



**CENTRAL BANK**  
OF THE REPUBLIC OF AZERBAIJAN

**REPORT  
ON ACCOMPLISHMENT  
OF MAIN GOALS  
AND FUNCTIONS IN 2024**

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## Introduction

In 2024, the Central Bank of the Republic of Azerbaijan discharged its functions in line with its mandate and implemented policies aimed at maintaining macroeconomic and financial stability in the country.

During the reporting year, the Central Bank pursued its monetary policy in accordance with the *Statement of the Central Bank of the Republic of Azerbaijan on main directions of the monetary policy for 2024*. Monetary policy decisions throughout the year were made considering changes in the balance of risks related to inflation. Monetary policy instruments were applied taking into account financial market developments and the liquidity position of the banking system. Short-term interest rates in the interbank money market moved within the Central Bank's interest rate corridor and the operational framework of monetary policy was further improved.

In 2024, the Central Bank's financial stability policy focused on maintaining confidence in the financial and banking system, minimizing risks, and strengthening governance capacity and resilience against shocks in the financial sector. Access of the real sector to financial resources continued to expand throughout the year. The dynamics in business lending and the securities market contributed to broader financing opportunities for economic growth and further deepened the financial sector. The expansion of cashless payments enhanced the resource base of the financial sector.

### 1. Accomplishment of goals

*The main goal of the Central Bank is to maintain price stability within the authorities established by the legislation and safeguard financial stability within the authorities established by the laws regulating financial markets without compromising the main goal.*

#### 1.1. Maintaining price stability within the authorities of the Central Bank established law

*In 2024, the Central Bank's monetary policy aimed to maintain inflation within the target range ( $4\pm 2\%$ ) through the monetary condition (financial market indicators – interest rates, exchange rates, etc.).*

In 2024, inflation was within the target band. According to the State Statistics Committee, in December 2024 twelve-month inflation stood at 4.9%. Annual core inflation, calculated excluding regulated prices and the price changes of seasonal agricultural products, was 4.4% in December.

While annual food inflation stood at 5.5%, prices for non-food products increased by 2.4%, and annual services inflation made 6.3%.

Food made 2.4 percentage points, non-food 0.6 percentage points and services 1.9 percentage point contribution to 4.9% annual inflation in December 2024.

Certain foreign and internal factors weighed on annual inflation. The decline in the weighted average inflation across partner countries compared to 2023, along with the policies of the Government and the Central Bank aimed at ensuring price stability paved the way to managing inflation within the target range. The FX market equilibrium under balance of payments surplus played a key role in containing imported inflation. In 2024, the non-oil trade weighted nominal effective exchange rate of the manat appreciated by 9%, which is a factor contributing to the reduction of import-driven inflation.

## **1.2. Safeguarding financial stability within the authorities established by the laws regulating financial markets without compromising the main goal**

*In 2024, the regulatory policy pursued, and supervisory measures ensured stable operation of all segments of the financial sector and enhanced financial system stability.*

Proactive supervisory measures, strengthening prudential requirements for risks that form sensitive areas, as well as intensive dialogue with the sector, and work done to modernize the regulatory and supervisory framework positively affected financial stability. During the reporting year the Central Bank approved and made public the *Banking Sector's Macroprudential Policy Framework* and the *Risk-based Supervision Policy Concept of the Central Bank of the Republic of Azerbaijan*.

In 2024, the banking sector's financial intermediation deepened in parallel with active lending. Amid the growth dynamics of the loan portfolio, the improvement of the regulatory framework and effective risk management by credit institutions paved the way to the drop in credit risks. Banking system's capital adequacy and liquidity indicators surpassed minimum requirements. Banking sector profitability remained positive, generating over AZN1B worth net profit. As of end-2024, ROA stood at 2.1%, and ROE stood at 18.1%.

Financial indicators of the insurance sector improved, its inclusion and depth increased. In 2024, insurance premiums y.o.y. increased by 11% to AZN1.4B, and insurance payments increased by 28% to AZN752M. The sector earned high profit. Sector's total regulatory capital is exceeding required capital by more than 1.9 times.

The circulation of securities in the capital market surged year-over-year. Efforts continued to improve the capital market infrastructure and modernize the regulatory framework.

Activities continued to ensure stable, secure, and effective operation and support the development of payment systems. The Bank began licensing activities of payment service providers to further advance payment systems and payment services.

## **2. Discharge of functions**

*To attain the main goals the Central Bank took necessary measures to establish and pursue the monetary policy, organize cash circulation, regularly set and announce the exchange rate of manat against foreign currencies, implement currency regulation and control, compile a balance of payments report and participate in the development of the forecast of balance of payments, maintain and manage international gold – foreign exchange reserves at its disposal, ensure stability and sustainability of financial markets, develop consolidated foreign debt statistics and international investment balance under the legislation and discharge other functions.*

### **2.1. Setting and implementing the monetary and exchange rate policy**

*In 2024, the Central Bank's monetary policy aimed to maintain price stability. Monetary policy decisions were taken in response to the dynamics of inflation and changes in the balance of risks of inflation on the medium term. Reforms continued to improve the monetary policy operational framework thus enhancing the transmission of the interest rate channel.*

Interest rate corridor parameters were discussed 8 times in 2024. At the first three meetings dedicated to the monetary policy it was decided to shift the refinancing rate from 8% to 7.25%, the

ceiling of the interest rate corridor from 9% to 8.25%, and the floor of the corridor from 6.5% to 6.25%, and interest rate corridor parameters were kept unchanged at five meetings. The decisions were made in consideration of the comparison of the actual and forecasted inflation with the target range (4±2%), the stabilization of inflation expectations and the changes in the balance of risks. The Bank took into account the scale of impact of the interest rate corridor parameters on interest rates in the interbank money market, as well as FX market developments when determining the parameters.

