

Criteria for assessing a bank as a systemically important bank

1. General provisions

1.1. These Criteria have been developed in accordance with Article 57-9.2 of the ‘Law of the Republic of Azerbaijan on Banks’ (hereinafter – the Law) and establish the criteria for assessing banks operating in the Republic of Azerbaijan and local branches of foreign banks (hereinafter – bank).

1.2. The definitions used in these Criteria bear the meanings specified in the Law.

2. Determination of systemic importance

2.1. The systemic importance of banks is assessed by indicators provided in the below table (categories, indicators and specific weights assigned to these indicators):

No	Category	Indicator	Weight (%)
1	Size	Total assets	30%
		Deposit portfolio	10%
2	Interconnectedness	Amounts due to financial institutions	8.3%
		Amounts due from financial institutions	8.3%
		Liabilities related to securities	8.3%
3	Substitutability	Transactions through payment systems	7.5%
		Number of depositors	7.5%
		Number of unique customers	7.5%
		Financial inclusion	7.5%
4	Complexity	OTC derivative financial instruments	2.5%
		Trade securities	2.5%

2.2. The following financial indicators are used to determine bank’s systemic importance:

2.2.1. total assets - the sum of net assets and off-balance sheet liabilities of banks used in the calculation of the leverage ratio.

2.2.2. deposit portfolio – deposits of individuals and legal entities, except for deposits of related parties, as well as deposits of credit institutions and other financial institutions.

2.2.3. amounts due to financial institutions – funds placed with the bank for lending purposes by state-established guarantee funds and other specialized public institutions that provide guarantees (warranties) for the fulfillment of liabilities under bank loans, as well as amounts due to local banks, non-bank credit institutions, leasing, insurance, factoring, pawnshops, and other similar institutions, except for amounts due to related party financial institutions.

2.2.4. amounts due from financial institutions – amounts due from local banks, non-bank financial institutions, leasing, insurance, factoring, pawnshop, and other similar institutions, except for those under liquidation.

2.2.5. liabilities related to securities – bank’s liabilities related to the securities it issues.

2.2.6. transactions through payment systems – payments through AZIPS (Real Time Gross Settlement System).

2.2.7. number of depositors – number of individuals and legal entities with deposit accounts with the bank.

2.2.8. number of unique customers – bank customers with an account balance of at least AZN100 (one hundred) equivalent as of the end date of the reporting period, as well as those who carried out at least one transaction within the last 3 (three) months.

2.2.9. financial inclusion – number of bank's ATMs, POS-terminals it services and branches.

2.2.10. OTC derivative financial instruments – the residual value of over the counter (OTC) traded derivative financial instruments at a predetermined price.

2.2.11. trade securities – total value of securities available for sale and purchased for trading.

2.3. The systemic importance index for each bank is calculated by the following formula using the indicators in Item 2.1 herein:

$$SII = \left(\sum_{i=1}^n \left(\frac{I_i}{L_i} \times W_i \right) \right) \times 10000$$

where,

SII – systemic importance index.

I_i – annual average indicator of the bank calculated based on quarterly figures for the indicator.

L_i – annual average indicator calculated based on the aggregate quarterly figures of all banks.

W_i – specific weight assigned to each indicator.

n – number of assessed indicators.

2.4. When determining the indicator for transactions carried out through payment systems specified in sub-item 2.2.6 herein, two sub-indicators (the number and total amount of transactions) are proportionally considered in the calculation (each sub-indicator weighted at 50% separately).

2.5. When determining the financial inclusion indicator specified in sub-item 2.2.9 herein, the three sub-indicators included in this indicator (the number of bank's ATMs, serviced POS-terminals, and branches) are each weighted at 33.3% separately in the calculation.

2.6. The systemic importance of the bank is determined based on the following stages:

2.6.1. after calculating the systemic importance index for each bank, it is compared with 420 basis points.

2.6.2. banks with the results of the final systemic importance index above 420 basis points are included in the list of systemically important banks.

2.7. The Management Board of the Central Bank of the Republic of Azerbaijan approves the list of systemically important banks by decision no later than March 1st of each year.

2.8. Within 5 (five) business days from the date of the decision on the identification of systemically important banks, written information is provided to the respective bank and the Ministry of Finance of the Republic of Azerbaijan, and the list of systemically important banks is published on the official website of the Central Bank of the Republic of Azerbaijan.