



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

REPORT ON ACCOMPLISHMENT OF MAIN GOALS AND FUNCTIONS IN 2025

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Introduction

In 2025, 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 2025*. Monetary policy decisions throughout the year were made considering macroeconomic forecasts and changes in the balance of risks related to inflation. Monetary policy tools were applied in response to 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 2025, the key priorities of the Central Bank's financial stability policy were maintaining confidence in the financial and banking system, minimizing risks, and enhancing governance capacity and resilience to shocks in the financial sector. Throughout the year, access of the real sector to financial resources continued to expand. Growth in business lending and developments in the securities market broadened financing opportunities for economic growth and further increased the depth of the financial sector. The expansion of cashless payments strengthened the resource base of the financial sector.

1. Accomplishment of goals

The main goal of the Central Bank is to maintain price stability 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 2025, annual inflation followed the projected path over the course of the year and stood within the target range of 4% ± 2% at year-end.

According to the State Statistics Committee, 12-month inflation stood at 5.2% in December 2025. Annual core inflation, calculated excluding regulated prices and the price changes of seasonal agricultural products, was 4.8%.

In December, annual inflation on food products, alcoholic beverages and tobacco products stood at 6.4%. Annual non-food prices increased by 2.5%. The service inflation stood at annual 5.7%. Overall, inflationary pressures were driven primarily by food prices. The annual rise in the prices of food products, alcoholic beverages and tobacco contributed 2.8 pp to annual inflation (54%).

A range of domestic and global demand- and supply-side factors shaped inflation developments in 2025. Central Bank estimates indicate that government and household consumption made a combined positive contribution of 1.74 pp to annual inflation, agricultural producer prices and inflation in trading partner economies added 2.67 and 2.91 pp, respectively. By contrast, movements in the nominal effective exchange rate (NEER) of the manat lowered annual inflation by 0.34 pp, while other factors, including inflation expectations, contributed a further 1.78 pp to disinflationary pressures.

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

The regulatory policies and supervisory measures implemented in 2025 contributed to the stability and sustainable functioning of all segments of the financial system.

The Central Bank implemented a range of policy measures aimed at strengthening the banking sector's resilience. Progress in the implementation of risk-based supervisory mechanisms, the enhancement of prudential requirements targeting key areas of risk, as well as effective dialogue with the banking sector and the continued modernization of the regulatory and supervisory framework, contributed to the preservation of financial stability. In line with the recommendations of the Basel Committee, and with a view to enhancing the resilience of the banking sector and supporting financial stability, the Central Bank activated the countercyclical capital buffer requirement for banks. To strengthen the management of operational risks and establish a regulatory basis for related prudential reporting and data collection, the Bank approved the '*Regulation on operational risk management in banks.*'

In 2025 the banking sector's financial intermediation function expanded further, supported by continued strong lending activity. Against the backdrop of sustained growth in the loan portfolio, enhancements to the regulatory framework were implemented, while credit institutions maintained effective risk management practices.

Throughout the reporting year, the banking sector's capital adequacy and liquidity indicators remained well above applicable regulatory minimum requirements. The sector's profitability also continued to improve, with banks recording close to AZN1.2B in net profit during the year. The banking sector's return on assets stood at 2.1%, while return on equity reached 18.2%. The sector's capital adequacy ratio amounted to 17.6%, remaining comfortably above the minimum regulatory requirement. At the same time, the liquidity coverage ratio stood at 154%, exceeding the regulatory requirement by more than 1.5 times.

The insurance sector's financial performance improved further, while both insurance penetration and insurance density increased. A number of regulatory acts, developed in line with international legislative standards and core insurance principles, were approved during the reporting period. The sector remained profitable, while its aggregate capital exceeded the required capital level by more than 1.6 times.

In the capital market securities market turnover increased year-over-year. Efforts to enhance capital market infrastructure and further modernize the regulatory framework continued throughout the reporting year.

The payment systems operated in a stable, secure, and efficient manner. Work also continued to support the further development of the national payment ecosystem.

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 2025, the Central Bank's monetary policy was aimed at keeping inflation within the target range by maintaining appropriate monetary conditions. Efforts to further enhance the monetary policy operational framework continued throughout the year.

In 2025, the Management Board of the Central Bank discussed the interest rate corridor parameters eight times under the preannounced schedule. In six meetings, the parameters were kept unchanged and were decided to be cut at two meetings. Overall, the monetary policy was eased throughout 2025, the refinancing rate was shifted from 7.25% to 6.75%, the ceiling of the interest rate corridor from 8.25% to 7.75%, and the floor of the corridor from 6.25% to 5.75%. The decisions reflected the consistency of actual inflation with the projected trajectory, the effects of recent global economic and geopolitical developments, domestic macroeconomic conditions, shifts in the balance of inflation risks, and the transmission of monetary policy measures to the economy. As of the end of 2025, the policy rate stood at its lowest level in four years, close to the neutral interest rate.

Monetary policy tools were calibrated in line with financial market developments and changes in banking sector liquidity conditions. Open market operations and standing facilities remained the main instruments used to achieve the objectives of monetary policy. Monetary policy operations also helped offset the effects of autonomous liquidity factors on monetary conditions. Decisions on the allotment volumes of open-market operations were guided by liquidity monitoring and forecasting.

From April 2025, the Central Bank intensified its liquidity absorbing operations in response to the increase in banking sector liquidity resulting from the placement of national currency funds held in the treasury account with domestic banks. The volume of one-week operations was increased to steer money market interest rates and promptly offset the effects of autonomous liquidity factors. The Central Bank continued to conduct auctions for the issuance of 28-day (one-month), 84-day (three-month), 168-day (six-month), and 252-day (nine-month) notes for liquidity absorption purposes. Overall, 17 repo operations, 58 deposit auctions and 170 auctions of notes with various maturities were conducted in 2025. Total outstanding volume of notes in circulation fluctuated depending on conditions in the banking system and reached its highest level in August 2025 (AZN744.2M). As of end-December, total outstanding amount of funds absorbed through notes reached AZN370.8M.

No changes were made to required reserves. Monitoring findings suggest that outstanding amount of correspondent accounts of banks in both national and foreign currencies at the Central Bank exceeded total funds to be maintained as required reserves throughout the reporting period. Ongoing implementation of reserve requirements under the averaging regime supported the flexible and effective management of liquidity by banks.

Efforts to further strengthen the monetary policy operational framework continued in 2025. In February, changes were introduced to the terms and conditions of standing facilities and open market operations. The maturity of standing deposit and reverse repo facilities was changed from one day to overnight. In June, the seven-day repo operation was replaced by a seven-day deposit operation to improve the effectiveness of liquidity absorption. In addition, the minimum participation requirement for note auctions was removed.

Overall, the Central Bank's monetary operations in 2025 contributed to the effective management of liquidity in the banking sector, supported activity in the interbank money market and reinforced interest rate transmission. The flexible deployment of monetary policy

instruments enabled banks to manage their liquidity positions more efficiently while meeting short-term funding needs.

The interbank unsecured market continued to be active. AZN65.4B worth 3,661 transactions were concluded in the Bloomberg trading system in 2025. 95% of which were 1–3-day transactions.

