



AZƏRBAYCAN RESPUBLİKASININ
MƏRKƏZİ BANKI

Financial Stability Report

2025

Half 1

FINANCIAL STABILITY DEPARTMENT

Central Bank of the Republic of Azerbaijan

FINANCIAL STABILITY REPORT*

* Data referenced in this report pertains to the period ending June 2025.

ACRONYMS

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

Table of Contents

Executive summary.....	7
Global macroeconomic environment.....	8
Macroeconomic environment for financial institutions in Azerbaijan.....	11
Overview of the banking system.....	16
Liquidity risk of the banking system.....	23
Credit risk of the banking system.....	28
Market risk of the banking system.....	34
Banking system profitability.....	39
Capital position of the banking system.....	43
Non-bank credit institutions.....	48
Insurance sector.....	53
Capital markets.....	69
Real estate market.....	74
Non-financial sector.....	79
Charts and tables.....	86

Executive summary

In the first half of 2025, the Central Bank of the Republic of Azerbaijan's financial stability policy focused on safeguarding confidence in the financial system, minimizing risks, strengthening governance, and enhancing resilience against shocks.

The introduction of risk-based supervision mechanisms, the strengthening of prudential requirements in risk-sensitive areas, modernization of the regulatory framework, and active dialogue with market participants contributed to sustaining financial stability.

Banking sector. The sector's intermediation role expanded, supported by robust lending activity and effective risk management. The regulatory framework was improved and credit institutions effectively managed risks amid the growth dynamics of the lending portfolio. Capital adequacy and liquidity remained well above regulatory thresholds: the capital adequacy ratio stood at 18% (vs. the 10% minimum), and the aggregate liquidity coverage ratio reached 180% (1.8 times the minimum). Profitability indicators were strong, with net profit exceeding AZN0.5B, ROA at 2.1%, and ROE at 18.5%. To further bolster resilience, the Central Bank introduced a 0.5% countercyclical capital buffer on total regulatory and Tier I capital, effective from 1 March 2025, in response to rapid credit growth and elevated credit-to-GDP gap levels.

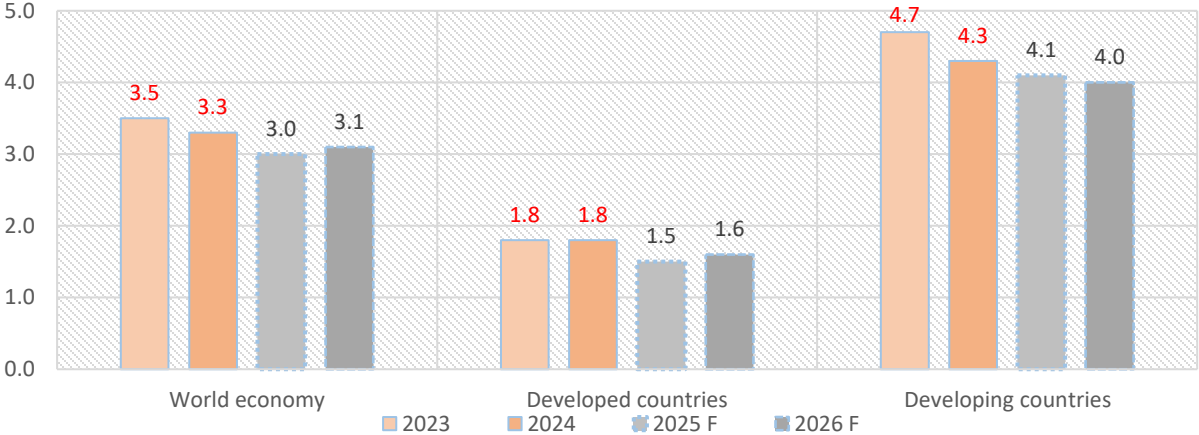
Insurance sector. The sector continued to expand, with premiums up 13% year-on-year to AZN817M and claims rising 25% to AZN432M. Net profit reached AZN81M, with ROA at 7% and ROE at 24.5%. The sector's regulatory capital exceeded requirements by more than 1.6 times, underscoring its strong solvency position.

Capital markets. Although investment companies remain a small part of the financial system, their growth potential is significant. Government securities trading continued to expand, while reforms to infrastructure and regulatory modernization supported further market development.

Global macroeconomic environment

Global economic growth is expected to slow in the first half of 2025, weighed down by heightened uncertainties, rising geopolitical tensions, and a worsening global trade environment. According to updated estimations of the IMF in July 2025, although global economic growth stood at 3.3% in 2024, it is expected to drop by 0.3 pp to around 3% in 2025. AEs exhibit a similar trend. Whereas economic growth rate in AEs stood at 1.8% in 2024, for 2025, expectations are that it will be 0.3 pp lower, as in the global economy. Moreover, economic growth in EMEs is expected to decline to around 4% in coming years. Looking at the first quarter of the current year, we see that despite the U.S. economy growing by only 0.5% year-over-year, amid anticipated high tariff increases, and Japan’s economy contracting by 0.2% due to weak consumption and exports, China’s GDP expanded by 6.0% on the back of exports and financial support, while the euro area’s economic growth rose by 2.5% driven by investment and net exports.

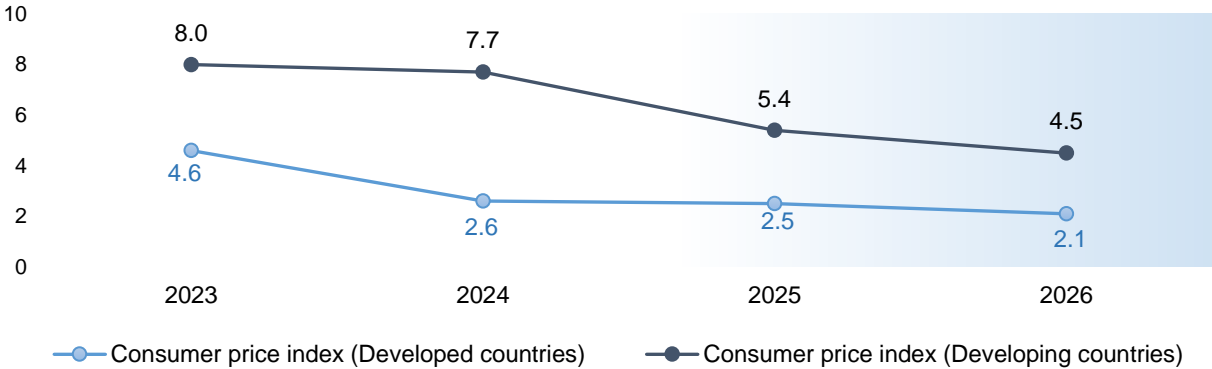
Chart 1. Global GDP growth forecasts, in %



Source: IMF, WEO, July 2025 iyul (updated)

Although inflation is expected to decline globally, regional trends vary. According to the IMF’s latest estimates, inflation is projected to ease in both AEs and EMEs. Specifically, in AEs, inflation is expected to stand at 2.5% by the end of 2025, only slightly below the 2024 level of 2.6%, but to fall further to 2.1% by the end of 2026. In EMEs, inflation is forecast at 5.4% and 4.5% in 2025 and 2026, respectively. However, these trends differ across regions. While price increases in the euro area have been lower than anticipated, the U.S. has experienced certain upward pressures on inflation due to trade tariffs and exchange rate volatility. Overall, inflation is projected to continue declining, driven by weakening demand and lower energy prices, though the pace of this process may vary across countries. While inflation in the U.S. is expected to remain elevated for some time, in other regions changes in global trade could dampen price growth.

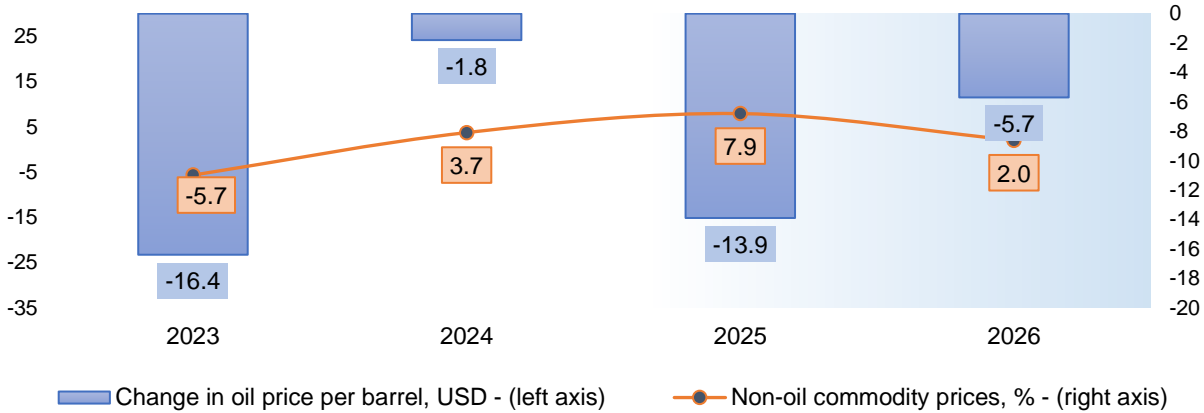
Chart 2. Consumer price index, in %



Source: IMF, WEO, July 2025 iyul (updated)

The intensification of trade tensions is weakening global economic prospects. Sharp changes recorded in trade policy in 2025 are having a negative impact on the world economy. The new tariffs imposed by several major economies, led by the U.S., and the retaliatory measures against these tariffs have strengthened protectionism and weakened global trade flows. As a result, investment and consumption expectations have declined in both AEs and EMEs, and economic growth slowed down. Against the backdrop of persistent uncertainty in trade policy, strengthening international cooperation and reducing tariffs are regarded as key conditions for revitalizing trade in the near future.

