

2024 – 2026

FINANCIAL SECTOR DEVELOPMENT STRATEGY

Strategy Implementation Progress Report 2025

April 22, 2026



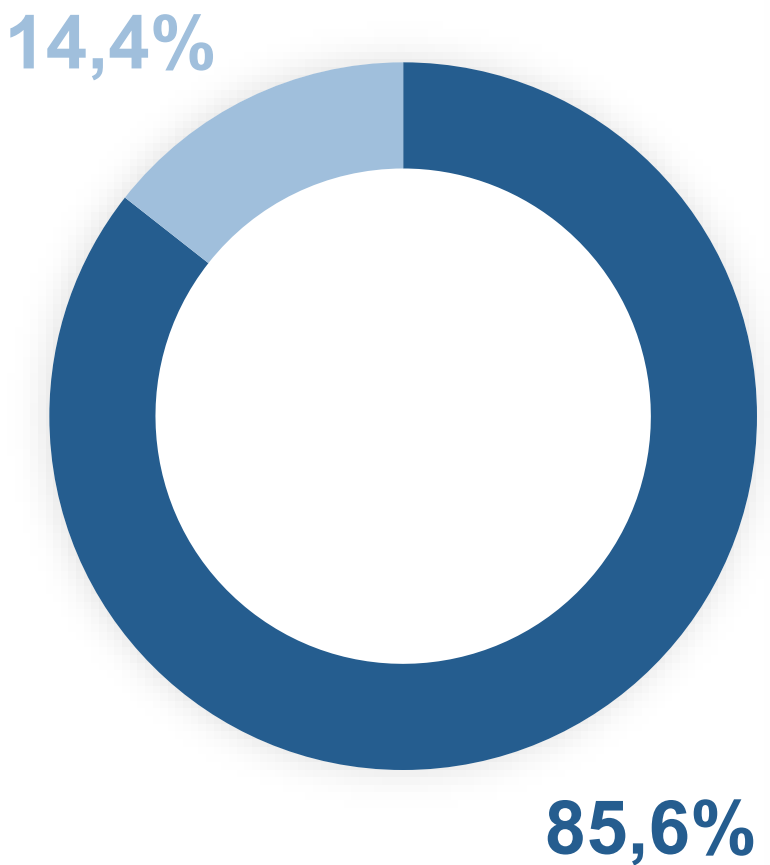
AZƏRBAYCAN RESPUBLİKASININ
MƏRKƏZİ BANKI

Growth | Integrity | Accountability

Mission Objectives	Ensure financial stability by fostering growth, encouraging accountability and safeguarding integrity					Mission Objectives
	Financial inclusion ①	Depth and Diversification ②	Efficiency ③	Governance and Transparency ④	Resilience ⑤	
Sectors						
<u>Insurance</u>	Increase trust in the insurance market	Enhance insurance coverage	Ensure access to unified information sources and supporting digitalization	Enforce governance and competitiveness in the insurance sector	Develop risk-based supervision and strengthen resilience of insurers	Set the Gross Written Premium per person to a minimum of 195 AZN <i>Base indicator: 121 AZN</i>
<u>Capital markets</u>	Foster participation of retail investors in capital markets	Encourage financing of real sector through capital markets	Facilitate quality, accessibility and efficiency of services	Develop effective and flexible capital markets infrastructure	Develop risk-based supervision and mechanisms to address qualitative aspects	Increase the minimum amount of retail investment in capital markets to 1 bln AZN <i>Base indicator: 150 mln AZN</i>
<u>Payments</u>	Improve accessibility and usage of payment services	Enhance innovative payment services	Ensure efficiency in digital payment services	Enforce governance, transparency and competitiveness in payments	Develop risk-based supervision and ensure security of payments	Increase the minimum number of cashless transactions per person to 200 per year <i>Base indicator: 93 transactions</i>
<u>Banking</u>	Support sustainable growth of the banking sector	Enhance affordable and responsible banking services	Facilitate efficiency initiatives in banking sector	Enforce governance, transparency and competitiveness in the banking sector	Strengthen risk-based proportionate regulation and supervision	Increase the minimum amount of business loans to 16.5 bln AZN <i>Base indicator: 12.4 bln AZN</i>
<u>Digital finance</u>	Encourage digital financial services					Secure, accessible and digital financial services
<u>Sustainable finance</u>	Ensure sustainable finance					Effective and sustainable financial services
<u>Education and knowledge</u>	Enhance financial proficiency and knowledge					Professional growth and financial knowledge

