



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

FINANCIAL STABILITY DEPARTMENT

Financial Stability Report

2025

The data in this report cover the year-end 2025

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ACRONYMS

ADB – Asian Development Bank	NC – national currency
AEs – advanced economies	NGS – non-government securities
CA – capital adequacy	NPL – non-performing loans
CAR – capital adequacy ratio	OCP – open currency position
CBA – Central Bank of the Republic of Azerbaijan	OVDL – overdue loans
DSTI – debt service to income ratio	pp – percentage point
EMEs – emerging market economies	ROA – return on assets
FX – foreign exchange	ROE – return on equity
GDP – gross domestic product	RWA – risk weighted assets
GS – government securities	SCC – State Customs Committee
HP – Hodrick-Prescott filter	SOFAZ – State Oil Fund of the Republic of Azerbaijan
IMF – International Monetary Fund	SSC – State Statistics Committee of Azerbaijan
LE – legal entity	WB – World Bank
MCGF – Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	yoy – year-over-year
MLSP – Ministry of Labor and Social Protection of the Population	
MSME – Micro, small, and medium-sized enterprises	
NBCI – non-bank credit institution	

Executive summary

In 2025, the Central Bank of the Republic of Azerbaijan focused its financial stability policy on safeguarding confidence in the banking and financial system, containing systemic risks, and strengthening the governance capacity and shock resilience of the financial sector.

Throughout the year, financial stability was supported by the continued implementation of risk-based supervisory frameworks, the strengthening of prudential requirements in risk-sensitive areas, enhanced engagement with financial institutions, and ongoing modernization of regulatory and supervisory architecture.

The banking sector continued to expand its financial intermediation function, with balance sheet growth driven primarily by sustained credit expansion. In the context of robust lending activity, the regulatory framework was further strengthened, and associated risks were effectively contained.

Capital adequacy and liquidity indicators remained comfortably above regulatory minimum. The sector's capital adequacy ratio stood at 17.6%, 1.7 times the minimum requirement, while the Liquidity Coverage Ratio reached 154%, about 1.5 times the required level. Profitability remained solid, with the banking sector generating net profit of around AZN1.2B. Return on assets and return on equity were recorded at 2.1% and 18.2%, respectively.

The Central Bank introduced policy measures aimed at further strengthening financial sector resilience. In particular, 0.5 pp countercyclical capital buffer was introduced on banks' total regulatory capital and Tier 1 capital, effective 1 March 2025, with the objective of enhancing the system's capacity to absorb potential cyclical risks while preserving lending continuity. Within the framework of the 2024–2026 Financial Sector Development Strategy, the regulatory framework for operational and market risks was approved, and banks' capital structures were further aligned with Basel III standards. Ongoing efforts to modernize regulation and supervision were reflected in improved external assessments, including S&P Global Ratings' upward revision of Azerbaijan's Banking Industry Country Risk Assessment (BICRA) industry risk score.

The insurance sector continued to demonstrate steady expansion. Gross written premiums increased by 11% year-on-year to AZN1.5B, while claims and benefits paid rose by 22% to AZN920M. The sector remained profitable, generating net income of AZN166M. Return on equity reached 28%, while aggregate capital exceeded the regulatory requirement by up to 1.9 times, indicating a strong capital buffer.

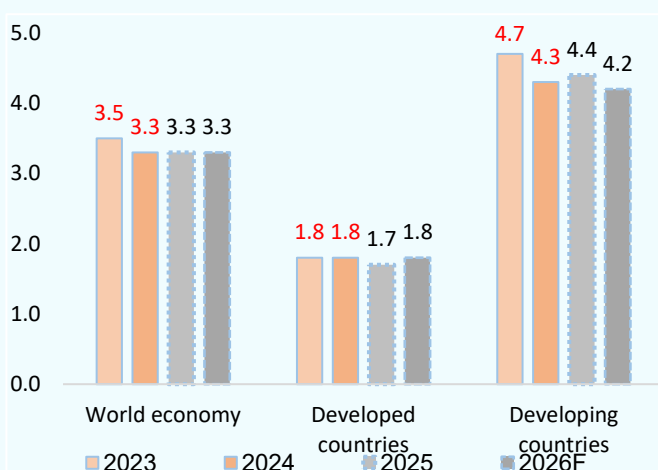
Although investment companies continue to account for a relatively small share of the financial system, the sector demonstrates notable growth potential. Capital market activity maintained an upward trajectory, supported by continued development of market infrastructure and ongoing improvements in the regulatory framework.

Global macroeconomic environment

Despite elevated uncertainty and intensifying geopolitical tensions, global economic activity was higher-than-expected in 2025.

According to IMF WEO January 2026, global economic growth stood at 3.3% in 2025, in line with the growth rate of 2024; this indicator

Chart 1. Global GDP growth projections, in %



Source: IMF, WEO 2026 January

exceeded the level projected in the IMF WEO July 2025 by 0.3 pp. Trends were similar for AEs and EMEs. In AEs, economic growth amounted to 1.7% in 2025, surpassing expectations by 0.1 pp. In EMEs, growth was higher than in 2024 and exceeded the projected level by 0.2 pp. During the year, adverse effects stemming from changes in global trade policies were offset by positive developments associated with the rapid increase in investment in the technology sector, particularly in artificial intelligence (AI). This process was more pronounced in North America and Asia compared with other regions, thereby contributing positively to global growth. At the same time, fiscal and monetary support,

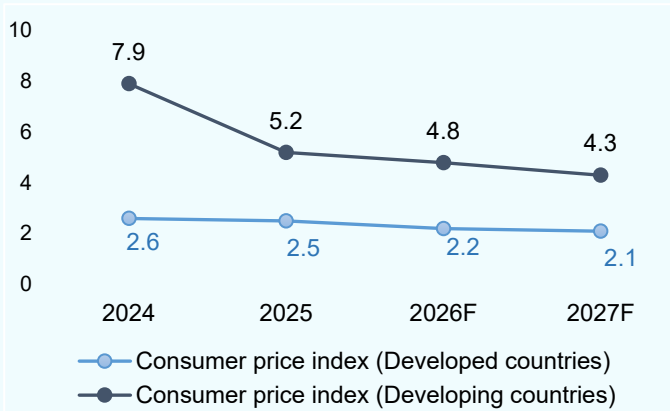
generally favorable financing conditions, and the private sector's ability to adapt swiftly to supply chain disruptions were among the key factors underpinning economic activity.

Although global inflation is expected to drop, inflation varies across regions.

As of end-2025, annual inflation stood at 2.5% in AEs and 5.2% in EMEs. Following the intensive inventory accumulation at the beginning of the year, a slowdown in demand for tradable goods led to a moderation in goods price inflation in many EMEs. According to the IMF's latest estimates, inflation is projected to decline in both AEs and EMEs. By the end of 2026, inflation in AEs is expected to decrease by 0.3 pp year-over-year to 2.2%. In EMEs, inflation is projected to decline significantly in 2026 and 2027, to 4.8% and 4.3%, respectively. However, these trends are likely to evolve differently across certain regions. While inflation in the euro area is projected to stand at 1.9% by the end of 2026, it is expected to reach 2.4% in the United States. Overall, inflation is projected to continue declining, driven by weakening demand and lower energy prices; however, the pace of this disinflationary process may vary across countries. Against the backdrop of the gradual pass-through of higher tariffs to

prices, core inflation in the United States is projected to return to the 2% target in 2027.

Chart 2. Consumer price index, in %



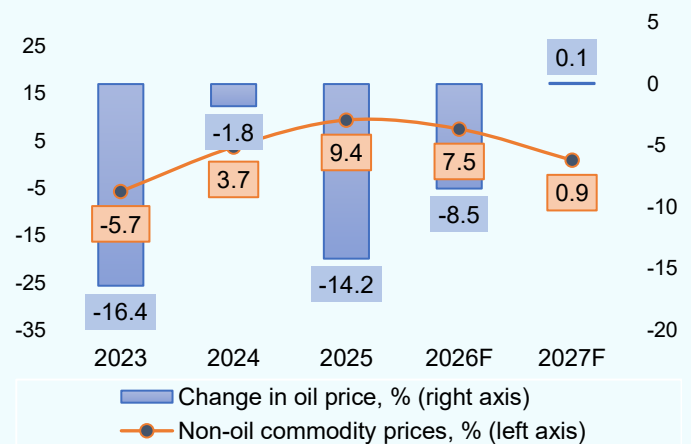
Source: IMF, WEO 2026 January

In 2025, amid rising geoeconomic and trade tensions, global oil demand dropped, and prices decreased. In particular, the decision by OPEC+ countries to increase production rapidly, combined with the impact of escalating trade tensions on demand, exerted downward pressure on oil prices. The relatively subdued growth in global oil demand, together with the production policies of OPEC+ and other producers, increases the likelihood of an oversupply in the market, which could keep oil prices at relatively low levels over the medium term. According to the World Bank’s January 2026 projections, the average price of Brent crude oil is expected to amount to \$60/barrel in 2026 (\$9 lower than in 2025) and rise to \$65/barrel in 2027. Meanwhile, according to the IMF’s latest projections (January 2026), the average oil price is expected to reach \$62/barrel in 2026, \$4 lower than the IMF’s October forecast. Nevertheless, the possibility that geopolitical risks and market uncertainty may

generate short-term volatility in prices cannot be ruled out.

Developments in the natural gas market differed from those in the oil market. Amid expanding liquefied natural gas (LNG) exports from the United States, gas prices increased by more than 50%, while in Europe prices declined, reflecting mild weather conditions and sufficiently high storage levels. New LNG projects are bringing additional volumes of gas to the market, and global natural gas production is therefore expected to increase by about 2.5% in 2026. Overall, according to the World Bank’s projections, the global energy price index is expected to decline by 11% in 2026, before increasing by 6.3% in 2027.

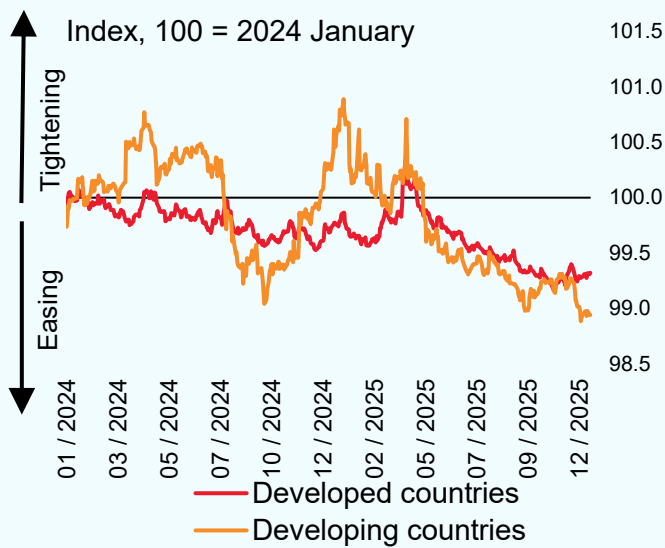
Chart 3. Commodity price changes



Source: IMF, WEO 2026 January

Against the backdrop of declining global inflation, global financial conditions eased from the second half of the year onwards. Although global financial conditions tightened at the beginning of 2025, this tightening was

Chart 4. Financial condition index



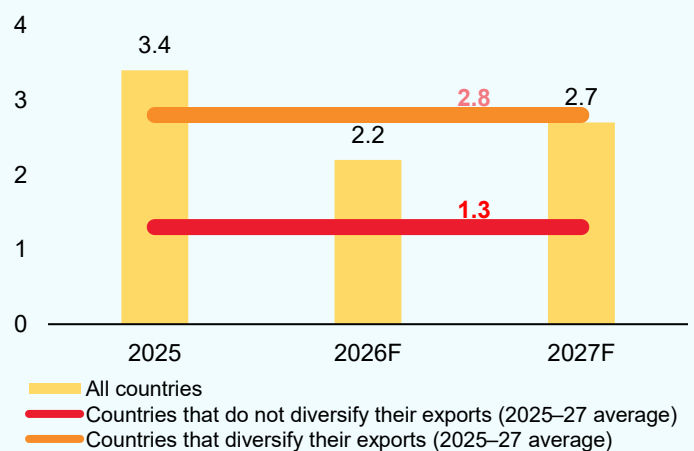
Source: World Bank, *Global Economic Prospects* (January 2026)

replaced by sustained easing from H2 of the year. In H1 2025, the tightening of financial conditions was primarily driven by uncertainties surrounding global trade policies, whereas in H2 this volatility diminished significantly amid monetary policy easing expectations. Elevated risk appetite of investors, expectations that the monetary policy will be eased and depreciation of USD increased liquidity in financial markets. Consequently, equity markets increased, while financing conditions in debt markets improved. Nevertheless, elevated valuations of financial assets and ongoing global uncertainty suggest that risks remain in the period ahead.

In 2025, shifts in US tariff policy affected global trade dynamics. In August 2025, the United States reintroduced reciprocal tariff increases and imposed additional restrictions on selected countries and sectors, resulting in an increase in the average effective tariff rate to around 17%, one of the highest levels in recent decades. In anticipation of tariff increases,

many countries frontloaded exports to the United States; however, import growth subsequently lost momentum and turned negative, particularly in the case of countries subject to higher tariff rates. At the same time, economies with more diversified export markets recorded a relative improvement in new export orders, whereas in economies dependent on a limited number of trading partners this indicator weakened. Against this backdrop, the growth momentum of global trade in goods and services is expected to moderate in 2026; however, over the medium term, trade dynamics are anticipated to stabilize again as tariff-related effects gradually fade and policy uncertainty eases. Rising geopolitical tensions, the introduction of additional trade restrictions and the broadening of protectionist policies remain key risk factors for the global trade outlook.

Chart 5. Global trade annual growth rate, in %



Source: World Bank, *Global Economic Prospects* (January 2026)

Macroeconomic environment for financial institutions in Azerbaijan

Amid rising global geopolitical risks, economic growth in the country continued in 2025. Real GDP increased by 1.4% in 2025, to nominal AZN129B. Economic growth was driven by the non-oil and gas sector. Value added in the oil and gas sector declined by 1.6%, whereas the non-oil and gas sector grew by 2.7%. During the reporting year, 71.5% of GDP was generated by the non-oil and gas sector, yoy up by 3.7 pp. Per capita GDP amounted to AZN12.6 thousand.

Industry accounted for 33% of GDP, followed by trade with 11.3%, transport with 7.1%, construction with 6.5%, agriculture with 5.9%, tourism with 2.8%, and information and communication with 2.1%, while other sectors accounted for 21.7%. Net taxes on products and imports represented 9.6% of GDP. Over the

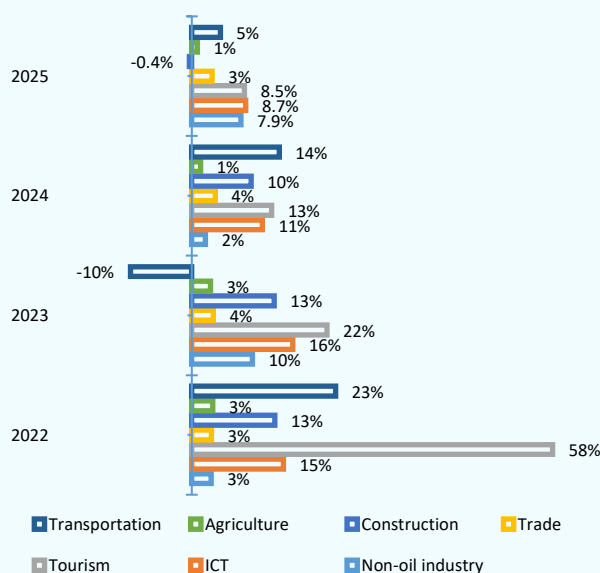
period, the highest real growth was in the information and communication, tourism, and manufacturing sectors, which expanded by 8.7%, 8.5%, and 7.9%, respectively.

Nominal income and salaries of the population continued to increase. Labor force numbered 5384.3 thousand people as of end of 2025, out of which 5105.2 thousand people were employed. The number of hired labor was 1797.4 thousand people, of which 48.3% was employed in the public sector (869 thousand persons), and 51.7% (928.4 thousand persons) in the non-public sector. The oil-gas sector employed 31 thousand and the non-oil-gas sector employed 1766.4 thousand people. The average monthly nominal salary of hired labor yoy increased by 9.3% to AZN1102.9B. Income of the population yoy increased by 8% to AZN89.9B in nominal terms.

As of end-of-2025 annual inflation remained within the preannounced target (4±2%). According to the SSC, consumer price index year-over-year increased by 5.2% on total goods and services. Annual food inflation stood at 6.4%, non-food inflation stood at 2.5% and services inflation stood at 5.7%. Annual core inflation excluding regulated prices and price changes of seasonal agricultural products stood at 4.8% in December 2025.

Changes in the balance of risks of inflation were driven by external factors. External cost factors had a stronger impact on inflation dynamics. The CBA estimated that in December 2025 inflation in trade partners had 2.91 pp upward, while the nominal effective exchange rate had 0.34 pp downward effect on annual

Chart 6. Economic growth rate of non-oil-gas areas, in %



Source: SCC

inflation in the country. Over the period, both supply-side (e.g., agricultural producer prices) and demand-side factors (household consumption, government consumption, etc.) exerted an overall upward impact on inflation, while other factors (including inflation expectations, etc.) had a dampening effect.

In 2025 monetary policy decisions were made in response to macroeconomic forecasts, changes in risk factors of inflation, the situation in the FX market and interest rate cut expectations in foreign countries. Interest rate corridor parameters were discussed eight times as scheduled. The Management Board of the CBA decided to keep the refinancing rate unchanged at six meetings dedicated to the monetary policy and cut the rate at two meetings. Overall, the monetary policy was eased in 2025, the refinancing rate was shifted to 6.75% from 7.25%, the ceiling of the interest rate corridor to 7.75% from 8.25%, and the floor to 5.75% from 6.25%. Currently, the refinancing rate is in the lowest of recent four years and close to the neutral rate. In 2025 monetary policy tools were applied in light of money market developments and the liquidity position of the banking system. These operations allowed interest rates in the unsecured money market to adequately react to the changes in the interest rate corridor of the CBA.

Since April 2025, the Ministry of Finance has placed the balance of the Single Treasury Account as deposits with commercial banks, which has led to an increase in banking sector liquidity driven by autonomous factors. In this environment, 7-day deposit operations have

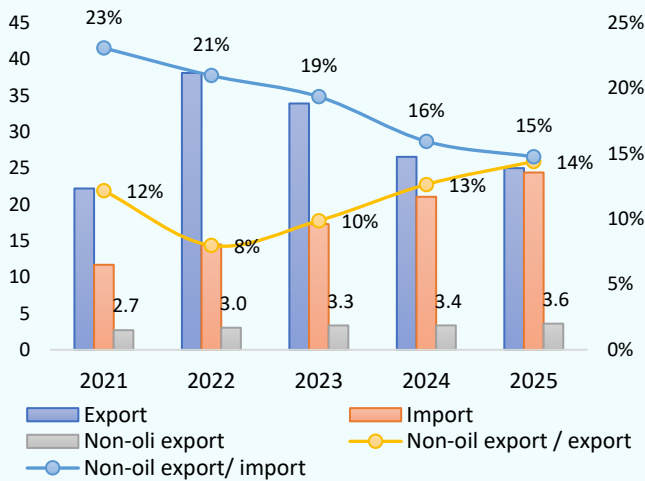
been used as the main open market operation to keep the AZIR close to the refinancing rate.

As a result of improvements to the monetary policy operational framework, the AZIR index moved further closer to the refinancing rate in 2025, with the spread between the two narrowing to a minimum level. While the average spread between the AZIR index and the refinancing rate stood at 0.18 pp during the period from the beginning of 2025 to end-June, it declined to an average of 0.06 pp from July to December.

The refinancing rate weighed on other interest rates through the AZIR. The two-step reduction of the refinancing rate in H2 2025 was accompanied by a decline in yields in the securities market, as well as in interest rates on new deposits and loans.

In 2025, the international economic environment was favorable for Azerbaijan from a balance of payments perspective, with foreign trade surplus. Current account surplus amounted to \$3.5B (4.6% of GDP). According to the SCC, foreign trade turnover made \$49.4B in 2025, of which \$25B (50.7%) was attributable to exports and \$24.4B (49.3%) to imports. The external trade balance posted a surplus of \$0.6B. Excluding gold imports, foreign trade surplus exceeded \$6.9B.

Chart 7. Dynamics of imports and exports, billion USD



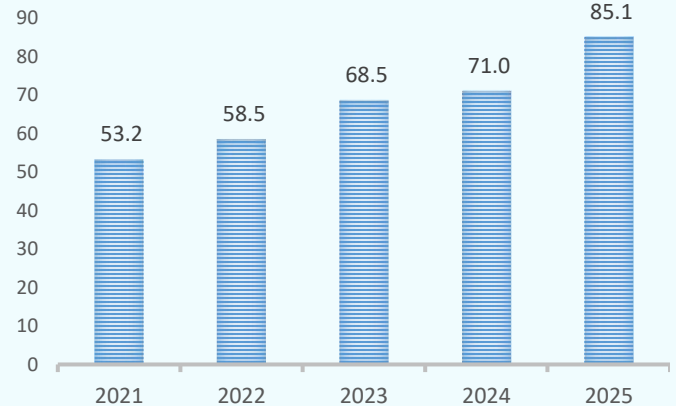
Source: SCC

In 2025, exports from the oil and gas sector amounted to \$21.4B, of which \$12.6B was attributable to crude oil and other petroleum products, while \$8.8B stemmed from natural gas exports. Exports from the non-oil and non-gas sector increased by 8.1% year on year to \$3.6B. The share of non-oil and non-gas products in total exports rose to 14.5%, up by 1.9 pp compared with end-2024. In 2025, Azerbaijan traded with 180 countries worldwide. The EU accounted for 40%, the CIS for 15.4%, and other countries for 44.6% of total trade turnover. Regarding the structure of trade, the main export partners were Italy, Türkiye and Russia, while imports originated predominantly from China, Russia and Türkiye. The private sector accounted for 57%, the public sector accounted for 34%, and households accounted for 9% of the import structure.