In 2025, the AZIR index in the unsecured interbank money market remained within the interest rate corridor and moved closely in line with the policy rate. The index responded flexibly to the two refinancing rate cuts during the year. Its deviation from the policy rate continued to narrow over the course of the year. In particular, the average deviation of the AZIR index from the policy rate stood at 0.36 pp in H1 2025, declining to 0.07 pp in the second half of the year. Overall, the standard deviation of the AZIR index from the refinancing rate amounted to 0.28 pp in 2025, 0.36 pp lower than in the previous year.

On 15 May 2025, the Central Bank developed and approved new, more advanced regulations for the calculation of the AZIR index in close cooperation with experts from the EBRD considering the analysis of developments in the interbank money market and best practices. To avoid potential distortions and undesirable volatility, 10% of the trading volume, concentrated at the highest and lowest ends of the sorted list by interest rate, is excluded as outliers. Moreover, the new methodology provides contingency plans for the continuity of the AZIR publications on the days when the volume and number of transactions fail to meet the requirements. The changes oriented towards removal of breaks in the publication of AZIR contribute to continuous use of AZIR as a benchmark rate by market participants. In the last quarter of 2025, the EBRD, for the first time in the domestic market, issued manat-denominated bonds. The coupon rate of the first floating-rate instrument in the domestic capital market is determined based on the Bank's AZIR index. This historical event further strengthens AZIR's role as a market reference rate and broadens its practical application. The use of the AZIR index as a reliable reference rate for bond issuance will provide an important foundation for the future introduction of more complex financial instruments.

Analytical assessments indicate that the cumulative reduction of the policy rate by 0.5 pp in two steps in July and December 2025 was accompanied by a decline in interest rates across various segments of the financial markets. In H2 2025, lower yields were recorded on CBA notes and government securities, as well as on new manat-denominated deposits and loans.

The base money in manat increased by 7.4%, and broad money supply in manat (M2) increased by 10.2%. As in the previous year, movements in government account balances remained one of the key factors influencing money supply developments in 2025.

Effective communication of monetary policy remained a priority during the reporting year. Press releases on monetary policy decisions were published together with relevant analytical commentary, regular press conferences were held, informational materials were disseminated, and the Monetary Policy Review was published quarterly. Central Bank's activities were also consistently communicated through its official website and social media channels. Regular meetings were held with financial sector representatives as well as independent economic experts.

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 2025.

The Central Bank withdrew AZN4.5B worth currency from and issued AZN6.6B worth currency into circulation. Cash in circulation increased by 12.1% (AZN2.1M) to AZN19.6B as of the end-year compared to the beginning of the year. As of the last business day of 2025, national currency reserves amounted to AZN7.1B, sufficient to cover demand of the economy by the end of 2026.

The Bank focused on the organization of anti-counterfeiting and coordination with law enforcement bodies. 440 counterfeit banknotes were discovered in the national currency (AZN39 thousand), signs of counterfeiting were discovered in 550 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 2025 AZN2.63 M (43.6 thousand units) worth of currency notes were accepted from the public and exchanged.

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 2025, 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 exchange rate stability, 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, the average daily official exchange rate of AZN/USD was AZN1.7. Buy/sell rates of foreign currencies set by banks remained within a range close to the official rate. The average daily buy/sell exchange rates of banks against the US dollar stood at AZN1.6948 and 1.7018, respectively. The average buy rate deviated from the official exchange rate by 31%, while the sell rate deviated by 0.11%.

The Bank held a total of 98 currency auctions in 2025 to sell foreign currency provided by the SOFAZ, where the market's demand for foreign currency was fully met.

Overall, exchange rate stability in the FX market continued to play an important role in safeguarding price stability during the reporting year. In 2025, cash foreign currency buy transactions by currency exchange outlets exceeded sell transactions by \$423M. The decline in the dollarization level of resident household deposits by 2.6 pp to 28% points to optimistic exchange rate expectations. Against this backdrop, the Central Bank's foreign exchange reserves increased in 2025.

The manat exchange rate fluctuated in different directions against the currencies of trading partner countries. Bilateral exchange rate dynamics also affected the multilateral exchange rate. Developments in global trade intensified volatility in commodity and financial

markets. In this environment, the US dollar index declined, while in December the NEER of the manat for the non-oil sector depreciated by 5.2% compared with the end of the previous year. Lower inflation in Azerbaijan relative to the average inflation rate in partner countries exerted a downward effect on the REER. In December, the REER of the manat for the non-oil sector depreciated by 7.7% compared with the end of the previous year.

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

In 2025, the Central Bank continued the management of its foreign exchange reserves in line with the prevailing strategic and operational framework.

The Central Bank managed its foreign exchange reserves against a backdrop of heightened volatility in global financial markets stemming from geopolitical and geoeconomic developments. The announcement and implementation of more restrictive tariff measures by the US administration contributed to concerns among market participants about a potential slowdown in economic growth both globally and in the United States. Although the major central banks in the United States and Europe pursued a monetary policy easing cycle amid declining inflationary pressures during the year, inflation remained above target levels, prompting central banks to maintain a cautious approach in their monetary policy decisions. These factors, together with heightened uncertainty, also contributed to a depreciation of the US dollar.

The Central Bank's foreign exchange reserves were managed through two distinct tranches: an operational tranche maintained to support the implementation of monetary policy, and an investment tranche aimed at enhancing returns. As of the end of 2025, the currency composition of the official foreign exchange reserves comprised 93% US dollars, 1% Chinese renminbi and Qatari riyals, and 6% Special Drawing Rights (SDRs).

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.

Income generated from the management of the Bank's foreign exchange assets amounted to \$505.5M, corresponding to a rate of return of 4.6%, which exceeded the returns of the respective benchmarks.

The Central Bank's official FX reserves increased by \$555.4M (5.1%), due to foreign exchange operations in the domestic market and exchange rate differences, to \$11.5B.

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 2025, 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. Data were exchanged with several public institutions, and with international

organizations such as the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank.

In accordance with the data dissemination schedule, macroeconomic, monetary, banking, and aggregated financial sector indicators were provided monthly for both the Azerbaijan page of the International Monetary Fund (IMF) and the Central Bank's official website, while regular statistical bulletins were published throughout the year. In addition, from March 2025 onwards, a new Interactive Statistical Database (Navigation) was developed and integrated into the Bank's website with a view to providing the public with timely access to key statistical indicators and analytical overviews.

The Central Bank continued to disseminate a broad range of statistical data to the public, government institutions and international organizations: statistics on the Bank's monetary operations (results of auctions for the placement of CBA notes and government securities, official average monthly exchange rates of the manat against foreign currencies, and the AZIR indices derived from unsecured interbank transaction); insurance sector statistics (aggregated financial indicators as well as data on insurance premiums and claims by lines of business); payment statistics (transactions processed through internet banking, mobile banking and the Interbank Card Centre, payment card transactions conducted abroad, and statistical indicators on the payment service network by economic regions). In addition, the Bank commenced the collection of payment statistics from electronic money institutions, payment institutions, NBCIs and payment system operators. This initiative supports the Central Bank's functions in organizing, coordinating, and regulating payment systems, while also contributing to the assessment of financial inclusion in the country.

In 2025, the balance of payments was developed quarterly under relevant international standards. Work proceeded on cross-verification and processing improvement of statistical indicators within the framework of relevant international reporting systems.

Regular consultations continued with relevant public authorities regarding the forecasting of the balance of payments in 2025.

