to 30 days		over 30 days	
	in national currency	in foreign currency	in national currency	in foreign currency
1. Demand deposits of individuals				
a) insured	25%	22%	x	X
b) other	35%	32%	x	X
2. Term deposits of individuals				
a) insured	20%	17%	10%	7%
b) other	30%	27%	20%	17%
3. Funds of governments, central banks, central managerial bodies, and multilateral development banks	40%	35%	30%	20%
4. Amounts due from banks				
a) Loro accounts	100%	100%	x	X
b) Bank deposits	50%	40%	20%	10%
5. Funds of non-bank financial institutions				
a) Demand deposits	75%	75%	x	X
b) Term deposits	50%	40%	20%	10%
6. Demand deposits of other legal entities				
a) up to 100.000 manats	20%	18%	x	X
b) 100.001 – 500.000 manats	25%	23%	x	x
c) 500.001 – 1.000.000 manats	30%	28%	x	x
d) over 1.000.000 manats	35%	33%	x	x
7. Term deposits of other legal entities				
a) up to 100.000 manats	18%	16%	17%	15%
b) 100.001 – 500.000 manats	23%	21%	22%	20%
c) 500.001 – 1.000.000 manats	28%	26%	27%	25%
d) over 1.000.000 manats	33%	31%	32%	30%
8. Funds placed by state funds for credit financing	0%	0%	0%	0%
9. Fundings secured with Level 1 HQLA	0%	0%	x	x
10. Fundings secured with Level 2 HQLA				
a) Level 2A assets	15%	15%	x	x
b) Level 2B assets	50%	50%	x	x
11. Funding secured with other assets	100%	100%	x	x

12. Conditionally revocable liabilities ¹				
a) Letters of credit	100%	100%	10%	10%
c) Guarantees	10%	10%	10%	10%
d) Credit lines				
d1) individuals	25%	25%	25%	25%
d2) legal entities	20%	20%	20%	20%
d3) governments, central banks, central managerial bodies, and multilateral development banks	20%	20%	20%	20%
d4) banks	40%	40%	40%	40%
d5) other	100%	100%	100%	100%
13. Unconditionally revocable liabilities	5%	5%	5%	5%
14. Contractual outflows from securities	100%	100%	x	x
15. Subordinated debt liabilities	100%	100%	x	x
16. Interest payables	100%	100%	x	x
17. Dividend payables	100%	100%	x	x
18. Net payments on derivatives	100%	100%	x	x
19. Other contingent liabilities	100%	100%	x	x
20. Other contractual payments	100%	100%	x	x

Part of outflows on assets recognized in calculation

Items	Period until maturity			
	up to 30 days		over 30 days	
	in national currency	in foreign currency	in national currency	in foreign currency
1. Loan payments	50%	50%		
2. Receipts from governments, central managerial authorities, and multilateral development banks	100%	100%	x	x
3. Inflows from central banks	100%	100%	x	x
4. Inflows from banks	100%	100%	x	x
5. Inflows from non-bank financial institutions	100%	100%	x	x
6. Lending secured with Level 1 HQLA	0%	0%	x	x
7. Lending secured with Level 2 HQLA				
a) Level 2A assets	15%	15%	x	x
b) Level 2B assets	50%	50%	x	x
8. Funding secured with other assets	100%	100%	x	x
9. Unused credit line obtained from the CBA	100%	100%	100%	100%

¹ Cash backed letters of credit and funds attracted on guarantees are not recognized in the deposit portfolio of the bank in the calculation of the LCR (not included to the calculation).