Strategic FX reserves continued to increase.

The CBA’s FX reserves rose by 5.1% to \$11.5B, while the assets of the SOFAZ increased by 22.5% to \$73.5B. As a result, the country’s total strategic FX reserves expanded by 19.8% to \$85.1B. During the reporting period, the foreign exchange reserves to GDP ratio stood at 112%, continuing to significantly exceed internationally accepted adequacy benchmarks.

Chart 8. Strategic foreign Exchange reserves, billion USD



Source: Central Bank

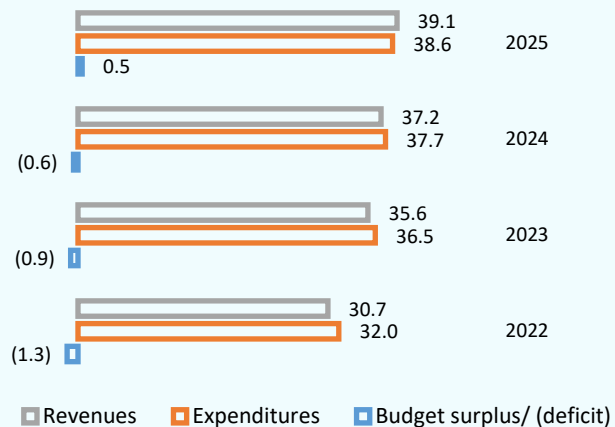
In 2025, the state budget was executed with a surplus.

State budget revenues amounted to AZN39.1B, while expenditures totaled AZN38.6B, resulting in budget surplus of AZN0.5B at the end of 2025 (0.4% of GDP).

Excluding transfers from the SOFAZ, state budget revenues amounted to AZN24.7B, (up by AZN0.3B or 1.1%), compared with 2024. According to the Ministry of Finance, revenues

from the non-oil and non-gas sector totalled AZN20.3B in 2025, accounting for 51.9% of total state budget revenues (yoy up by AZN702.4M, or 3.6%).

Chart 9. Dynamics of state budget revenues and expenditures, billion AZN



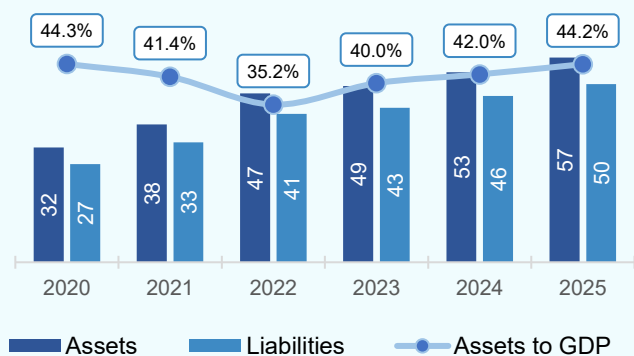
Source: Ministry of Finance

Banking system overview

The balance sheet of the banking sector continues to expand.

In 2025 total assets of the banking sector increased by 7.7% (AZN4.1B) to AZN57.1B. Total liabilities increased by 7.2% (AZN3.3B) to AZN49.7B. Consequently, the assets-to-GDP ratio yoy increased by 2.3 pp to 44.2%. Throughout the year, the balance sheet increase was driven by term deposits from individuals, which supported the growth of the loan portfolio. As of end-2025 the breakdown of banking sector assets was as follows – net loan portfolio 49.6%, current assets 22.6% and other assets 27.8%. Liabilities include deposits of legal entities 44%, savings of individuals 33%, deposits of banks and other financial

Chart 10. Dynamics of banking system assets and liabilities, billion AZN



Source: Central Bank

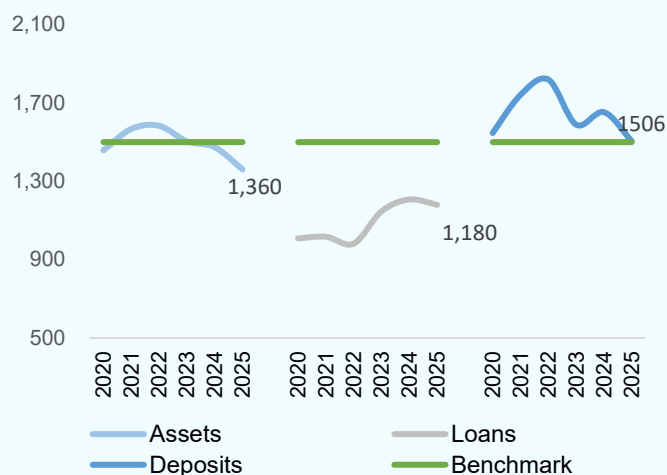
institutions 13% and other liabilities 10%.

Concentration of the deposit and loan portfolios decreased year-over-year.

According to the HHI widely used in international practice, as of the end of 2025, concentration in the banking sector decreased by 27 points to 1180 compared with the end of the previous

year. The concentration index on the deposit portfolio decreased by 147 units to 1506 compared with the end of the previous year. The

Chart 11. Dynamics of the HHI across the banking sector



Source: Central Bank

HHI index for assets decreased by 114 points to 1360. Accordingly, assets and the loan portfolio of the banking system are at a low level of concentration, while the deposit portfolio is at a medium level. The CBA is always focused on the banking sector concentration.

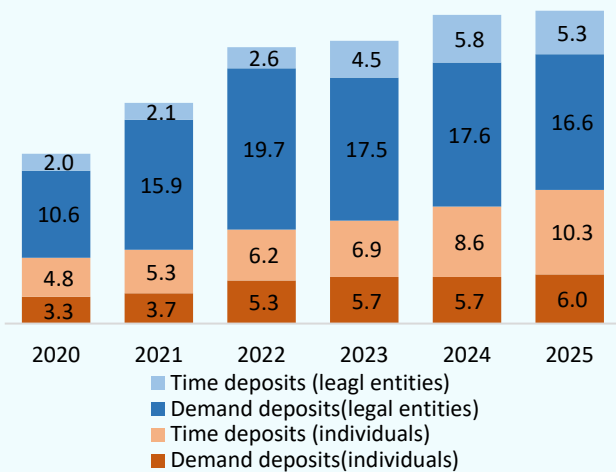
Despite a decline in deposits from legal entities, the sector's main source of funding, the increase in deposits from individuals offset this decrease.

In 2025 deposits of legal entities decreased by 6.4% (AZN1.5B) to AZN21.9B, while household deposits increased by 14.2% (AZN2B) to AZN16.3B. Hence, the share of deposits of legal entities in total liabilities decreased by 6.4 pp to 44%, while the share of household deposits in total liabilities increased by 2 pp to 33% as of end of 2025. Note that, growth of household deposits was driven by the growth of term deposits, while the

decrease in deposits of individuals was driven by both term and demand deposits.

The increase in term deposits of households supports the stable funding base of the banking sector. In 2025 term deposit of individuals increased by 20% (AZN1.7B) to AZN10.3B, and demand deposits increased by 5.5% (AZN0.3B) to AZN6B. Amid increased confidence in the banking sector and the implementation of new monetary and macroprudential policy frameworks, as well as ongoing digitalization, the number of unique depositors in the term deposit portfolio rose by 29% compared with the end of the previous year, exceeding 194.1 thousand. Growth in households’ term deposits bolsters the stability

Chart 12. Dynamics of the deposit portfolio of households and legal entities, billion AZN



Source: Central Bank

of banks’ funding sources and underpins long-term financing.

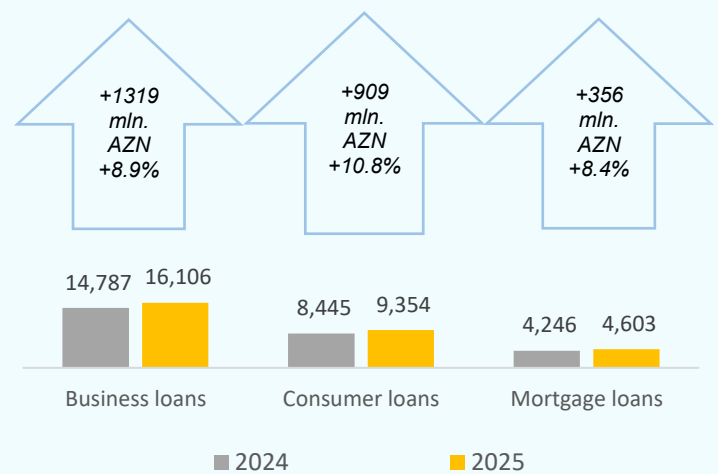
The loan portfolio’s growth rate continues to surpass that of nominal non-oil-and-gas GDP.

Compared with the end of 2024, the banking sector’s loan portfolio increased by 9.4% to

AZN30.1B. Despite a moderation in the pace of credit portfolio expansion in recent years, its annual growth still exceeds the growth rate of nominal non-oil GDP (7.7%). Across the banking sector, 19 banks saw their credit portfolios grow relative to the end of 2024, and in 13 of these banks the growth rate surpassed that of nominal non-oil GDP.

The increase in the credit portfolio spans business, consumer and mortgage loans. Compared with the early year, business loans

Chart 13. Loan portfolio’s annual growth rate, million AZN



Source: Central Bank

increased by 8.9% (AZN1.3B) to AZN16.1B, consumer loans increased by 10.8% (AZN909M) to AZN9.4B and the mortgage loan portfolio increased by 8.4% (AZN356M) to AZN4.6B.

The growth dynamics of the consumer loan portfolio continue to be closely monitored.

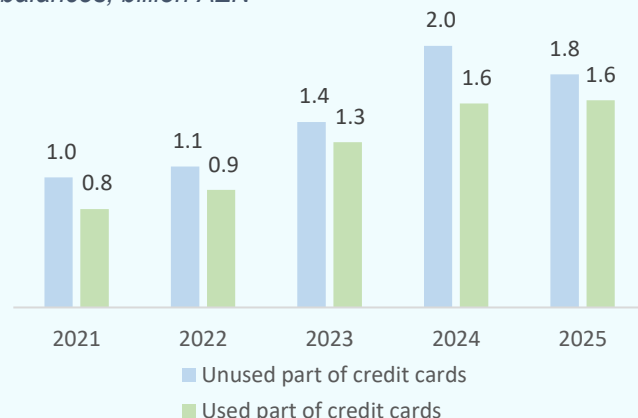
The CBA’s macroprudential policy is grounded in promoting sound and responsible borrowing by households. In 2025, the annual growth rate of the consumer loan portfolio stood at 10.8%, representing moderation compared with previous periods. The Bank continues to assess developments in consumer lending and potential household over-indebtedness, further enhancing the regulatory framework in this area.

The introduction of the fivefold limit has led to a reduction in the unused portion of consumer credit card limits.

Following regulatory refinements introduced by the CBA to curb excessive household indebtedness (capping a borrower’s credit card limit at five times their net after-tax income) the credit card balances utilized remained broadly stable, whereas undrawn limits decreased by 11% (AZN220M). The number of credit cards declined by 6% (137 thousand) over the past year. A reduction in the number of credit cards, together with lower undrawn limits, is anticipated to curb future household over-indebtedness and support sound borrowing practices.

Mortgage lending continues to grow. The mortgage loans portfolio yoy increased by 8.4% to AZN4.6B. Compared with the end of 2024 the increase amounted to AZN356M, of which AZN251M (70%) came from the state mortgage program, while AZN105M (30%) resulted from

Chart 14. Growth dynamics of outstanding credit card balances, billion AZN



Source: Central Bank

banks’ internal mortgage programs. Currently, state-funded mortgages account for 55.9% of the total mortgage portfolio (AZN2.57B), while mortgages issued from banks’ own resources make up 44.1% (AZN2.03B).

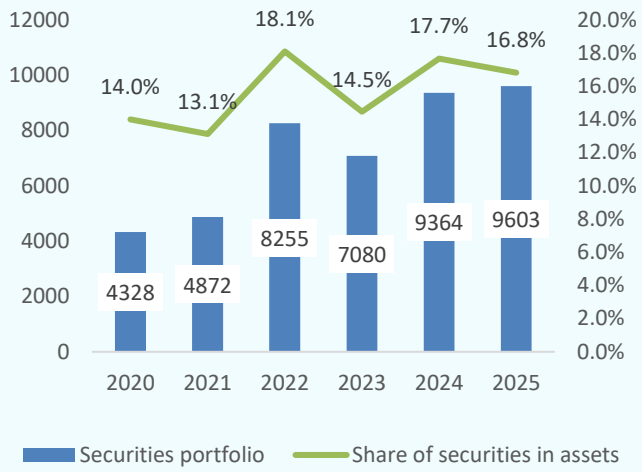
Business loan growth was driven by transport, construction and agriculture.

As of end of 2025 the business portfolio yoy increased by 8.9% (AZN1.32B) to AZN16.1B – transport 30.5% (AZN450M), construction 25.4% (AZN350M), agriculture 16.8% (AZN300M), information and communication 23.4% (AZN150M).

Banks’ securities portfolio increased over the past year.

Compared with the end of 2024, the securities portfolio rose by 2.5% (AZN239M). At the same time, as total assets grew at a faster pace, the share of the securities portfolio in total assets declined from 17.7% to 16.8% compared with the end of the previous year.

Chart 15. Dynamics of the securities portfolio, billion AZN



Source: Central Bank

Box 1. The Central Bank has approved the “2026–2027 Banking Supervision Strategy” within its risk-based supervisory framework

The Central Bank has made significant progress in advancing risk-based supervision under the ‘2024–2026 Financial Sector Development Strategy’ and the World Bank–supported modernization agenda. The Bank approved its **Risk-Based Supervision Policy Concept** (<https://uploads.cbar.az/assets/a61567cec6c9e457a1af7af85.pdf>), established a dedicated **Supervisory Committee**, and developed the **Azerbaijan Risk Assessment System (ARAS)**, which has been piloted in selected institutions together with new risk-based supervisory tools.

In December 2025, the ‘**Manual on risk-based supervision of banks by the Central Bank of the Republic of Azerbaijan**’ was approved. Following its adoption, the Central Bank conducted bank assessments and assigned risk ratings and profiles to each institution. These indicators allow the Central Bank to tailor the intensity and approach of supervisory actions according to each bank’s risk profile.

In accordance with the Manual, the Central Bank also approved the ‘**Banking Supervision Strategy for 2026–2027**’. The Strategy aims to implement supervisory priorities and concrete measures over the next two years in relation to the following key risk areas deemed most relevant for banks, including credit risk, business model risk, liquidity risk, market risk, capital management risk, and other risk categories:

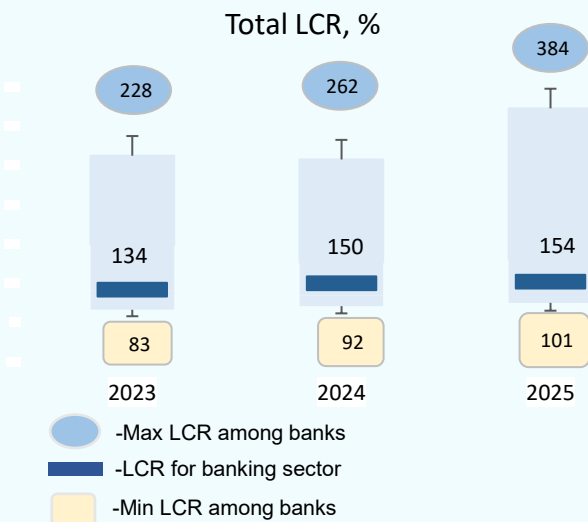
- strengthening banks’ resilience to macroeconomic shocks
- enhancing banks’ business model sustainability and profitability management
- strengthening operational resilience in banks
- modernizing risk management frameworks in banks
- strengthening corporate governance, risk culture, and consumer protection frameworks in banks.

The risk-based supervision measures implemented by the Central Bank not only serve the objectives set out in the relevant Policy Concept but also contribute to the long-term sustainable development of the banking sector and enhance its resilience to potential shocks.

Liquidity risk of the banking system

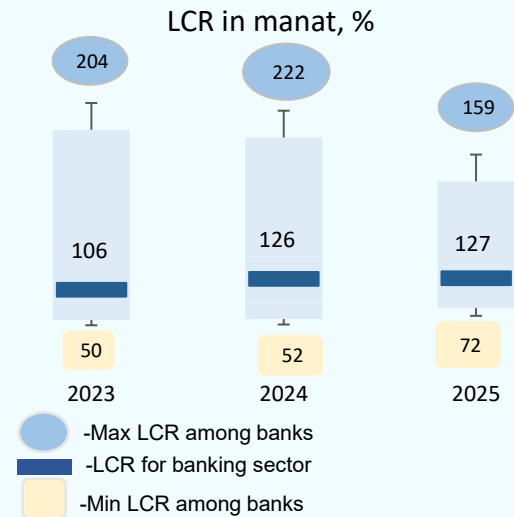
The sector's liquidity position is comfortably zoned. In 2025 the aggregate liquidity coverage ratio (LCR) increased by 4 pp to 154%, and in national currency increased by 1 pp to 127% compared with the end of 2024. The rise in the aggregate LCR ratio is primarily attributable to an increase in high-quality liquid assets across the banking sector. High-quality liquid assets across the sector increased by 25% (AZN3B) to AZN15B, and net cash payments of the sector increased by 21.5% (AZN1.7B) to AZN9.7B compared with the end of 2024. Overall, the sector's instant liquidity ratio stood at 54.4%, 24.4 pp higher than the threshold. The strengthening of the liquidity position makes banks more resilient to possible liquidity shocks.

Chart 16. Aggregate liquidity coverage ratio, in %



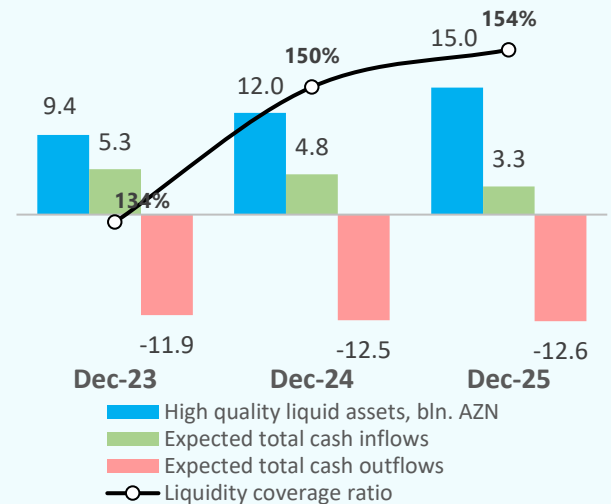
Source: Central Bank

Chart 17. Liquidity coverage ratio in manat, in %



Source: Central Bank

Chart 18. High-quality liquid assets and total expected cash receipts and payments, billion AZN



Source: Central Bank

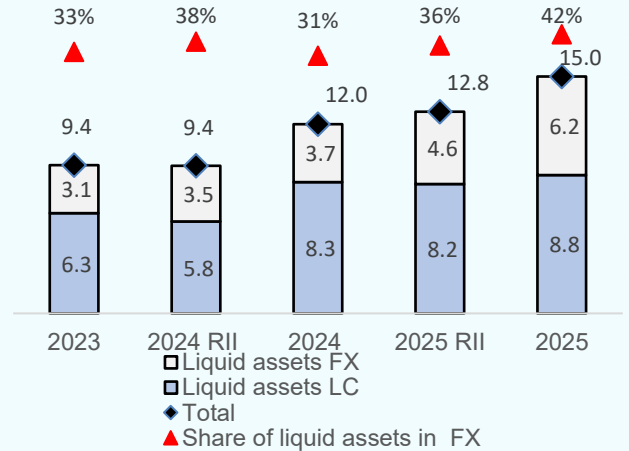
The CBA introduced a liquidity coverage ratio requirement in the national currency in 2025. In accordance with the LCR regulatory framework, the Bank began to apply stepwise the LCR in the national currency from 1 August

2025 to 1 December 2027. Under the new requirement, from 1 August 2025 onward, the LCR requirement in domestic currency has been introduced at a minimum level of 50% for systemically important banks and 40% for other banks. The requirement will be gradually increased to 100% for all banks as of 1 December 2027. This requirement aims to improve banks' capacity to meet short-term liquidity needs in domestic currency and ensure sufficient high-quality liquid assets are maintained in stress conditions, thereby preventing liquidity strains in the financial system and supporting financial stability.

The size of high-quality liquid assets both in the national and foreign currency has grown.

In the context of compliance with liquidity requirements, banks' enhanced management of liquid assets resulted in an increase in high-quality liquid assets denominated in domestic currency. Meanwhile, the expansion of interbank overnight deposits contributed to higher foreign currency HQLA. Following amendments to the 'Regulation on liquidity risk management in banks' in 2025, the definition of HQLA was expanded to include funds placed under CBA's repo operations, deposits with the CBA with maturities of up to 30 days, and overnight deposits placed with the CBA and credit institutions.

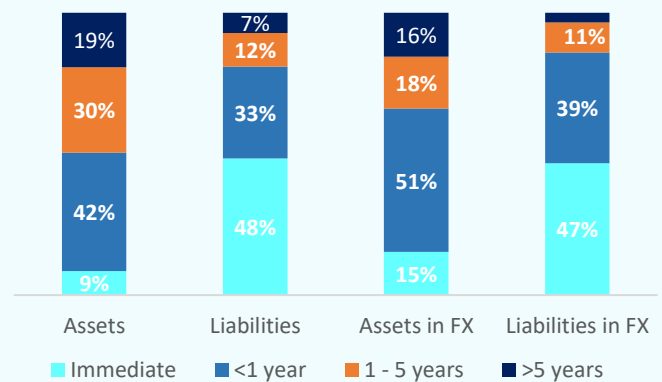
Chart 19. Currency structure of high-quality liquid assets, billion AZN



Source: Central Bank

The share of assets with up to one-year maturity in total assets increased by 5 pp to 51%, while the corresponding indicator for liabilities remained unchanged at 81%. In terms of maturity structure, 58% of liabilities and 29% of assets have maturities of less than 90 days. Current assets account for 22.6% of total assets in the banking sector, a sufficient buffer to mitigate potential liquidity pressures.