Monetary policy tools were applied considering the financial market developments and the banking system's liquidity position. To achieve monetary policy targets, the Bank used open market operations, standing facilities, and required reserves. The tools served to neutralize the effects of non-monetary (autonomous) factors on the monetary condition. In 2024, banks used Central Bank's both liquidity absorbing and liquidity providing standing facilities. Auctions continued as open market operations on the placement of 28-day (1 month), 84-day (3 months), 168-day (6 months) and 252-day (9 months) notes for liquidity absorbing purposes. To regulate interbank money market rates, and promptly contain the impact of non-monetary (autonomous) factors the Central Bank held one-week repo auctions along with note auctions. Total 22 repo and 93 various duration note auctions were held in 2024. In view of the downward effect of the change in government accounts on the banking system liquidity, the Central Bank reduced the size of liquidity absorbing operations throughout the year. As of the end-2024, total outstanding amount of funds absorbed through notes made AZN208M, down by 6.3 times year-over-year. Decisions related to quantitative parameters on open market operations were based on liquidity monitoring and forecasting. No adjustment was made to reserve requirements over the reporting year. Yet, explanations of the definitions related to the new differentiation criteria, which began to be implemented at the end of last year, as well as adjustments in relevant regulations regarding their calculation, were made and communicated to banks.

Monetary operations had a positive effect on effective management of liquidity by banks, the activity in the interbank market and the formation of the yield curve. During the reporting year both unsecured and secured sectors of the interbank market were active.

In 2024, banks concluded AZN101.8B worth of 3761 transactions in the Bloomberg trading system. 97% of them were 1–3-day transactions. AZN11.5B worth of 723 transactions were concluded at the interbank repo market. The volume of transactions concluded in the unsecured money market increased by 3.3 times and those concluded in the interbank repo market increased by 2.5 times year-over-year.

Average interest rates in the unsecured money market were within the Central Bank's interest rate corridor. In December 2024, the average interest rate on 1-3-day operations (1D AZIR) in the interbank unsecured money market stood at 7.68%. The spread between the 1D AZIR index and the refinancing rate was 0.43 percentage points throughout the year. Change in the 1D AZIR index began to impact interest rates on certain types of deposits, attributable to the better transmission of the interest rate. Note that, during the reporting year works were done to better communicate interest rates in the interbank money market.

In 2024, base money in manat increased by 0.2%, and broad money supply in the manat (M2) increased by 3.6%. As in previous years, the change in balances of government accounts were of crucial factors to influence money supply. The reduction of Central Bank's liquidity absorbing operations, as well as liquidity providing operations had an upward effect on money supply.

The Central Bank continued to improve analytical and forecasting activities, expanded the model toolkit, with more research work conducted compared to the previous years. The key focus was on broader research of monetary policy transmission channels.

The Central Bank attached significant importance to the effective communication of the monetary policy. Press releases on monetary policy decisions were published with relevant analytical comments, and regular press conferences were held. The forecasts of key macroeconomic indicators and the breakdown of actual inflation by factors were disclosed at live press-conferences. Starting from the last reporting period of 2024, some innovations were made to the structure and content of the *Monetary Policy Review* considering best practices. The changes include the addition of the 'Macroeconomic forecasts' section and more comprehensive analysis of monetary developments. The yield curve is now assessed and published on a weekly basis. Quarterly reports on intersectoral financial flows and research works conducted in 2023 were placed on the official website. Monetary policy decisions were shared as info charts through social networks. Meetings with financial sector representatives and independent economist-experts continued. Comprehensive materials as video clips were delivered to the broad public, and many interviews related to actual topics were given. Making certain events of the Central Bank public had a positive effect on the transmission of monetary policy messages. Awareness training sessions for media representatives covered topics such as monetary policy decisions, the balance of payments, monetary policy tools, and the monetary policy transmission.

The Central Bank will further strive to maintain inflation within the target with all tools and mechanisms at its disposal. Efforts will continue to improve the monetary policy operational framework.

## **2.2. Organization of cash circulation, issue of currency to and withdrawal from circulation**

*The Central Bank covered demand of the economy for cash in full, adequately and in time, and created necessary reserves of currency in 2024.*

The Central Bank withdrew AZN5.73B worth currency from and issued AZN5.86B worth currency into circulation. Cash in circulation increased by 0.76% (AZN131M) to AZN17.44B as of the end-year compared to the beginning of the year. Currently, national currency reserves amount to AZN8.9B, sufficient to cover demand of the economy by the end of 2026.

The Central Bank issued to circulation renewed 1 and 3 gapik coins in 2024. The 1 and 3 gapik coins were renewed to match the design on the reverse side of the previously renewed 5, 10, 20, and 50 gapiks, with the addition of the Coat of Arms of the Republic of Azerbaijan and the year of manufacture. The renewed 1 and 3 gapiks will circulate alongside the coins of the same denomination currently in circulation.

The Bank focused on the organization of anti-counterfeiting and coordination with law enforcement bodies. 379 counterfeit banknotes were discovered in the national currency (AZN32611), signs of counterfeiting were discovered in 503 banknotes in foreign currency, they were withdrawn from circulation and delivered to law enforcement bodies to take actions.

To accept for expertise and exchange unfit currency held by the population, the Central Bank continued the operation of cash offices established in Baku and regions. In 2024 AZN6.74M (155.2 thousand units) worth of currency notes were accepted and exchanged from the public.

Overall, the Central Bank maintained its focus on key priorities such as meeting the demand for cash in various denominations within the national economy, ensuring the optimal and secure management of national currency reserves, and providing high-quality banknotes for circulation.