Further efforts were undertaken to enhance external sector statistics: improvements in the estimation of services statistics, particularly those relating to education and travel services; the development of more granular classifications for reinvested earnings transactions; the refinement of direct investment statistics, especially with regard to infrastructure projects and the reinvestment of capital by foreign investors; and enhancements to external debt statistics, notably in the assessment of trade credits and advances. In addition, information was obtained from state-owned enterprises that enabled further improvements in the compilation of direct and portfolio investment statistics, including an expansion of the coverage of the oil and gas sector.

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 (SSC), the National Depository Center (NDC), and oil and gas enterprises and organizations. Summary foreign debt and international investment statistics were prepared, which included indicators on government and government-guaranteed loans, government, and corporate securities, payables, and receivables.

Data on external debt and international investment positions of the non-government sector provided by the SSC were cross-checked against related datasets submitted to the Central Bank, including balance of payments and digital balance sheet data. The institutional

sector breakdown in the gross external debt report was further refined through the separate presentation of financial and non-financial corporations. In addition, technical reserves, as well as trade credits and advances relating to the financial sector, were incorporated into the compilation of gross external debt statistics. Data on equity and debt securities provided by the NDC, together with banks' digital balance sheet data, including non-resident classifications of assets and liabilities by account, were used to enhance the quality of external sector statistics. As a result, the external debt statistics and international investment position data for the banking sector were further refined, while information on both outward and inward foreign direct investment was updated and improved.

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. Methodological guidance continued to be provided to reporting agents in the financial sector (banks, NBCIs, credit unions, insurance companies and investment firms), as well as in the oil and gas sector, to support compliance with the reporting requirements set out in the '*Guidelines on the compilation and submission of statistical reports on external debt and international investment.*'

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. Amid heightened uncertainty arising from complex geopolitical developments, the banking sector remained resilient in 2025. Capital and liquidity indicators continued to exceed regulatory requirements, while the sector maintained its profitability. Growth in the loan portfolio continued to support economic activity without compromising the objectives of macroeconomic and financial stability.

In line with the objectives set out in the *2024–2026 Financial Sector Development Strategy*, approved by the Management Board of the Central Bank of the Republic of Azerbaijan, and as part of the *Financial Sector Modernization Project* implemented jointly with the World Bank, substantial progress was achieved in advancing risk-based supervision of banks. The '*Guideline on risk-based supervision of banks by the Central Bank of the Republic of Azerbaijan*' was developed to support the implementation of the risk-based supervisory framework known as ARAS (Azerbaijan Risk Assessment System), which was established on the basis of the New Policy Concept for the Implementation of Risk-Based Supervision approved in 2024. The guideline was developed taking into account the supervisory and regulatory practices of foreign jurisdictions and was further enhanced with the support of the consulting firm Oliver Wyman before being piloted. In December 2025, the guideline was approved by the Central Bank's Supervisory Committee, which had been established under the Policy Concept.

Throughout 2025, supervisory activities remained focused on monitoring developments in the banking sector, assessing the financial position of banks and safeguarding the financial soundness of the sector.

As of 31 December 2025, 22 banks, including two state-owned banks, were operating in the country. Foreign capital was represented in the ownership structure of nine active banks. Banking services were provided through a network comprising 502 branches, 87 divisions (including exchange offices), 3,486 ATMs and a workforce of 27,389 employees.

The banking sector's total assets increased by 7.7% (AZN4.1B) to AZN 57.1B. The total loan portfolio expanded by 9.4% (AZN2.6B) to AZN30.1B. Consumer, mortgage and business lending increased by 10.8%, 8.4% and 8.9%, respectively. At the end of the reporting year, business loans accounted for 53.6% of the total loan portfolio.

Total banking sector liabilities increased by 7.2% (AZN3.4B) to AZN49.7B. Deposits accounted for 77% of total liabilities, of which AZN16.3B comprised household deposits (excluding deposits of self-employed individuals). Household deposits increased by 14.2%, while term deposits rose by 19.9% (AZN1.7B) to AZN10.3B. The number of unique term depositors increased by 29%, or 43,615 individuals to 194,134 at the end of 2025.

The banking sector's reliance on external funding remained limited. As of 31 December 2025, external debt amounted to \$1.2B (4% of total liabilities).

Dollarization in deposits and lending continued to be closely monitored. As of the end of 2025, dollarization stood at 31.5% for household deposits, 38.7% for deposits of legal entities (excluding financial sector deposits), while the share of foreign currency-denominated loans in the total loan portfolio amounted to 14.2%.

As of end-2025, banking sector's liquid assets amounted to AZN12.9B (22.6% of total assets). The sector's instant liquidity ratio stood at 54%, exceeding the minimum regulatory requirement (30%) by 1.8 times. The aggregate liquidity coverage ratio (LCR) reached 154.5% (a minimum requirement 100%). In national currency, the LCR stood at 127%, exceeding the applicable regulatory requirements (65%) for systemically important banks and 55% for other banks.

The banking sector remained profitable throughout the reporting year. In 2025, banks generated net profit of AZN1.2B and operating profit of AZN1.9B.

Sector's total regulatory capital increased by 10.3% (AZN0.6B) to AZN6.8B. The capital adequacy ratio stood at 17.6% at the end of 2025, well above the minimum regulatory requirements for systemically important banks (12.5%) and for other banks (10.5%).

Activity in appeals to the Azerbaijan Credit Bureau (Bureau) continued. In 2025, total number of inquiries received by the Bureau was 205.1 million (including 180 million bulk inquiries), while the number of scoring inquiries was 128.1 million (including 124.7 million bulk scoring inquiries).

The modernization of the regulatory and supervisory framework for the banking sector continued to be among Central Bank's key strategic priorities. During the reporting year, related efforts focused on further enhancing the prudential regulatory and supervisory framework for the banking sector and aligning it with international standards.

A regulatory framework was established to expand the scope of periodic prudential reporting submitted by banks to the supervisory authority and govern the imposition of sanctions on banks and/or relevant responsible persons in cases of incomplete or delayed submission of reports. In addition, rules were approved and implemented defining requirements for operational risk management systems in banks, including the identification, assessment and monitoring of operational risks, the calculation of losses arising from operational risk events, and the establishment of databases and reporting requirements for such events.

New criteria for the identification of systemically important banks were adopted. The revised methodology, based on international standards, introduces a set of indicators and corresponding weights that enable a more precise assessment of the systemic importance of banks and their impact on the financial system and the broader economy. The new

approach is expected to contribute to a more effective mitigation of systemic risks and strengthen financial stability.

The countercyclical capital buffer framework was introduced with the objective of moderating excessive credit growth during periods of economic expansion (positive business cycle), rising asset prices and increased bank profitability and enhancing the banking sector's capacity to absorb losses in subsequent downturns. From 1 March 2025, capital adequacy requirements for Tier 1 and total regulatory capital were increased by 0.5%. For SIBs, the minimum total regulatory capital adequacy ratio was raised from 12.0% to 12.5%, while the Tier 1 CAR was increased from 6.0% to 6.5%. For other banks, these requirements were raised from 10.0% to 10.5% and from 5.0% to 5.5%, respectively.