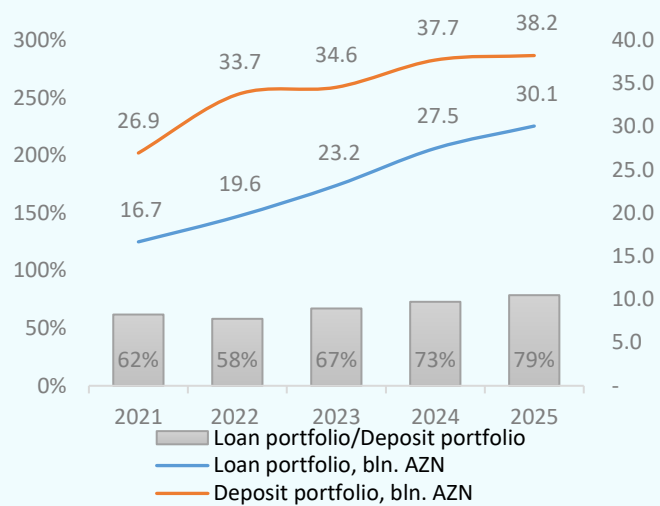
Chart 20. Maturity structure of banking sector assets and liabilities



Source: Central Bank

The upward dynamics in the loan-to-deposit ratio persisted. In 2025, amid growth in both deposits and loans, the ratio increased by 6 pp to 79%.

Chart 21. Dynamics of the loan-to-deposit ratio



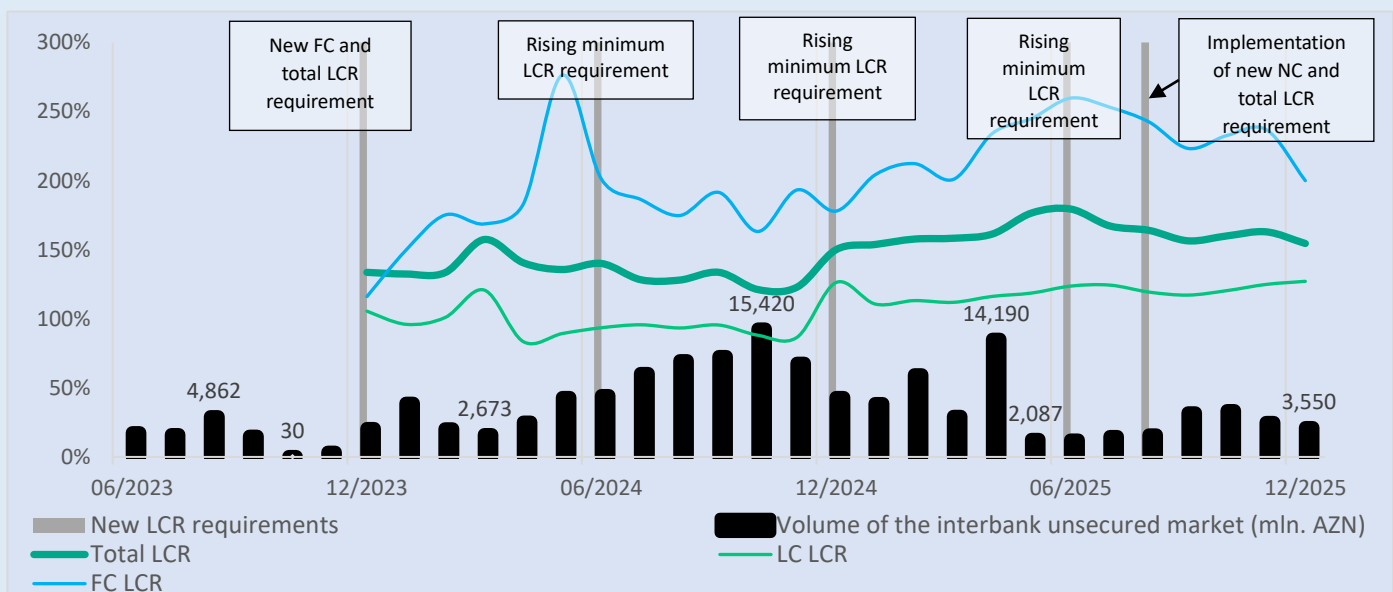
Source: Central Bank

Box 2. Combined analysis of the LCR ratio and the unsecured interbank money market

Summary: This box examines the relationship between turnover in the unsecured interbank money market and liquidity coverage ratios (LCR). The analysis finds that the new operational framework and prudential liquidity requirements support activity in the unsecured interbank money market. According to the results, holding the AZIR index constant, a 1 pp change in the LCR ratio in domestic currency and on an aggregate basis is associated with an increase in unsecured interbank market turnover of AZN98M and AZN148M, respectively. Naturally, other factors also influenced developments in the interbank money market.

Since 2023, the CBA has implemented a range of measures aimed at modernizing the monetary policy operational framework and strengthening the prudential framework for liquidity risk regulation. Initially, from early 2023, increased reserve requirements contributed to the sterilization of excess liquidity in the banking sector, encouraging banks to rely more on alternative liquidity channels and supporting the development, depth, and efficiency of the unsecured money market. In May 2023, the AZIR index was introduced and published for the first time as a reference rate for the unsecured money market. In December of the same year, the LCR was introduced as a tool for liquidity risk management in banks. From 1 December 2023, the LCR was applied on an aggregate basis and in foreign currency, while from 1 August 2025 it was revised and applied on an aggregate basis and in domestic currency. The main objective of the LCR is to enhance the effective management of liquidity risk in banks and ensure their resilience under stress conditions in the short term, thereby enabling the full and timely fulfilment of obligations. At the same time, analysis suggests that the introduction of the LCR has also played a role in supporting activity in the interbank market.

Chart 1. Banking system's LCR ratios and the size of the interbank unsecured money market



Source: Central Bank

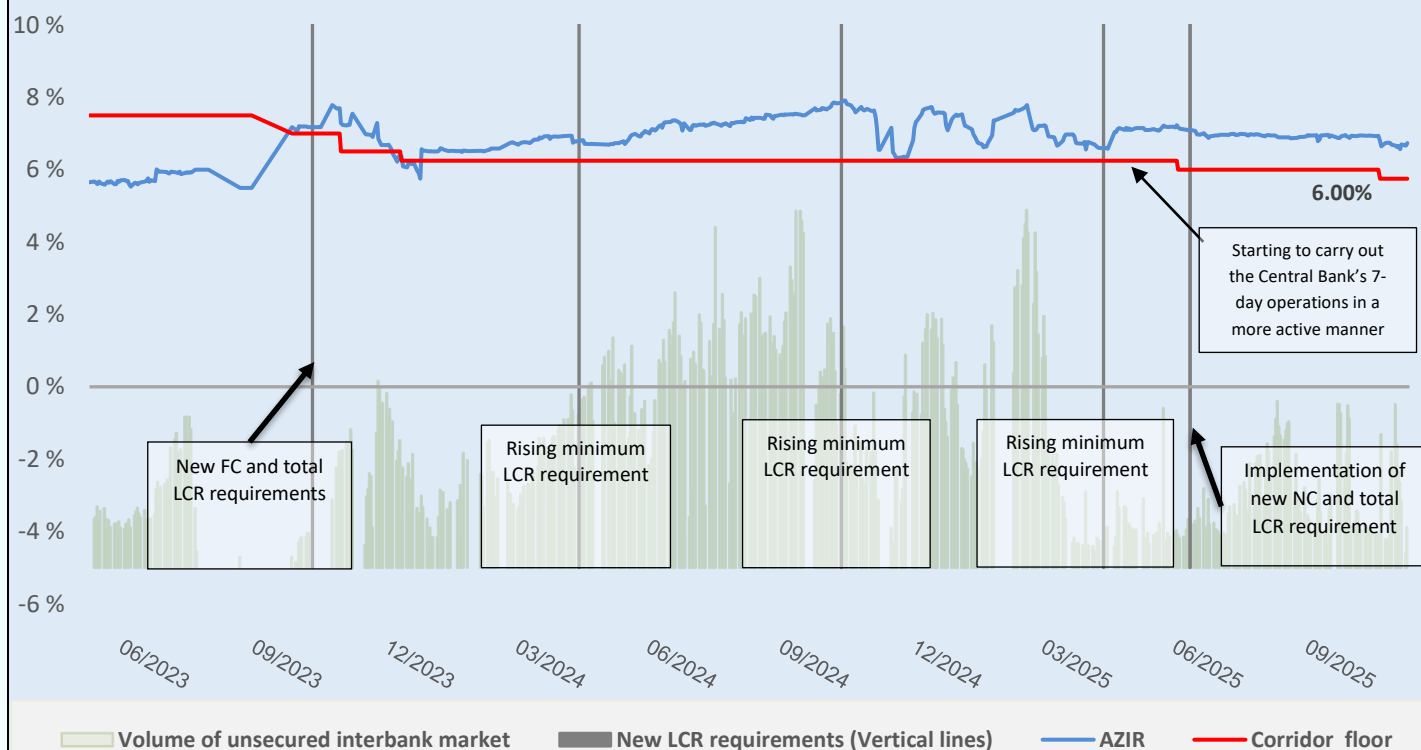
As shown in Chart 1, turnover in the unsecured interbank money market increases during periods when LCR ratios decline, particularly in aggregate terms and in domestic currency. Theoretically, market activity is expected to be influenced by higher borrowing under improved liquidity conditions. At the same time, other factors have also had a significant impact on interbank market dynamics. The strong activity observed in the unsecured money market in 2024 occurred in the context of differentiated reserve requirements. The stabilization in the interbank money market from May 2025 onwards has been mainly associated with active deposit operations conducted by the Ministry of Finance

For the empirical assessment, the ordinary least squares method was applied. The estimation examines the impact of the LCR ratios in domestic currency and on an aggregate basis, as well as the AZIR index as an additional explanatory variable, on turnover in the unsecured interbank money market. The models satisfy the standard statistical significance and diagnostic requirements

Regression results indicate that the aggregate LCR ratio has the strongest effect. Controlling for the AZIR index, a 1 pp decrease in the aggregate LCR is associated with an increase of AZN148M in unsecured interbank market turnover, while the corresponding effect for the domestic currency LCR is AZN 98M.

A review of the time series of the AZIR index shows that increases in unsecured interbank market turnover are generally accompanied by an upward trend in the reference rate. Another notable feature is that, during periods of introduction of the new LCR requirement as well as during phases of gradual tightening of LCR standards, short-term increases in the AZIR index are observed alongside changes in volatility. This suggests that the activation of liquidity requirements has short-term effects on the unsecured interbank money market.

Chart 2. Time series analysis of the AZIR index and LCR requirements



Source: Central Bank

Overall, the new operational framework and prudential requirements have improved liquidity allocation in the banking sector and supported the development of the interbank market.

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Regulation on liquidity risk management in banks, Central Bank of Azerbaijan, 2023

The Impact of the LCR on the Interbank Money Market, C. Bonner and S. Eijffinger, CEPR working paper No. DP9124, 2012

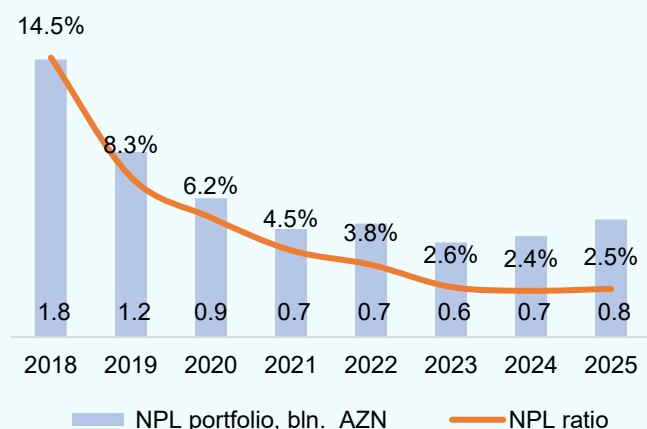
The LCR premium in Peru: Estimating the impact of a regulatory supply shock on LCR ratio, R. Delia, F. Diego and C. Walter, Graduate Institute of International and Development Studies Working Paper No. HEIDWP13-2025, 2025

LCR Premium in the Federal Funds Market. A. Alyssa and M. Tase. Finance and Economics Discussion Series No. 2023-71, 2023

Credit risk of the banking system

Credit risks in the banking sector remain stable. In 2025 the NPL portfolio increased by 16.4% (AZN107M) to AZN763M. Consumer loans increased by AZN58M, business loans increased by AZN54M, while mortgage loans decreased by AZN5M. Consequently, the share of the NPL portfolio in total loans increased by 0.1 pp to 2.5% over six months.

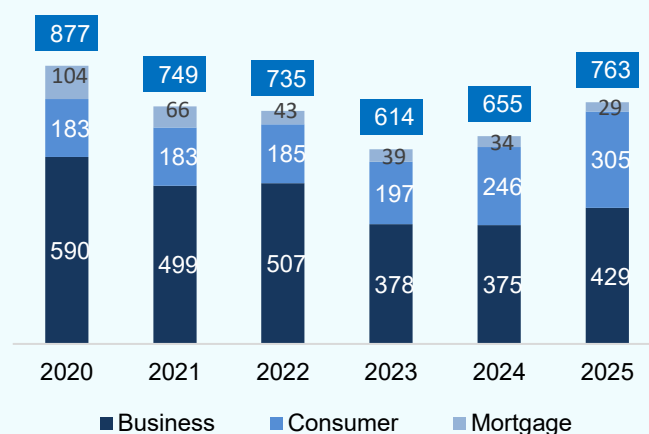
Chart 22. Dynamics of the NPL portfolio of the banking sector, billion AZN



Source: Central Bank

To fully capture potential credit risks, the banking sector has adequate provisioning in place. The amount of specific reserves created in the banking sector to cover potential loan losses is AZN1.75B, 230% higher than the volume of the NPL portfolio. In particular, specific reserves created for consumer loans amounted to AZN1.27B, about four times the volume of non-performing consumer loans. These figures indicate that the provisioning level of the banking sector is sufficient to absorb potential risks.

Chart 23. Dynamics of the NPL portfolio across sectors, billion AZN

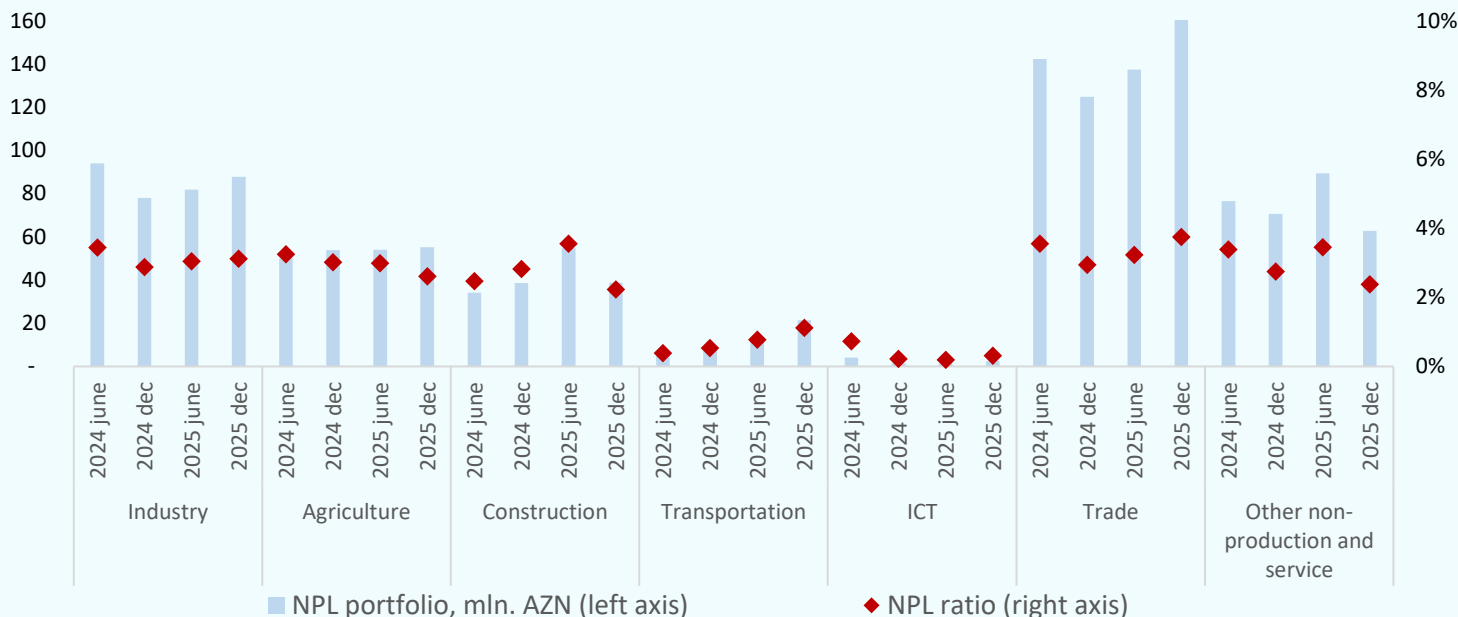


Source: Central Bank

In 2025 total write-offs across the banking sector amounted AZN223M, driven by the consumer portfolio – the consumer portfolio 60.9% (AZN135.8M) and the business portfolio 37.8% (AZN84.2M).

2.7% of business loans are non-performing. Compared with the end of the previous year, NPLs in the business portfolio increased by 14.4% to AZN429M. The NPL ratio of this segment increased by 0.2 pp to 2.7%. Over the period the NPL portfolio growth stemmed from the trade sector. Analyses indicate that the increase in NPLs in the business portfolio is attributable to individual customers and is not of systemic nature.

Chart 24. Dynamics of the NPL portfolio on business loans across sectors of the economy, million AZN

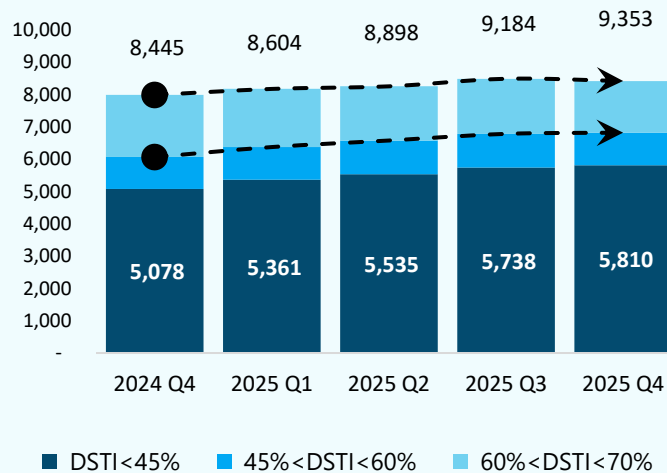


Source: Central Bank

Credit risks of the consumer portfolio is continuously monitored. In 2025 the size of the NPL portfolio on consumer loans increased by 23.7% to (AZN58M) in nominal terms to AZN305M. At the same time, the NPL ratio increased by 0.3 pp to 3.3%.

The share of the DSTI>45% portfolio in the consumer portfolio remains high. 38% of the consumer portfolio is estimated to be in DSTI>45% status. As of end of 2025, the DSTI<45% portfolio amounted to AZN5.8B, while the DSTI>45% portfolio amounted to AZN3.5B. The pace of increase in the DSTI ratio has slowed in recent periods.

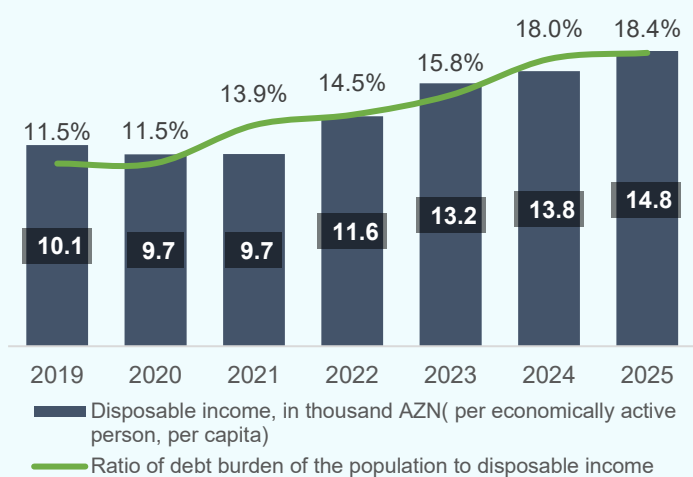
Chart 25. Dynamics of DSTI breakdown of the consumer portfolio, million AZN



Source: Central Bank

Debt burden of the population¹ is kept focused. Although disposable income of the population showed growth, the share of debt burden in disposable income of the population is rising. The ratio of debt burden of the population to disposable income increased by 0.4 pp to 18.4% compared with the end of the previous year.

Chart 26. Dynamics of the ratio of debt burden of the population to disposable income

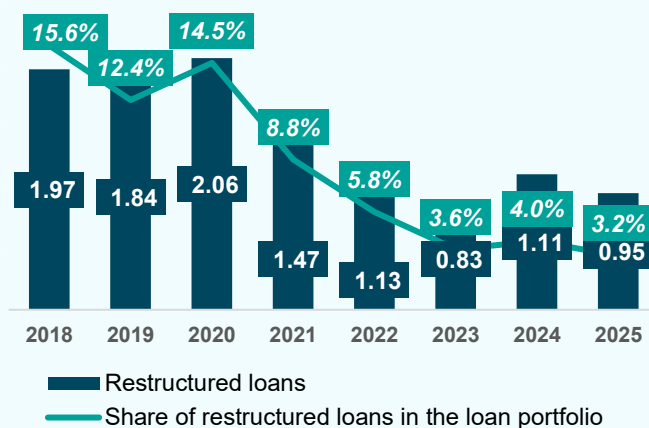


Source: Central Bank

The NPL ratio on the mortgage portfolio is in lows of recent years. As of end of 2025, nominal size of NPLs on the mortgage portfolio decreased by 14.3% (AZN4.9M) to AZN29.1M. In

2025 the share of NPLs in the mortgage portfolio decreased by 0.2 pp to 0.6%. The NPL ratio of mortgage loans issued from government funds stood at 0.1%, while that of mortgage loans

Chart 27. Dynamics of the restructured portfolio, million AZN



Source: Central Bank

issued from banks' own funds stood at 1.3%.