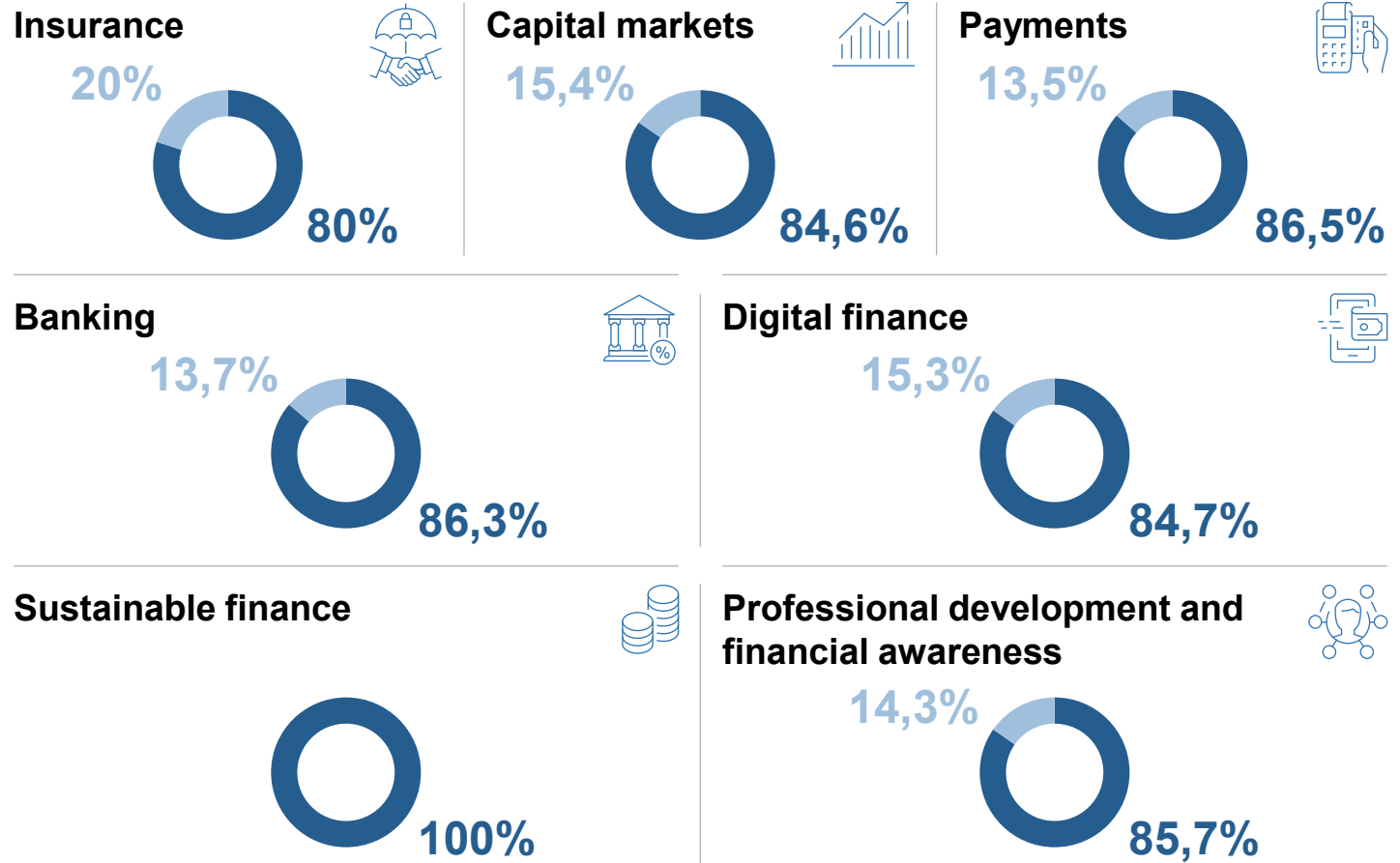
Financial Sector Development Strategy Implementation Percentage for 2025