Work on strengthening the regulatory framework for risk management in banks continued. Unified regulatory frameworks for the management of operational and market risks in banks were developed. The new requirements for operational risk cover risk identification, assessment and monitoring, the calculation of losses arising from operational risk events, internal and external reporting, as well as the establishment of an operational risk event database. This framework enables banks to more accurately assess losses arising from operational risk exposures. Requirements for market risk management have been developed in line with Basel standards. The relevant regulations set out requirements for the market risk management framework, including governance arrangements, policies, and procedures, as well as methodologies for measuring different types of market risk, including interest rate, foreign exchange, equity, commodity and market liquidity risks, together with provisions on monitoring and reporting. The adoption of these regulations is expected to support the establishment of a unified market risk framework in banks and contribute to the development of a sound risk management culture.

Amendments were introduced to the regulatory framework for liquidity risk management in banks, aimed at improving the forecasting of the allocation of liquid assets between domestic and foreign currencies and strengthening the resilience of banks' liquidity positions. A key development was the introduction of the Liquidity Coverage Ratio (LCR) requirement, applied both on a consolidated basis and separately in domestic currency. From 1 August 2025, SIBs are required to meet the domestic currency LCR requirement on a phased basis, starting from 50% and reaching 100% by 1 June 2027. Other banks are subject to a similar phased approach, starting from 40% and reaching 100% by 1 December 2027. In parallel, the scope of assets eligible for classification as high-quality liquid assets was expanded. In addition, a regulatory package and reporting templates defining the requirements for the Net Stable Funding Ratio (NSFR) were developed, intended to support the promotion of stable long-term funding and enhance the planning of liquidity positions over a one-year horizon. Its implementation is envisaged for 2026.

A regulatory framework was established for the implementation of a Basel III-compliant capital structure and the introduction of new capital buffers, and corresponding amendments to prudential regulations were approved. The amendments cover the structure of regulatory capital in line with Basel III standards, CARs, capital buffers, and a range of related prudential requirements. In particular, the introduction of new capital buffers is expected to enhance banks' resilience to potential losses, support more accurate risk assessment, improve the quality of regulatory capital, and contribute to the provision of sustainable financing to the economy. Banks have been granted a one-year transition period to adapt to the new capital framework, including the alignment of internal rules and

procedures with the revised prudential requirements, the necessary staff training across the sector, and the integration of the new approaches into prudential reporting. Full compliance with the new requirements will be required as of 1 January 2027.

A regulatory framework defining stress testing processes in banks, their organizational structure, scope and objectives, applied methodologies, and analysis of results, was developed. The framework was subject to extensive discussion with the banking sector and reviewed from a legal perspective. Its approval and implementation are envisaged in the near term.

To align prudential requirements for the classification of bank assets and provisioning practices with International Financial Reporting Standard 9 (IFRS 9), Methodological Guidelines on the application of IFRS 9 for banks, together with reporting templates, was developed in cooperation with international consultants. Stress testing was conducted in selected banks. From 2026, asset classification and provisioning in banks will be carried out in parallel with both IFRS 9 and existing prudential requirements. SIBs will submit IFRS 9 reporting monthly, while other banks on a quarterly and semi-annual basis, as applicable.

The regulatory framework for consumer lending was strengthened. To mitigate excessive household indebtedness, maximum borrowing limits were introduced. Total amount of credit lines extended to a borrower is capped at five times the borrower's net income after tax. Under the new prudential requirements, aggregate amount of consumer credit lines exceeding five times a borrower's net income within any single bank may not exceed 1% of that bank's Tier 1 capital. These measures are intended to ensure a more accurate assessment of borrowers' repayment capacity and enable banks to identify and mitigate risks at an earlier stage.

The transition to a risk-based supervision approach was initiated. In 2025, the Risk-Based Supervision Concept of the Central Bank was approved in line with advanced international practice. The ARAS Supervisory Manual, which covers the assessment of all key risks and risk management processes in banks, was developed and piloted in selected banks. From 2026, supervisory processes across all banks will be conducted in accordance with the ARAS Risk-Based Supervision Manual. This approach is expected to enable a more precise assessment of the risk profile of supervised entities, facilitate the timely application of supervisory measures tailored to their risk profiles, and support a more efficient allocation of supervisory resources in line with risk exposure.

Work on further enhancing the legal and regulatory framework governing NBCIs, as an important component of the banking sector, continued during the reporting period. In line with the *Strategic Framework for the Microfinance Model* of the Central Bank, amendments to sectoral legislation aimed at supporting the development of NBCIs are currently under assessment, with phased implementation envisaged. To strengthen the institutional capacity of NBCIs, rules establishing minimum requirements for external audits were approved. The rules set out criteria for the selection of auditors, the scope of audit work, and requirements for coordination with internal audit functions. In addition, draft corporate governance standards for NBCIs were developed and discussed with the sector, and their approval by the Central Bank is expected.

2.6.2. Insurance sector. *At the end of 2025, there were 15 insurers, 1 reinsurer, 1 mutual insurer, 22 insurance brokers and 468 insurance agents in the insurance sector. The insurance market has continued to demonstrate stable and significant growth in recent years. In 2025, insurance premiums amounted to AZN1.5B (y.o.y. up by 11%), and*

insurance payments amounted to AZN920M (y.o.y. up by 22%). Voluntary insurance accounts for 76% and compulsory insurance by 24% of insurance premiums. At the same time, life insurance accounts for 57% and non-life insurance for 43% of insurance premiums.

During the reporting year, a number of regulatory acts, aligned with international regulatory standards and insurance principles, were approved for the insurance sector.

Throughout 2025, work continued on the implementation of the project aimed at transitioning to a risk-based regulatory and supervisory framework for the insurance sector. In this context, the '*Regulation on public disclosure by insurers*' was approved by a decision of the Management Board of the Central Bank dated 19 May 2025. This Regulation is intended to strengthen insurers' accountability to the public and promote market discipline through enhanced transparency regarding insurers' operations, solvency positions, financial condition and market conduct towards policyholders. They also aim to support consumers in making informed decisions on insurer selection and facilitate the decision-making process of market participants (existing and potential investors, creditors and other stakeholders) with respect to investments in insurance undertakings.

In parallel, efforts to align insurers' operations with the international Solvency II framework continued. Work was undertaken on the development of a methodology for calculating risk-based capital requirements for insurers, the establishment of the methodological framework for risk-based supervision, the alignment of insurers' reporting requirements with international standards, and the formulation of quantitative and qualitative requirements governing the acceptance of reinsurance risks from foreign markets.

Efforts also continued to enhance the quality and accessibility of compulsory insurance products and related insurance services. Decisions made by the Management Board of the Central Bank on 17 June 2025 enabled the online sale of border insurance under compulsory motor third-party liability insurance. In addition, amendments were introduced to the rules governing the calculation of premiums for border insurance and Green Card insurance, as well as to the regulations specifying the form and content of certificates issued under this compulsory insurance type.

At the same time, a draft law introducing amendments in several key areas was coordinated with relevant public authorities and submitted to the competent executive authority for approval in accordance with the established procedure. The proposed amendments cover the adequate determination of sums insured under compulsory property insurance, the alignment of catastrophic risk coverage arrangements with international practices, the strengthening of the role of insurance as an effective protection mechanism for mitigating the impact of catastrophic risks, the prompt and adequate assessment and settlement of losses arising from insured events, as well as the expansion of insurance penetration and other important areas. In addition, the catastrophe risk modelling project for Azerbaijan in relation to earthquake risk was completed. As a result of the project, insurers will be able to measure their risk exposures more accurately through the application of scientific and technical modelling tools. This, in turn, will enable them to obtain appropriate reinsurance protection and manage their risks more effectively in line with their underlying exposures.