### **2.3. Regular determination and announcement of the official exchange rate of manat against foreign currencies**

*In 2024, the exchange rate of the manat against foreign currencies was based on supply and demand in the foreign exchange market. The surplus in the balance of payments supported the stability of the exchange rate, which is the main anchor of price stability.*

Throughout the year, the official AZN/USD exchange rate was determined based on the average rate of interbank transactions (including auctions and off-auction operations on the Bloomberg platform) and was announced daily. Official exchange rates against the currencies of other partner countries were calculated using the cross-rate method and published daily. In the reporting year, the average daily official exchange rate of AZN/USD was AZN1.7. The buy and sell rates of foreign currencies set by banks remained within a range close to the official rate.

The Bank held a total of 95 currency auctions in 2024 to sell foreign currency provided by the SOFAZ, where the market's demand for foreign currency was fully met. Sales in the foreign exchange market were primarily carried out to support the implementation of strategically important state expenditures arising from government projects and the reduction of foreign currency liabilities.

The exchange rate of the manat fluctuated differently against currencies of other trade partner countries. The dynamics of bilateral exchange rates influenced that of effective exchange rates. In 2024, the non-oil NEER of the manat appreciated by 9%, and REER by 2.2%. The fact that inflation in Azerbaijan was lower than the average inflation in partner countries had a downward impact on the real effective exchange rate.

### **2.4. Storage and management of international gold and foreign exchange reserves held by the Central Bank**

*In 2024, the Central Bank managed its foreign exchange reserves in accordance with the operational investment program adopted within the existing investment framework.*

In 2024, despite the presence of tight financial conditions due to efforts to curb inflation in AEs and ongoing geopolitical risks, several macroeconomic indicators exceeded expectations. In line with the downward trajectory of inflation rates, central banks of AEs partially reduced their key policy rates. However, considering the inflationary impact of rising geopolitical tensions, increased trade restrictions, and potential protectionist measures, as well as the high resilience in the U.S. economy, central banks of these countries approached monetary policy easing with caution. Consequently, although short-term interest rates declined in foreign financial markets, long-term interest rates increased. Overall, the Central Bank's foreign exchange reserves were managed in an environment of high uncertainty driven by high yields and geopolitical/geoeconomic realities. Throughout the year, Central Bank's FX reserves were managed by dividing them into an operational tranche to support monetary policy and an investment tranche to enhance profitability. Efforts were also made toward investing in alternative currencies. As of end-2024, 87% of official FX reserves were in USD, 3% in EUR, 2% in CHY, 1% in GBP, and 7% in SDR (Special Drawing Rights of the International Monetary Fund).

During the reporting year, the Central Bank's foreign exchange reserves were managed based on benchmarks selected in line with the objectives of each tranche and sub-portfolio, through investments in government and quasi-government debt liabilities of foreign countries with investment-grade credit ratings. In managing foreign exchange reserves, the Central Bank continued to cooperate with external managers alongside internal management.

In 2024, due to favorable conditions in foreign currency and bond markets and portfolio strategies aimed at increasing relative returns, the Central Bank earned a record income of USD491.6M from the management of its foreign exchange assets. The return on the investment portfolio amounted to 4.5%.

The Central Bank's official forex reserves decreased by USD653.5M (5.6%), due to foreign currency sales in the domestic market and exchange rate differences, to USD10.96B as of end-2024.

## **2.5. Compilation of monetary, financial markets and payment systems statistics, the balance of payments, international investment position, and summary (public and non-public) foreign debt statistics, ensuring the summarization and dissemination of data, as well as participating in the forecasting of the balance of payments in accordance with international standards and methodologies**

*In 2024, the compilation of monetary statistics, financial markets, and payment systems statistics continued in accordance with relevant regulations and international standards, data were provided to respective public authorities, international organizations, and the public. Throughout the year, data were exchanged with several public institutions, as well as with international organizations such as the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank.*

Within the framework of the data publication schedule, summary indicators of banks and other financial institutions were submitted monthly for the IMF's Azerbaijan page as well as the Central Bank's official website, and statistical bulletins were published.

Indicators related to the Central Bank's monetary operations (results of auctions for Central Bank notes and government securities, official average monthly exchange rates of the manat against foreign currencies, AZIR indices formed based on unsecured transactions between banks), insurance sector statistics (summary financial statistics, insurance premiums and claims by insurance types of companies operating in the insurance sector), and payment statistics (Internet banking, mobile banking, payment transactions processed through the Interbank Card Center, transactions carried out abroad using payment cards, and statistics of the payment service network by economic regions) were provided to the general public, public authorities, and international organizations.

The Central Bank carried out work on collecting payment statistics from electronic money institutions, payment institutions, non-bank credit institutions, and payment system operators to organize, coordinate, regulate the operation of payment systems and assess financial inclusion. The relevant legal and regulatory framework was finalized to improve payment statistics, enhance the effectiveness of regulation and supervision in the field of digital payments, and expand the database and analytical capabilities for the development of electronic. By Decision No. 35/2 of the Central Bank's Management Board dated September 4, 2024, the *Guidelines on payment statistics reporting* were approved and entered into the State Register of Legal Acts of the Republic of Azerbaijan.

In 2024, the balance of payments was developed on a quarterly basis in accordance with relevant international standards. Work proceeded on the cross-verification and processing improvement of statistical indicators within the framework of relevant international reporting systems.

Regular consultations were held with relevant public authorities regarding the forecasting of the balance of payments in 2024. Detailed information on the BoP was provided to the Ministry of Economy for the preparation of the country's medium-term socio-economic development forecasts.

To improve foreign sector statistics, several tasks were carried out, including the assessment of international services trade statistics, particularly tourism and travel statistics; foreign direct investments (especially on foreign investors' contributions to authorized capital), development of sub-classifications for transactions conducted with non-residents in the banking sector; and work related to foreign debt statistics, especially the calculation of commercial debts. Information enabling the refinement of data from state enterprises regarding direct and portfolio investments (with an expanded coverage of data in the oil and gas sector) was obtained.