TOTAL IMPLEMENTATION PERCENTAGE OF THE STRATEGY



■ Current and implemented activities
■ Delayed activities

Implementation percentages across sectors

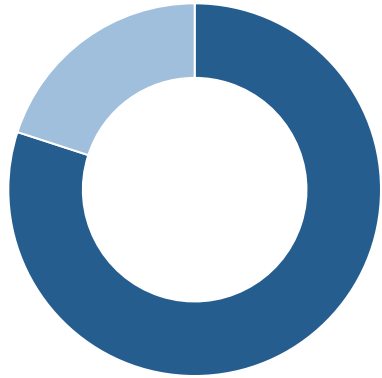


Insurance Sector Development Strategy Implementation Status

Results for 2025



20%



80%

■ Current and implemented activities

■ Delayed activities

* InsurTech - Insurance Technology

* PPAI – Passenger personal accident insurance

Delayed activities



- Determine the regulatory requirements for insurance agents
- Determine the general and specific conditions (regulations) for insurance classes
- Determine an appropriate oversight process for monitoring compliance with the new approach to voluntary insurance
- Implement digitalization to make loss adjustment more effective

Key achievements



- ✓ A new regulation regarding changes to the calculation of green card and border insurance tariffs has been approved. Access to compulsory auto insurance has increased, and the concept and draft amendments to the legislation on the calculation of risk-based insurance tariffs have been developed.
- ✓ Draft legislation on improving the type of compulsory real estate insurance has been sent to the government for approval.
- ✓ A draft amendment to the legislation on the agricultural insurance system has been developed and submitted to state agencies for approval.
- ✓ A new concept and draft amendments to insurance brokerage institution legislation have been developed.
- ✓ A new concept for endowment insurance has been developed.
- ✓ Public disclosure requirements by insurers have been approved.
- ✓ A platform for bank-insurance partnership has been developed, and new products have been designed.

Next steps



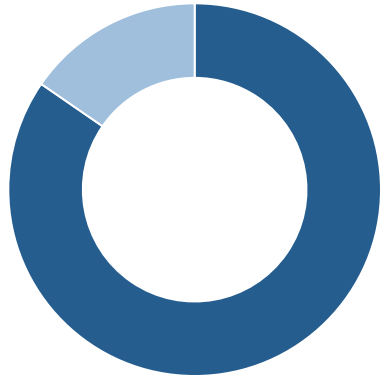
- Redesign of passenger personal accident insurance product
- Strengthening the culture of risk management in business process management
- Active cooperation with insurers to develop mutual relationships and remove barriers to digitalization
- Promote “InsurTechs” through a regulatory sandbox regime
- Consider an expanded guarantee scheme that covers the voluntary sector
- Develop a risk assessment framework for financial consumer protection
- Establish internal and external control mechanisms related to the transition to risk-based supervision
- Investigate the application of “Cup” and “Cap” models (Risk-based insurance premium determination)

Capital Markets Development Strategy Implementation Status

Results for 2025



15,4%



84,6%

Delayed activities



- Shape a regulatory framework in the field of crowdfunding
- Islamic finance: establish and promote a legal framework for sukuk and other Islamic financial products related to capital markets
- Create a regulatory framework for short positions, including requirements for professional investors
- Develop a methodology for determining the sustainable capital requirements of an investment company, reporting standards and risk scoring of licensed persons
- Establish an investor compensation scheme to protect investors in the event of the bankruptcy of financial intermediaries
- Revise the existing securities issuance regulations