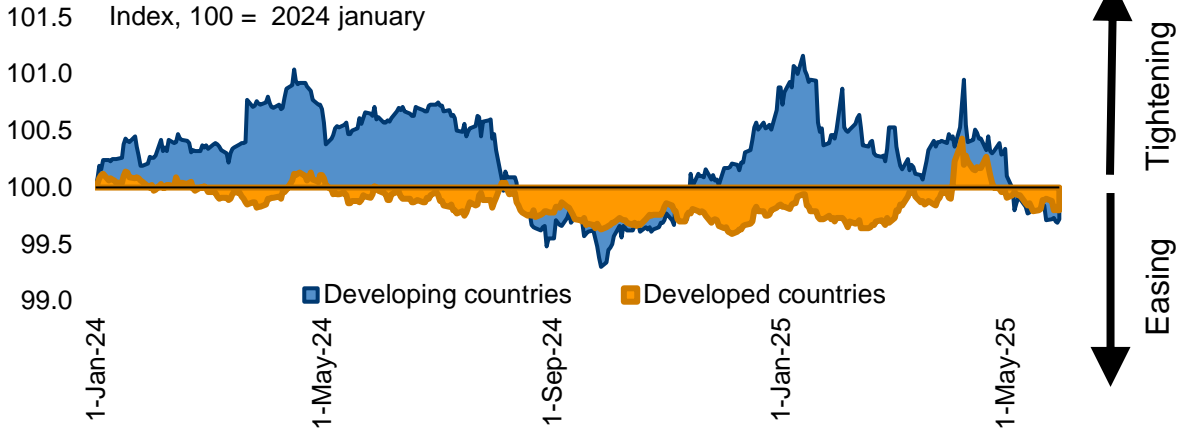
Chart 3. Commodity price changes



Source: IMF, World Economic Outlook, July 2025 (updated)

The tightening of global financial conditions weighed on financial markets as well. Global financial conditions have been tightening since the beginning of 2025, attributable to uncertainties in trade policy and has increased volatility in financial markets. In AEs, long-term government bond yields have risen, while in EMEs sovereign risk spreads have widened and capital flows fluctuated. The tightening conditions resulted in higher borrowing costs in many EMEs, creating additional pressures on fiscal sustainability. At the same time, investment and consumption decisions have weakened, limiting opportunities for economic growth.

Chart 4. Financial condition index



Source: World Bank, Global Economic Prospects (June 2025)

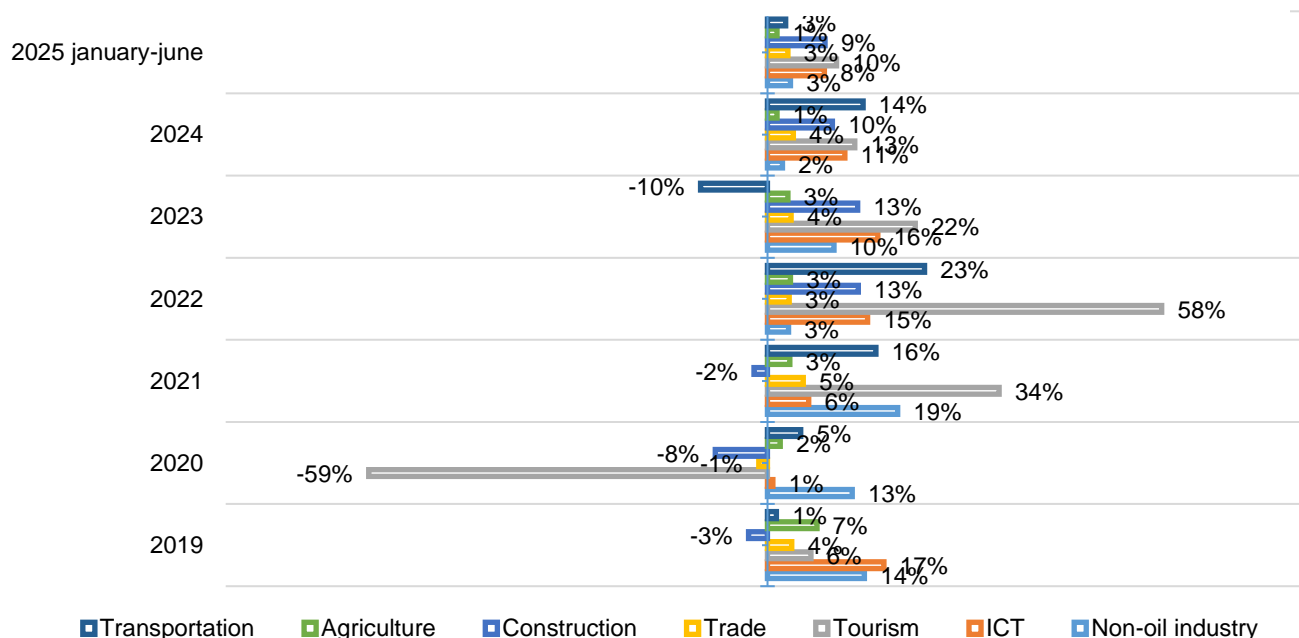
In H1 2025, amid rising geoeconomic and trade tensions, global oil demand declined, and prices fell. The decision by OPEC+ countries to rapidly increase extraction, combined with the impact of rising trade tensions on demand, has weighed on oil prices. According to the latest forecasts by the World Bank, the average price of Brent crude oil is projected at \$66 this year and \$61 in 2026. Meanwhile, the IMF’s July forecast anticipates an average price of \$68.2 for Brent crude in 2025. The pace of global oil demand growth continues to remain below the average levels of 2015–2019. In the natural gas market, however, the situation differs from that of oil. In the United States, prices have risen by more than 50% amid expanding LNG exports, whereas in Europe, prices have declined due to favorable weather conditions and sufficient reserves. Overall, energy prices are expected to fall by 15% in 2025 and by 7% in 2026, with a moderate recovery projected only from 2027 onwards, driven by a rebound in the oil market.

Macroeconomic environment for financial institutions in Azerbaijan

In H1 2025, economic growth continued, on the backdrop of subdued global economic growth, rising policy uncertainties and trade tensions. Real GDP increased by 1.5% to nominal AZN62.1B. During the period, oil-and-gas GDP decreased by 3.1%, while non-oil-and-gas GDP increased by 3.9%. Economic growth was driven by the non-oil-and-gas sector. 69% of GDP was derived from the non-oil-and-gas sector. Per capita GDP amounted to AZN6.1 thousand.

GDP breakdown was as follows – industry 34.9%, trade 10.2%, transport 7%, construction 6.3%, agriculture 5.9%, tourism 2.8%, information and communication 1.8%, and other areas 21.1%. Net taxes to the production and import accounted for 10% of GDP. Tourism, construction, and ICT posted the highest growth – real growth in this sector was 10.2%, 8.5% and 8.4% respectively.

Chart 5. Economic growth rate of non-oil-gas areas, in %



Source: SCC

Nominal income and salaries of the population continued to increase. Labor force numbered 5344.1 thousand persons as of end-June 2024, out of which 5062.3 thousand persons were employed population. The number of hired labor was 1769.2 thousand persons, of which 49.3% was employed in the public sector (873 thousand persons), and 50.7% (896 thousand persons) in the private sector. The oil-gas sector employed 31.1

thousand and the non-oil-gas sector employed 1738.1 thousand persons. The average monthly nominal salary of hired labor yoy increased by 9.4% to AZN 1097. Income of the population yoy increased by 7.2% to AZN42.7B in nominal terms.

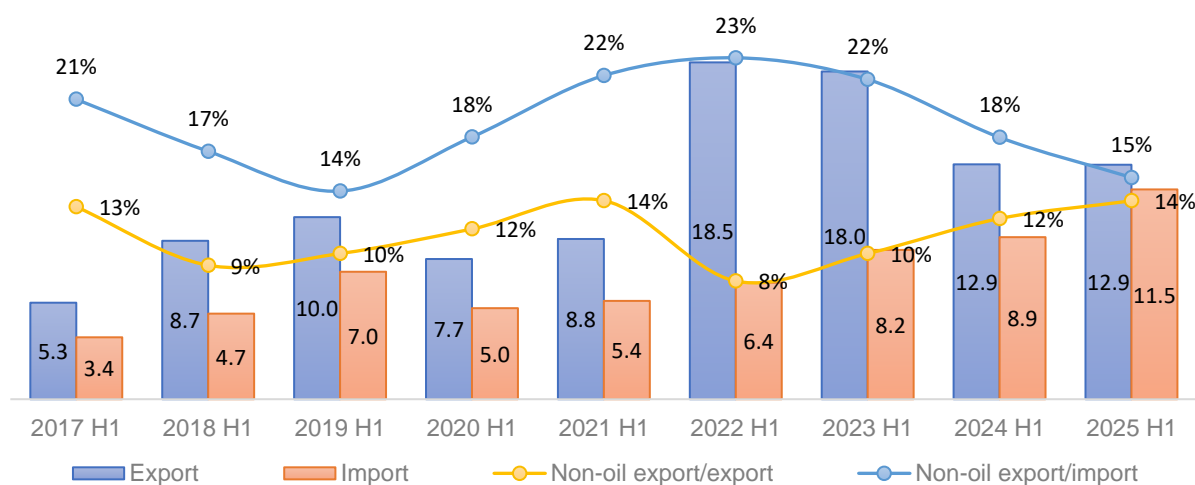
Annual inflation moved within the projected trajectory in H1 2025. According to the SSC, annual inflation stood at 6% and average annual inflation stood at 5.9% in June 2025. Annual food inflation stood at 7%, non-food product prices hiked by 2.8%, and annual service inflation was 7.2%. Annual core inflation excluding regulated prices and price changes of seasonal agricultural products stood at 4.8% in June 2025.