In parallel, efforts to further improve voluntary insurance types continued. Measures were undertaken to establish insurance policy conditions based on international insurance principles, aimed at strengthening the protection of policyholders' rights and, consequently, further enhancing confidence in insurance services. These policy conditions will not only

establish the legal framework governing general terms of insurance relationships amid the ongoing expansion of the insurance market and increasing product diversification but will also provide insurers with the flexibility to develop specific policy conditions within this framework. In addition, a concept paper and draft legislative amendments were prepared to support the further development of life insurance products. Furthermore, a new concept for the agricultural insurance system was developed with a view to enhancing its institutional framework in line with leading international practices, strengthening sustainable risk management, and improving the effectiveness of state support mechanisms. In this context, draft amendments to the relevant legislative acts were also prepared.

A draft legislative amendment package was prepared, taking into account leading international standards and best practices, with the aim of ensuring the sustainable development and institutional strengthening of insurance intermediation activities, expanding insurance penetration and financial inclusion, enhancing public confidence in the insurance sector, strengthening consumer protection, and establishing effective mechanisms for the continuous professional development of insurance intermediaries, including the enhancement of their knowledge and skills. In addition, during the reporting year, the Insurance Agents and Intermediaries Forum was held to promote the activities of insurance intermediaries operating in the country and facilitate discussions on existing challenges in the sector, potential solutions, and future development priorities.

Measures aimed at advancing the digitalization of insurance services continued during the reporting year as one of the Central Bank's strategic priorities. Further progress was made in establishing integrations between the electronic information system of the Compulsory Insurance Bureau and information systems of competent public authorities in relation to relevant compulsory insurance types. To support the sector's digital transformation, align insurers' governance frameworks with modern standards, and strengthen the financial resilience of the insurance sector, the Turkic States Insurtech Summit was organized.

In cooperation with the Azerbaijan Insurers Association and the Compulsory Insurance Bureau, initiatives were implemented to enhance public awareness of insurance and risk management among households and businesses, as well as support the development of human capital in the insurance sector.

Furthermore, the First Assembly of the Turkic World Insurance Union was held in the city of Shusha. The Assembly provided a platform for discussing regulatory approaches in the insurance sectors of Turkic states, identifying strategic priorities and future prospects, and restructuring the Turkic World Insurance Union in line with the objectives and principles of the Organization of Turkic States.

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.*

In 2025, progress continued in the implementation of measures set out in the *2024–2026 Financial Sector Development Strategy*, aimed at establishing a sustainable capital market infrastructure, expanding access to capital market services, strengthening investor confidence, diversifying investment instruments, and further enhancing the supervisory framework.

A comprehensive diagnostic review of the securities market legislative framework was completed with the support of an external advisory firm (Deloitte). Taking into account

legal frameworks of selected benchmark jurisdictions, draft amendments to the legislation are under way to improve the legislative framework.

To establish a legal framework for securitization activities, amendments to the *Law of the Republic of Azerbaijan on the Securities Market* were drafted and submitted to the Cabinet of Ministers for consideration.

To establish a legal framework for venture capital activities, a draft legislative amendment package was prepared and submitted to relevant public authorities. In addition, with a view to establishing a legal framework for crowdfunding activities, a draft legislative framework has been developed and is currently undergoing legal review in the Central Bank.

The updated version of the *'Regulation on the issuance, public offering and circulation of investment securities of international organizations of which the Republic of Azerbaijan is a member'* has entered into force. The revised framework simplifies the requirements for the issuance of bonds by relevant international organizations, thereby supporting and encouraging their participation in the domestic bond market. As a result of these measures, in October 2025 the EBRD conducted, for the first time, a bond issuance in the domestic market denominated in Azerbaijani manat. These bonds, representing the first floating-rate issuance in the local capital market, carry a coupon rate determined on the basis of the Central Bank's AZIR index (Azerbaijan Interbank Rate). The use of the AZIR index as a credible reference rate in bond issuance is expected to provide an important foundation for the future introduction of more sophisticated financial instruments. The total issuance amount of AZN50M, with a maturity of one year, attracted strong investor interest, with 12 investors submitting orders totaling AZN55.2M, attributable to higher demand.

Efforts to digitalize the operational infrastructure of the capital market continued. The subscription and placement for bonds issued by SOCAR, Azerbaijan Railways, and Bank of Baku were conducted via a mobile application. Other financial instruments are envisaged to be progressively offered to investors through digital solutions.

To enhance access to the capital market for issuers and investors and define appropriate economic and fiscal incentives, the Central Bank continued its work on establishing a stimulative tax regime for the capital market. Since 1 February 2023, for a period of five years, dividends, discounts, and interest income derived from publicly offered securities admitted to trading on a regulated market have been exempted from taxation. At the same time, the methodology for the taxation of interest income on bonds has been tailored to international practice. The main objective of these measures is to encourage the public offering and stock exchange listing of securities and increase investor interest in securities traded on regulated markets.

To establish a mechanism for the protection of investors in the capital market, a law 'on Amendments to the Law on Insurance of Deposits and Investments' has been drafted by the Central Bank and the Deposit Insurance Fund on the basis of the existing Law on Deposit Insurance. Taking into account comments received, it is envisaged that the revised version of the draft will be submitted to the Government for consideration. The proposed investor protection mechanism in the securities market aims to provide insurance coverage for clients of investment firms that have become insolvent, thereby strengthening the protection of investors' rights in the capital market, promoting greater participation in capital market activities, and enhancing the overall resilience of the financial system.

Measures to raise awareness and financial literacy in the capital market continued (the organization of seminars aimed at developing capital markets in the regions and the delivery of training programs at higher education institutions).

During the reporting year, the total trading turnover in the securities market amounted to AZN64,448M; AZN63 824M (99%) the Baku Stock Exchange (BSE) and AZN625M (1%) the over-the-counter market.

In 2025, the turnover of government securities traded on the BSE increased by 36% year-over-year to AZN10,682M, while the turnover of corporate securities rose by 6% to AZN2,508M. Corporate bond turnover increased by 9% to AZN2,485M, whereas government bond turnover grew by 58% to AZN9,288M. A positive trend also continued in the placement of government and corporate bonds on the stock exchange (up by 1% and 8% respectively). The outstanding volume of government bonds in circulation decreased by 4% year-over-year to AZN8,975M. Although repo/reverse repo transaction turnover declined by 17% during the reporting period, the volume of government bonds used as repo collateral increased by 54%, driven by the Central Bank's open market operations policy stance.

In 2025, the volume of registered investment securities increased by 21.3% to AZN18.4B at year-end – corporate bonds accounted for AZN1,379M (7%), equities for AZN2,789M (15%), short-term CBA notes for AZN2,533M (14%), and government bonds for AZN11,678M (64%). In addition, 42 prospectuses for public offerings of corporate securities, with a total value of AZN870.6M, were approved.

2.6.4. AML/CFT. The Central Bank implemented a range of significant measures in the prevention of the legalization of criminally obtained property and the financing of terrorism (AML/CFT) to strengthen the transparency and credibility of the financial system, enhance participation in the international financial system, increase customer confidence in financial institutions, reduce legal and financial risks, and contribute to effective risk management.