The restructured loans portfolio decreased. In 2025 the size of the restructured loans portfolio decreased by 14% (AZN154M) to AZN0.95B, driven by the business portfolio (AZN290M). Restructured loans in the consumer portfolio increased by AZN135M, whereas the mortgage portfolio remained broadly unchanged.

¹ Debt burden of the population = the total outstanding amount of consumer and mortgage

loans owed by individuals to credit institutions (banks and NBCIs)

Box 3. The role of household deposits in bank funding

Maturity transformation constitutes a fundamental function of banking intermediation and ensures the efficient allocation of financial resources. By transforming short-term liabilities into long-term assets, banks foster economic growth; however, inadequate management of this process may generate **liquidity and refinancing risks**. Therefore, **stable funding** is a critical condition for the safe and sustainable execution of maturity transformation.

Stable funding refers to the liabilities and capital instruments on a bank's balance sheet that are either of long maturity or deemed behaviorally stable. Such sources support the prudent financing of longer-term assets, **mitigate liquidity and refinancing risks, and strengthen banks' resilience to market shocks**.

The 2007–08 global financial crisis highlighted that capital adequacy alone does not guarantee banks' resilience. Despite formally complying with existing capital requirements, many international banks encountered significant liquidity pressures owing to their dependence on **short-term and less stable funding** sources. In the aftermath of the crisis, the Basel Committee on Banking Supervision introduced two cornerstone liquidity standards – **the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR)** to promote a more robust and systematic management of liquidity risks.

The LCR requires banks to hold sufficient high-quality liquid assets (HQLA) to withstand a 30-day stress scenario, strengthening their resilience to short-term liquidity shocks

The Net Stable Funding Ratio (NSFR) aims to constrain structural long-term funding risk. The ratio is defined as **Available Stable Funding (ASF) divided by Required Stable Funding (RSF)** and is required to be at least 100%. Its purpose is to ensure that banks' longer-term and less liquid assets are supported by adequate and stable sources of funding.

Under the NSFR framework liabilities and capital elements are weighted using different coefficients, referred to as Available Stable Funding (ASF) factors according to their degree of stability. **These factors** reflect the **likelihood that a funding source will remain on the bank's balance sheet under stress conditions**:

- **100% ASF factor** – applies to the most stable funding sources. These include a bank's capital and term deposits with a residual maturity of one year or more. The full amount of such funding is recognized as stable funding.
- **95% ASF factor** – applies to retail deposits with a residual maturity of less than one year that are considered behaviorally stable, i.e. 95% of these deposits is included in the stable funding base.

- **50% ASF factor** – applies to deposits from legal entities with a residual maturity of less than one year. Only half of these deposits is recognized as stable funding, reflecting their greater sensitivity to market and business conditions.

Accordingly, the NSFR captures the stability of a bank’s funding structure and mitigates the risk of excessive maturity mismatch arising from the financing of long-term assets with short-term resources.

International rating practices also follow a similar rationale. The Banking Industry Country Risk Assessment (BICRA) developed by S&P Global Ratings reflects the country-level risk environment and structural features of the banking sector. In this framework, **funding and liquidity factors** are analyzed as key determinants of banks’ creditworthiness and resilience. Under this methodology, the stability of the deposit base is assessed as a factor directly affecting banks’ lending capacity, and the following approach is applied:

- **Household deposits** – considered **100% stable funding sources**. This reflects their broad and diversified nature, behavioral stability, and the fact that they are typically protected by deposit insurance schemes.
- **Corporate deposits** – considered **50% stable funding sources**. Given their larger average size and higher sensitivity, a portion of these funds is treated as unstable funding.

This approach indicates that, under both prudential regulatory frameworks and rating assessment methodologies, retail deposits are regarded as one of the most reliable funding sources for banks. Their high stability factor enables banks **to conduct maturity transformation more safely, reduce structural liquidity risks, and strengthen financial stability**. In this regard, according to assessments by the International Monetary Fund, banks with a stable funding base **tend to constrain their lending activity to a lesser extent during financial shocks and mitigate the severity and propagation of systemic and contagion effects across the financial system**.

Recent developments in the Azerbaijani banking sector also indicate an increasing role of retail deposits in bank funding.

- Compared with end-2024, **the number of unique retail depositors** holding term deposits increased by **29%** to 194 thousand.
- In 2025, retail deposits increased by AZN2B, of which AZN1.7B accounted for term deposits and AZN0.3B for demand deposits.

- **Retail term deposits increased by 20%** year on year, and their **share in banks' term deposit base rose by 6 pp to 66%**.
- Over the past three years, **retail term deposits** have increased by **66%**.
- The share of retail term deposits in the total deposit portfolio increased by **4 pp to 27%**.

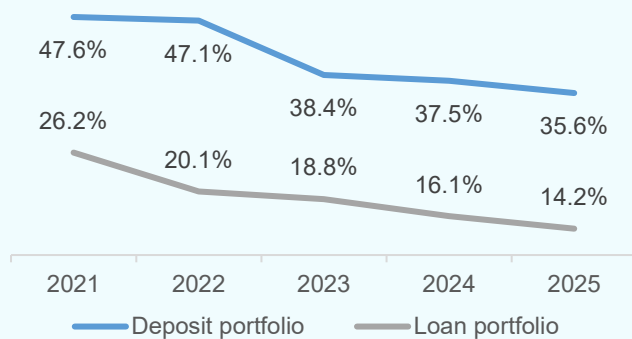
As a result, the rising share of retail term deposits is expanding the stable funding base in the banking sector and making a significant contribution to the strengthening of overall financial stability.

Market risk of the banking system

The banking sector’s currency position is within the prudential requirements. In 2025, short open currency position of the banking system amounted to AZN33M, the open currency position to total regulatory capital ratio was -0.5%, which is within prudential requirements. According to the ‘Regulations on setting open currency position in banks,’ the maximum threshold on the open currency position on freely convertible currency to bank’s total regulatory capital ratio is [-20%, +20%] (for one currency [-10%, +10%]). Under the very regulation, the maximum threshold on closed currencies on the aggregate open currency position to the bank’s total regulatory capital is [-10%,+10%] (for one currency [-5%,+5%]).

De-dollarization continues. The loan portfolio dollarization across the banking sector decreased by 1.9 pp to 14.2% (historical low). Dollarization of the deposit portfolio decreased by 1.9 pp to 35.6% year-over-year.

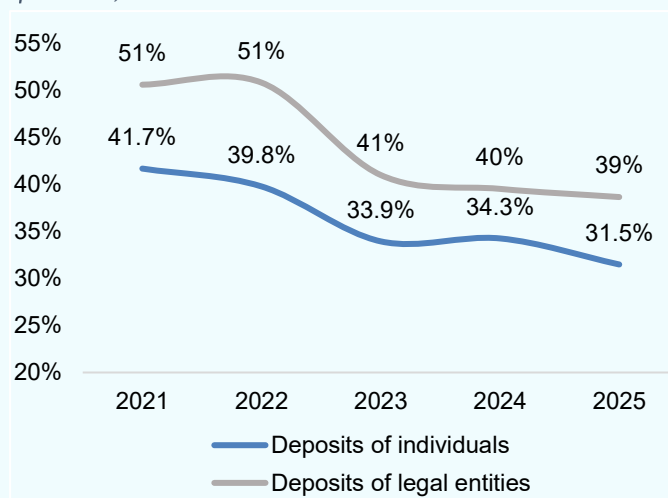
Chart 28. Dynamics of dollarization of deposit and loan portfolios, in %



Source: Central Bank

De-dollarization of household deposits continues. Dollarization of households’ term deposits decreased 3.5 pp to 31.4%, and demand deposits decreased by 1.4 pp to 31.6% year-over-year. Dollarization of corporate term deposits increased by 4.7 pp to 57.2%. The share of foreign currency denominated corporate demand deposits in total deposits decreased by 2.6 pp to 32.7%.

Chart 29. Dynamics of dollarization of the deposit portfolio, in %

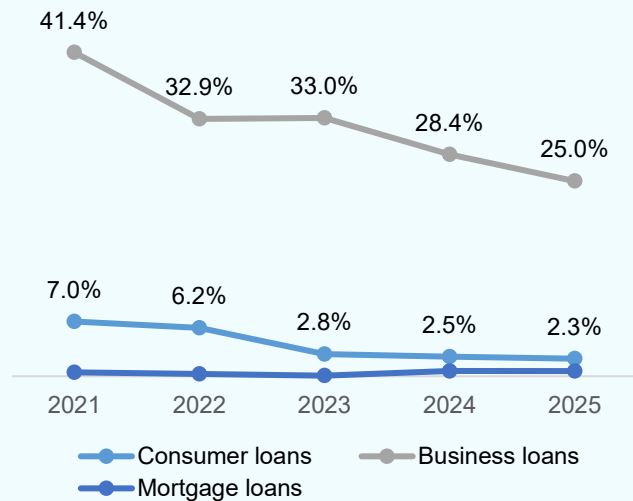


Source: Central Bank

In 2025 de-dollarization of the loan portfolio continued. Manatisation of the loan portfolio persisted, with the expansion largely driven by loans denominated in the national currency. Relative to end-2024, the decrease in the dollarisation of the loan portfolio in 2025 was largely driven by business loans – dollarization of business loans decreased by 3.4 pp to 25%. As, according to CBA’s regulations, mortgage loans are required to be issued in the national currency only, the mortgage lending is nearly in the national currency; hence, the share of

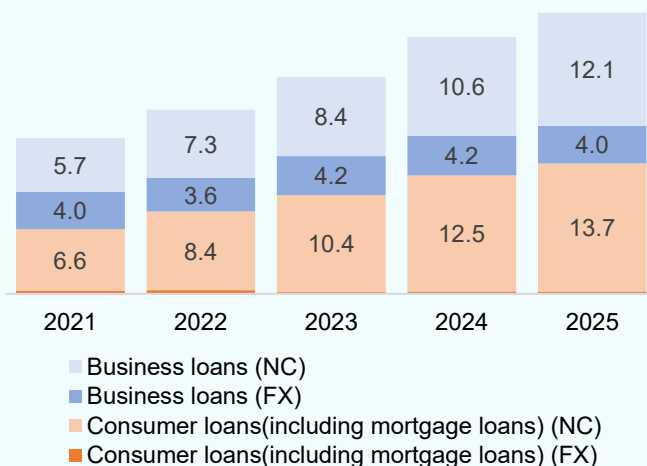
foreign currency denominated mortgage loans accounted for 0.7% of mortgage loans. On the other hand, in 2025, dollarization of consumer loans decreased by 0.2 pp to 2.3%.

Chart 30. The share of foreign currency in the loan portfolio, in %



Source: Central Bank

Chart 31. Currency structure and dynamics of the loan portfolio, billion AZN



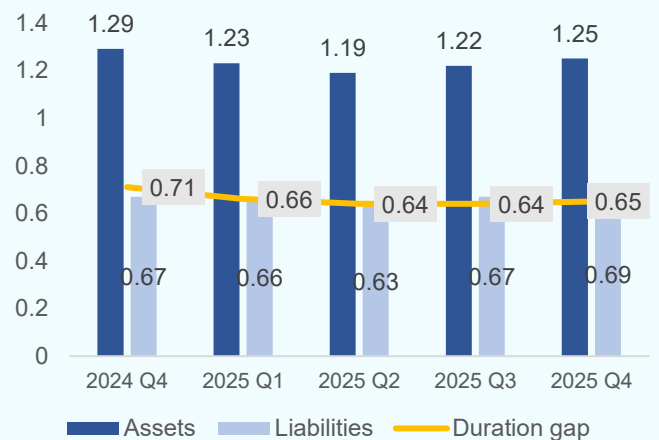
Source: Central Bank

Compared with end-2024, the sector's average weighted duration gap narrowed.

The reduction in the average weighted duration of assets in 2025 was primarily driven by an increase in the share of assets with residual maturities of less than one year. The increase in the average weighted duration of liabilities was, in turn, due to a higher share of term deposits in total deposits. Consequently, the average weighted duration gap decreased from 0.71 at end-2024 to 0.65.

Banks' interest rate sensitivity does not threaten their resilience. The interest rate risk was analyzed with the duration method. Since

Chart 32. Average weighted duration and duration gap of assets and liabilities



Source: Central Bank

most assets and liabilities are recognized at a balance value in the sector, calculations were made over the balance value and discounted at the refinancing rate of the CBA. The main source of duration mismatch between assets and liabilities is that the weighted average duration of loans issued is longer than that of deposits attracted. Given a positive duration gap, rising interest rates exert a negative effect on banks' capital positions. According to the

simulations conducted, a 1 pp increase in the interest rate leads to a 0.9 pp decrease in the capital adequacy ratio, which does not pose a

threat to the financial stability of the banking system.

Chart 33. Maturity breakdown and average weighted duration of assets and liabilities (billion AZN)

	Assets		Liabilities		Nominal Gap(Assets – Liabilities)
Immediate	10.4	18.1%	24.1	48.4%	-13.7
0-1 year	23.9	41.9%	16.2	32.6%	7.7
1-3 years	13	22.8%	5.2	10.4%	7.8
3-5 years	4.2	7.4%	0.7	1.5%	3.5
>5 years	5.6	9.7%	3.6	7.2%	2
Total	57.1	100%	49.7	100%	7.4
Average weighted duration	1.25		0.69		

Source: Central Bank

Box 4. New regulations on market risk management in the banking sector.

In line with the ‘2024–2026 Financial Sector Development Strategy,’ new regulatory measures have been adopted to strengthen the resilience of the banking sector and further enhance alignment with international prudential standards, including the Basel III framework.

In this context, ‘*Regulation on market risk management in banks*’ was approved on 23 December 2025, intended to strengthen banks’ resilience to adverse movements in financial markets (interest rate, foreign exchange and asset price risks), and enhance the effectiveness of market risk governance and risk management practices in banks

The objective of the ‘*Regulation on market risk management in banks*’ is to establish a unified and forward-looking set of requirements for the identification, measurement, monitoring and management of market risks in banks. The main risk categories covered are as follows:

- Interest rate risk – the risk arising from adverse movements in interest rates basis risk, revaluation and maturity mismatch risk, optionality risk, and yield curve risk).
- Foreign exchange risk – the risk arising from adverse movements in foreign exchange rates.
- Equity risk – the risk arising from adverse changes in the value of securities held by a bank.
- Commodity risk – the risk arising from adverse movements in commodity prices in the market.
- Market liquidity risk – the risk that, due to limited market liquidity or adverse market conditions, an asset cannot be sold at its market price, or that its market price cannot be determined for any reason.

These risks apply to both the trading book and the banking book exposures of banks.

The new regulation specifically requires a more accurate and advanced measurement of interest rate risk in the banking book (IRRBB). The risk is assessed using two main approaches:

1. Economic Value of Equity (EVE) approach:
This approach is used to assess the sensitivity of a bank’s capital position to interest rate risk over the long term and measures the change in the present value of the bank’s expected net cash flows under interest rate stress scenarios. EVE represents the economic value of the bank’s equity. Banks may assess whether the change in EVE exceeds 15% of Tier 1 capital.
2. Net Interest Income (NII) approach is used to assess the sensitivity of a bank’s capital position to interest rate risk over the short term and measures the change in net interest income under interest rate stress scenarios. NII is defined as interest income minus interest expenses.

Calculations are performed over a 12-month horizon and assume a constant balance sheet (i.e., no change in the overall size of the bank's balance sheet during the measurement period).

Banks are required to regularly measure market risks and conduct stress tests. The models used should be subject to independent validation, and stress testing should be used to assess the impact of severe market movements on capital positions and financial performance.

Banks are also required to regularly monitor positions in both the trading and banking books, interest rate, foreign exchange and price movements, key risk indicators (including EVE and NII), stress-testing results, and compliance with established limits. In addition, banks are required to submit information on IRRBB measurement (measurement results, methodologies used, and underlying benchmark assumptions) to the Central Bank quarterly, no later than the 15th day of the month following the end of each quarter.

The *'Regulation on setting open currency position limits in banks'* aims to limit risks arising from movements in foreign exchange rates. The regulation defines the methodology for calculating banks' foreign exchange positions and establishes the applicable limits for these positions.

Under the regulation, the open currency position in each currency should not exceed a specified percentage of a bank's total regulatory capital. In this context, the following amendments to limits for closed currencies have been approved:

- One currency limit: reduced from 7% to 5%
- Aggregate (overall) limit: reduced from 14% to 10%

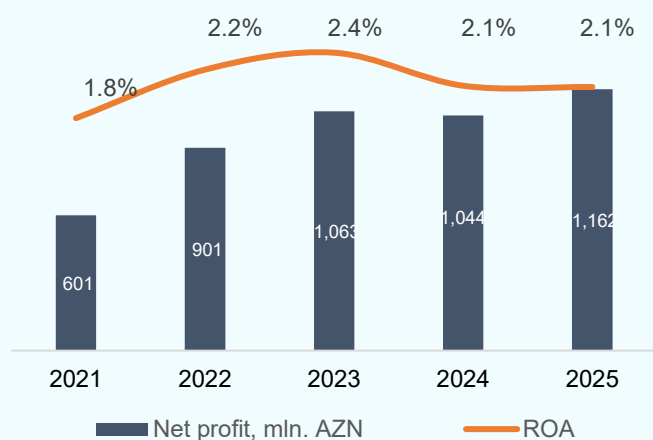
These changes aim to limit banks' exposure to higher exchange rate risk in closed currencies and support the preservation of capital.

** Closed currency - all foreign currencies except the US dollar, euro, Canadian dollar, Japanese yen, British pound sterling, Swiss franc, Special Drawing Rights, and the currencies of countries with a sovereign credit rating of at least "AA-" (or equivalent) assigned by international rating agencies.*

Banking system profitability

Despite the increase in both interest and non-interest expenses, profitability improved, and the sector's profitability remained high. Banking system's net profit yoy increased by 11% (AZN118M) to AZN1,162M. ROA remained stable at 2.1% amid sector's profitability and asset growth.

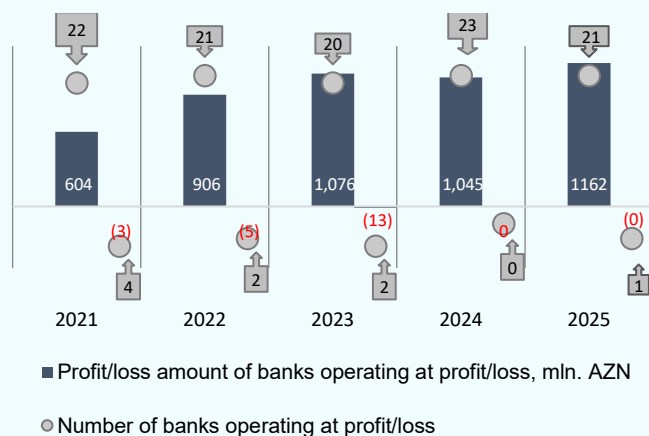
Chart 34. Banking sector's net profit and ROA



Source: Central Bank

With only one bank operating at a loss, the remaining banks closed 2025 with positive financial results. In 2025, 21 banks recorded a

Chart 35. Indicators of banks operating at profit/loss



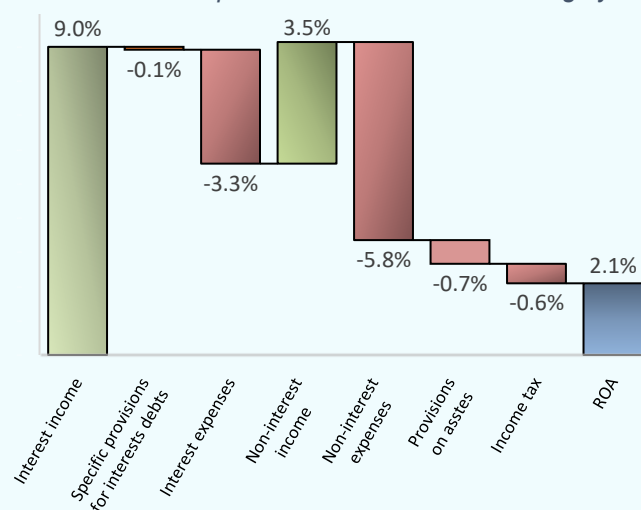
Source: Central Bank

combined profit of AZN1,162M, whereas one bank reported a loss of AZN0.4M.

ROA stood at 2.1% as of end of the year. Both interest and non-interest expenses as a share of average assets increased at the sector level. Nevertheless, higher interest income relative to average assets offset the rise in costs, leaving ROA broadly unchanged year on year.

The increase in the sector's profitability was primarily driven by rising interest income.

Chart 36. Decomposition of ROA in the banking system

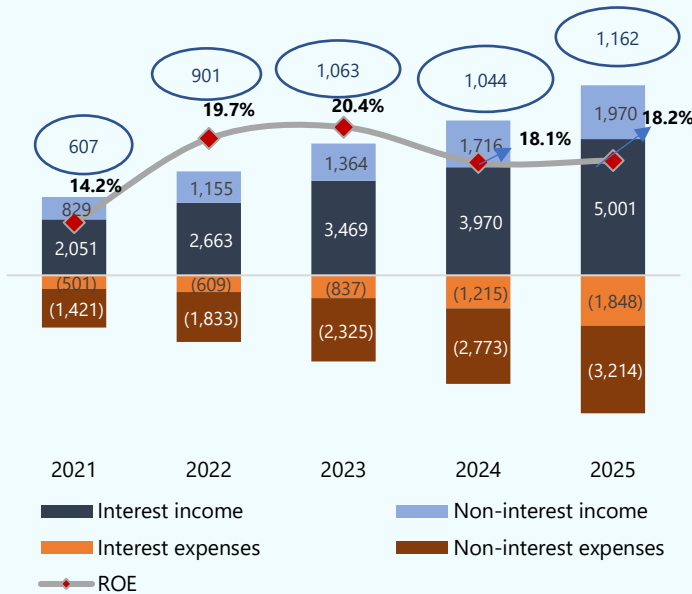


Source: Central Bank

While interest and non-interest income yoy increased by 26% (AZN1,031M) and 15% (AZN254M), respectively, interest and non-interest expenses increased by 52% (AZN633M) and 16% (AZN441M). In recent periods, the increase in term deposits in banks' funding structures, together with higher deposit rates and rising operating costs,

contributed to higher interest and non-interest expenses.