Changes in the balance of risks of inflation were driven by external factors. Global trade developments strengthened fluctuations in commodity and financial markets. On this backdrop, external risk factors include higher inflation in main trade partners, the decline of the dollar index and the gradual appreciation of the nominal effective exchange rate. Internal risk factors that could increase inflation include not only cost factors but also overexpansion of aggregate demand. Overall, the share of domestic factors in inflation forecasts is expected to be low for 2025-2026. Under the baseline scenario, the forecast that inflation will be within the target ($4\pm 2\%$) in 2025 and 2026 remains unchanged.

During the reporting period, monetary policy decisions were made considering the dynamics of inflation, domestic macroeconomic stance, as well as the nature of monetary policy transmission. The Management Board of the CBA has discussed interest rate corridor parameters four times over six months of the year. At the meetings dedicated to the monetary policy the refinancing rate was kept unchanged at 7.25%, the ceiling of the interest rate corridor at 8.25%, and the floor at 6.25%. The CBA made interest rate decisions public under the pre-announced schedule through press releases with appropriate analytical commentary. Monetary policy tools were applied in response to financial market developments and the banking system's liquidity position. In January-June 2025, various duration monetary operations continued to be applied to manage liquidity. Liquidity in the banking sector has increased in consequence of auctions held by the Ministry of Finance to deposit available national currency denominated balances of the treasury account in commercial banks since April 2025, which exerted downward pressure on AZIR. In response to rising liquidity in the banking system the CBA intensified liquidity absorbing operations to steer it towards the refinancing rate and mostly used seven-day operations. In January-June 2025, the Bank used one-week repo/reverse repo operations to regulate interest rates in the interbank money market, promptly contain the effects of autonomous factors and flexibly manage liquidity. Overall, over the period, CBA's monetary operations had an upward effect on effective management of liquidity by banks, interbank market activity and strengthening of interest rate transmission.

The international conjuncture was favorable for Azerbaijan in terms of the balance of payments in H1 2025, and foreign trade was in surplus. Current account surplus amounted to \$2.3B (6.3% of GDP). According to the SCC, in January-June 2025 foreign trade surplus amounted to \$24.4B – export \$12.9B (52.8%) and import \$11.5B (47.2%), resulting in \$1.4B (3.8% of GDP) worth of surplus in foreign trade balance. Non-oil-gas-export accounted for 13.6% of total export, yoy up by 1.2 pp. Azerbaijan traded with 166 countries of the world. EU countries accounted for 43% and other countries for 57% of foreign trade. Main trade partners in the export structure included Italy, Türkiye, Russia, and in the import structure China, Russia, and Türkiye. Import structure breakdown is as follows – private sector 55%, public sector 36%, and individuals 9%.

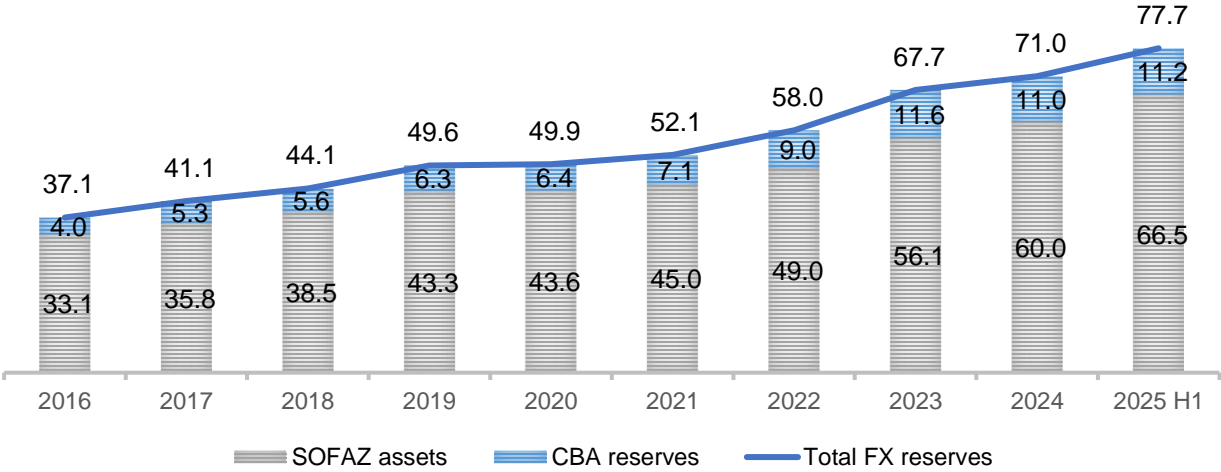
Chart 6. Import and export dynamics, billion USD dollars



Source: SCC

Strategic foreign exchange reserves continued to grow. Foreign exchange reserves of the CBA increased by 1.8% to \$11.2B, while reserves of the SOFAZ increased by 10.8% to \$66.5B. In general, foreign exchange reserves of the country increased by 9.4% to \$77.7B. The foreign exchange reserves to GDP ratio stood at 106%, still higher than international sufficiency norms.

Chart 7. Dynamics of foreign exchange reserves of the CBA and SOFAZ, billion US dollars

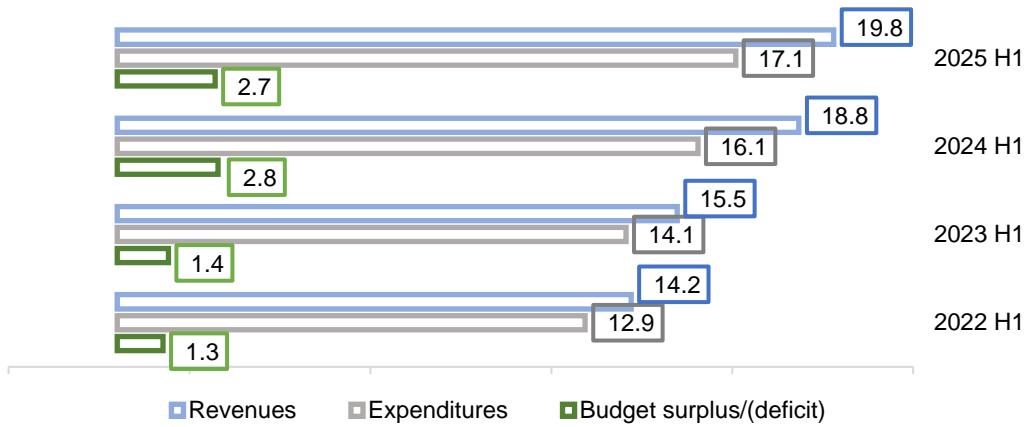


Source: CBA, SOFAZ

Fiscal expenses were crucial in supporting economic activity. Budget expenditures were directed toward supporting economic growth and implementing measures to improve the well-being of the population, particularly the recovery of the liberated territories. State budget revenues amounted to AZN19.8B, and expenditures to AZN17.1B. Budget deficit amounted to AZN2.7 B (4.3% of GDP).

Excluding the transfer from the SOFAZ, state budget revenues amounted to AZN12.6B, exceeding the forecast by 5.9%. According to the Ministry of Finance, state budget revenues from the non-oil-and-gas sector amounted to AZN10.3B in H1 2025 (51.9% of total state budget revenues), yoy up by 2.3% (AZN232M).