A quarterly report on the implementation of the approved 'Short-Term Action Plan for 2025' addressing deficiencies identified in the fifth round mutual evaluation of Azerbaijan conducted by the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) in 2023, as well as the 2025 annual report on the 'National Action Plan on Combating Money Laundering and the Financing of Terrorism for 2023–2025', were submitted to the Coordination Council. All measures assigned to the Central Bank under both action plans have been completed.

The Central Bank submitted information to MONEYVAL on measures implemented to address deficiencies identified in the MONEYVAL report, including amendments to the relevant legislation. These measures were aimed at improving the ratings under Financial Action Task Force (FATF) Recommendations 14, 16, and 26. Implemented actions yielded positive results. Following a re-assessment by MONEYVAL, the ratings for each of the aforementioned recommendations were upgraded from 'partially compliant (PC)' to 'largely compliant (LC)'. As a result, Azerbaijan's First Enhanced Follow-up Report was adopted.

The Central Bank approved a new '*Regulation on remote opening of accounts.*' The Regulation extends the scope of remote onboarding from bank accounts to all payment accounts. The new Regulation allows the use of one of the following methods: image capture, video recording, or video call, removes the requirement for re-identification of existing customers when opening new accounts. At the same time, the framework enables the provision of remote services to individuals through legal representatives, including parents, adoptive parents, and guardians. Furthermore, the requirement for contract approval via enhanced customer authentication has been replaced by approval solely through enhanced electronic signature mechanisms (including ASAN signature and SIMA).

In addition, customers are granted the ability to restrict and subsequently restore access to remote service channels.

Within the framework of supervisory activities conducted during the reporting year, inspections were carried out in financial institutions to assess compliance with the requirements of the AML/CFT Law, which are of particular importance for ensuring transparency in the financial system, maintaining compliance with legal requirements, and mitigating risks related to financial crime.

In 2025, administrative fines amounting to a total of AZN644,000 were imposed under Article 598 of the *Code of Administrative Offences* on 3 banks, 9 NBCIs, 4 payment institutions, 3 electronic money institutions, 1 currency exchange office, 1 investment company, and Azerpost LLC. These measures are significant in ensuring compliance with legal requirements in the financial sector and in preventing similar violations in the future.

Taking into account sectoral risks and vulnerabilities identified by the Central Bank in the AML/CFT area, training activities were conducted in accordance with the 2025 training plan, to raise awareness among financial institutions regarding regulatory requirements and areas commonly exposed to misuse in practice. The training sessions for banks and the national postal operator covered deficiencies in the implementation of internal control programs, misuse of real estate for money laundering purposes, suspicious transaction typologies, risks and control mechanisms related to card operations, and risks arising from electronic fund transfer operations. For NBCIs, the training sessions focused on customer due diligence measures, institutional risk assessment, and AML/CFT legislation. In addition, a cross-sectoral module was delivered on reliance on third parties.

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 AZN840.9B (6.5 times of GDP), and the number of payments was 145.2 million units.

Total number of transactions processed through the Government Payments Portal (GPP) in 2025 was 114.4 million units, and the value was AZN8.6B. Total amount of transactions y.o.y. increased by 6.6%, and the value of cashless transactions increased by 9.3%.

The coverage and functionalities of 24/7 Instant Payments System (IPS) expanded. In 2025, the number of IPS transactions y.o.y. increased by 12.5 times to 10 million units, while their value increased by 90.1% to AZN2.6B.

As of end-December of 2025, the number of payment cards in circulation was 22 million units, ATMs 3.6 thousand units and POS-terminals 184.2 thousand units. The value of domestic payment card transactions increased by 25.6% to AZN99.1B. The number of e-commerce transactions y.o.y. increased by 43.4%, while their value increased by 29.8%. The share of cashless transactions in domestic card payments y.o.y. increased by 3.4 pp to

67.6%. The value of Internet banking transactions y.o.y. increased by 12.4%, while the value of mobile banking transactions increased by 14.3%.

In 2025, efforts continued to strengthen the legal and regulatory framework governing payment services, license payment service providers, and facilitate the entry of fintech companies into the payments market. The *'Oversight Policy for Payment Systems of the Central Bank of the Republic of Azerbaijan'* was revised and reapproved to reflect the requirements of the new legislative framework. Amendments were introduced to the *'Regulation on maintaining payment operations and on payment instruments'*, including the establishment of new requirements for the initiation of payment transactions through QR codes as a cost-efficient payment solution. In addition, the adoption of a nationwide unified AZQR code standard was established as a regulatory requirement. The *'Regulation on maintenance of settlements between payment service providers'* was approved in a new edition, establishing the legal basis for the integration of non-bank payment service providers into payment systems. Amendments to the *'Regulation on the organization and implementation of activities by payment and electronic money institutions'* introduced enhanced requirements for organizational units responsible for internal control functions. The requirements relating to the safeguarding and accounting of payment service users' funds were strengthened, while reporting obligations and provisions governing business plans and operational programs were further refined.

As part of the licensing framework for payment service providers, the Central Bank granted licenses to three electronic money institutions, two payment institutions and one payment system operator during the reporting year.

Promoting the use of digital payments remained a key priority, and necessary measures were implemented in cooperation with relevant stakeholders. Within the framework of cooperation between the Central Bank and the Azerbaijan Banks Association, awareness-raising seminars were organized for SMEs in the regions with a view to expanding the acceptance of cashless payments in tourism-related businesses.

Significant progress was also achieved in the implementation of the Open Banking approach as part of Central Bank's broader initiatives aimed at supporting the digital transformation of the financial sector. At present, the APIs of 19 commercial banks and the national postal operator Azerpost LLC have been integrated into the Central Bank's unified API gateway, with seven institutions having joined the Open Banking ecosystem as account information service providers. This framework enables customers to access and monitor accounts held with different financial institutions through a single interface. In addition, the technical specifications for the payment initiation service (PIS) functionality were developed and, as an initial step, approved by relevant internal structural units of the Bank. The necessary technical infrastructure to support this functionality was also established in the Bank. In parallel, the preliminary framework for the Open Finance concept was developed.

A Regulatory Sandbox was introduced to facilitate the safe market deployment of innovative financial products and services. Under the first intake cycle of the regime, four innovative products in the field of crypto-assets were admitted to the testing environment. During the second intake cycle, a total of 14 applications were received. Following monitoring and assessment activities conducted in Q3 2025, decisions were taken to extend the testing period for two projects and conclude testing for further two projects. In addition, four new projects were approved for admission to the testing environment. At the same time, an initial draft law establishing a regulatory framework for virtual assets was prepared.

To support the digitalization of customer identification processes and data exchange within the financial sector, the concept for a Distributed Know Your Customer (e-KYC) platform was developed and approved in 2025, and its phased implementation was initiated. Under the concept, relevant data categories were defined, consultations and surveys were conducted to assess interests of market participants and the underlying economic model, and a pilot testing phase was launched with selected financial institutions. The implementation of the platform is expected to reduce operational costs, enhance customer experience and strengthen the effectiveness of AML/CFT controls.

Overall, these initiatives contributed to the development of a more advanced digital financial ecosystem, supported innovation and strengthened the foundations for the sustainable development of the financial sector.