Key achievements



- ✓ The European Bank for Reconstruction and Development, an international financial institution, issued a bond with a variable interest rate in the local market for the first time.
- ✓ The diagnostics of the securities market legislation have been completed, and the development of the amendments has begun.
- ✓ A draft law on credit rating agencies has been prepared and submitted to the appropriate state agencies.
- ✓ The draft amendment to the legislation on securitization activities has been agreed upon with the institutions and submitted to the government.
- ✓ A draft amendment to the legislative acts related to derivative financial instruments and repo has been prepared and submitted to the relevant state bodies.
- ✓ The level of digitalization of the operating environment of the Baku Stock Exchange and the National Depository Center has been increased.

Next steps



- Ensure compliance with IOSCO principles
- Evaluate the feasibility of establishing a CCP as a critical infrastructure component for clearing and settlement processes
- Improve the regulatory framework for investment funds in line with best practices
- Develop an improved supervision plan and review supervision tools, data sources and analysis methods (SupTech)
- Design and implement a risk-based supervision framework

■ Current and implemented activities

■ Delayed activities

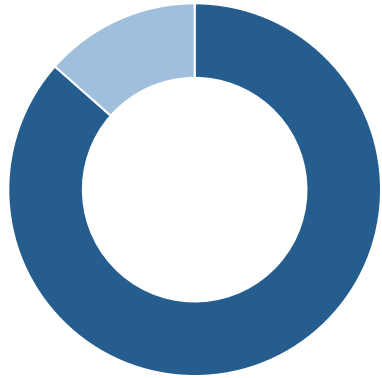
1. CCP – Central Counterparty
2. IOSCO - International Organization of Securities Commissions
3. SupTech - Supervision Technology

Payments Sector Development Strategy Implementation Status

Results for 2025



13,5%



86,5%

■ Current and implemented activities

■ Delayed activities

- *NPS – National Payment System
- *C2C - Card-to-Card
- *PSPs – Payment Service Providers
- *SLA - Service Level Agreement
- *AZQR – Azerbaijan QR Code Standard

Delayed activities



- Ensure the distribution of salary payments for institutions financed from the state budget through the NPS.
- Cooperate with relevant state agencies and PSPs to expand the ability to pay electronic invoices through the payment infrastructure.
- Take the necessary measures to implement updated SLA requirements.

Key achievements



- ✓ The process of integrating banks' mobile banking solutions into the Instant Payment System (IPS) has been completed.
- ✓ The execution of C2C transactions through IPS has been ensured.
- ✓ It has been ensured that banks can operate through internet banking channels by integrating them into the IPS.
- ✓ The SLA rule for IPS functionalities provided by banks has been updated and improved.
- ✓ The oversight framework for National Payment Systems has been improved based on new legislative requirements.

Next steps



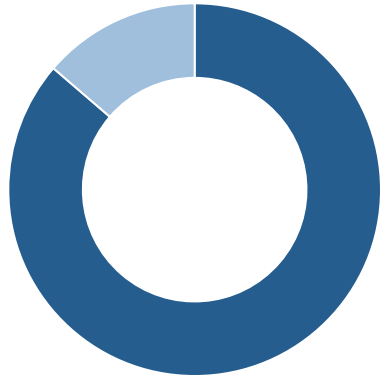
- Expand the application areas of the IPS by improving the IPS's functional capabilities
- Adapt the IPS participants' internal information systems to the requirements of the improved system
- Improve the AZQR standard and optimize the liquidity management mechanism
- Identify the IPS's governance structure and make the necessary regulatory adjustments to support the rapid development of digital payments
- Ensure the application of risk-based supervision in the payment sector