Chart 8. Dynamics of state budget revenues and expenditures, billion AZN



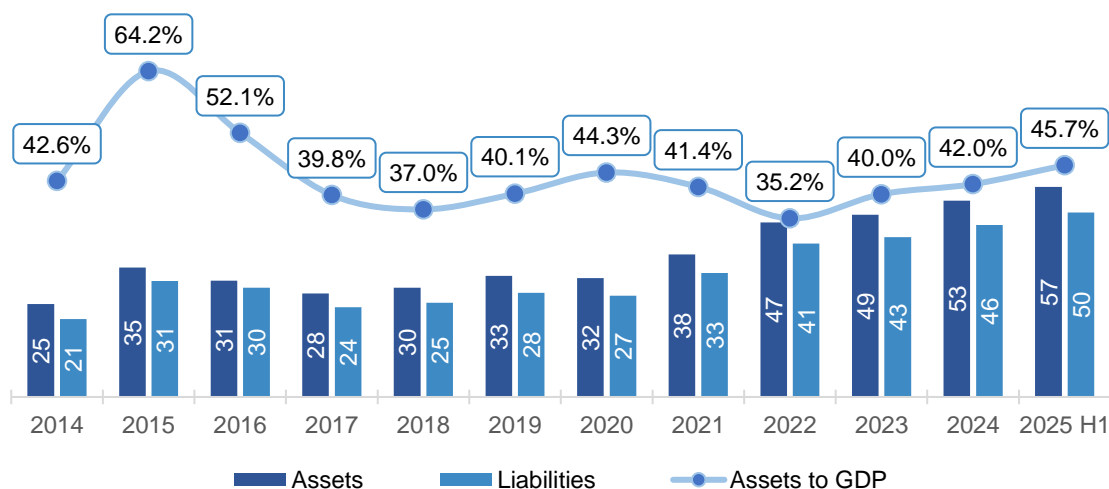
Source: based on information from the CBA, the SSC and the Ministry of Finance

Overview of the banking system

- Dynamics of banking sector's assets and liabilities

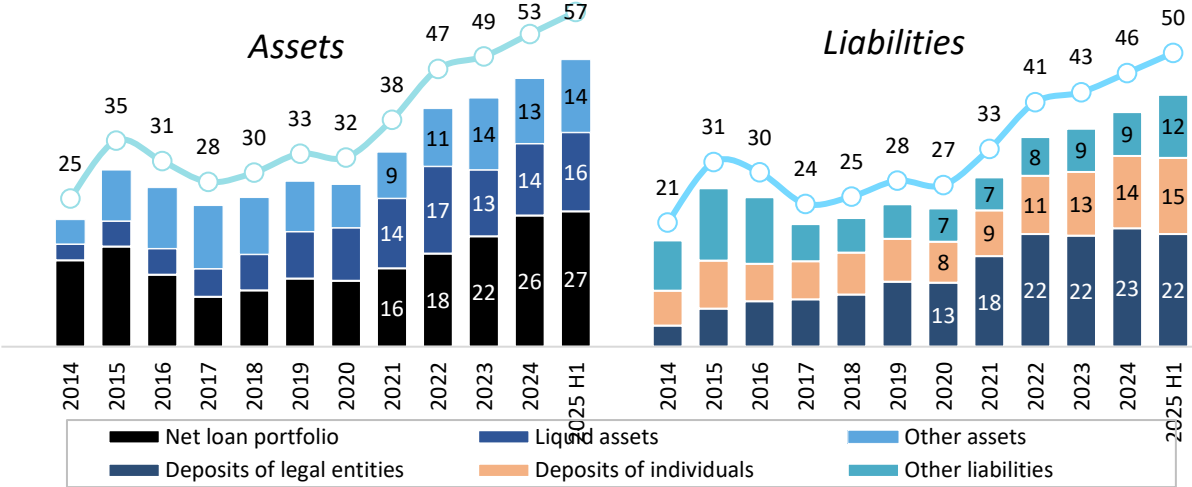
The balance sheet of the banking sector continues to expand. In H1 2025 banking sector's total assets increased by 7% (AZN3.74B) to AZN56.7B. Total liabilities increased by 7.3% (AZN3.41B) to AZN49.8B. Consequently, the assets-to-GDP ratio (a key indicator of banking sector depth) increased by 3.7 pp to 45.7% compared to the end of the previous year. The main reason for the balance sheet expansion were deposit operations of the Ministry of Finance and increase in term deposits of individuals. The breakdown of banking sector assets was as follows: net lending portfolio 47%, liquid assets 28%, and other assets 25%. Securities account for 18% of total assets. Liabilities consist of deposit of LEs (45%), savings of individuals (30%), deposits and loans of central managerial authorities (6%), amounts due to other financial institutions (14%) and other liabilities (5%).

Chart 9. Dynamics of assets and liabilities of the banking system, in billion AZN



Source: CBA

Chart 10. Dynamics of the structure of banking systems assets and liabilities, in billion AZN



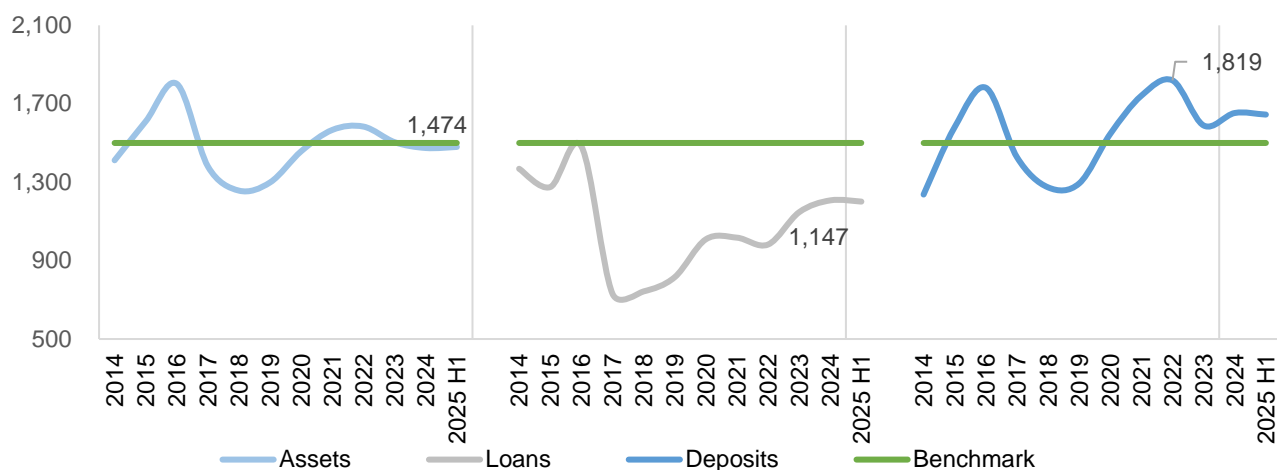
Source: CBA

- Concentration in the banking system

Although asset concentration has slightly increased compared to the end of the previous year, concentration in deposit and lending portfolios has decreased. According to the HHI¹ widely used in international practice, as of the first half of the year concentration in the banking sector increased by 6 points to 1201 compared to the end of the previous year. Concentration in the deposit portfolio increased by 8 points to 1645 compared to the end of the previous year. The HHI index for assets increased by 5 points to 1,480. Accordingly, the lending portfolio of the banking system is at a low level of concentration, while the deposit portfolio is at a medium level. Based on total assets, the banking sector stands at the threshold between low and medium concentration. The CBA is always focused on the banking sector concentration.

¹The HHI index stands for to assess the level of competitiveness and concentration in markets in international practice. According to the experience of the U.S. Department of Justice, markets are divided into three categories based on this index: low-concentration markets (HHI < 1500), medium-concentration markets (1500 < HHI < 2500), and high-concentration markets (HHI > 2500). The value of the HHI ranges from 0 to 10,000.

Chart 11. Dynamics of the HHI index across the banking sector

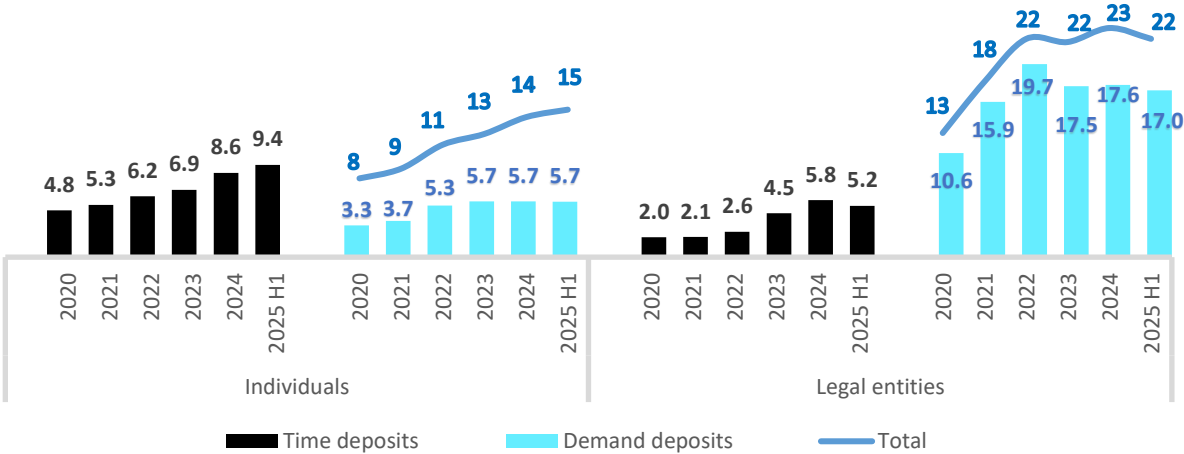


Source: CBA

- **Resources attracted across the banking sector**

Although deposits of legal entities, the main financing source of the sector, decreased, savings of individuals increased. In H1 2025, deposits of legal entities decreased by 4.7% (AZN1.1B) to AZN22.3B, while savings of individuals increased by 5.3% (AZN0.76B) to AZN15.1B. Consequently, as of the end of the first half of 2025, the share of deposits of legal entities in total liabilities decreased by 5.7 pp to 44.8%, and the share of savings of individuals in total liabilities stood at 30.2%. The increase in savings of individuals was driven by the rise in term deposits, while the decrease in deposits of legal entities was both on term and demand deposits. Analyses suggest that deposits of legal entities decreased due to operations of large organizations engaged in the oil-and-gas industry.