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

In 2025, the Central Bank took necessary measures, based on complaints and enquiries received, to prevent infringements of consumer and investor rights in the provision of financial services and ensure the restoration of rights where such infringements were identified.

A total of 85373 appeals were received from consumers and investors in writing, via the hotline, reception, and WhatsApp. 72% out of 20 564 written appeals were related to the banking sector (14 802 appeals), 14% (2 873 appeals) to the insurance sector, 1.9% (389 appeals) to the capital market and 1.02% (2 286 appeals) to other matters. 60 504 calls to hotline 966 were promptly responded, meetings were held with 1 600 citizens (in-person meetings were held with 1 390 citizens on-site, with 207 citizens during mobile receptions and online meetings with 3 citizens), 2 705 appeals received through the WhatsApp were handled.

Mobile reception sessions for citizens were conducted at the Central Bank's regional offices, as well as in the districts of Jalilabad, Tartar, Gazakh, Balakan, Khachmaz, Bilasuvar, Jabrayil, Gusar, Ismayilli, Beylagan and Khizi, and in the cities of Ganja, Mingachevir and Shirvan.

To strengthen the consumer finance protection, the Central Bank initiated the establishment of dedicated working groups under the Azerbaijan Banks Association, the Azerbaijan Insurers Association, the Azerbaijan Microfinance Association, the Azerbaijan Fintech Association and the Azerbaijan Capital Market Participants Association. Meetings were held with the participation of the working groups and representatives of respective associations. Discussions focused on compliance with legal requirements in responding to citizen complaints, improving the effectiveness of the working groups, and reviewing current and planned consumer protection measures.

As part of ongoing efforts to expand access channels for consumers of financial services and investors seeking to contact the Central Bank and enhance the accessibility of information relating to submitted enquiries, the Bank was added to the list of public institutions providing services through the myGov platform, thereby enabling the submission of electronic enquiries via the platform. In addition, with a continued focus on citizen satisfaction and the accessibility of communication channels, the Central Bank introduced an online appointment booking facility integrated into the myGov platform, allowing citizens to obtain appointments without visiting the Bank in person. Through the myGov portal, users

may select the Central Bank from the relevant list of institutions and submit their enquiries electronically.

Furthermore, as part of another initiative aimed at enhancing citizen satisfaction, arrangements were made to ensure the timely reporting to the Central Bank of consumer enquiries and complaints relating to difficulties encountered in connection with payment services provided by electronic money institutions and payment institutions operating in the country. To this end, relevant institutions were instructed to display information on the Central Bank's 966 hotline on the main screen of their physical payment terminals, as well as on their websites and mobile applications. The Central Bank subsequently conducted monitoring activities and confirmed that the instruction had been implemented.

As part of cooperation with relevant public authorities and organizations aimed at strengthening the protection of the rights of financial service consumers and investors, improving service quality and enhancing public satisfaction, representatives of the Central Bank visited the 108 Call Centre of ASAN Service to gain first-hand insight into its operating model, systems and work processes.

The Bank also updated the Frequently Asked Questions section of its website based on enquiries received through its Call Centre, with the aim of improving access to information and supporting consumer and investor protection.

As part of its consumer and investor protection efforts, the Central Bank convened a meeting with approximately 150 call center representatives from financial sector associations and their member institutions. The discussion focused on the role of call centers in protecting consumer and investor rights, the operations of the Central Bank's Call Centre, and the importance of providing timely and accessible information through financial institutions' hotline services.

A Central Bank delegation participated in meetings organized by the Garabagh Regional DOST Centre and the DOST Agency on the protection of the rights of people with disabilities and their access to loans, life insurance and other financial services. The Central Bank presented ongoing initiatives aimed at promoting financial inclusion and enhancing consumer protection in cooperation with relevant public institutions and stakeholders.

The Central Bank organized a further training session for media representatives on the role of the Central Bank in protecting the rights of financial service consumers. During the session, Bank representatives outlined key developments relating to consumer protection, including the legal and institutional framework established in this field, mechanisms for handling consumer complaints and enquiries, and the application of modern supervisory and engagement approaches.

In cooperation with the NDC, the Central Bank also hosted an open-microphone session attended by representatives of a number of joint-stock companies. The meeting provided guidance on enhancing corporate governance practices, preparing issuers' annual reports in accordance with legislative requirements, convening general meetings of shareholders, and ensuring compliance with applicable legal and regulatory provisions governing corporate activities.

As part of its ongoing initiatives to strengthen investor protection, the Central Bank held a meeting at its Nakhchivan Autonomous Republic Office with representatives of joint-stock companies operating in the region.

Representatives of the Central Bank participated in a seminar organized by the Justice Academy and the Mediation Council titled the 'Promotion of human rights protection, the

rule of law, legal culture, legal responsibility and the principles of an inclusive society'. The seminar included discussions on the importance of safeguarding human rights, the role of public institutions in ensuring their protection, and principles underpinning the rule of law.

Following a communication received from the Office of the Commissioner for Human Rights (Ombudsman) of the Republic of Azerbaijan, an action plan was prepared and implemented within the framework of Human Rights Month. Information on the activities undertaken was subsequently made available to the public.

As part of efforts to enhance the effectiveness of its Call Centre and strengthen staff capacity, the Central Bank held an online knowledge-sharing session with representatives of the National Bank of Kazakhstan. The Bank also reviewed consumer protection practices in the insurance sector implemented by Türkiye's Insurance and Private Pension Regulation and Supervision Agency and the Insurance Arbitration Commission.

Under the *Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan*, the Central Bank is responsible for protecting the rights of consumers and investors in financial markets. Under this mandate, it continues to implement a broad range of initiatives and regularly reports on its activities and outcomes to ensure transparency.

The Central Bank prepared an initial version of the '*Methodological Guidance on market conduct of financial institutions*' covering the financial sector as a whole. The draft was further enhanced based on feedback received from financial institutions, as well as from representatives of the World Bank. Work is currently ongoing on the final version of the document. The Guidance aims to strengthen market conduct practices of financial institutions, including the protection of consumer rights, the prevention of unfair practices in the financial sector, the enhancement of transparency and disclosure, the improvement of financial literacy among users of financial products and services, the quality enhancement of financial products and services, and the effective resolution of consumer complaints.

At the same time, to establish a risk-based supervisory framework for market conduct, the Central Bank developed a supervisory guideline on risk-based oversight of market conduct in the banking sector. The guideline is intended to support the identification of banks with higher exposure to consumer impact and elevated market conduct risks, enable a more efficient and proportionate allocation of supervisory resources to such institutions, and contribute to more effective consumer protection and the strengthening of market discipline.

Where, following the occurrence of an insured event, the parties (the insurer and the claimant) fail to reach agreement on the amount of loss, an initial scoring system has been developed to assess the performance of independent experts appointed to determine the value of losses. The system is intended to measure the quality of services provided by independent experts to consumers and the level of consumer satisfaction. It is also designed to support consumers in selecting independent experts when using valuation services.

Throughout the year, the Central Bank continued activities aimed at improving financial literacy among various target groups. Training sessions were delivered on a range of topics to school students nominated by the Ministry of Science and Education, young and senior volunteers of the DOST Agency, women entrepreneurs under the 'Financial Literacy for Sustainable and Resilient Business' initiative, and students of Baku Slavic University as part of the 'Support for the Development of Economic Journalism' program. In total, 1,070 participants took part in both in-person and online sessions.