Banking Sector Development Strategy Implementation Status

Results for 2025



13,7%



86,3%

■ Current and implemented activities

■ Delayed activities

*NBCI – Non-Bank Credit Institution

*ICAAP - Internal Capital Adequacy Assessment Process

*SupTech - Supervisory Technology

Delayed activities



- Investigate the possibilities of implementing public-private partnerships
- Develop guidelines within the framework of adopting regulatory mechanisms and methodological support in the field of NBCI

Key achievements



- ✓ The Guidelines of the Central Bank of the Republic of Azerbaijan on Risk-Based Supervision of Banks" have been approved.
- ✓ A regulatory framework has been approved to align banks' capital structures with Basel III requirements.
- ✓ A methodological guideline on the application of the International Financial Reporting Standard (IFRS) 9 has been developed, and the summary reporting forms have been automated.
- ✓ A concept has been developed to create new financial technologies.
- ✓ As part of improving the bank resolution framework, resolution plans have been prepared for certain banks.
- ✓ The methodology for determining the minimum requirements for recovery plans has been updated.
- ✓ Instructions for preparing resolution plans have been developed, and plans have been drawn up for 10 banks.
- ✓ The Regulations for Conducting Stress Tests in Banks has been adopted.

Next steps



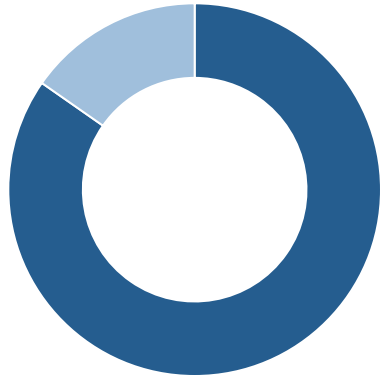
- Improve supervisory processes in accordance with the risk-based regulation and supervision model
- Implement long-term liquidity management requirements to increase the level of compliance of the banking supervision framework with the Basel Core Principles
- Improve the legislative and regulatory framework for bank resolution
- Develop the requirements for ICAAP implementation and provide support to banks
- Strengthen the institutional capacity of NBCIs and expand opportunities for alternative funding sources for relevant organizations
- Develop an acceptable approach to consolidated regulation and supervision
- Establish and adapt the appropriate regulatory mechanisms for alternative funding instruments
- Implement selected "SupTech" solutions
- Identify prospects for increasing access to Islamic banking products
- Expand financing opportunities for agricultural companies focusing on micro, small and medium-sized enterprises

Digital Finance Initiatives Implementation Status

Results for 2025



15,3%



84,7%

Delayed activities



- Develop a framework for implementing the Open Finance approach based on the Open Banking principles
- Develop a draft law on virtual assets and virtual asset service providers in accordance with the regulatory approach
- Develop a regulatory framework for the Shared KYC approach in financial markets
- Improve decision-making processes in supervision using digital platforms
- Strengthen cooperation with public and private institutions to increase capacity, including developing joint SupTech initiatives
- Identify technical requirements for collecting data from financial institutions
- Improve financial institutions' digital channels in accordance with technical requirements
- Form a risk management and IT governance framework covering cyber risks and risk-based supervision processes in financial institutions

Key achievements



- ✓ The Supervision Technologies Roadmap (Suptech Roadmap), which was developed jointly by the CBAR and the World Bank Group, has been approved.
- ✓ For the first time, open banking functionality has been introduced in the Azerbaijani financial market.
- ✓ The institutional foundations for FinCERT have been established, and memoranda of understanding have been signed with local CERTs (cert.az and cert.gov.az) to establish a framework for cooperation.
- ✓ A digital CBAR concept has been developed.
- ✓ Shared KYC platform has been developed, its implementation has begun, and initial tests have been carried out with chosen financial institutions.
- ✓ A unified platform has been developed to provide information about the fintech ecosystem for startups, investors, and other interested parties.
- ✓ The Management Board has approved the Data Management Policy of the Central Bank of the Republic of Azerbaijan.