Chart 37. ROE of the banking sector and its key components, million AZN



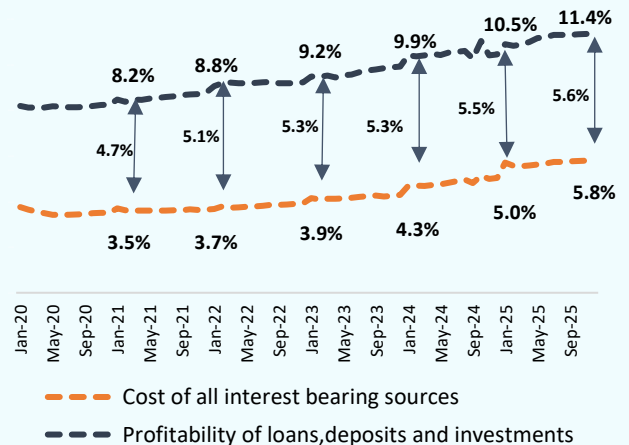
Source: Central Bank

The sector’s funding costs continue to increase. Compared with 2024, the banking sector’s interest expenses increased by 52% to AZN1,848M. Of this increase, 59% was attributable to interest expenses on deposits. Within deposit-related interest expenses, 59% was driven by term deposits, while 41% was attributable to demand deposits. The increase in deposit-related interest expenses was mainly attributable to household term deposits (52%), and corporate demand deposits (38%). In recent periods, increased customer integration into digital banking, the introduction of interest-bearing demand deposits, and rising financial literacy have supported growth in deposit volumes. Against this background, banks’ funding costs increased year-over-year.

Despite higher interest expenses, the sector’s net interest spread remained broadly stable. Compared with end-2024, the cost of all interest-bearing funding sources increased by 0.8 pp to 5.8%, while asset yields rose by 0.9 pp to 11.4%. Consequently, the interest spread widened slightly by 0.1 pp relative to end-2024.

The increase in non-interest expenses led to a slight deterioration in the sector’s efficiency ratio. Banks’ non-interest expenses increased by 16% (AZN441M) to AZN3.2B, driven by salary and other compensation expenses (AZN199M) and fee/commissioning expenses (AZN184M), each indicator grew by 20%. Due to the growth rate of non-interest

Chart 38. Banking sector’s funding value and profitability, in %

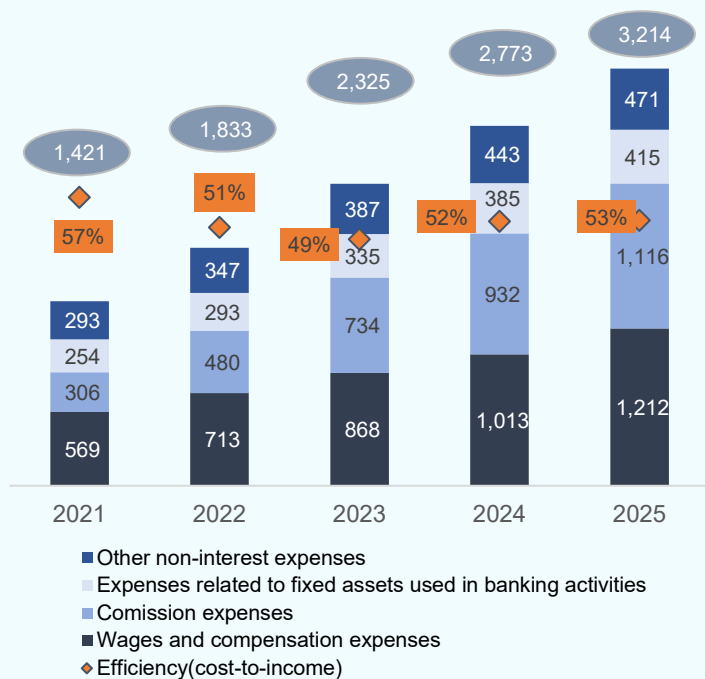


Source: Central Bank

expenses slightly outpacing the growth rate of net interest and non-interest income, the

sector's efficiency indicator² declined by 1 pp to 52%.

Chart 39. Efficiency indicators of the banking sector, million AZN



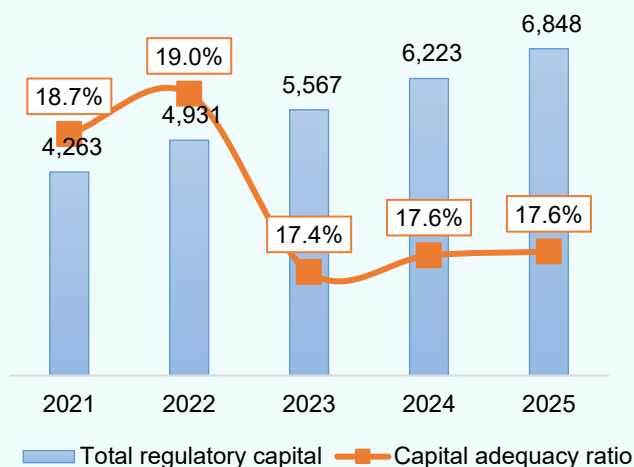
Source: Central Bank

² Efficiency indicator = (non-interest expenses – commission expenses) / (Net interest income + non-interest income – Commission income)

Capital position of the banking system

The banking sector's capital position remains well above prudential regulatory requirements, strengthening its capacity to absorb potential losses under adverse shock scenarios. In 2025 total regulatory capital of the banking sector increased by 10% (AZN625M) to AZN6.8B. The CAR remained stable at 17.6% (1.7 times higher than the minimum prudential requirement). Amid a 10% increase in both total regulatory capital and RWAs, the CAR remained broadly unchanged.

Chart 40. Dynamics of capital adequacy, million AZN

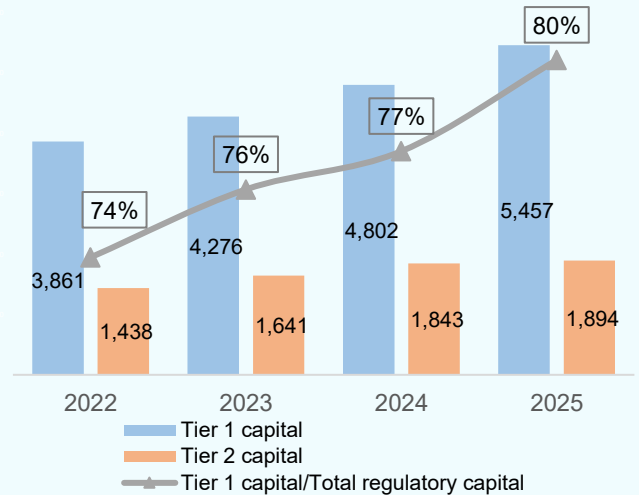


Source: Central Bank

The significant rise in Tier 1 capital was the primary driver of the increase in total regulatory capital. In 2025, Tier 1 capital grew by 13.6% (AZN0.7B) to AZN5.4B, whereas Tier 2 capital increased by 2.8% (AZN51M) to AZN1.9B. The increase in Tier 1 capital was mainly attributable to the transfer of previous year's profit to retained earnings and a rise in ordinary share capital. Tier 2 capital also

increased, primarily reflecting growth supported by the current year's profit. Note that, in 2025, three banks made shareholder capital injections totaling AZN102 M.

Chart 41. Dynamics of capital adequacy, million AZN

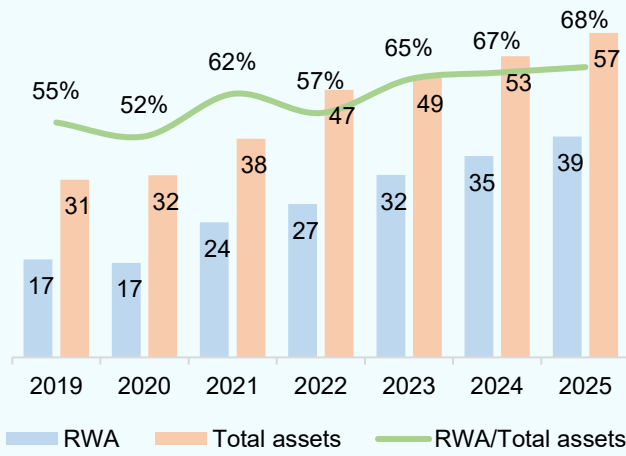


Source: Central Bank

Compared with end-2024, the share of risk-weighted assets in total assets increased, reflecting the channeling of deposits mobilized by the sector into lending. Amid a 7.7% year-on-year expansion in total assets (AZN4.1B), RWAs grew by 9.8% (AZN3.5B). Consequently, the RWAs to total assets ratio increased by 1 pp to 68% in 2025. RWAs are primarily composed of credit risk exposures (93%), followed by operational risk (6%) and market risk (1%). The maintenance of the sector's capital adequacy, even amid robust lending activity, indicates that banks possess sufficient capital buffers and strong resilience to support additional financing. Accordingly, by the end of 2025, the sector's potential capacity

for further growth in RWAs is estimated at AZN19.7B.

Chart 42. Dynamics of assets and RWAs, billion AZN



Source: Central Bank

Table 1. Main banking system indicators, million AZN

	2023	2024	2025
Balance sheet items			
Total assets	49,178	53,001	57,086
Loan portfolio	23,183	27,478	30,063
Business loans	12,617	14,787	16,106
Consumer loans	6,937	8,445	9,354
Mortgage loans	3,629	4,246	4,603
Total liabilities	43,115	46,383	49,744
Current liabilities	23,687	24,866	25,608
Household deposits	12,582	14,299	16,323
Term deposits	6,882	8,601	10,316
Demand deposits	5,700	5,698	6,007
Corporate deposits	21,968	23,397	21,898
Term deposits	4,500	5,817	5,316
Demand deposits	17,468	17,580	16,582
Equity	6,063	6,618	7,342
Capital position			
Tier I capital	4,319	4,802	5,457
Total regulatory capital	5,618	6,223	6,848
RWAs	32,085	35,401	38,882
Tier I capital adequacy ratio	13.50%	13.57%	14.03%
Total regulatory capital adequacy ratio	17.50%	17.58%	17.61%

	2023	2024	2025
Profitability			
Net profit	1,076	1,044	1,162
ROA	2.40%	2.10%	2.11%
ROE	20.30%	18.12%	18.24%
Liquidity risk profile			
Current assets	13,154	14,243	12,911
Current assets in total assets	26.7%	26.8%	22.6%
Instant liquidity ratio	52.2%	51.9%	54.36%
Liquidity coverage ratio (LCR), total	134.5%	150.0%	153.7%
National currency	106.2%	126.3%	126.0%
Foreign currency	118.0%	177.9%	198.8%
Credit risk profile			
Non-performing loans	614	655	787
Business loans	378	375	429
Consumer loans	197	246	304
Mortgage loans	39	34	29
NPL ratio	2.60%	2.38%	2.54%
Business loans	3.00%	2.53%	2.66%
Consumer loans	2.80%	2.92%	3.26%
Mortgage loans	1.10%	0.80%	0.63%
Market risk profile			
Asset dollarization	33.70%	30.60%	29.66%
Liability dollarization	37.30%	35.80%	34.16%

* Prudential reporting methodology based.

Box 5. Prudential framework for bank capital and its adequacy, Basel III Standards

To enhance both the quality and quantity of capital in the banking sector and strengthen resilience to systemic risks, the Basel Committee on Banking Supervision introduced the Basel III framework, which has been implemented stepwise.

As part of the implementation of the ‘2024–2026 Financial Sector Development Strategy’, and with the aim of strengthening financial stability and increasing alignment with international regulatory standards, the Management Board of the Central Bank of the Republic of Azerbaijan adopted amendments to the ‘*Regulation on calculation of bank capital and its adequacy.*’

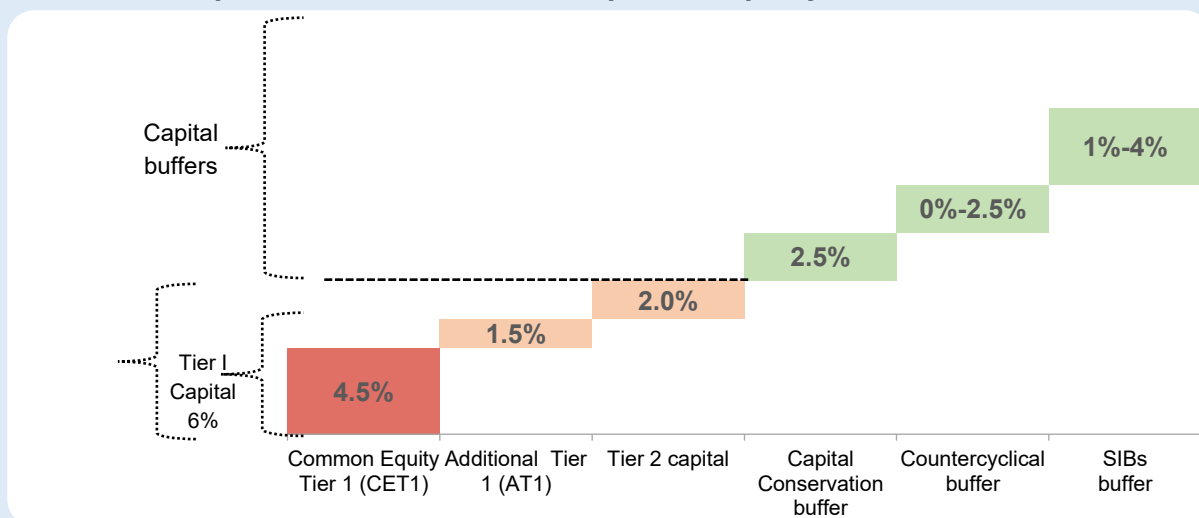
Through these amendments, the structure of bank capital, capital adequacy ratios, capital buffers, and several other regulatory requirements were brought into line with Basel III standards. The revised framework provides for a separate classification of Tier 1 capital into Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital.

Progress achieved in enhancing the requirements related to capital adequacy ratios and capital buffers:

1. **New minimum capital requirements** established, fully aligned with the Basel III framework. The revised minimum thresholds: 4.5% for CET1, 6% for T1, and 8% for Total regulatory capital. Main Tier 1 Capital (CET1) is defined as the highest-quality component of capital, serving as the first line of defense against risks and safeguarding the bank’s financial soundness on a going-concern basis.
2. A **capital conservation buffer** requirement introduced, setting an additional buffer of 2.5% on top of the CET1. In the event of a breach of this buffer, restrictions are envisaged on the distribution of dividends and the payment of bonuses.
3. Enhancement of **the countercyclical capital buffer** calculation. The methodology for calculating the CCyB specified in the existing regulations has been enhanced. The revised approach incorporates non-oil GDP growth, the dynamics of the leverage ratio, banks’ capital positions, the indebtedness levels of households and non-financial corporations, and the evolution of credit exposures to distressed financial institutions.
4. **Differentiated introduction of the systemic importance buffer** (SIB buffer). While the existing framework specified higher capital requirements for systemically important banks, the buffer was not previously differentiated according to each bank’s systemic importance index. To address this, a risk-based and differentiated mechanism has been introduced, guided by the principle of ‘greater systemic importance – higher capital buffer’. Under the new framework, banks are required to maintain an additional capital buffer ranging from 1% to 4%, depending on their systemic importance index. This model is expected to enhance financial stability,

align banks' capital burdens with their systemic relevance, and ensure a more equitable distribution of systemic risk.

Requirements for minimum capital adequacy ratio and buffers



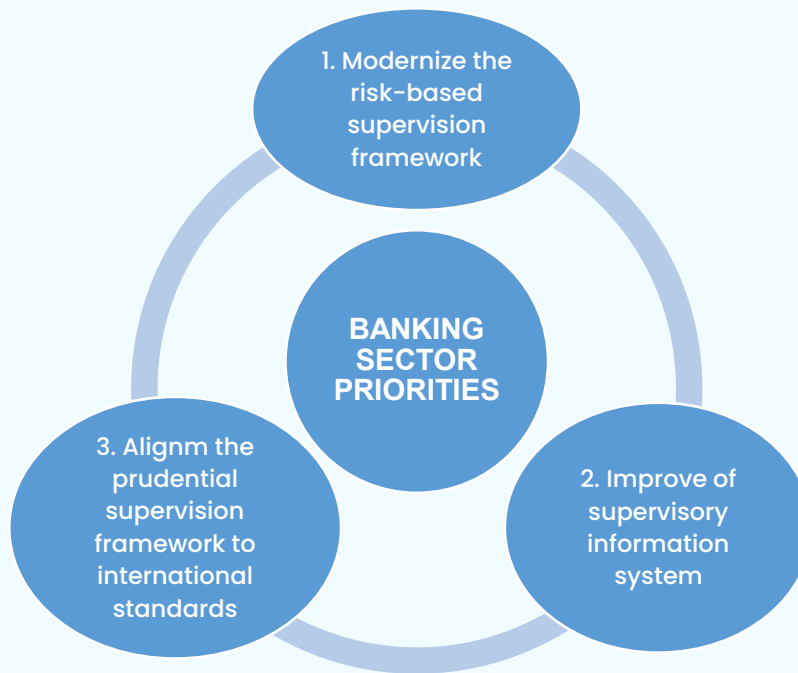
The capital conservation, the countercyclical capital, and the systemic importance buffers are all required to be met with Common Equity Tier 1 (CET1) capital and are maintained in addition to the minimum regulatory capital requirements.

The introduction of new capital buffers will enhance banks' resilience to potential losses, support a more accurate assessment of risks, and improve the quality of bank capital, while also contributing to the further strengthening of sustainable financing in the economy.

At the same time, the completion of the alignment of capital requirements with Basel III standards will strengthen the prudential policy framework and supervisory architecture, while also making a positive contribution to the attractiveness of the banking sector for international investors.

A one-year transition period has been granted to banks to adapt to the new capital structure and align internal rules and procedures with the revised regulatory requirements. Full compliance with the new requirements will be mandatory as of 1 January 2027.

Banking sector priorities in 2026



1. Development of a **methodology for the application of supervisory capital add-ons** by the competent authority, based on the risk rating of banks following completion of the risk-based supervisory cycle (**Basel Pillar II capital add-ons**)
2. Implementation of measures for the automation of supervisory processes in line with the 'SupTech' Roadmap
3. Development of an approach to the IFRS capital buffer for **prudential purposes** in the context of full transition to IFRS 9
 - Establishment of a regulatory framework for **consolidated** supervision
 - Revision of the regulatory framework for consumer lending with a view to mitigating risks of excessive indebtedness
 - Further enhancement of Corporate Governance Standards in banks (including strengthening requirements for the compliance function and transforming Corporate Governance Recommendations such as supervisory board self-assessments into binding standards)
 - Enhancement and expansion of the regulatory framework for **project finance lending**
 - Development of a methodological framework for the **structuring and management of syndicated loans**
 - Establishment of regulatory requirements for the **management of model risk in banks**
 - Development of **corporate governance standards for NBCIs**.

Azerbaijani banking sector from the perspective of international rating agencies

Efforts aimed at modernizing the regulatory and supervisory framework for financial institutions, alongside enhanced capitalization and liquidity positions and increased sectoral resilience, resulted in international rating agencies assigning a positive outlook to Azerbaijan's banking system.

Moody's

In its 24 February 2026 report, "Banking System Outlook – Azerbaijan: Benign operating environment, strong government support keep outlook positive", Moody's indicates that a benign operating environment and the government's capacity to support the banking sector will help preserve the sector's resilience over the next 12–18 months. The regulatory measures in place are expected to underpin capital adequacy and strengthen liquidity management.

Moody's expects the quality of banks' loan portfolios to remain broadly stable. The report emphasizes the stability of the Azerbaijani manat as a key factor underpinning credit performance.

Azerbaijani banks' capital positions have been positively assessed, with the implementation of a 0.5% countercyclical capital buffer in March 2025 further reinforcing capital adequacy.

Strong capital buffers and stable profitability underpin banks' capacity to absorb losses while maintaining sufficient liquidity.

The report also underscores the government's ability to support the banking sector, with Moody's indicating that improved sovereign creditworthiness and a positive outlook strengthen support prospects for depositors of the largest banks.

The indicators outlined in the report suggest that capital adequacy, liquidity, and asset quality in the banking system have remained robust. CBA's prudential regulatory stance, including the introduction of the countercyclical capital buffer and the enhancement of the liquidity framework, has been instrumental in underpinning the sector's resilience.

S&P Global Ratings

According to S&P Global Ratings' 'Central Asia and the Caucasus Banking Outlook 2026', the improvement in Azerbaijan's overall risk environment is expected to support the banking sector's resilience in 2026. Strengthening of the regulatory and supervisory framework, particularly through the adoption of risk-based supervision and the transition to Basel III standards, enhances supervisory effectiveness and reinforces long-term financial stability.

The agency further indicates that banks' profitability and capitalization will be underpinned by loan growth and stable asset quality, while the low level of private sector indebtedness provides additional support to financial stability.

Reflecting these developments, S&P Global Ratings upgraded Azerbaijan's industry risk score by one notch in the Banking Industry Country Risk Assessment (BICRA).