The collection and consolidation of summary foreign debt statistics and international investment position data continued. Foreign debt statistics and the international investment position were formed based on data from the Ministry of Finance, the banking sector, the State Statistics Committee, the National Depository Center, and enterprises and organizations operating in the oil and gas sector. Summary foreign debt and international investment statistics were prepared, which included indicators on state and state-guaranteed loans, government, and corporate securities, payables, and receivables.

A comparison was conducted between the foreign debt and international investment data of the non-state sector provided by the State Statistics Committee and the related data submitted to the Central Bank. Additionally, reinvested earnings on foreign direct investments attracted to the country's economy were taken into account in the international investment position. Data on equity and debt securities submitted by the National Depository Center and digital balance data of banks (formation of non-resident sub-classifications of asset and liability balances by accounts) were used to refine the banking sector's foreign debt statistics and international investment position indicators, as well as information on banks' direct foreign investments abroad.

The automation of the collection and consolidation of summary foreign debt statistics and international investment position data and the cross-verification of initial data continued. Furthermore, to expand the scope of reporting, necessary methodological support was provided for the preparation of relevant reports by oil and gas companies in accordance with the relevant instructions.

## **2.6. Maintaining stability and sustainability of financial markets, regulation, and supervision of financial markets, including macroprudential regulation and supervision**

**2.6.1. Banking sector.** In 2024, the banking sector continued to operate stably amid uncertainties triggered by complicated geopolitical developments. The sector's capital and liquidity indicators significantly surpassed the norms. Growth in the lending portfolio contributed to economic activity without compromising macroeconomic and financial stability targets.

Financial stability of the banking sector was closely monitored within the supervisory framework. Credit risks, trends in the FX market, and dollarization were regularly tracked, payment channels that

gained relevance due to the impact of geopolitical processes were monitored, and the current financial condition of banks was assessed.

As of 31.12.2024, there were 22 active banks (including two state-owned banks) in the country. Among the banks in operation, 9 banks have foreign capital involved in their capital structure. Banks provide their services through 485 branches, 88 divisions (including currency exchange offices), 3 230 ATMs, as well as 25 363 employees.

Total regulatory capital of the banking sector increased by 10.8% (AZN0.6B) to AZN6.2B. Capital adequacy (17.6%) exceeded the minimum regulatory requirement by about 1.7 times (12% for systemically important banks and 10% on other banks).

In 2024, banks continued issuing loans to the economy. Banks' loan portfolio increased by 18.5% (AZN4.3B) to AZN27.5B. Consumer portfolio increased by 21.7%, mortgage portfolio by 17%, and business portfolio by 17.2%. As of the end of the reporting period, business loans accounted for 53.8% of total loans.

During the reporting year, as part of improving the regulatory and supervisory framework and aligning it with international standards, regulatory requirements for related party transactions were strengthened, and regulatory requirements were established to apply the agent banking model and reduce life insurance risks for individuals taking out consumer loans to increase access to financial services for the population and business entities.

As a continuation of measures aimed at strengthening the corporate governance function in banks, a new package of amendments was made to the *Corporate Governance Standards in Banks* which includes additional criteria for independent members of banks' Supervisory Boards and new requirements related to the composition of the bank's committees. In addition to the amendments, *Recommendations on Corporate Governance Standards in Banks* covering Central Bank's strategic vision on future reforms in this area were adopted.

A regulatory framework for the use of behavioral models in the lending process in banks was established. The use of behavioral models in lending will facilitate easier access to bank loans for individuals and entrepreneurs, help banks reduce operational costs, optimize business processes, and enable the use of more accurate and new data, among other benefits.

To stimulate activities of NBCIs and strengthen their regulation, a regulatory framework for credit risk management in NBCIs was established, as well as prudential regulation for operations of these types of credit institutions, including capital and provisioning requirements, introduced, and the implementation of new prudential standards commenced.

Considering the growth rates of the loan portfolio amid increasing economic activity, rising property market prices, and profitability in banks, a decision was made to apply a countercyclical capital buffer in banks' capital, in accordance with Basel Committee standards and international practices. This macroprudential tool will not only enhance the banking sector's resilience to potential shocks but also ensure lending continuity.

Activity in appeals to the Azerbaijan Credit Bureau (Bureau) continued. In 2024, total number of inquiries received by the Bureau was 185.4 million (including 166 million bulk inquiries), while the number of scoring inquiries was 13.2 million.

As of the end of the reporting period, banking sector's liquid assets amounted to AZN14.2B (26.9% of total assets). The instant liquidity ratio stood at 51.9%, over 1.7 times more than the minimum regulatory requirement (min. 30%). The aggregate liquidity coverage ratio by the banking sector made 150%, and 178% on foreign currency, significantly surpassing the regulatory requirement (minimum 90% for systemically important banks and 80% for other banks).

In 2024, sector's total liabilities increased by 7.6% (AZN3.3B) to AZN46.4B. Deposits accounted for 81.3% of total liabilities, out of which AZN14.3B deposits of individuals (excluding individuals engaged in entrepreneurship). Deposits of individuals increased by 13.6%.

The level of dollarization of deposits and the loan portfolio is monitored regularly. As of the end of 2024, dollarization stood at 34.3% on savings of individuals, at 39.5% on deposits of legal entities, and at 16.1% on the loan portfolio.

The banking sector's foreign term debt increased by 23.3% to USD619M. However, the share of foreign debt in liabilities of the banking sector remains low. As of 31.12.2024 foreign debt accounted for 2.3% of total liabilities of banks.