Chart 12. Dynamics of deposit portfolio of individuals and legal entities, in billion AZN



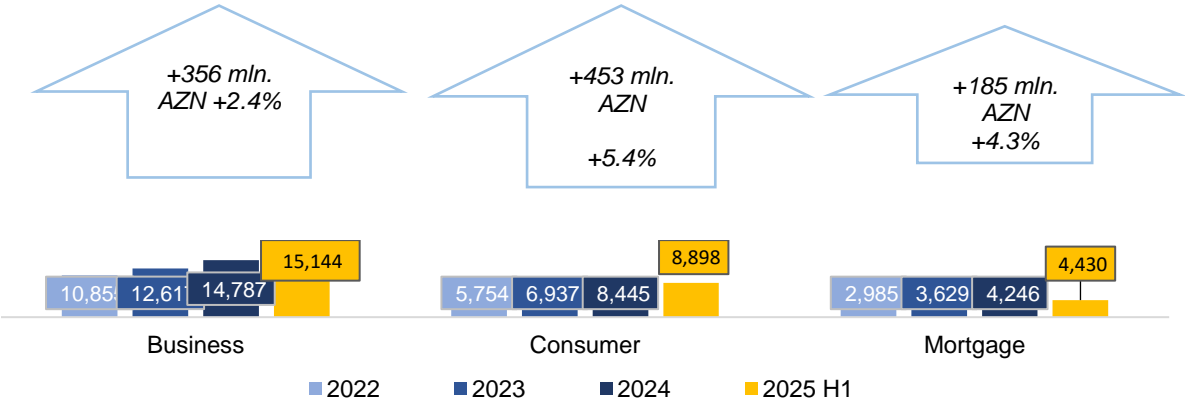
Source: CBA

The rise in term deposits of individuals supports stable financing of the banking sector. Term deposits of individuals increased by 9.4% (AZN0.81B) to AZN9.4B, while demand deposits decreased by 0.8% (AZN0.05B) to AZN5.65B. Amid higher confidence in the banking sector, new monetary and macroprudential policy frameworks implemented, including further digitalization, the unique number of individuals in the term deposits portfolio increased by 11.7% to 168.1 thousand persons compared to the end of the previous year. The increase in individuals’ term deposits not only enhances the stability of funding sources but also plays an important role in long-term financing.

- **Banking system’s lending activity**

The loan portfolio’s growth rate continues to surpass that of nominal non-oil-gas GDP (10.8%). The banking sector’s loan portfolio yoy increased by 12% to AZN28.5B. In H1 2025, the loan portfolio’s growth rate stood at 3.6%. Although the rapid growth of the portfolio has slowed down in recent years, its annual growth rate continues to exceed the growth rate of nominal non-oil GDP (10.8%). The loan portfolio of 18 banks increased year-over-year, and in 13 of these banks, the growth outpaced the increase in nominal non-oil GDP. In 7 banks, the growth exceeded 15%. To enhance the banking sector resilience and ensure the continuity of lending, a decision was made to introduce an additional counter-cyclical capital buffer of 0.5% on total regulatory capital and Tier 1 capital of banks, effective from 1 March 2025.

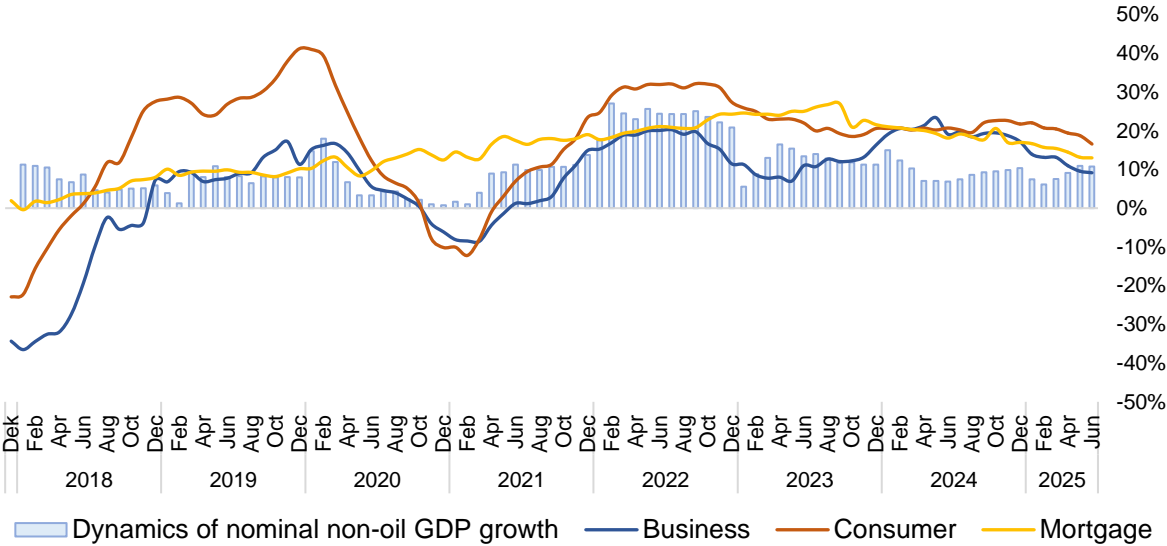
Chart 13. Six-month growth rate of the loan portfolio, in million AZN



Source: CBA

Loan portfolio growth was driven by business, consumer, and mortgage loans. Business loans increased by 2.4% (AZN356M) to AZN15.1B, consumer loans by 5.4% (AZN453M) to AZN8.9B, and the mortgage portfolio increased by 4.3% (AZN185M) to AZN4.4B compared to the early year.

Chart 14. Loan portfolio and nominal non-oil-gas GDP annual growth rate, in %



Source: CBA, SSC

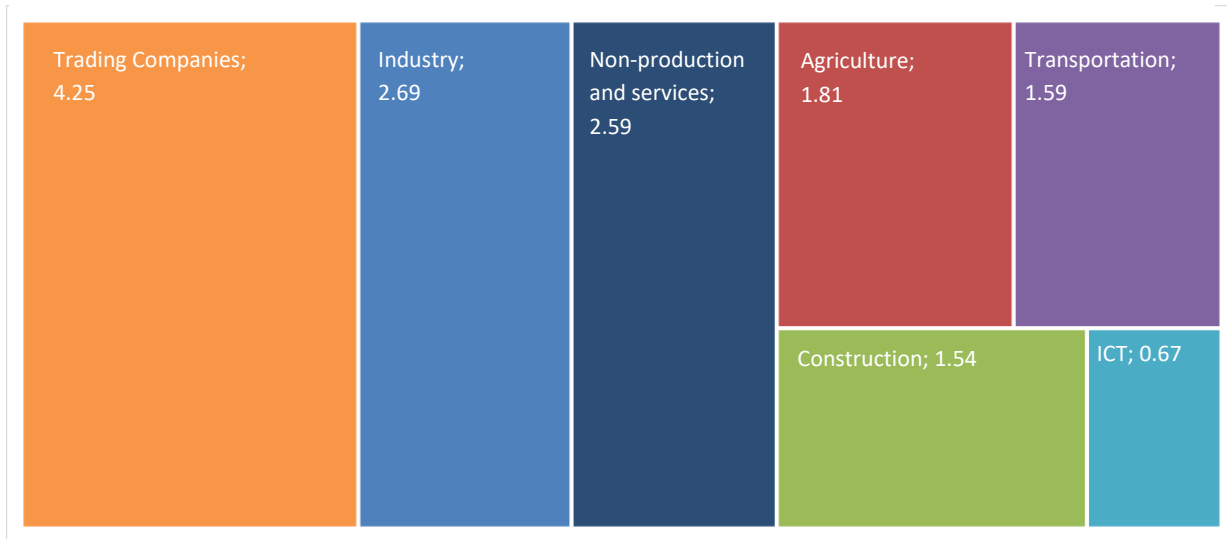
Growth dynamics of the consumer loan portfolio remains under control. The CBA's macroprudential policy has been aimed at ensuring sustainable growth of the consumer loan portfolio and promoting healthy borrowing among the population. For this purpose, the regulatory framework for consumer lending, which has been improved since 2022, has contributed to stabilizing previously intensive growth dynamics of the consumer loan portfolio. In H 1 2025 the annual growth rate of the consumer loan portfolio stood at 16.6% (compared to around 32% prior to the regulatory framework adjustments). The CBA continues its assessments regarding consumer lending dynamics and household over-indebtedness, as well as its efforts to further improve the related regulatory framework.

One of the main drivers of consumer lending is credit cards. recently, the credit card segment of consumer lending has been posting a high growth rate. Compared to the end of 2022, the utilized portion of consumer credit cards increased by 60% to AZN1.7B, while the unused portion grew by 64% to AZN2B. The pro-cyclical nature of consumer credit cards not only serves as a factor amplifying systemic risks but also creates a number of vulnerabilities for the financial system. To prevent household over-indebtedness and safeguard the capital resilience of the banking system, the CBA has introduced changes to the regulatory framework for consumer credit cards. According to the amendments, a borrower's credit card limit is capped at a maximum of five times his net after tax income. This measure will ensure that borrowers' actual repayment capacity is taken into account when determining consumer credit card borrowing opportunities and will allow banks to recognize and mitigate risks at an earlier stage.