Assessment of the banking system resilience

The resilience of the banking system to external shocks was assessed via a top-down stress-testing framework. The exercise aimed to evaluate banks' capital resilience under adverse macro-financial scenarios and identify appropriate mitigating and policy measures. A pessimistic scenario was constructed based on a baseline path and an 'extreme but plausible' specification of low-probability, high-impact shocks. Scenario-consistent macroeconomic projections were subsequently incorporated into econometric satellite models to derive forecasts of key dependent variables (NPL ratios, interest rates, etc.). In the final stage, these projections were used to simulate credit, interest rate, exchange rate, and securities valuation risks, enabling a dynamic assessment of banks' projected financial positions over the forecasting horizon.

Baseline and Adverse Scenario Assumptions: Baseline scenario:

Amid stabilising global economic activity, Azerbaijan's economic growth is assumed to continue at a moderate pace. Stable oil revenues support fiscal sustainability, while GDP growth follows a steady trajectory.

In the baseline scenario, the non-oil sector is expected to maintain positive momentum and serve as the primary growth driver. Inflation is projected to gradually converge towards and remain within the target range, while the nominal and real effective exchange rates are expected to appreciate. This would support a further

strengthening of the purchasing power of the national currency.

In an environment of price stability, the monetary policy stance is expected to remain broadly unchanged, with the policy rate projected to be kept stable. Fiscal policy is likewise assumed to remain prudent, with government expenditure maintained at a stable level. This policy mix is expected to support sustainable economic growth while contributing to the preservation of macroeconomic stability and equilibrium.

Adverse (pessimistic) scenario:

The adverse scenario is based on an assumption of weaker global economic growth and a marked decline in oil prices, reflecting elevated uncertainty in energy markets. It is constructed to capture potential downside risks to the global economy and is not intended as an official forecast.

In the adverse scenario, a pronounced decline in Brent crude oil prices is assumed, posing material downside risks to the Azerbaijani economy. In this environment, GDP growth slows significantly, and a deep recession is observed over the projection horizon. A sizeable deficit emerges in the balance of payments, while fiscal pressures necessitate the prioritisation of government expenditures.

The exchange rate is subject to substantial depreciation pressures, with the NEER declining and inflation rising markedly. Despite the monetary policy tightening, impaired credit channel transmission limits its overall effectiveness.

The non-oil sector and consumption activity decline, accompanied by a rise in unemployment. Fiscal policy is redirected

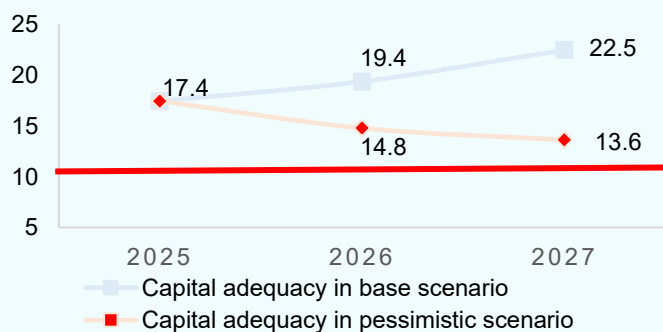
towards alleviating social pressures. No near-term economic recovery is anticipated (L-shaped recession).

Overall, the scenario is characterised by a weakening of economic activity, price hikes, and intensifying pressures in the FX market, thereby challenging economic stability.

The stress test results indicate that the banking sector’s existing capital buffers are adequate to absorb potential losses. Under the baseline scenario, the capital adequacy ratio stands at 19.4% in 2026, while a steady increase over the subsequent year results in the ratio reaching 22.5%³. Under the adverse scenario, the banking sector’s CAR decreases by 2.6 pp in 2026 and by an additional 1.2 pp in 2027 to 14.8% and 13.6%, respectively. Overall, while the stress test indicates a degree of capital erosion, the sector’s capital adequacy remains above the regulatory minimum thresholds.

According to the stress test results, the main channels affecting banks’ capital adequacy were credit risk and the increase in RWAs. In 2026, the credit risk channel reduced the capital

Chart 43. Capital adequacy ratio of the banking system under the stress test scenario, in %

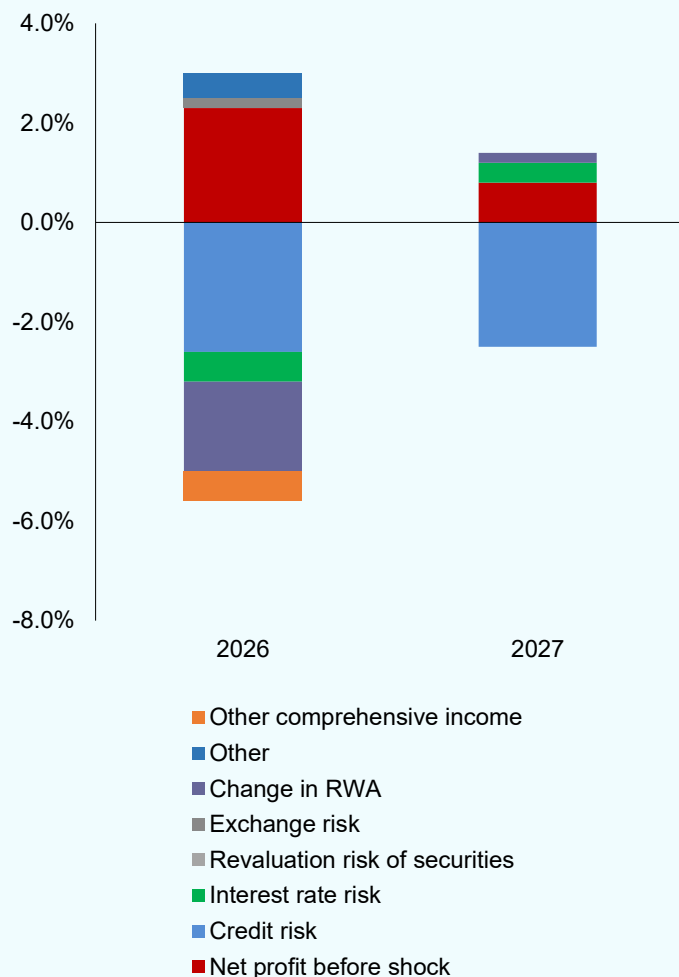


Source: Central Bank

³ Banks are assumed not to distribute dividends under both the baseline and adverse scenarios

adequacy ratio by 2.6 pp, while RWAs exerted a further downward impact of 1.8 pp.

Chart 44. Determinants of capital adequacy dynamics under the adverse scenario, in %



Source: Central Bank

Non-bank credit institutions

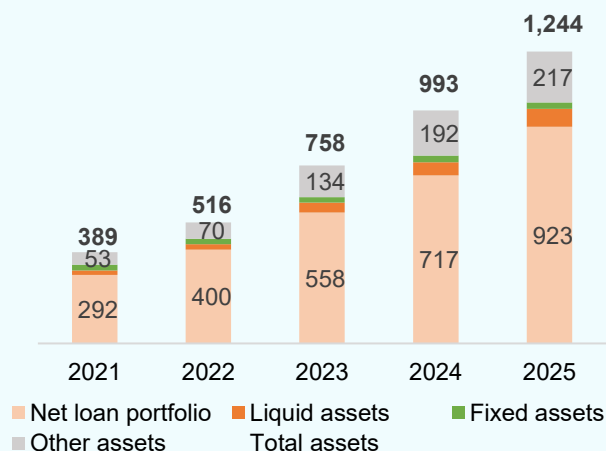
The contribution of non-bank credit institutions to financial intermediation remains limited. As of the end of 2025, active NBCIs numbered 54, credit unions (CU) numbered 35, total non-bank credit institutions numbered 89. Total market share of NBCIs in the financial system in terms of their assets stood at.⁴ Licenses of one NBCI and one CU were revoked, and one NBCI was licensed. 14 of the currently active NBCIs operate with foreign capital, of which 11 have foreign capital shares exceeding 50%. The number of people employed with NBCIs increased by 357 people to 3 903 people and the number of branches increased by 7 to 297.

The asset size of the NBCI sector increased.

Total assets of NBCIs operating across the country increased by 25% (AZN250M) to AZN1.24B, driven by net loan portfolio. In 2025 the net loan portfolio increased by 28.8% (AZN206M). Total liabilities of NBCIs increased by 26.5% (AZN142.4M) to AZN679M, driven by the funds attracted from resident financial institutions.

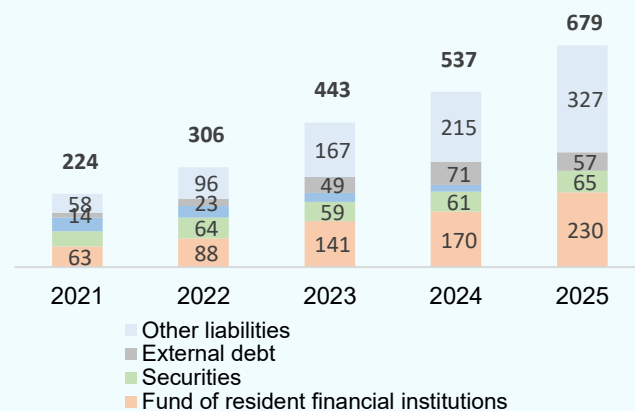
In 2025, consumer lending remained the dominant of the loan portfolio of NBCIs. Total loan portfolio increased by 29.5% (AZN238.7M) to AZN1.05B. Mortgage loans increased by 16.5% (AZN7.2M), business loans by 5% (AZN12.9M), and consumer loans by 42% (AZN216.7M) year-over-year. The breakdown of the NBCIs' loan portfolio was as follows: consumer loans 70% (AZN729M), business

Chart 45. Dynamics of NBCIs' assets, million AZN



Source: Central Bank

Chart 46. Dynamics of NBCIs' liabilities, million AZN



Source: Central Bank

Chart 47. Loan portfolio structure of NBCIs, million AZN



Source: Central Bank

⁴ The analysis of NBCIs was conducted without taking into account the NBCI of 'Aqrarkredit' OJSC.

loans 25% (AZN265.6M) and mortgage loans 5% (AZN50.5M). The business portfolio consists of loans to trade 34.9% (AZN93M), to agriculture 20.8% (AZN55M), to other non-production and services 20.4% (AZN54M), to transport 19% (AZN51M) and to other areas 4.9% (AZN13M).

The NPL portfolio declined. Compared with the end of the previous year, the sector’s non-performing loans portfolio decreased by 4% to AZN108.5M in 2025. The NPL ratio decreased by 3.6 pp to 10.4%. The NPL portfolio decreased by 3.2 pp to 12.6% on consumer loans and by 6.4 pp to 6.1% on business loans.

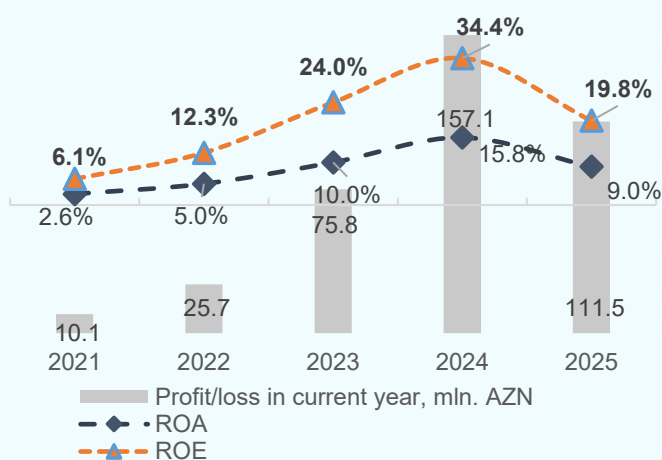
Profitability in the NBCI sector declined due to higher provisions for loan losses. In 2025, net profit of NBCIs declined by 29% (AZN45.5M) compared with the end of the previous year, to AZN111.5M. ROA decreased by 6.8 pp to 9%, ROE decreased by 14.7 pp to 19.8%. Over the coming years, profitability is expected to regain a positive trajectory, supported by a reduction

in the impact of provisioning on the financial performance of NBCIs.

The capital position of the sector has strengthened, with the capital of NBCIs increasing by 24% (AZN107.9M) to AZN564.3M. Despite lower profitability, higher capitalization was mainly driven by an increase of AZN63M in paid-in capital across institutions, associated with the phased implementation in 2025 of new prudential requirements that entered into force at the end of 2024.

The CBA’s new regulatory and institutional measures are designed to enhance transparency, strengthen resilience, and improve governance practices in the NBCI sector. The ‘Regulation on prudent management of non-bank credit institutions’ and the ‘Regulation on credit risk management in non-bank credit institutions’ approved in 2024 began to be applied in 2025, and as part of the Central Bank’s ‘2024-2026 Financial Sector Development Strategy’ series of consistent measures were undertaken to strengthen the

Chart 48. Profitability indicators of NBCIs



Source: Central Bank

Chart 49. Dynamics of capital components across NBCIs, million AZN



Source: Central Bank

institutional capacity of NBCIs and improve the level of disclosure. In this context, and in accordance with the *'Law on Non-Bank Credit Institutions,'* the Central Bank's Management Board took a decision dated 7 October 2025 approving the *'Minimum external auditing requirements for non-bank credit institutions.'* The framework defines criteria for auditor selection, requirements governing audit activities, and the responsibilities of Audit Committees. It further introduces safeguards, including a restriction on engaging the same external auditor for more than five

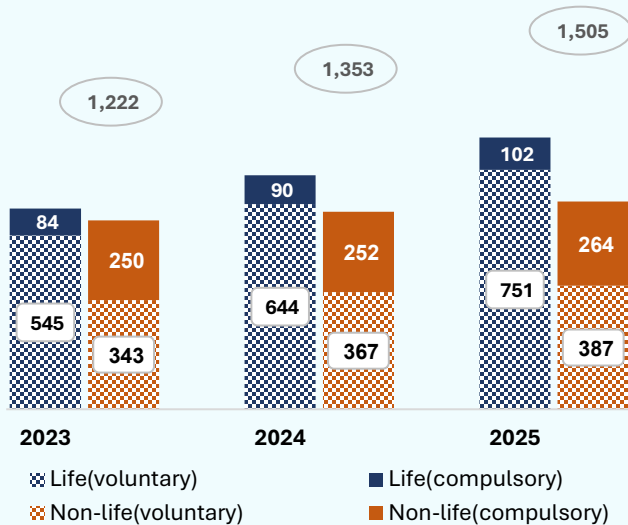
consecutive years and limitations on the participation in audits of individuals employed by the respective institution within the previous three years. The regulation also requires annual notification to be sent to the CBA, by 15 December of the appointed external auditor. These measures are expected to enhance transparency, strengthen governance practices, and support sustainable development in the NBCI sector.

Insurance sector

As of the end of 2025, the Azerbaijani insurance market hosted 16 insurance and one reinsurance companies. Of insurance companies 5 were life and 11 non-life companies. 22 insurance brokers and 468 insurance agents also contributed to activities of the insurance sector.

The insurance sector is realizing its growth potential. Insurance premiums collected in 2025 yoy increased by 11.2% (AZN152M) to AZN1505M, derived from life (56.7%) and non-life insurance classes (43.3%). Life insurance premiums increased by 16.2% (AZN119M) to AZN853M, and non-life insurance premiums increased by 5.3% (AZN32M) to AZN651.7M, both stemming from voluntary insurance.

Chart 50. Annual dynamics of insurance premiums, million AZN

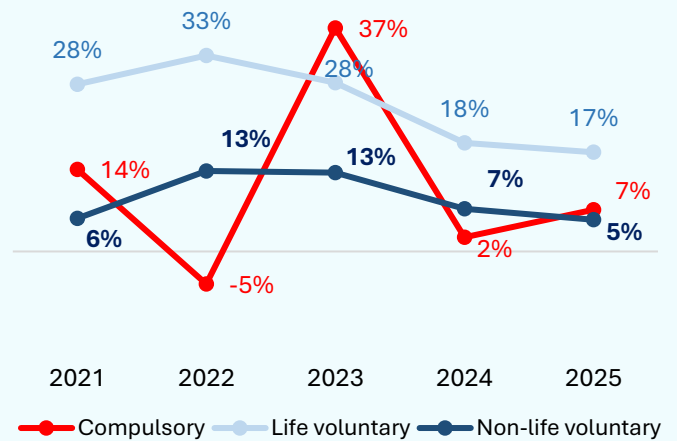


Source: Central Bank

Both compulsory and voluntary insurance is growing. Compulsory and voluntary insurance premiums increased year-over-year.

Compulsory insurance classes increased by 7% (AZN24M) to AZN366M, voluntary life insurance classes increased by 17% (AZN107M) to AZN751M, voluntary non-life insurance classes increased by 5% (AZN20M) to AZN387M. The increase in life insurance premiums was mainly attributable to the endowment life insurance. In the non-life insurance sector, health insurance and compulsory motor third-party liability insurance constituted the largest shares of premium income.

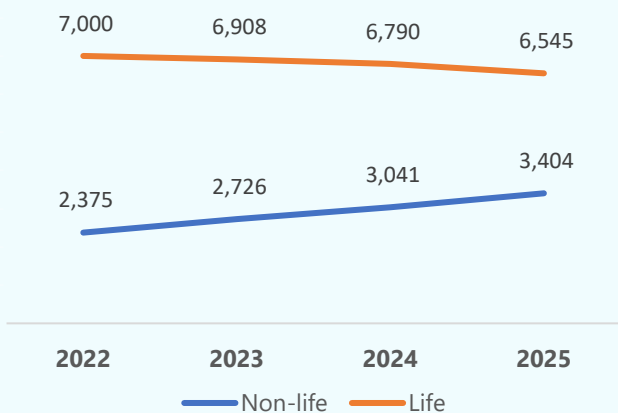
Chart 51. Dynamics of growth of insurance premiums, %



Source: Central Bank

High concentration in insurance premiums continued in the insurance sector. According to HHI, both the life and non-life insurance segments operated under conditions of high market concentration at end-2025. The index for life insurance declined by 245 points to 6,545, while the non-life insurance index increased by 363 points to 3,404.

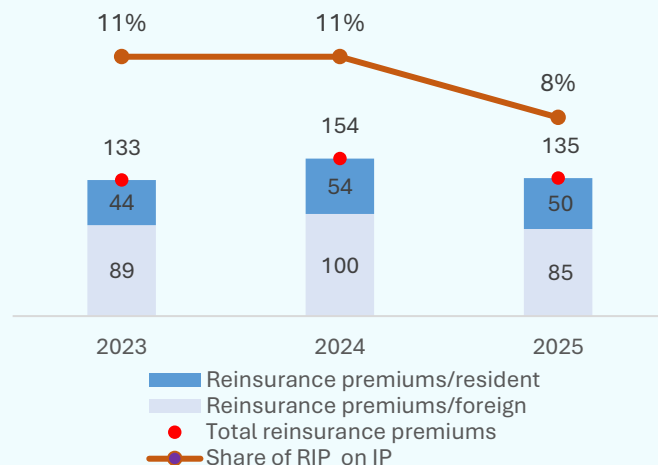
Chart 52. HHI index of the insurance sector (insurance premiums)



Source: Central Bank

The share of ceded reinsurance premiums in total insurance premiums remains low. In 2025 ceded reinsurance premiums yoy decreased by 12% (AZN19M) to AZN135M. The share of ceded reinsurance premiums in total insurance premiums was 8.4%. Of the total ceded reinsurance premiums, 4.7% (AZN6.3M) came from life, while 95.3% (AZN128.8M) came from non-life insurance classes. Ceded reinsurance premiums in the life insurance segment accounted for 0.97% of total life insurance premiums, whereas in the non-life segment, they made up 15.1% of total non-life insurance premiums.

Chart 53. Dynamics of reinsurance premiums calculated to domestic and foreign reinsurers, in million AZN

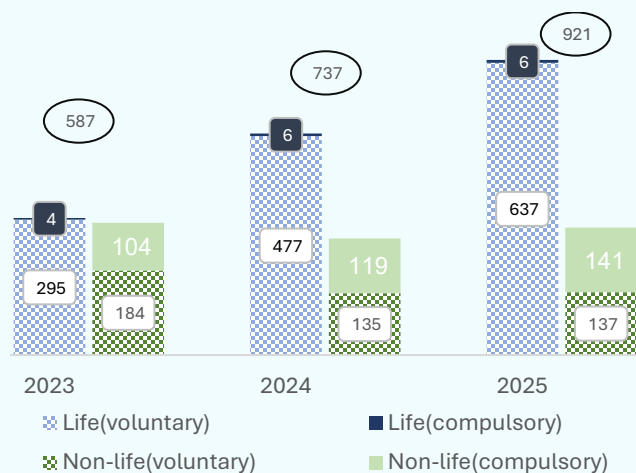


Source: Central Bank

In 2025 the size of insurance payments increased⁵. Insurance payments made in 2025 yoy increased by 25% (AZN184M) to AZN921M – life insurance classes 69.8% and non-life insurance classes 30.2%. Life insurance payments increased by 33% to AZN643M and non-life insurance premiums increased by 9.5% to AZN278M. The life insurance growth was driven by voluntary, and non-life insurance growth was driven by compulsory insurance classes. The increase in life insurance claims was primarily driven by the endowment life insurance, while in the non-life insurance sector the largest shares of claims were attributable to compulsory motor third-party liability insurance and health insurance.

⁵ excluding insurers with revoked licenses.

Chart 54. Dynamics of insurance payments, million AZN

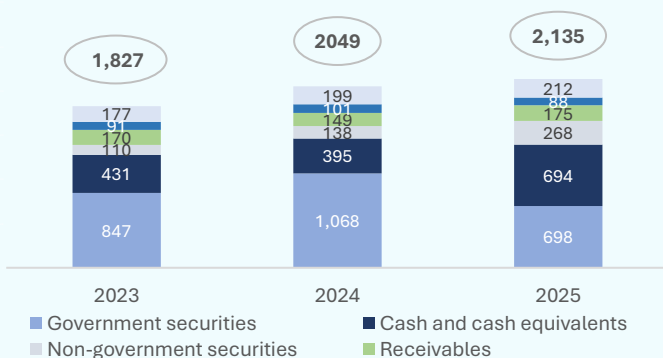


Source: Central Bank

Amid market expansion, the insurance sector's assets posted positive growth.