10. Contractual inflows from securities	100%	100%	x	x
11. Net inflows on derivative financial instruments	100%	100%	x	x
12. Other contractual inflows	50%	50%	x	x

A Report Template on the liquidity risk management

CENTRAL BANK OF THE REPUBLIC OF AZERBAIJAN

LIQUIDITY COVERAGE RATIO REPORT

TABLE L1 - TITLE LIST

Bank name:		License number:	
Reporting date:			
Report completion date:			

Responsible structural unit:	
Responsible person:	
<i>Name (first, last, middle names):</i>	
<i>Position:</i>	
<i>E-mail address:</i>	
<i>Phone number:</i>	
Developed by:	
<i>Name (first, last, middle names):</i>	
<i>Position:</i>	
<i>E-mail address:</i>	
<i>Phone number:</i>	

TABLE L2 - HIGH QUALITY LIQUID ASSETS
A – HIGH QUALITY LIQUID ASSETS

(in thousand manats)

Items		Market price			including, blocked amount			Net market price		
		NC	FC ²	Total	NC	FC	Total	NC	FC	Total
1		2	3	4	5	6	7	8	9	10
1. High-quality liquid assets	A1	0	0	0	0	0	0	0	0	0

B – LEVEL 1 HIGH QUALITY LIQUID ASSETS

(in thousand manats)

Items		Market price			including, blocked amount			Net market price		
		NC	FC	Total	NC	FC	Total	NC	FC	Total
1		2	3	4	5	6	7	8	9	10
1. cash in cash offices, cash vault, its representative offices, divisions and branches, ATMs and other payment terminals, and cash in transit in national and freely convertible foreign currency	B1			0	x	x	x	0	0	0
2. Funds in correspondent accounts with the Central Bank (excluding required reserves)	B2			0			0	0	0	0
3. Government bonds issued by the Central Bank in the national currency, securities issued by the Central Bank	B3			0			0	0	0	0
4. securities issued by governments or central banks of countries with a minimum 'AA-' country debt rating (or equivalent) issued by international rating agencies	B4			0			0	0	0	0
5. Backed securities issued by the Fund	B5			0			0	0	0	0

² Indicators in a foreign currency should be converted into the national currency according to the official exchange rate of the Central Bank as of the last date of the reporting month.

6. securities issued by multilateral development banks with a credit rating of 'AAA' (or equivalent) issued by international rating agencies	B6			0			0	0	0	0
6-1. Overnight deposits	B6-1			0			0	0	0	0
6-2. Deposits placed with the Central Bank for up to 30 (thirty) days and funds placed as part of repo operations	B6-2			0			0	0	0	0
6-3. Administrative expenses	B6-3			0	x	x	x	0	0	0
7. Total aggregated funding of Level 1 HQLA 1	B7	0	0	0	0	0	0	0	0	0

C – LEVEL 2 HIGH QUALITY LIQUID ASSETS

(in thousand manats)

Items		Market price			including blocked amount			Net market price		
		NC	FC	Total	NC	FC	Total	NC	FC	Total
1		2	3	4	5	6	7	8	9	10
1. Level 2A	C1	0	0	0	0	0	0	0	0	0
a) Government bonds issued by the Republic of Azerbaijan in a foreign currency	C1a			0			0	0	0	0
b) securities issued by governments or central banks of countries with a minimum 'A-' country (sovereign) debt rating (or equivalent) issued by international rating agencies not qualified for Level 1 assets	C1b			0			0	0	0	0
c) Unbacked securities issued by the Fund	C1c			0			0	0	0	0
d) securities issued by multilateral development banks with a minimum investment rating issued by international rating agencies not qualified for Level 1 assets	C1d			0			0	0	0	0
e) corporate debt securities of non-financial institutions with a minimum 'AA-' credit rating (or equivalent) issued by international rating agencies	C1e			0			0	0	0	0

TABLE L3 (A) - CASH FLOWS
A - TOTAL EXPECTED CASH OUTFLOWS

(in thousand manats)

Items		Period until maturity								
		up to 30 days			over 30 days			Total		
		NC	FC	Total	NC	FC	Total	NC	FC	Total
1		2			3			4		
1. Total expected cash outflows	A1	0	0	0	0	0	0	0	0	0

B - DEPOSITS OF INDIVIDUALS

(in thousand manats)

Items		Period until maturity								
		up to 30 days			over 30 days			Total		
		NC	FC	Total	NC	FC	Total	NC	FC	Total
1		2			3			4		
1. Demand deposits of individuals³	B1	0	0	0	x	x	x	0	0	0
a) insured	B1a			0	x	x	x	0	0	0
b) other	B1b			0	x	x	x	0	0	0
2. Term deposits of individuals	B2	0	0	0	0	0	0	0	0	0
a) insured	B2a			0			0	0	0	0
b) other	B2b			0			0	0	0	0
4. Total deposits of individuals	B3	0	0	0	0	0	0	0	0	0

³ Amount breakdown of deposits of individuals and legal entities are classified according to outstanding amount of the last reporting date.