Next steps



- Receive and evaluate applications for testing innovative products in a regulatory sandbox regime at an early stage of development
- Implement promotional and advocacy initiatives aimed at developing the Fintech ecosystem
- Accelerate the implementation of the Open Banking approach and ensure the transition to the Open Finance approach
- Implement the “Shared KYC” approach to accelerate the customer registration process
- Evaluate and identify data-based, value-added services for market participants
- Improve the tools and centralized infrastructure used for data management at the CBAR
- Establish cooperation with international CERTs on information security and cybersecurity
- Implement adequate control processes for financial institutions
- Strengthen the culture of cyber risk management

■ Current and implemented activities

■ Delayed activities

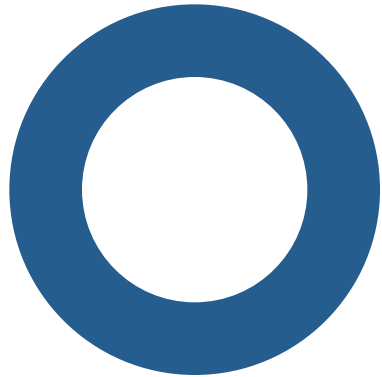
* FinCERT - Financial Markets Computer Emergency Response Team

* CERT - Computer Emergency Response Team

* SupTech - Supervisory Technology

Sustainable Finance Initiatives Implementation Status

Results for 2025



100%

Key achievements

- ✓ The Management Board has approved amendments to the Corporate Governance Standards for Banks, the Regulation for Credit Risk Management in Banks, and the Regulations for the Form, Content, and Submission of Prudential Reports Prepared by Banks and Local Branches of Foreign Banks.
- ✓ The “Guidelines on Green Loans and Other Instruments Related to Sustainable Finance” have been developed.
- ✓ A training plan has been developed, and training sessions have been conducted to increase the institution's capacity for sustainable finance.



Next steps



- Promote the "greening" of the CBAR's operations and assess their impact
- Evaluate macroprudential instruments against systemic risks that may arise from the realization of climate and Environmental, Social, and Governance (ESG) risks
- Assess the vulnerability of financial institutions to climate and ESG risks
- Incorporate the climate and ESG risks into the regulatory and supervisory framework of financial institutions
- Conduct "top-down" stress tests on transition risks arising from climate change and create a framework

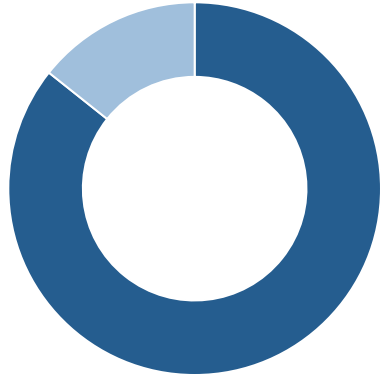
■ Current and implemented activities

Professional Growth and Financial Awareness Initiatives Implementation Status

Results for 2025



14,3%



85,7%

■ Current and implemented activities

■ Delayed activities

Delayed activities



- Create a legal framework within the preparation of the Professional Certification Framework
- Establish partnerships with higher education institutions to ensure the financial sector's personnel training complies with the Professional Certification Framework

Key achievements



- ✓ The level of financial literacy of various target groups has been diagnosed.
- ✓ Joint action plans have been developed with various organizations to promote financial literacy.
- ✓ A new course called "Business Financing" has been developed and implemented.
- ✓ A professional certification concept has been developed.
- A question database has been created for exams under the Professional Certification Framework.
- ✓ A concept for financial volunteers has been developed.

Next steps



- Implement measures related to the establishment of a Professional Certification Framework
- Develop a continuous learning framework
- Analyze the experiences and provide diagnostics of target groups
- Implement measures in accordance with the Financial Volunteers project concept
- Develop public awareness programs
- Continue measures toward developing a Life Moments model.



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