In 2025, insurance sector's assets increased by 4.2% (AZN86M) to AZN2.14B – government securities 33%, bank deposits 33%, non-government securities 13% and receivables 8%. Liabilities of the sector increased by 3.8% (AZN55M) to AZN1.5B – insurance premium reserves 73%, claim reserves 17% and other liabilities 10%.

Chart 55. Dynamics of insurance sector assets, million AZN



Source: Central Bank

Chart 56. Dynamics of insurance sector liabilities, million AZN

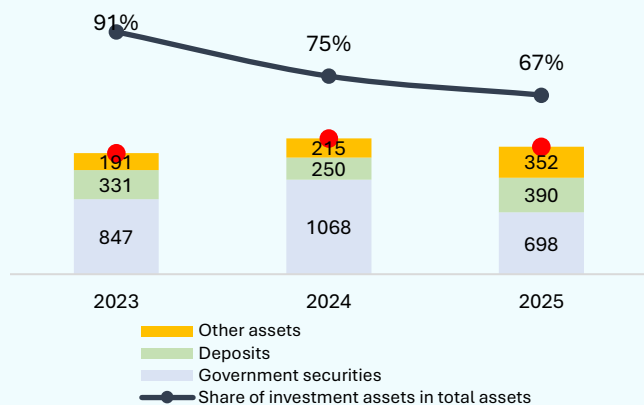


Source: Central Bank

Although insurance companies have limited investment options, they are realizing their potential as institutional investors.

The investment portfolio of insurance companies yoy decreased by 6% (AZN93M) to AZN1441M. A decline in new government securities issuances by the Ministry of Finance prompted insurers to seek alternative investment instruments, including active participation in the repo and reverse repo markets as providers of funds. Overall, investment portfolios represented 67% of total assets of life insurers and 68% of those of non-life insurers. Insurers' investment assets consisted primarily of government securities, corporate securities and deposits. In 2025, the insurance sector generated investment income of AZN119.6M (7.4% of total income).

Chart 57. Dynamics of insurance sector's investment activities, million AZN

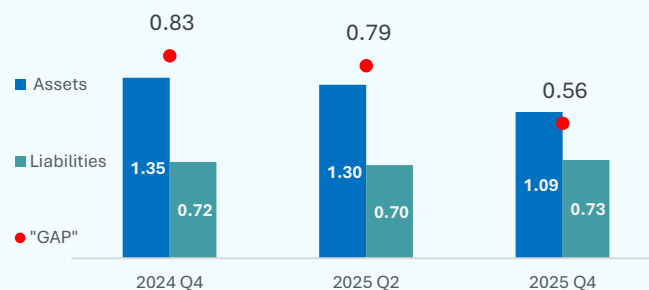


Source: Central Bank

The insurance sector's duration decreased amid a decline in government securities.

Insurers' sensitivity to interest rate risk was assessed using the duration method. Since insurance companies' assets and liabilities are reflected at book value, calculations were based on book values and discounted using the CBA's refinancing rate. Due to the positive duration gap, an increase in interest rates has a diminishing effect on the ratio of total capital to required capital.

Chart 58. Duration of assets and liabilities on the insurance sector (in years)



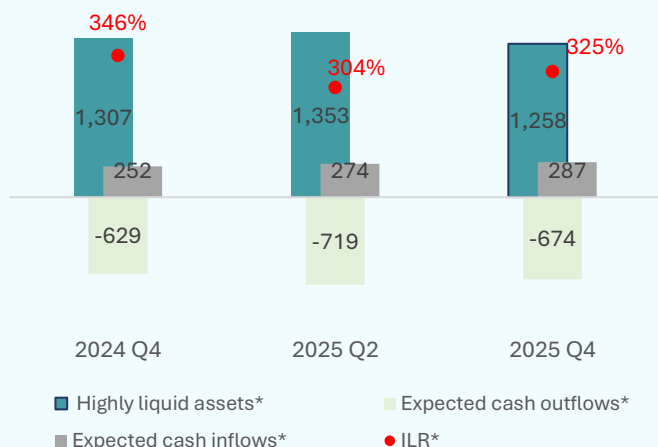
Source: Central Bank

The sector's liquidity is within the comfort zone.

The ILR ratio⁶ evaluates whether insurers' highly liquid assets are sufficient to cover the expected net cash outflows from insurance liabilities over a three-month period. As of end-2025, the insurance sector's highly liquid assets amounted to AZN1258B, expected cash outflows were AZN674M, expected cash inflows were AZN287M, and the sector's liquidity ratio (ILR) was estimated at 325%.

⁶ The 'Insurance Liquidity Ratio' based on the methodology of the International Association of Insurance Supervisors (IAIS)

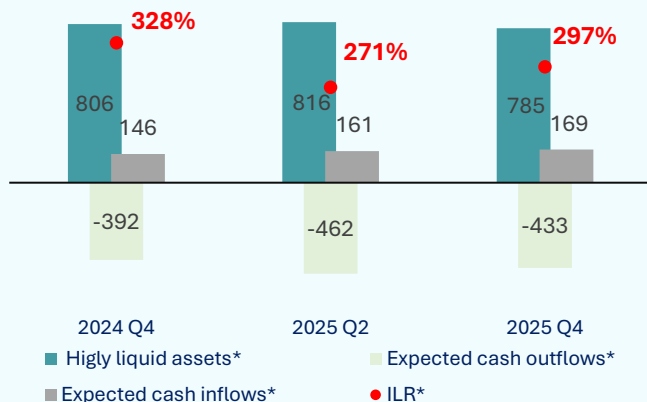
Chart 59. Insurance sector's liquidity ratio (ILR)



Source: Central Bank

In the life insurance sector, highly liquid assets are estimated at AZN785M, expected cash outflows at AZN433M, expected cash inflows at AZN169M, and the ILR is assessed at 297%.

Chart 60. The insurance liquidity ratio (ILR) of the life insurance sector

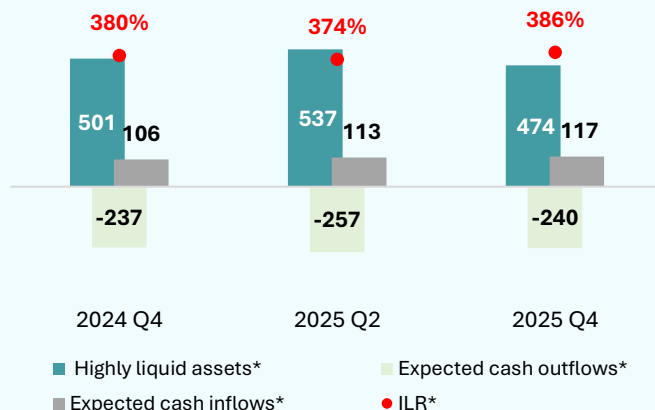


Source: Central Bank

In the non-life insurance sector highly liquid assets are estimated at AZN474M, expected cash outflows at AZN240M, expected cash inflows at AZN117M, the ILR is assessed at

386%. Thus, maintaining an adequate level of high-quality liquid assets enhances insurers' resilience against short-term (3-month) liquidity shocks.

Chart 61. Insurance liquidity ratio (ILR) of the non-life insurance sector

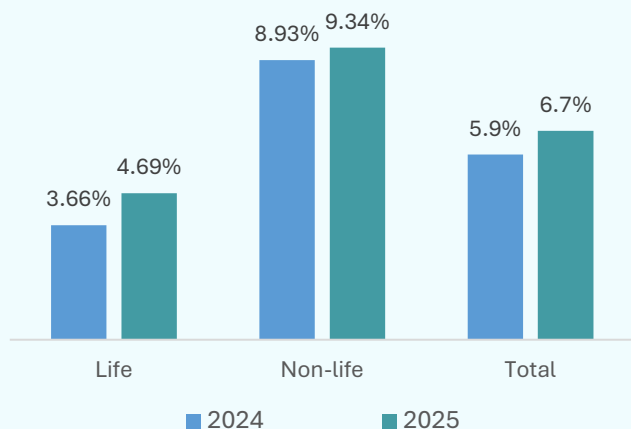


Source: Central Bank

Accounts receivable from insurance premiums do not pose a threat to the resilience of insurance companies. Insurers' receivables from insurance premiums yoy increased by 16% (AZN18M) to AZN128.6M, receivables from life insurance premiums rose by 32.3% (AZN12.6M) to AZN51.7M, while accounts receivable from

non-life insurance premiums increased by 7.6% (AZN5.4M) to AZN76.9M. The share of accounts receivable from insurance premiums in the insurance sector's assets is 6.7%.

Chart 62. Dynamics of insurance premium payables in total assets, in %

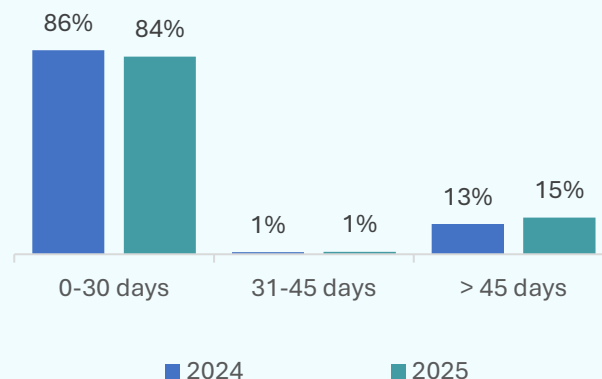


Source: Central Bank

Of the accounts receivable on insurance premiums, 84% are premiums past due by up to 30 days, 1% by 31–45 days, and 15% by more than 45 days. Premiums past due by more than 45 days in connection with insurers' investment operations are not included in the calculation of total regulatory capital. Therefore, these accounts receivable do not pose a threat to the resilience of insurers. In the insurance sector, the ratio of receivables to gross written premiums stood at 10.5%, while the ratio of past due receivables⁷ to gross written premiums was 1.7%. These indicators stood at 6.1% and 1.1% for life insurance, respectively, and at 20.9% and 3.3% for non-life insurance.

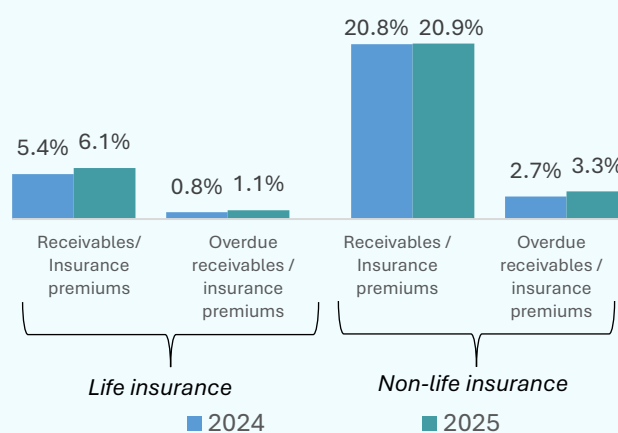
⁷ Insurance premium receivables overdue by more than 30 days

Chart 63. Breakdown of payables on delinquencies, in %



Source: Central Bank

Chart 64. Receivables-to-insurance premiums ratio



Source: Central Bank

Although the insurance sector remains profitable, its profitability decreased year-over-year. Net profit of the insurance sector decreased by 4% (AZN7M) to AZN166M compared with the relevant period of the previous year. During the reporting period, profitability of non-life insurance companies decreased by AZN7M to AZN86M, while

profitability of life insurance companies decreased by AZN1M to AZN79M.

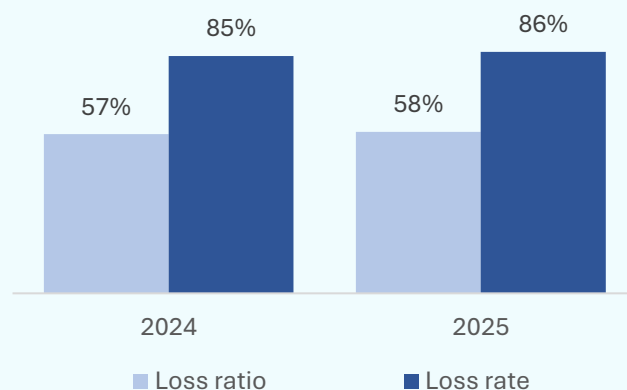
Chart 65. Dynamics of insurance sector profitability, million AZN



Source: Central Bank

The loss rate of the insurance sector increased by 1 pp. The insurance sector’s loss ratio yoy rose by 1 pp to 86%. In health insurance (market share of 21%), the loss ratio fell by 4 pp to 80%, the expense ratio increased by 3 pp to 25%, and the combined ratio declined by 1 pp to 105%. The deterioration in profitability in several high-market-share insurance classes contributed to the worsening of the overall insurance sector result. In compulsory MTPL insurance (market share: 27%), the loss ratio increased by 11 pp to 85%, the expense ratio decreased by 2 pp to 28%, and the combined ratio rose by 10 pp to 113%. In motor vehicle insurance (market share: 11%), the loss ratio increased by 4 pp to 52%, while the expense ratio declined by 1 pp to 34%, resulting in a combined ratio of 86%, up by 3 pp.

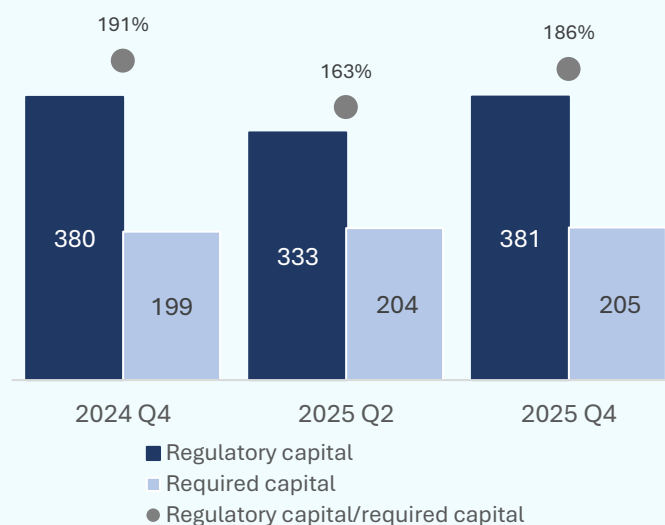
Chart 66. Dynamics of the loss ratio across the insurance sector, in %



Source: Central Bank

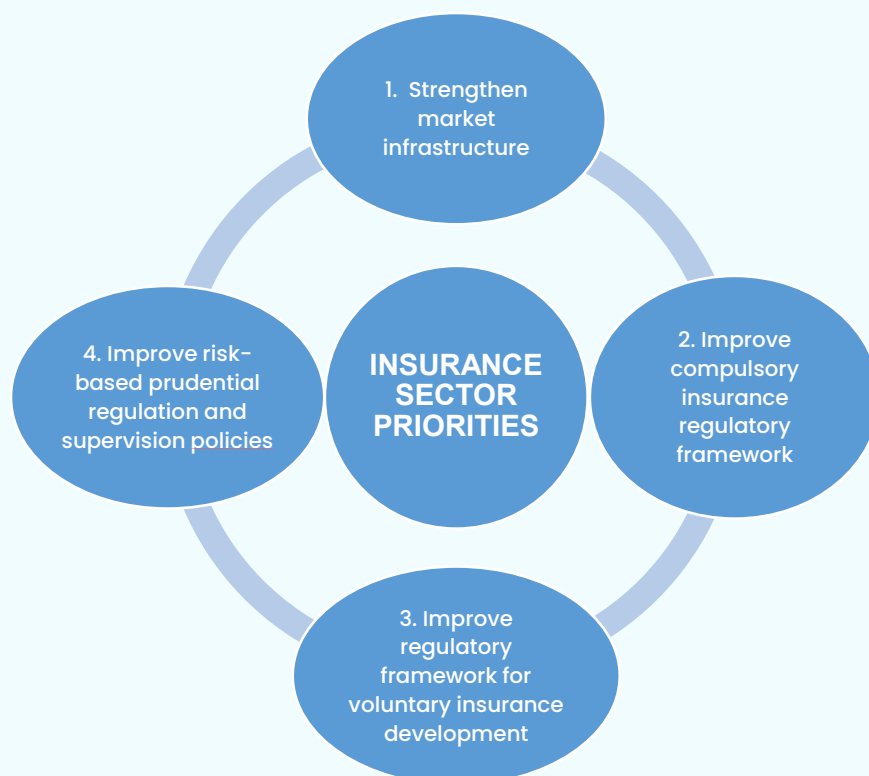
The capital position of the insurance sector remained above prudential requirements. At end-of-2025, aggregate capital increased by AZN1M year-on-year to AZN381M, while required capital rose by AZN1M to AZN205M.

Chart 67. Dynamics of total regulatory and required capital, million AZN



Source: Central Bank

Insurance sector priorities for 2026



1. Completion of draft amendments to legislation based on the new **insurance intermediary's framework**

Expansion of the **bancassurance model**

Implementation of measures to **strengthen digitalization in the insurance sector**

2. Enhancement of the bonus–malus system for **compulsory motor insurance** and continuation of risk-based regulatory measures

Improvement of the **compulsory personal accident insurance product for passengers**

Enhancement of **compulsory occupational accident insurance** products

3. Establishment of general conditions for **voluntary insurance lines**

Completion of draft legislative amendments based on the new **life endowment insurance** concept

4. Establishment of requirements for the calculation of **risk-based capital**

Development of a **risk-based supervisory framework**

Continuation of improvements to **prudential reporting** requirements

Box 6. Interlinkages between banks and insurance companies and the analysis of systemic risk: A network approach

Strengthening interlinkages among financial system institutions contributes to increasingly diverse and complex channels for the transmission of systemic risk. In this context, assessing how and to what extent shocks originating in a given financial institution propagate to others is of key importance for safeguarding financial stability. **Network analysis** is one of the principal analytical tools for quantifying these interconnections and identifying potential domino effects within the financial system. Network-based models enable the assessment of both the direction and magnitude of spillover effects arising from the default of an individual financial institution and their transmission to other institutions. Two core indicators are typically computed for financial institutions: impact and vulnerability indices.

The default of a financial institution with a **high contagion index** may weaken the financial soundness of other institutions or trigger their failure, thereby reflecting aggregate capital losses in the financial sector under stress conditions. By contrast, a **high vulnerability index** captures the potential losses in an institution's capital arising from shocks affecting other institutions within the system.

An analysis of the main participants in Azerbaijan's financial sector – banks and insurance companies, suggests that these institutions exhibit both impact and vulnerability characteristics in a mutually interconnected framework. Banks tend to play a central transmission role in the system, reflecting their relatively large capital base and extensive network of interlinkages. Insurance companies, by comparison, appear more exposed to external shocks, given their smaller capital buffers and their degree of integration with the banking sector.

The network model analysis is based on data for 2025. In the model, the formation of the indices is driven by two main scenarios:

- **Credit shock** – the default of a financial institution leading to its inability to meet its obligations, resulting in a full (100%) loss for other financial institutions with exposures to the defaulted entity
- **Liquidity and funding shock** – the complete (100%) withdrawal of funding sources provided by financial institutions, combined with the forced sale of assets at a 30% discount to meet repayment obligations.

The results of the analysis indicate that the contagion index is predominantly concentrated among banks, while the vulnerability index is largely concentrated among insurance companies. In particular, the concentration of the contagion index is more pronounced among systemically important banks (SIBs). The maximum observed contagion index, at 6.39,

suggests that the default of the institution with the highest contagion index could result in a loss of 6.39% of the financial sector’s total capital.

On the other hand, the maximum vulnerability index, at 15.19, points to a higher **sensitivity** of insurance companies to potential system-wide shocks. In the event of the default of any financial institution, the insurance company with the highest vulnerability index could incur capital losses of up to 15.19%.

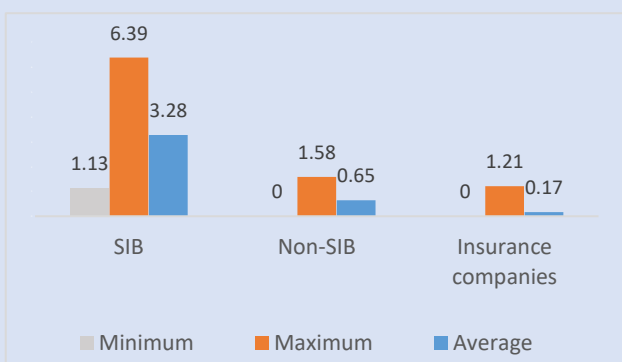


Chart 1: Decomposition of contagion index

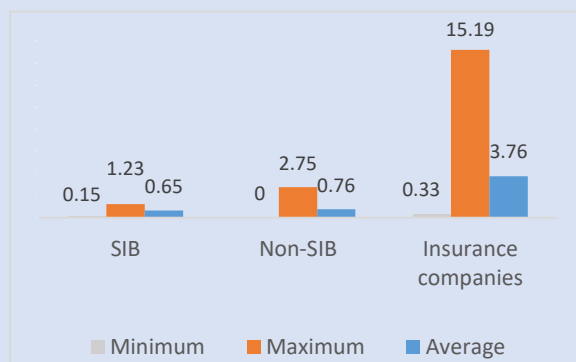


Chart 2: Decomposition of vulnerability index

Network analysis is critical in assessing interlinkages among financial institutions in the financial system. The conducted assessment indicates that, as the financial system develops, increasingly complex and multi-layered interconnections emerge among institutions.