**2.6.2. Insurance sector.** As of the end of 2024, there were 15 insurers, 1 reinsurer, 1 mutual insurer, 23 insurance brokers and 481 insurance agents in the insurance sector. Over the reporting year, insurance premiums amounted to AZN1 353M (y.o.y up by 11%) and insurance payments amounted to AZN753M (y.o.y up by 28%). Voluntary insurance accounts for 75% and compulsory insurance by 25% of insurance premiums. At the same time, life insurance accounts for 54% and non-life insurance for 46% of insurance premiums.

The Central Bank conducted comprehensive inspections of 4 insurance companies and 4 insurance brokers. Based on the Decree of the President of the Republic of Azerbaijan dated 31 January 2024, and the Decision of the Management Board of the Central Bank dated 14 February 2024 the insurance license of the State Insurance Commercial Company of the Republic of Azerbaijan was revoked and by the Decision of the Management Board dated 10 December 2024, the insurance license of Bakı Sığorta OJSC was revoked. In 2024, supervisory measures were regularly taken during the liquidation process of the insurers whose licenses were revoked to protect the rights of policyholders and creditors.

A number of regulations were approved in accordance with international legislation and insurance principles pertaining to the insurance sector.

Work continued in 2024 on the implementation of the project related to the transition to risk-based regulation and supervision. Efforts were made to develop concepts based on international legislation and insurance principles aimed at ensuring proper and timely identification of risks by insurers, adequate reserving and financial stability corresponding to accepted risks, as well as improving transparency levels and strengthening requirements for investment policies of insurers.

The *Corporate Governance Standards for Insurers* were approved with the aim of forming insurers' organizational structures and internal control mechanisms, as well as improving risk management and reporting systems within the insurance sector.

The *Regulation on formation of life insurance and non-life insurance reserves* was approved to regulate the composition and formation of insurance reserves, the calculation of the share of reinsurers in insurance reserves, and the calculation of reserves for catastrophic risks.

To prevent systemic risks in financial markets, the *Criteria for assessing an insurer as a systemically important insurer* were approved to ensure special regulatory regimes for insurers, develop supervisory processes in line with the changing risk profile of the insurance sector, and ultimately enhance the financial stability of the sector.

The *Regulation on insurance of borrower's life against death and loss of capacity for work under loan agreements* was approved to strengthen the protection of individual borrowers through life insurance coverage.

A number of regulatory measures were implemented to improve the expertise of independent experts, who play a significant role in impartial assessment of insurance claims and in ensuring fairness in the event of disputes. In addition, the rules for the registry that provides public access to information about professional participants in the insurance market were improved.

Amendments were made to the relevant regulatory framework to enhance and strengthen consumer protection in the field of compulsory motor third-party liability insurance, ensure the insurance coverage of all types of vehicles registered by the state, and incorporate advanced international practices, particularly in relation to border and Green Card insurance, thus establishing a unified regulatory approach for this type of insurance.

At the same time, a concept based on successful international practices was developed for drafting rules on the disclosure of information by insurers to the public regarding their solvency, financial condition, and market behavior towards policyholders. Based on this concept, work is ongoing to improve the draft version of the regulation.

In connection with the improvement of the compulsory real estate insurance system, draft amendments to the legislation were prepared in line with best practices. Additionally, a project on the modeling of catastrophic risks related to this type of insurance was launched. Within the scope of this project, actuarial calculations are being carried out to redefine the insurance amount, insurance premium, and deductible for catastrophic risks. As part of a new approach to catastrophic risk management, a conference titled *Resilient Financial System Against Catastrophic Risks* was held. The conference included a broad exchange of international experience on the modeling of catastrophic risks, measuring financial consequences arising from such risks, and developing insurance mechanisms to address them.

Furthermore, work is ongoing to prepare draft amendments to legislation aimed at improving the compulsory insurance system for loss of occupational capacity due to workplace accidents and occupational diseases, and development of compulsory personal accident insurance for passengers.

In connection with the digitalization of insurance services, measures were undertaken to enable the conclusion of compulsory insurance agreements in electronic document format. Additionally, integration between the electronic information system of the Compulsory Insurance Bureau and the systems of relevant public authorities has continued for applicable types of compulsory insurance.

Extensive public awareness and promotional campaigns were carried out to educate the population and business entities on insurance and risk. At the same time, training and development programs conducted by professional foreign experts have continued for employees in the sector to enhance the human capital of the insurance market.

As part of ongoing efforts to build trust in the insurance market, expand its reach, bring more individuals under insurance coverage, support the digital transformation of the sector, align insurers' management practices with modern standards, and strengthen the sector's financial resilience, a number of international events (such as Azerbaijan Insurtech Summit, the International Insurance Forum) have been held.

**2.6.3. Capital market.** *The Central Bank continued to implement measures aimed at increasing the efficiency of regulation and supervision in the securities market, aligning the legal framework of the capital market with international standards, improving the operational infrastructure, and supporting demand and supply in the market.*

The *Financial Sector Development Strategy 2024–2026* approved by the Central Bank at the beginning of 2024 envisages several measures aimed at establishing a sustainable infrastructure in the capital market, expanding market access opportunities, ensuring trust and confidence in the capital market, increasing the variety of investment instruments, as well as improving supervisory activities.

To enhance professional qualifications in the capital market, the *Regulation on conducting attestation for the acquisition of qualification certificates to provide investment services (operations) and investment fund management* was updated.

The *Corporate Governance Standards in Investment Companies* were approved to enhance reliable, transparent governance and accountability systems in investment companies, and ensure the effectiveness of internal control and risk management.

According to amendments made to the *Regulation on provision of investment services (operations) by investment companies and banks*, banks are now permitted to offer a range of investment services in the capital markets.

Additionally, to establish a legal framework for securitization activities, a draft amendment to the *Law of the Republic of Azerbaijan on the Securities Market* was prepared and submitted to the relevant public authorities. Furthermore, to create an investor protection mechanism in the capital market, the Central Bank and the Deposit Insurance Fund jointly prepared a draft amendment to the *Law of the Republic of Azerbaijan on Deposit Insurance*, which has been submitted to the Cabinet of Ministers.