The Central Bank continued to promote financial literacy through competitions held during the year. In March 2025, as part of Global Money Week, an inter-school competition on 'Safe Payments in the Digital World' involved 2,032 students. In November–December, a Financial Literacy Quiz for students aged 13–15 engaged 1,237 participants and was organized with support from the Central Bank, the Ministry of Science and Education, the Azerbaijan Banks Association, and the Azerbaijan Banking and Financial Training Centre.

A survey of micro, small and medium-sized enterprises identified key financial education needs, leading to the development of an awareness program in cooperation with KOBIA. An online Business Financing Instruments course was launched on the Central Bank's Virtual Education Platform with input from relevant financial institutions. A series of short videos was also produced to improve entrepreneurs' understanding of financing tools, including factoring, leasing, business loans, and credit guarantee and concessional lending schemes.

An awareness-raising event was conducted for representatives of NBCIs on *the Law on 'Encumbrance of Movable Property,'* the unified legal framework governing security interests in movable assets, the rules on priority rights and enforcement, and the types of movable property, receivables and obligations that may be pledged as collateral. At the same time, animation materials based on practical case studies were developed for the State Register of Encumbrances on Movable Property. In addition, short educational videos were produced covering modern functionalities enabling the online registration, search, amendment, and termination of encumbrances.

Annual action plans aimed at raising financial literacy were defined for financial sector associations (ABA, ASA, AzFina, AKBA and AMFA), and large-scale initiatives were implemented across the country. In this framework, awareness-raising activities were carried out in both virtual and in-person formats, covering the banking, insurance, capital markets and payment sectors, and targeting diverse population groups across different life stages (school students, university students, the labor force, large purchasers, pensioners, women, residents of regions and persons with special needs). These initiatives were aimed at promoting informed financial decision-making and the adoption of sound financial behavior.

To expand awareness of the activities of the Register of Encumbrances on Movable Property, the Bank distributed informational brochures prepared for broad audiences. During June, July and August 2025, a total of 22,925 brochures were delivered to 22 banks, 54 NBCIs and 36 credit unions, with an average of 25 copies per branch.

The operation of the infobank.az system continued to enable market participants and consumers to access information on financial and banking products and services from a single source, compare and select the most favorable products and services, facilitate access to financial services and encourage their use, strengthen competition in the financial services market, and improve quality and terms of financial products and services offered.

2.9. Currency regulation and supervision

During the reporting period, the Central Bank exercised its currency regulation function in accordance with the Law of the Republic of Azerbaijan on Currency Regulation. Currency operations by residents and non-residents were governed by the provisions of this Law, as well as the relevant regulations of the Central Bank.

The currency regime in place in the country supported macroeconomic and financial stability and contributed to the balance of payments adjustment.

In line with the applicable currency regime, measures were undertaken to further strengthen the monitoring of currency transactions by residents and non-residents, enhance the effectiveness of currency control and mitigate risks associated with the unlawful outflow of foreign currency. In accordance with the '*Statute on the single information system on currency operations*,' approved by Decision No. 62/1 of the Management Board of the Central Bank on 20 December 2023, reporting of foreign exchange transaction data to the Central Bank's information system commenced on 1 March 2024.

In 2025, to optimize the currency regime, amendments were introduced to the '*Regulation on currency exchange operations by currency exchange license holders and supervision of exchange operations of currency exchange license holders*' approved by the Decision of the Central Bank dated 11 December 2023 (No. 59), as well as to the '*Regulation on conditions and requirements for activities of divisions of local banks, as well as on cash currency exchange operations by banks, their branches, and divisions*' approved by the Decision dated 20 December 2023 (No. 62/2). The key amendment introduced the application of enhanced customer due diligence measures to individuals conducting transactions exceeding AZN 20,000 or its equivalent within the preceding 12-month period, rather than within a single calendar year.

Analyses indicate that the currency regime in place played a positive role in optimizing the balance between foreign currency inflows and outflows in 2025. In 2024, net cash foreign currency sales by banks operating in the country and Azerpost LLC to the public amounted to \$1,362M (sell \$3,198M and buy \$1,836M), whereas in 2025 net cash foreign currency purchases amounted to \$423M (sell \$1,996M and buy \$2,419M).

As of 31 December 2025, cash foreign exchange services to the public were provided through 502 branches and 87 offices of 22 banks, Azerpost LLC and its service network, as well as 9 currency exchange points (including 2 additional facilities).

2.10. Deposit insurance oversight

In 2025, the Central Bank continued the oversight of deposit insurance scheme.

In coordination with the Central Bank, a methodology for determining the annual interest rate on covered deposits denominated in national currency was approved by the Trustee Board of the Deposit Insurance Fund at its meeting of 27 August 2025. Its application will commence in 2026.

In 2025, the Central Bank further continued its deposit insurance oversight activities.

3. Financial performance of the Central Bank

Based on the International Financial Reporting Standards, as of 31 December 2025, the Central Bank's revenues amounted to AZN1059.6M. Of which, AZN863.8M came from interest, revaluation, and conversion gains on currency assets, AZN69.5M from interest on securities obtained in the domestic market, AZN6.9M from interest on centralized credit resources, and AZN18.5M from services provided to clients. Additionally, revenues included AZN8.8M from amortization of financial assets and AZN0.7M from changes in the fair value of those assets and AZN0.7M from revenues related to derivative financial instruments in the domestic market. Furthermore, AZN12.8M from credit loss recovery/(allowance) for

assets carried at amortized cost, AZN14.5M was derived from the sale of commemorative and bullion coins, revaluation of investment property and other income. Net gain/(losses) from foreign Exchange translation made AZN63.4M.

The Central Bank's total expenses amounted to AZN334.8M, of which AZN211.6M were operational expenses. The operational expenses primarily consisted of costs arising from the Central Bank's sterilization operations, including AZN114.9M in interest expenses on deposits attracted from banks, AZN27.8M on CBA notes, and AZN13.7M on repo transactions with banks. Additionally, operational expenses included AZN2.2M in commission costs for transactions in foreign financial markets, AZN31.5M in interest expenses related to the Central Treasury of the Republic of Azerbaijan, the State Oil Fund of Azerbaijan and the Deposit Insurance Fund, AZN3.8M in net interest expenses to the International Monetary Fund, AZN3.0M in costs associated with bringing in cash foreign currency, and AZN14.7M in costs for the production and transportation of banknotes and coins (including commemorative coins).

After deducting operational expenses, remaining expenses included AZN123.2M in administrative and other operating expenses, including AZN65.2M staff costs and contributions to Social Security Pension Fund, AZN28.8M depreciation of premises and equipment and amortization of intangible assets, AZN29.2M other traditional expenses (software maintenance, repair, maintenance, and security, business travel and other expenses).

Consequently, in 2025, Central Bank made total gain in the amount of AZN724.8M, the realized gain amounts to AZN586.0M.

As of 31.12.2024, the Central Bank's total equity was equal to AZN2154.4M, including reserve for comprehensive income on revaluation of foreign currency position AZN33.3M, revaluation reserve for debt securities at FVOCI AZN6.0M, and retained earnings AZN1115.1M.

Transfer to the State Budget was AZN542.2M in 2025.