Mortgage lending follows stable growth dynamics. In H1 2025, the mortgage portfolio yoy increased by 13% to AZN4.43B. Yoy growth amounted to AZN509.3M, of which AZN258M (51%) came from the state mortgage program, while AZN251.3M (49%) resulted from banks' internal mortgage programs. Currently, state-funded mortgages account for 55.4% of the total mortgage portfolio (AZN2.45B), while mortgages issued from banks' own resources make up 44.6% (AZN1.98B).

The growth in business loans was driven by the information and communications (IC), agriculture, and transportation sectors. As of the end of June 2025, the business loan portfolio yoy increased by 9.1% (AZN1.27B) to AZN15.14B – AZN326M (14.4%) non-production and services, AZN269M (17.4%) agriculture, and AZN249M (6.2%) trade enterprises. Trade enterprises hold the largest share of the business loan portfolio (28.1% (AZN4.25M) of the total portfolio).

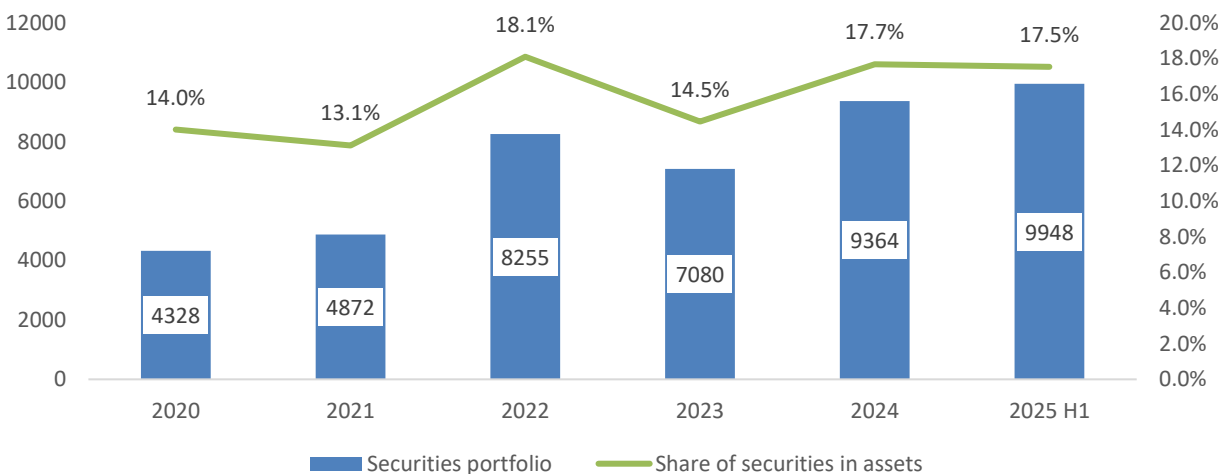
Chart 15. Sectoral breakdown of business loans, in billion AZN



Source: CBA

Bank's securities portfolio has increased over the second quarter. Compared to the end of 2024, the securities portfolio increased by 6.2% (AZN584M). At the same time, since total assets grew at a faster pace, the share of the securities portfolio in total assets shifted from 17.7% to 17.5% compared to the end of the previous year. Growth on investments to U.S. treasury bonds was AZN1.13B (up by 80.6%). In 2025 amid the drop in public issuance by the Ministry of Finance investments in securities of the Ministry of Finance decreased by AZN347M (7.8%) over recent six months.

Chart 16. Dynamics of the securities portfolio, in million AZN

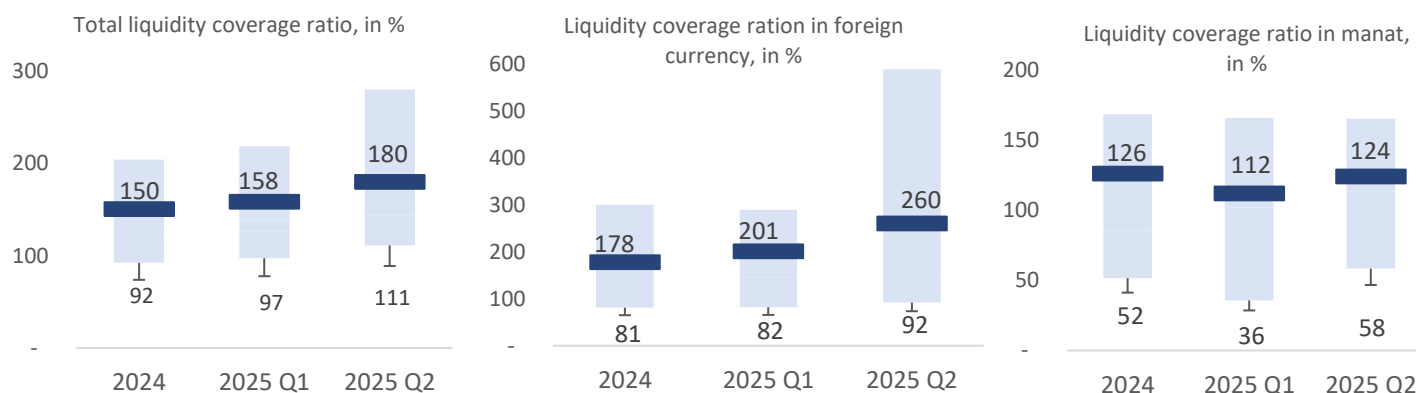


Source: CBA

Liquidity risk of the banking system

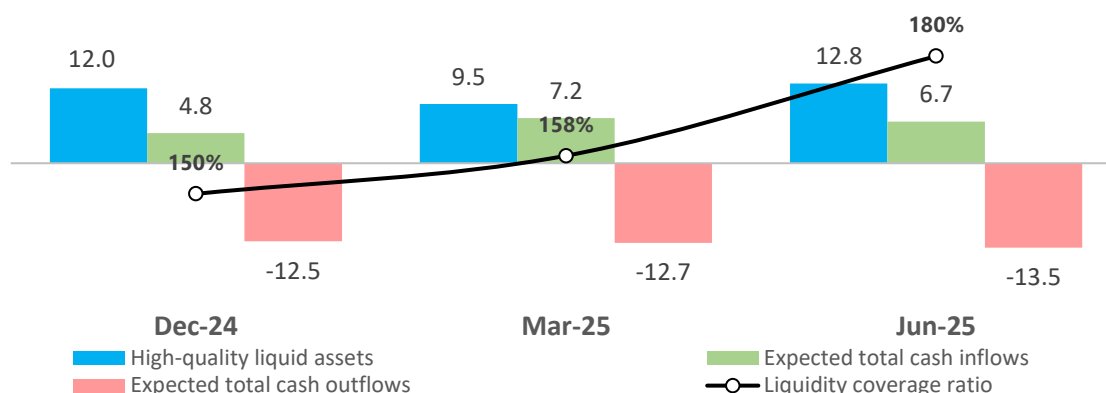
The sector's liquidity position has strengthened and continues to remain in a comfort zone. In H1 2025 the LCR increased by 30 pp to 180% in aggregate and by 82 pp to 260% in foreign currency, while in national currency it decreased by 2 pp to 124% compared to the end of 2024. The aggregate LCR increase was driven by the rise in high-quality liquid assets in the banking sector. High-quality liquid assets of the sector increased by 6.5% (AZN0.8B) to AZN12.8B, while sector's net cash outflows decreased by 11% (AZN0.9B) to AZN6.8B compared to the early year. Overall, liquid assets accounted for 27.5% of sector's total assets. The main driver of the liquidity increase during the period was the deposits placed by the Ministry of Finance of the Republic of Azerbaijan in banks. The sector's instant liquidity ratio was 59%, exceeding the minimum requirement by 29 pp. The strengthening of the liquidity position makes the banking system more resilient to possible liquidity shocks.

Chart 15. LCR in aggregate, in foreign and national currencies, in %



Source: CBA

Chart 16. High-quality liquid assets and total net outflows expected, in billion AZN



Source: CBA

The CBA is starting to introduce the liquidity coverage ratio in the national currency from the current year. Under the regulatory framework starting from August 2025 the LCR in the national currency will be implemented with a phased increase until December 2027. Initially, from August 2025 systemically important banks should maintain LCR in the national currency at 50% and other banks at 40%.