During the reporting year, to digitalize the operational infrastructure of the capital market, trading and post-trading systems were integrated into digital platforms. As a result of these efforts, for the first time, the subscription process for the public offering of IBA shares was carried out through a mobile application. Subsequently, secondary market transactions involving these shares were also executed via the mobile application. It is planned to gradually offer other financial instruments to investors through digital solutions as well.

To encourage public offerings of securities and expand financing opportunities for the private sector, companies conducting their first share issuance and listing between 1 July and 31 December 2024 were exempted from listing fees. Additionally, the tax exemption on income from dividends,

discounts, and interest paid on publicly offered and regulated market-traded shares and bonds was extended in 2024. Furthermore, efforts were made to optimize investor costs.

As part of ongoing efforts to stimulate public offerings of securities, the service fee for opening depository accounts required for investors to purchase shares offered through public offerings was waived.

Moreover, during the reporting year, due to violations identified in its operations, the license of Plato Capital and Co. Investment Company OJSC was revoked by decision of the Management Board of the Central Bank dated 12 December 2024.

To enhance the knowledge of potential issuers and investors about the market, intensive awareness-raising activities were conducted with the participation of international financial institutions, relevant public authorities, and investment companies.

The total trading volume in the securities market increased by 2.6 times year-over-year to AZN72,473M. On the Baku Stock Exchange (BSE), the share market for corporate securities grew by 29%, the corporate bond market by 54%, and the government securities market by 29%.

The volume of transactions conducted on the BSE amounted to AZN71,156M, and the positive trend in the public offering of corporate bonds on the stock exchange continued. The total trading volume of corporate securities on the BSE increased by 53% year-over-year to AZN2,370M.

The volume of transactions in the government securities market amounted to AZN7,864M. Throughout the year, 93 auctions were held on the BSE involving Central Bank notes, and the volume of market operations with these notes y.o.y. decreased by 49% to AZN1,988M. A total of 58 auctions were conducted on the BSE for the placement of government bonds. The volume of the primary market for government bonds y.o.y. increased by 28% to AZN4,790M. The volume of government bonds in circulation rose by 47% to AZN9,353M.

The Central Bank registered shares and bonds totaling AZN15,114.4M. Additionally, 62 prospectuses and 3 information memorandums related to public offerings of corporate securities, with a total value of AZN2,333.6M were approved.

## **2.7. Ensuring stable, secure, and effective operation and supporting the development of payment systems**

*One of the priority directions of the Central Bank was to ensure stable, safe, and effective operation of payment systems. The Bank focused on cyber resilience of the systems on the backdrop of global digitalization.*

Total amount of payments made through the core components of the National Payment System – the Real Time Gross Settlement System (AZIPS), the Low Value Payment Clearing and Settlement System (LVPCSS) and the Instant Payments System (IPS) was AZN760.2B (6 times of GDP), and the number of payments increased was 168.6 million units.

Payments are collected for over 1200 services across the institutions integrated to the Government Payments Portal (GPP). Total amount of transactions conducted over the GPP made AZN8.1B, cashless transactions account for 71.3% of these transactions. Total amount of transactions y.o.y. increased by 16.4%, and the value of cashless transactions increased by 20.9%.

The value of transactions processed in the national currency over the Interbank Card Center made AZN30.6B, in foreign currency it made USD69.3M and EUR29.6M.

As of 31.12.2024, the number of payment cards in circulation was 19.9 million units, ATMs 3.3 thousand units and POS-terminals 119.5 thousand units. The value of domestic payment card transactions increased by 60.9% to AZN78.9B. The number of e-commerce transactions y.o.y. increased by 83.4%, while their value increased by 69.8%. The weight of domestic payment card payments y.o.y. increased by 8.6 pp to 64.2%. The value of Internet banking transactions y.o.y. increased by 20.7%, while the value of mobile banking transactions increased by 38.2%.

In 2024, activities aimed at improving the legislative framework for payment services and expanding cashless payments continued. The regulations arising from the Law of the Republic of Azerbaijan *on the Payment Services and Payment Systems*, including the *Regulation on the organization and implementation of activities by payment and electronic money institutions*, the *Regulation on the organization of work with payment agents*, the *Regulation on the organization and implementation of activities by the payment system operator*, the *Regulation on the application of strong customer authentication*, the *Regulation on maintaining payment operations and on payment instruments*, the *Requirements for network channels used between payment service providers for providing payment initiation and account information services* and the *Guidelines on payment statistics reporting* were approved over the year. Within the framework of licensing the activities of payment service providers, the Central Bank issued relevant licenses in 2024 to 14 electronic money institutions, 8 payment institutions, and 1 operator.

The Central Bank received applications for 21 innovative products, and 4 of them were accepted into the special regulatory regime, selected in accordance with the criteria defined by the *Regulation on the application of the Regulatory Sandbox*. The aim of Regulatory Sandbox is to test innovative services and products in a pilot environment within the financial markets, and, if the test results are successful, take relevant steps to improve the normative legal framework for their continued implementation.

The Central Bank established requirements for ensuring standardized, secure, and reliable operation of the network channels used between payment service providers when offering payment initiation and account information services. These requirements support the implementation of the open banking approach, contributing to the development of innovative services and products in the country's financial markets. This, in turn, created a foundation for improving accessibility and efficiency of financial services, expanding the scope of digital banking and financial technology services, and building more modern customer-bank relationships.

The promotion of digital payments remained a focus area, and awareness-raising activities were carried out in cooperation with international payment system operators and relevant institutions. As part of the cooperation between the Central Bank and the Azerbaijan Banks Association, educational video clips on payment card frauds were prepared and disseminated through the Central Bank's and commercial banks' social media accounts, as well as on TV and radio channels.