D – SECURED FUNDING

(in thousand manats)

Items		Period until maturity								
		up to 30 days			over 30 days			Total		
		NC	FC	Total	NC	FC	Total	NC	FC	Total
1		2			3			4		
1. Funding secured with Level 1 HQLA	D1			0	x	x	x	0	0	0
2. Funding secured with Level 2 HQLA	D2	0	0	0	x	x	x	0	0	0
a) Level 2A assets	D2.1			0	x	x	x	0	0	0
b) Level 2B assets	D2.3			0	x	x	x	0	0	0
3. Funding secured with other assets	D3			0	x	x	x	0	0	0
4. Total secured funding	D4	0	0	0	0	0	0	0	0	0

E – OTHER LIABILITIES

(in thousand manats)

Items		Period until maturity								
		up to 30 days			over 30 days			Total		
		NC	FC	Total	NC	FC	Total	NC	FC	Total
1		2			3			4		
1. Conditionally revocable liabilities	E1	0	0	0	0	0	0	0	0	0
a) Letters of credit	E1a			0			0	0	0	0
b) Guarantees	E1b			0			0	0	0	0
c) Credit lines	E1c	0	0	0	0	0	0	0	0	0
c1) individuals	E1c1			0			0	0	0	0

B - FUNDS PLACED

(in thousand manats)

Items		Period until maturity								
		up to 30 days			over 30 days			Total		
		NC	FC	Total	NC	FC	Total	NC	FC	Total
1		2			3			4		
1. Loan repayments ⁴	B1			0			0	0	0	0
2. Receipts from governments, central managerial authorities, and multilateral development banks	B2			0			0	0	0	0
3. Receipts from central banks	B3			0			0	0	0	0
4. Receipts from banks	B4									
5. Receipts from non-bank financial institutions	B5									
6. Receipts from total placed funds	B6	0	0	0	0	0	0	0	0	0

C – SECURED LENDING

(in thousand manats)

Items		Period until maturity								
		up to 30 days			over 30 days			Total		
		NC	FC	Total	NC	FC	Total	NC	FC	Total
1		2			3			4		
1. Lending secured with Level 1 HQLA	C1			0	x	x	x	0	0	0

⁴ The 'Loan repayments' line includes amounts of repayments implied on principal and interest debts for upcoming 30 days. Loans whose repayments on principal amount, or interest accruals or an unpaid portion of any of them delinquent for over 30 (thirty) calendar days from the date specified in the agreement or the repayment Schedule are not considered in the calculation (not included to the calculation).

2. Lending secured with Level 1 HQLA	C2	0	0	0	x	x	x	0	0	0
a) Level 2A assets	C2.1									
b) Level 2B assets	C2.1									
3. Lending secured with other assets	C3			0	x	x	x	0	0	0
4. Total secured lending	C4	0	0	0	0	0	0	0	0	0

D – OTHER EXPOSURES

(in thousand manats)

Items		Period until maturity								
		up to 30 days			over 30 days			Total		
		NC	FC	Total	NC	FC	Total	NC	FC	Total
1		2			3			4		
1. Credit line taken from the Central Bank not used	D1			0			0	0	0	0
2. Inflows on securities	D2			0			0	0	0	0
3. Net inflows on derivatives	D3			0			0	0	0	0
4. Other contractual inflows	D4			0			0	0	0	0
5. Total other inflows	D5	0	0	0	0	0	0	0	0	0

TABLE L4 – LIQUIDITY COVERAGE RATIO

Items		Total	NC	FC
1		2	3	4
1. Liquidity coverage ratio	L1	0.0%	0.0%	0.0%
2. High-quality liquid assets	L2	0	0	0
3. Total expected cash outflows	L3	0	0	0
4. Total expected cash inflows	L4	0	0	0
5. Total net cash outflows	L5	0	0	0