Table 1. Plan of implementation of LCR in the national currency

Bank groups	after 1 August 2025	after 1 December 2025	after 1 June 2026	after 1 December 2026	after 1 June 2027	after 1 December 2027
SIB	50%	65%	80%	90%	100%	100%
Other banks	40%	55%	70%	80%	90%	100%

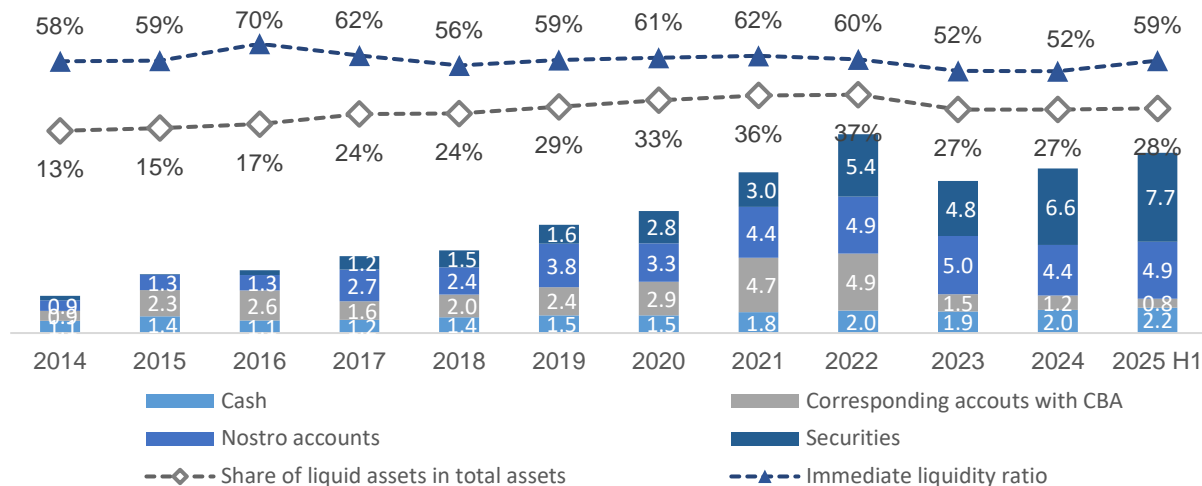
Source: CBA

The main purpose of implementing this requirement has been to enhance banks' ability to meet short-term liquidity needs in manats, prevent liquidity crises in the financial system and strengthen financial stability by ensuring that banks maintain a sufficient level of high-quality liquid assets during stressed periods.

Analyses show that, the banking sector's liquidity position supports the potential for lending growth. According to estimations, complying with the LCR requirements, the banking sector's lending potential amounts to AZN5.7B, when the LCR in the national currency is considered, this indicator stands at AZN4.5B.

Liquid assets of the sector are growing. Liquid assets increased by 9.6% (AZN1.4B) to AZN15.6B, driven by the securities portfolio.

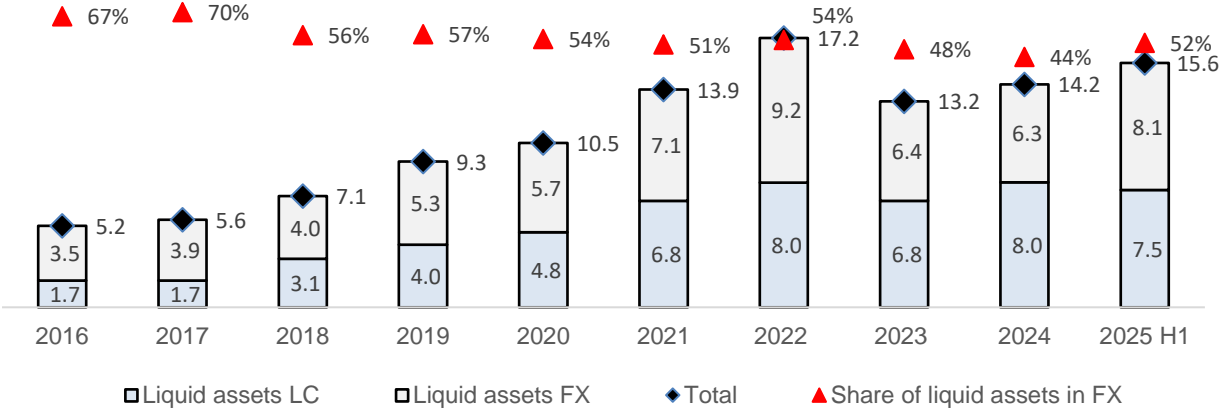
Chart 17. Dynamics of the structure of banking sector's liquid assets, in billion AZN



Source: CBA

National currency denominated assets decreased, while foreign currency denominated assets increased in the currency structure of liquid funds. In H1 2025 the share of liquid funds in the national currency in total liquid assets stood at 48% (56% at the end of 2024). Liquid assets in the foreign currency increased due to the rise in foreign currency denominated demand deposits of LEs and the drop in national currency denominated demand deposits. Based on the respective increase, investments in liquid securities of foreign governments grew.

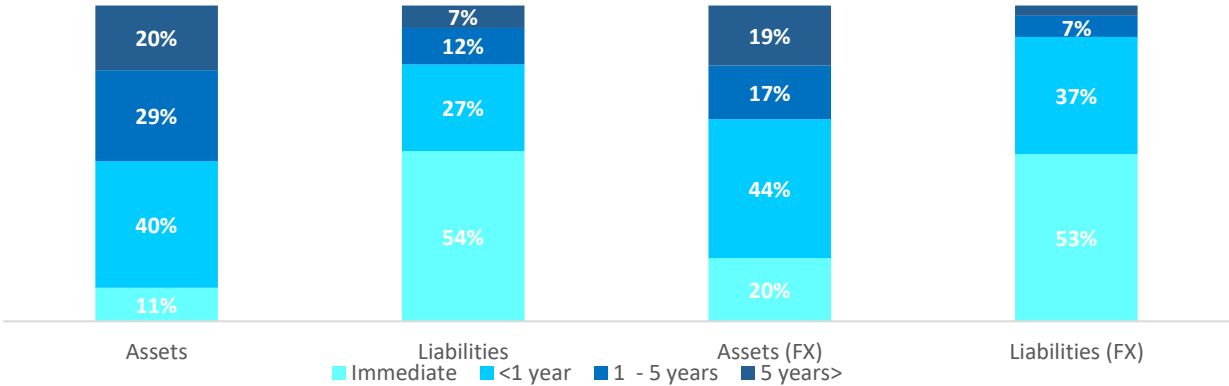
Chart 18. Dynamics of the currency structure of banking sector's liquid assets, in billion AZN



Source: CBA

The share of assets with up to one year maturity in total assets increased by 5 pp to 51%, the similar indicator for liabilities remained unchanged (81%). 62% of liabilities and 27% of assets have a maturity of less than 90 days. Liabilities with a maturity of less than 90 days exceed assets by AZN15B. Meanwhile, the banking sector's liquid assets amount to AZN15.6B, which represents a sufficient buffer to prevent potential liquidity problems.

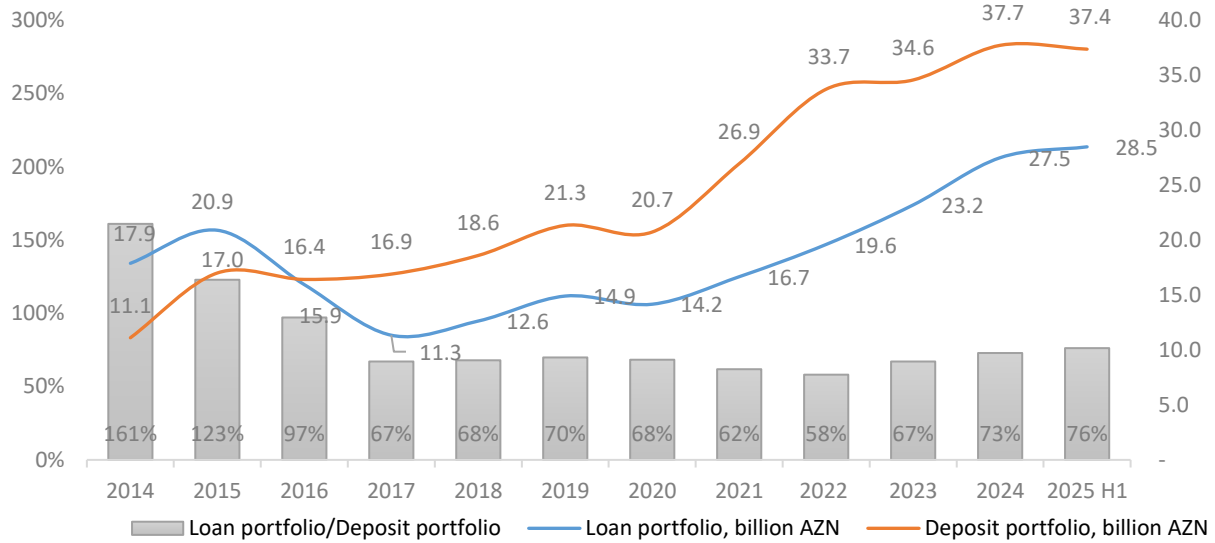
Chart 19. Maturity structure of banking sector's assets and liabilities



Source: Central Bank

The loans-to-deposits (LTD) ratio continues to grow. In H1 2025, the LTD ratio increased by 3pp to 76% amid the dynamics of the deposit and loan portfolios.