To explore the potential adoption of digital currencies, increase the use of instant payment systems, highlight the role of open banking in the development of fintechs, support the application of modern regulatory technologies in the financial sector, and enhance information exchange on

cybersecurity among central banks, a regional event was organized with the participation of payment system experts from the central banks of Central Asian countries.

## **2.8. Protecting the rights of consumers and investors in financial markets and conducting financial literacy activities**

*In 2024, the Central Bank took appropriate measures to address and prevent violations of consumer and investor rights in the financial services sector, based on appeals it received. Additionally, awareness-raising efforts targeting different audience groups were sustained throughout the year.*

A total of 84 494 appeals were received from consumers and investors in writing, via the hotline, reception, and WhatsApp. 68.19% out of 16 675 written appeals were related to the banking sector (11 370 appeals), 18.73% (3123 appeals) to the insurance sector, 2.21% (369 appeals) to the capital markets and 10.87% (1 813 appeals) to other matters. 63 916 calls to the hotline 966 were promptly responded, meetings were held with 1 685 citizens (in-person meetings were held with 1,599 citizens on-site, with 80 citizens during mobile receptions in the districts of Aghjabadi, Sabirabad, Neftchala, and Salyan, as well as in the city of Guba, and online meeting with 6 citizens), 2 218 appeals received through the WhatsApp were handled.

To collect information on market behavior from customers and assessing service quality during the test purchases of financial services offered by supervised entities, the *Regulation on test purchase of financial services (products)* was approved. Additionally, to ensure accessibility to the hotline numbers of supervised entities, the Central Bank issued a warning letter to them.

To further improve the quality of services provided to financial service consumers and investors, and enhance citizen satisfaction, new functionalities were added to the Central Bank's Call Center, which allow citizens to benefit from feedback and call request services. Moreover, citizens were given the ability to track the execution status of their applications submitted to the Central Bank either directly or via paper documents from other institutions.

Furthermore, to protect investor rights, the Central Bank ensured that protocols on administrative offenses were prepared against joint-stock companies, holding them administratively accountable under the legislation, and submitted these protocols to city and district courts.

At the initiative of the Central Bank meetings were held with the *Social Assistance to Hearing and Speech Impaired Persons* Public Union, the Azerbaijan Banks Association and its Expert Group on the Protection of Financial Service Consumers' Rights, executives of commercial banks and authorized representatives of currency exchange offices, the Azerbaijan Insurers Association and its member insurance companies, the Azerbaijan Microfinance Association, the Azerbaijan Fintech Association Public Union, and the Azerbaijan Capital Market Participants Association to ensure information accessibility for individuals with impaired hearing and speech when using financial services, and facilitate mutual discussions on consumer finance protection. Opinions were exchanged regarding the protection of financial service consumers' rights.

A meeting was organized at the Center for Social Research to provide information on the activities and additional measures implemented by the Central Bank on consumer finance protection, as well as discuss potential areas of cooperation.

The Central Bank developed the initial draft of the *Requirements on Market Conduct of Financial Institutions*, which is currently undergoing further refinement. These requirements aim to regulate the market conduct of financial institutions, ensure the protection of consumer rights, prevent unfair practices in the financial sector, enhance transparency and information disclosure, improve financial

literacy among users of financial products and services, raise the quality of those products and services, and ensure the effective resolution of consumer complaints.

The Central Bank also developed preliminary draft amendments to relevant sectoral laws to support the regulation of market conduct in the financial sector.

To establish risk-based supervision over market conduct in the financial field, the Central Bank also developed the initial version of the document titled *Risk-Based Supervision Framework for Market Conduct*.

In cases where no agreement is reached between the parties (the insurer and the claimant) on the amount of damage following an insurance event, a preliminary scoring system was developed to assess the performance of independent experts appointed to evaluate the damage. The aim is to measure the quality of services provided by them to consumers and the level of consumer satisfaction. This system is also intended to assist consumers in making informed choices when selecting an independent expert.

In 2024, efforts to enhance financial literacy continued, with 44 training sessions organized for various target groups, including volunteers of the *Regional Development* Public Union. A total of 1,520 individuals participated in these traditional and online training sessions

Throughout the year, various competitions were organized to promote financial awareness. In March 2024, on the occasion of Global Money Week, a competition on the course 'Banking and Digital Payments' was held in cooperation with VISA, the international payment organization. In September–October, competitions were held among managers and staff of SMEs via the Virtual Education Platform on the courses 'Over-indebtedness: Problems and Recommendations' and 'Taxes and Taxation,' aimed at raising financial awareness and protecting their rights. As part of the annual tradition, a competition on the virtual course 'Digital Payments and Electronic Banking Services' was conducted among undergraduate and graduate students of higher education institutions in celebration of World Savings Day and Financial Literacy Month. At the end of the year, to improve management effectiveness, a competition was organized among representatives of small and medium-sized enterprises on the courses 'Fundamentals of Management' and 'Operations Management' hosted on the Virtual Education Platform.

Several new courses were launched on the Central Bank's Virtual Education Platform ([edu.e-cbar.az](http://edu.e-cbar.az)), including 'Risk Management and Insurance,' 'Startup: From A to Z,' 'Fundamentals of Management,' 'Operations Management,' and 'Fundamentals of Sustainable Finance.' Additionally, updated versions of the 'Banking' and 'Practical Aspects of Taxation' online courses were made available. Starting from September 2024, the process of evaluating participants' knowledge and awarding certificates has been conducted independently, without the involvement of Central Bank employees.

To enhance financial literacy, educational materials were regularly shared on social media platforms.