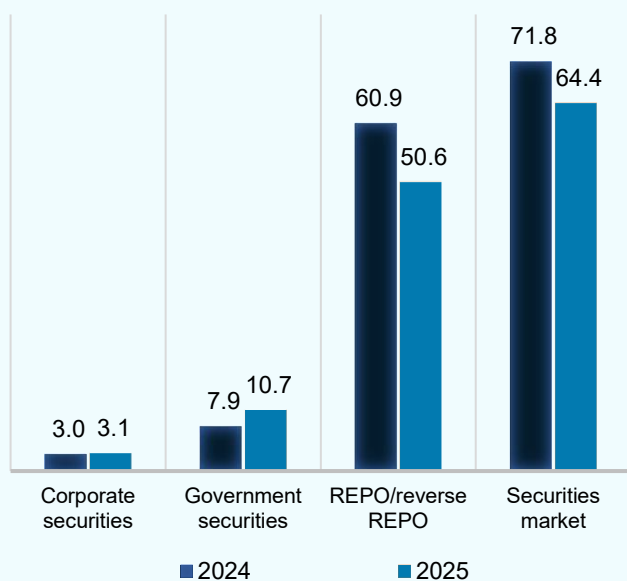
Macroprudential policy implemented by the Central Bank is aimed at preventing these interlinkages from evolving into sources of systemic risk. According to the Macroprudential Policy Framework adopted in 2024, one of the five intermediate objectives of macroprudential policy is to limit both direct and indirect concentrations. In the banking sector, this intermediate objective is primarily addressed through large exposure limits, as defined in the ‘*Regulation on prudential ratios and requirements related to credit risks, including large credit risk exposures.*’ In the insurance sector, similar risks are mitigated through coefficients and diversification requirements set out in the “*Regulation on investment operations of insurers*”.

* Juan Sole & Marco A Espinosa-Vega, 2010. "Cross-Border Financial Surveillance; A Network Perspective," IMF Working Papers 2010/105, International Monetary Fund

Capital market

In capital markets, while trading volumes in repo and reverse repo transactions declined, trading of both corporate and government securities increased. Securities market turnover yoy decreased by 10% (AZN7.4B) to AZN64.4B. Amid a decline in repo operations with the CBA, the overall size of the repo and reverse repo market decreased over the reporting year, representing the main driver of the contraction in securities market turnover. At the same time, trading turnover in the corporate securities market increased by 3% (AZN0.1B) in 2025, while turnover in government securities rose by 35% (AZN2.8B).

Chart 68. Capital market turnover, billion AZN

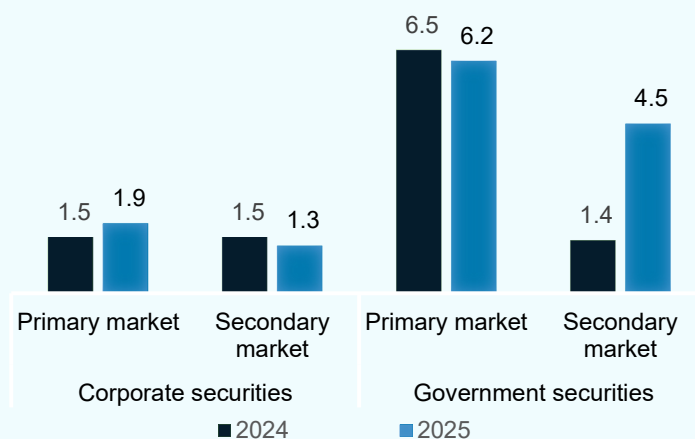


Source: Central Bank

Trade turnover of both corporate and government securities increased. Compared

with end-2024, turnover in the primary market for corporate securities increased by 27% (AZN0.4B) to AZN1.9B, while secondary market turnover declined by 13% (AZN0.2B) to AZN1.3B. As for government securities, primary market turnover decreased by 5% (AZN0.3B) over the reporting year, whereas secondary market turnover expanded by a factor of 3.2 (AZN3.1B) to AZN4.5B. The increase in secondary market activity in government securities was driven primarily by bonds issued by the Ministry of Finance.

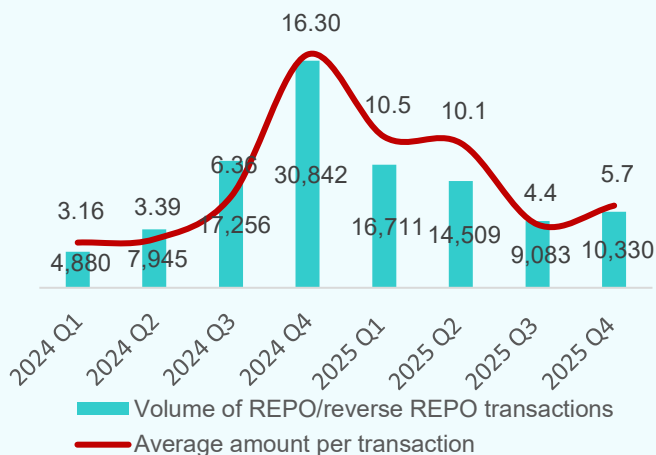
Chart 69. Size of primary and secondary market operations, billion AZN



Source: Central Bank

Activity in the repo market declined year-over-year. In 2025, the volume of repo and reverse repo transactions decreased by 17% (AZN10.3B) to AZN50.6B. However, overall

Chart 70. Dynamics of repo operations, million AZN

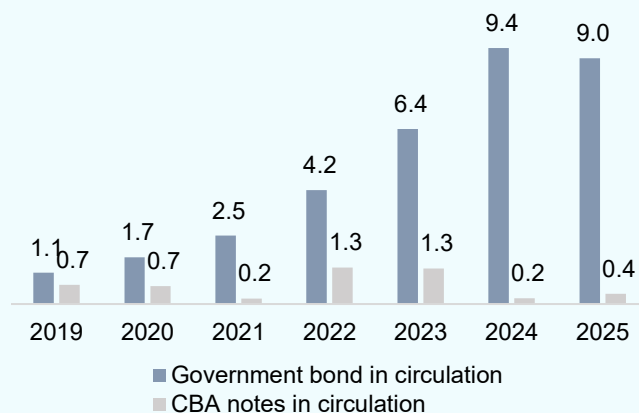


Source: Central Bank

activity in the repo market remained at a satisfactory level.

At end-2025, while the outstanding volume of government securities declined, CBA notes increased. The outstanding volume of government securities declined by 4% (AZN0.4B) to AZN9.0B year-over-year, driven by the absence of new issuance by the Ministry of Finance during the first eight months of the current year. Over the reporting period, the outstanding volume of CBA notes increased by 1.8 times (AZN0.2B) to AZN0.4B.

Chart 71. Dynamics of government securities in circulation, billion AZN

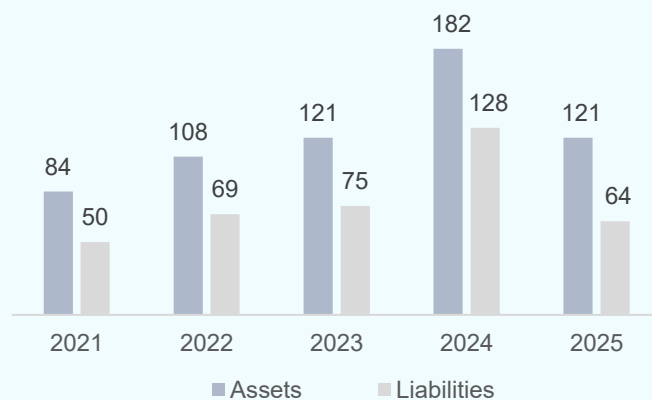


Source: Central Bank

Over the past year, the balance sheet indicators of investment firms decreased.

Assets of investment firms declined by 34% (AZN61M) to AZN121M, while liabilities decreased by 50% (AZN64M) to AZN64M year-over-year. The contraction in both assets and liabilities was primarily driven by a reduction in interest-bearing financial assets, in particular repo and reverse repo transactions.

Chart 72. Dynamics of balance sheets of investment companies, million AZN

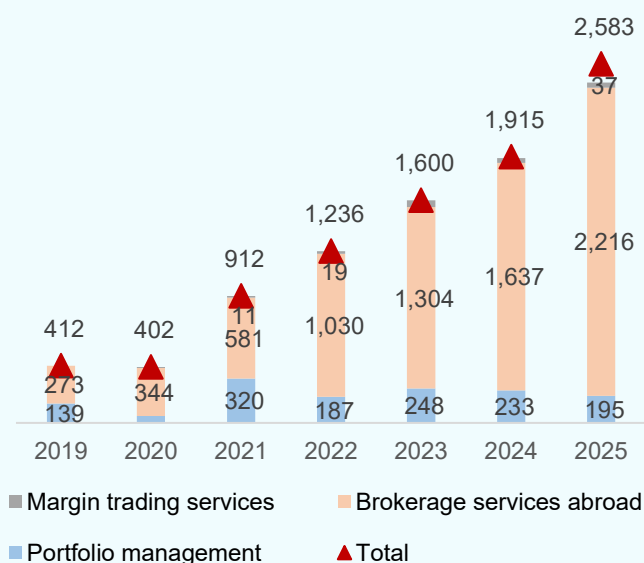


Source: Central Bank

During the period, the client assets of investment companies continued to expand.

In 2025, client assets of investment companies increased by 35% (AZN668M) to AZN2.6B, driven by brokerage services in foreign markets. Client assets related to brokerage services in foreign markets grew by 31% (AZN580M) to AZN2.2B.

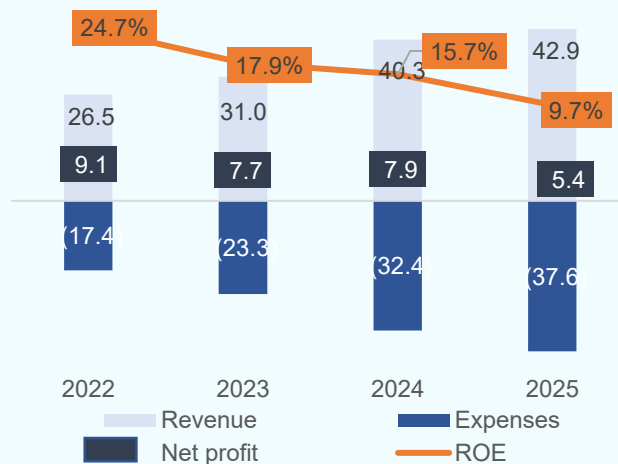
Chart 73. Dynamics of client assets of investment companies, million AZN



Source: Central Bank

Net profit of investment companies decreased. Net profit of investment companies yoy decreased by 32% (AZN2.5M) to AZN5.4M by the yearend, due to rising fees and commissions, salary and social allowances and administrative expenses.

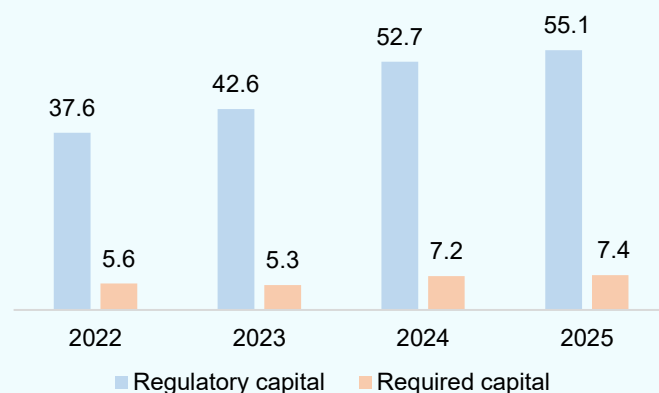
Chart 74. Dynamics of profitability of investment companies, million AZN



Source: Central Bank

The capital position of investment companies is in a comfort zone. As of end-2025, total regulatory capital of the sector amounted to AZN55.1M, and required capital stood at AZN7.4M, ensuring a sufficient capital buffer for investment companies.

Chart 75. Dynamics of total regulatory and required capital, million AZN



Source: Central Bank

Capital market priorities for 2026

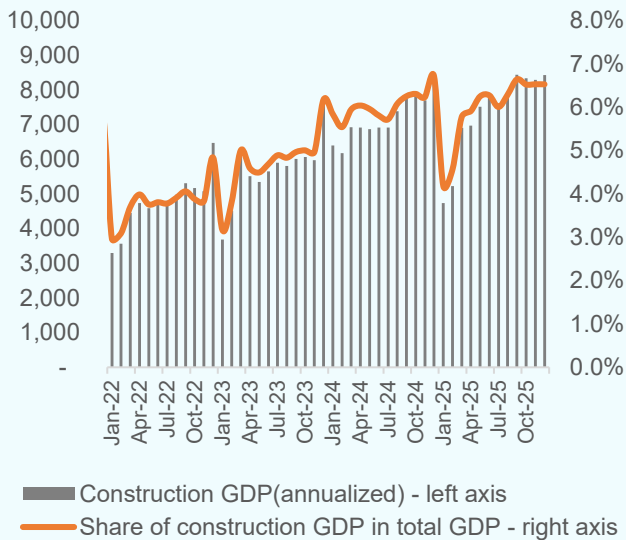


1. Develop draft amendments to the ‘*Law of the Republic of Azerbaijan on the Securities Market*’ together with a foreign consulting company
2. Improve a clearing-settlement system, and review options for the establishment of a central counterparty institution
3. Align with the IOSCO principles
4. Develop a sukuk-related legislative framework, enhance legislation governing investment funds, and establish a regulatory framework for venture capital and crowdfunding activities
5. Implement measures related to the transition to risk-based supervision, as well as oversight of compliance with corporate governance standards

Real estate market

Value added generated by the construction sector slightly decreased; however, overall employment levels in the sector and investment in fixed capital increased. In 2025 nominal GDP in the construction sector yoy decreased by 0.4%. The sector's share in total GDP also declined by 0.2 pp, from 6.7% to 6.5%. As of end-December 2025, the number of employees engaged in construction enterprises increased by 1.8% compared with end-2024, to 119.4 thousand people. In the current year, AZN21.2B from all financial sources was directed to fixed capital investment in

Chart 76. Dynamics of GDP in the construction sector, million AZN



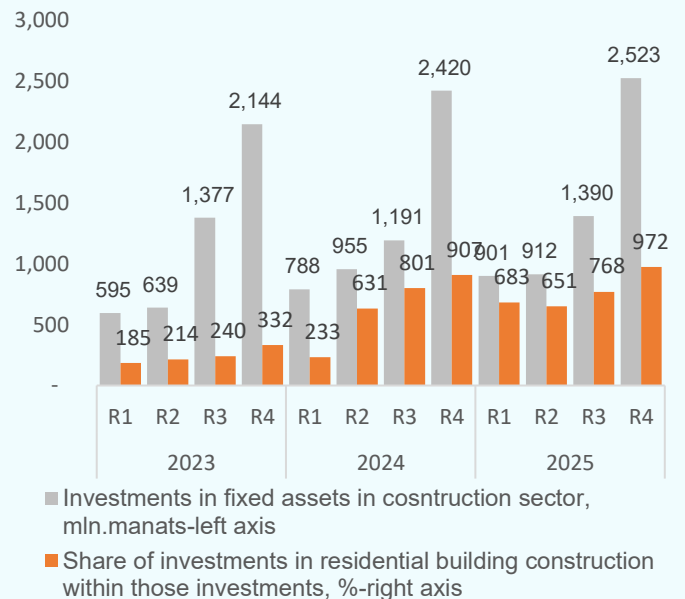
Source: SSC

Azerbaijan, of which AZN16B was allocated to construction and installation works, yoy up by 0.5%.

In 2025, funds allocated to residential construction increased. Both total investment in fixed capital in the construction sector and capital expenditure on residential housing

projects rose, reflecting strong demand as well as the implementation of new projects by both the public and private sectors. The recovery in investment inflows to the sector, together with ongoing construction and development activity in the country, including the continued process of formalizing undocumented housing in line with Presidential decrees, is expected to support higher activity in the construction sector and the real estate market going forward.

Chart 77. Investments in the construction sector, million AZN

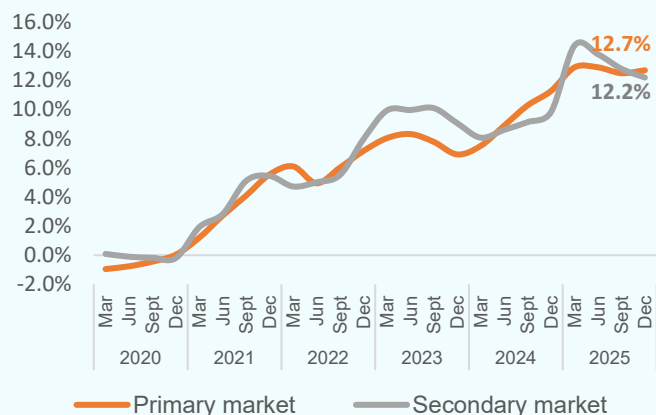


Source: SSC

The pace of price growth in the housing market is stabilizing. Price rise in the housing market stood at 12.2% year-over-year. The primary market posted 12.7% and the secondary market 12.2% growth. Over the past year, while the pace of growth in the primary market

remained stable, the growth rate moderated in the secondary market.

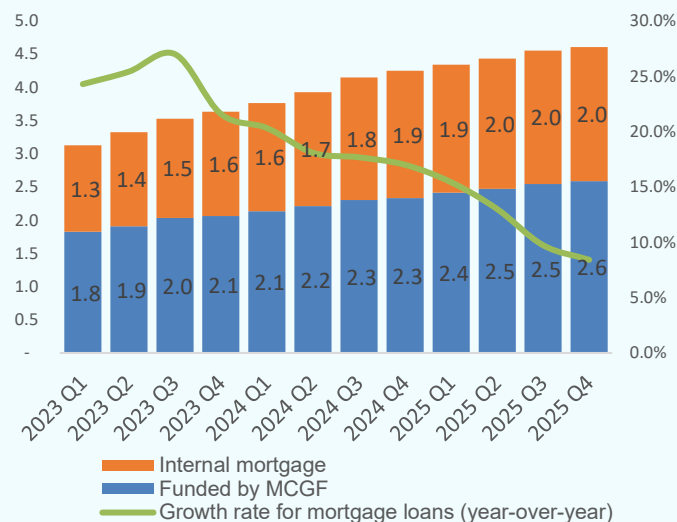
Chart 78. Dynamics of annual growth rate of primary and secondary market housing prices, in %



Source: SSC

Mortgage lending continues to grow. The slowdown in the growth rate was driven in particular by bank-funded mortgage lending. The outstanding volume of loans extended from banks' own resources increased by AZN104M over the year (yoy up by 5.4%), while lending under the Mortgage and Credit Guarantee Fund (MCGF) increased by AZN253M (10.8% year-on-year). Compared with end-2024, the average interest rate on banks' own-resources mortgage loans increased by 1.17 pp to 11.92%, which is among the factors contributing to a moderation in mortgage demand. By contrast, the interest rate on loans provided under the MCGF decreased by 0.49 pp to 5.96%.

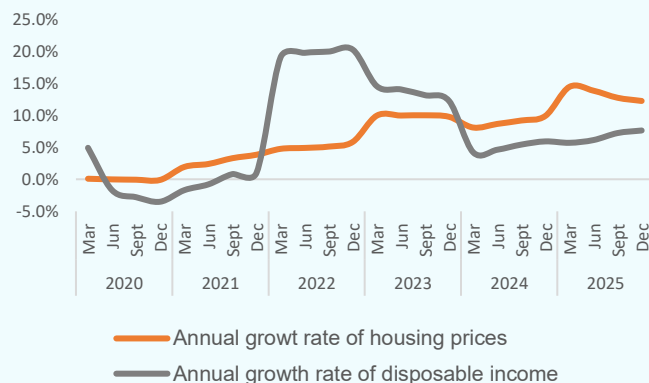
Chart 79. Mortgage portfolio dynamics, billion AZN



Source: Central Bank

In 2025, housing price growth continued to outpace the growth of households' disposable income; however, the gap between the two indicators narrowed gradually over the year. According to the SSC, housing prices increased by 12.2%, while disposable income rose by 7.6% year-over-year; however, the gap between the two indicators declined progressively over the course of the year.

Chart 80. Dynamics of the growth rate of housing prices and disposable income of the population, in %



Source: SSC

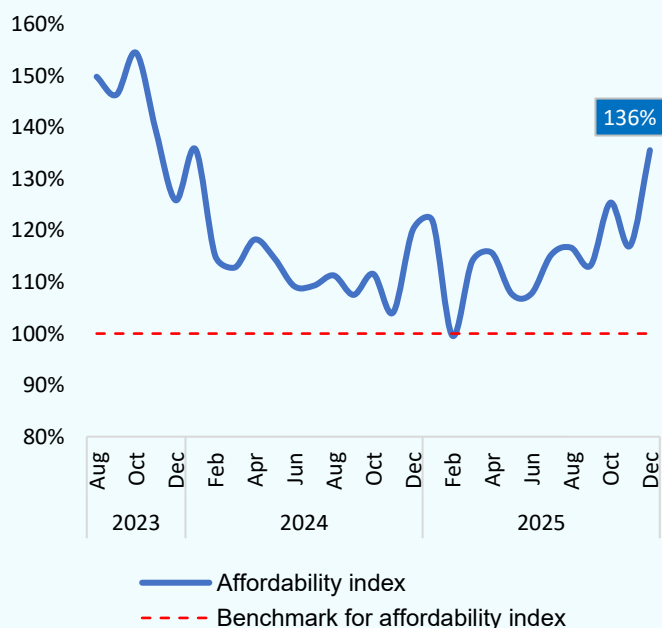
Despite the rising prices offered on the housing market, population’s disposable income allows sustainable mortgage lending.

The affordability index widely used in international practice is calculated as the ratio of per capita disposable income to the average monthly payment on newly issued mortgage loans within a month. A value above 100% indicates that the population's disposable income is sufficient to cover mortgage payments, while a value below 100% shows that the monthly mortgage payment exceeds the available income.

In 2025, the increase in households’ disposable income, together with a decline in average monthly mortgage payments, contributed to an improvement in the affordability index. At the same time, the positive dynamics in disposable income resulted in the affordability index remaining above its benchmark level.

According to the information obtained from housing market-related open sources⁸ at the end of December the median monthly rent offered nationwide amounted to AZN 1,002, implying a property capitalization period⁹ of 20.9 years. It should be noted that the capitalization period increased by 1.4 years year-over-year, attributable to the faster growth in housing prices relative to rental prices over the year.

Chart 81. Dynamics of affordability index, in %



Source: Central Bank, SSC and other real estate trading related open sources

⁸ The offered prices in the housing market have been obtained from open sources, including websites specialized in real estate transactions.

⁹ Capitalization period = median housing price/median annual rental income