## **2.9. Conducting activities in the field of the prevention of the legalization of criminally obtained property and the financing of terrorism, the proliferation, and the financing of proliferation of weapons of mass destruction (AML/CFT/FP)**

*The Central Bank implemented significant measures in the field of AML/CFT to ensure the transparency and reliability of the financial system, strengthen the country's participation in the*

*international financial system, increase customer trust in financial institutions, reduce legal and financial risks, and contribute to the effective management of risks.*

In 2023, during Azerbaijan's 5th round mutual evaluation conducted by the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), the Central Bank actively participated alongside other competent national authorities. Following the evaluation, a short-term action plan to address identified deficiencies was approved by the Coordination Council established in the AML/CFT field, and the Central Bank ensured the implementation of the relevant measures in 2024.

Additionally, under the *National Action Plan for 2023–2025 on the Prevention of the Legalization of Criminally Obtained Property and the Financing of Terrorism*, approved by Presidential Decree No. 3770 dated 28 February 2023, the Central Bank was designated as the implementing agency and fulfilled the assigned tasks for 2024.

The mentioned action plans include measures both for the activities of the Central Bank and for the supervised financial institutions. These measures cover areas such as licensing, enforcement of sanctions, virtual asset service providers and virtual assets, financing of terrorism, cooperation among competent authorities, resource enhancement, completeness of customer information in financial institutions, risk assessment, internal control programs, beneficial ownership, and other related fields.

In this regard, the Central Bank approved three internal regulations related to licensing, conducting inspections, and sectoral risk assessment. Proposals for amendments aimed at increasing the effectiveness of sanctions were submitted to the relevant authorities. Cooperation with domestic and foreign competent authorities continued, and internal resources for supervision were increased and strengthened. Additionally, the Central Bank conducted five training sessions related to measures concerning financial institutions, communicated new methodological documents, and organized twenty-seven meetings within relevant working groups to address practical challenges, providing support and ensuring continuous oversight of the implementation of these measures. A draft methodological guideline for conducting institutional risk assessment in financial institutions was also prepared.

Additionally, the Central Bank contributed to the preparation of methodological documents for financial institutions, including the draft reports on *Risk Assessment of Money Laundering and Terrorism Financing Related to Commercial Legal Entities in the Republic of Azerbaijan* (ML/TF Risk Assessment) and *Risk Assessment of Terrorism and Terrorism Financing*. At the same time, relevant work was carried out according to the approved action plan related to the ML/TF Risk Assessment report.

To implement a risk-based approach and identify high-risk areas, a sectoral risk assessment of the financial sector was conducted in 2024. The results of this assessment were submitted to the Coordination Council.

The evaluation revealed that AML/CFT internal control mechanisms of financial institutions, including customer due diligence measures, the capacity of responsible persons, quality of internal audits, risk assessment, continuous monitoring, and reporting levels, improved.

## **2.10. Ensuring the operation of the oversight system in the field of deposit insurance**

*In 2024, the Central Bank continued the oversight of deposit insurance scheme.*

Work proceeded on the methodological draft concerning the calculation and collection of insurance premiums paid by participant banks to the Deposit Insurance Fund within a risk-based framework.

In 2023, depositors of 'Günay Bank' OJSC and 'Muğan Bank' OJSC, which had been declared bankrupt, received 98% and 97% of their protected deposits, respectively. As of 30.12.2024, compensation totaling AZN34.3M was paid to 2 209 depositors of 'Günay Bank' OJSC undergoing liquidation, and AZN199M was paid to 7 689 depositors of 'Muğan Bank' OJSC undergoing liquidation.

## **3. Financial results of Central Bank's activities**

Based on the International Financial Reporting Standards, as of 31 December 2024, the Central Bank's revenues amounted to AZN1,064.0M. Of which, AZN885.9M came from interest, revaluation, and conversion gains on currency assets, AZN51.3M from interest on securities obtained in the domestic market, AZN11.4M from interest on centralized credit resources, and AZN18.1M from services provided to clients. Additionally, revenues included AZN28.8M from the initial recognition of financial liabilities at fair value, AZN12.9M from amortization of financial assets, AZN2.1M from changes in the fair value of those assets, and AZN0.4M from revenues related to derivative financial instruments in the domestic market. Furthermore, AZN45.3M from credit loss recovery/(allowance) for assets carried at amortized cost, AZN7.8 M was derived from the sale of commemorative and bullion coins, revaluation of investment property and other income.

The Central Bank's total expenses amounted to AZN343.1M, of which AZN156.4M were operational expenses. The operational expenses primarily consisted of costs arising from the Central Bank's sterilization operations, including AZN58.5M in interest expenses on deposits attracted from banks, AZN64.9M on CBA notes, and AZN0.9M on repo transactions with banks. Additionally, operational expenses included AZN2.6M in commission costs for transactions in foreign financial markets, AZN16.5M in interest expenses related to the State Oil Fund of Azerbaijan and the Deposit Insurance Fund, AZN0.6M in net interest expenses to the International Monetary Fund, AZN3.0M in costs associated with bringing in cash foreign currency, and AZN9.4M in costs for the production and transportation of banknotes and coins (including commemorative coins).

After deducting operational expenses, remaining expenses included AZN96.6M in administrative and other operating expenses, including AZN52.1M staff costs and contributions to Social Security Pension Fund, AZN26.2M depreciation of premises and equipment and amortization of intangible assets, AZN18.3M other traditional expenses (software maintenance, repair, maintenance, and security, business travel and other expenses). Accounting losses related to revaluation of the currency position amounted to AZN59.8M. Amortization costs of financial liabilities amounted to AZN30.3M.

Consequently, in 2024, Central Bank made total profit in the amount of AZN720.9M, the realized profit amounts to AZN552.5M.

As of 31.12.2024, the Central Bank's total equity is equal to AZN1990.1M, including accumulated accounting income of AZN24.3M from fair value through other comprehensive income. Transfer to the State Budget was AZN250M in 2024 (2023: nil).