Chart 20. Dynamics of the loan-to-deposit ratio, in billion AZN

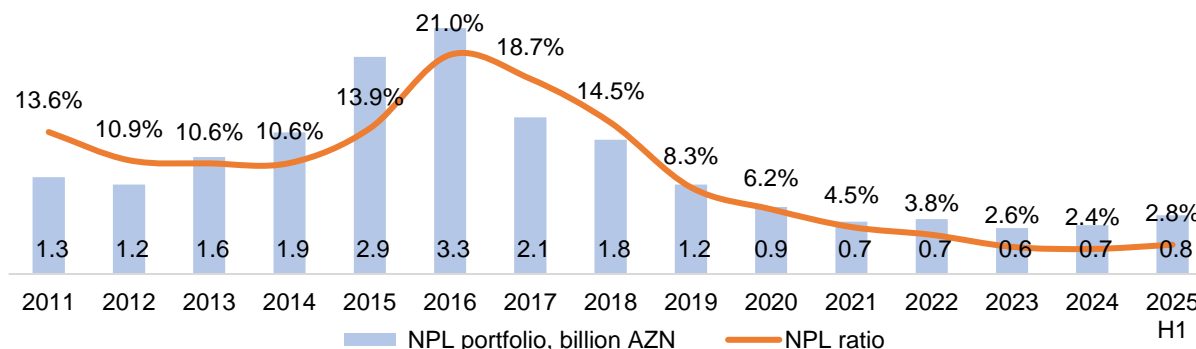


Source: CBA

Credit risk of the banking system

Credit risks in the banking sector are at a manageable level. In H1 2025, the size of NPLs increased by 20.1% (AZN132M) in absolute terms to AZN787M – AZN75M consumer loans, AZN56M business loans, and AZN1M mortgage loans. Consequently, the share of NPL portfolio in total loan portfolio increased by 0.4 pp to 2.8%.

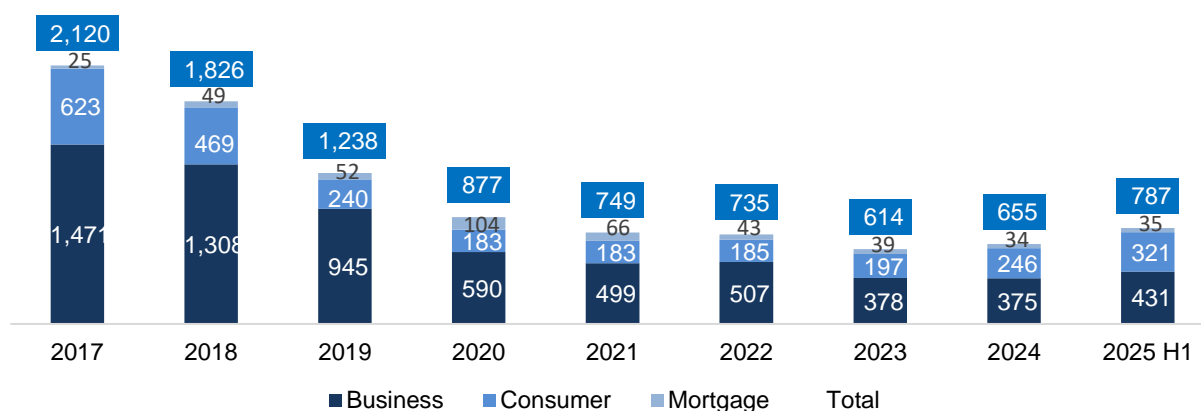
Chart 21. Dynamics of the NPL portfolio on the banking sector, in billion AZN



Source: CBA

In the context of regulatory framework requirements, the level of provisioning in the banking sector enables the absorption of potential risks. The amount of specific provisions made up AZN1.7B, twice the volume of the NPL portfolio. In particular, specific provisions for consumer loans amounted to AZN1.23B, about 3.8 times the volume of NPL amount. These facts suggest that the banking sector’s level of provisioning enables the absorption of potential risks.

Chart 22. Sectoral dynamics of the NPL portfolio, in million AZN

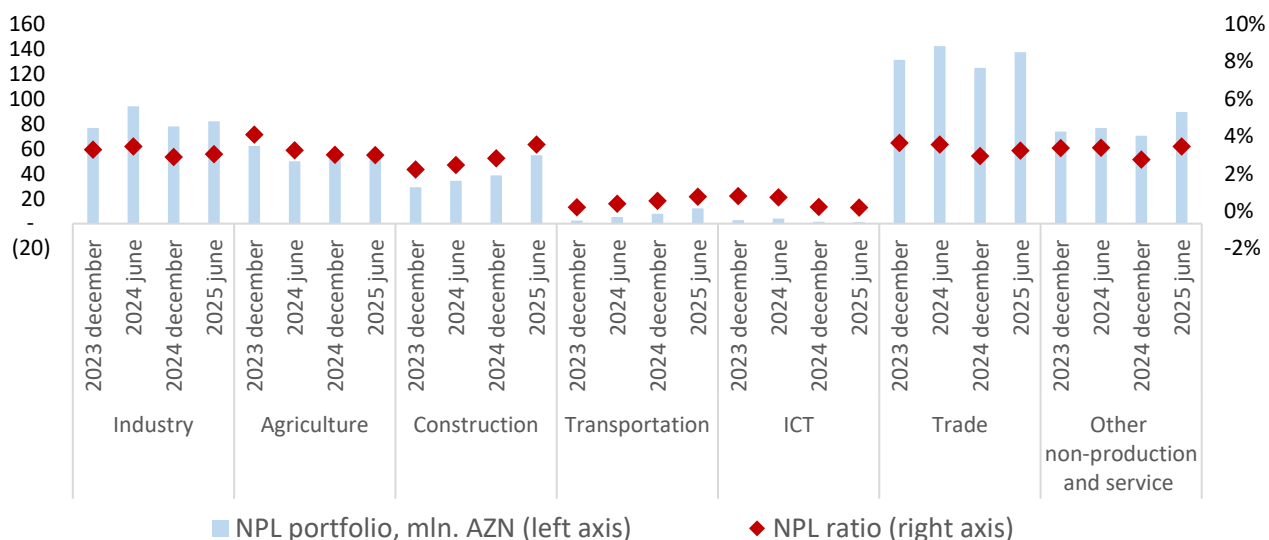


Source: CBA

In H1 2025, total write-offs across the banking sector amounted to AZN56.7M, driven by the consumer loans portfolio. The consumer loans portfolio accounts for 61.1% (AZN34.61M) and business loans portfolio for 38.8% (AZN22M) of total write-offs.

2.8% of business loans are non-performing. The volume of NPLs on the business portfolio increased by 14.9% to AZN431M compared to the end of the previous year. The NPL ratio increased by 0.3 pp to 2.8%, driven by the construction sector. The analysis indicates that the rise in NPLs in the business portfolio stems from individual clients and is not systemic.

Chart 23. Dynamics of the NPL portfolio on business loans across sectors of the economy, in million AZN

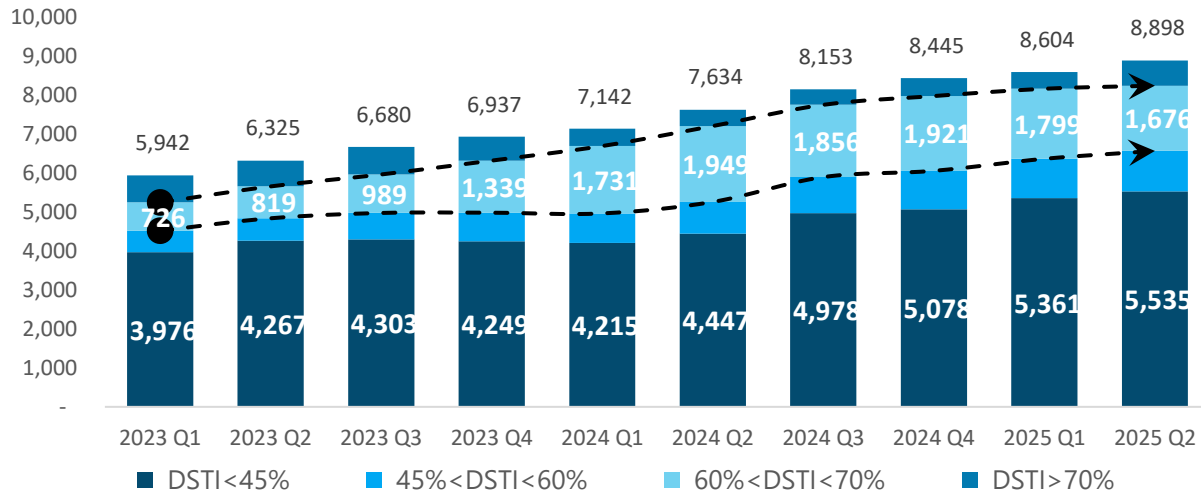


Source: CBA

Credit risks in the consumer portfolio are closely monitored. Over six months of 2025, the NPL portfolio on consumer loans increased by 30% in nominal terms (AZN75M) to AZN321M. At the same time, the NPL ratio increased by 0.7 pp to 3.6%.

The share of the DSTI>45% portfolio in the consumer portfolio remains high. 38% of the consumer portfolio is estimated to be in the DSTI>45% status. The CBA's prudential policy regarding consumer loans aims to promote healthy and responsible borrowing by the population and protect the sector from potential risks. Based on the changes made to the regulatory framework, a mandatory limit of 70% has been established for the upper threshold of the DSTI ratio. To mitigate risks associated with consumer loans with a high DSTI ratio (DSTI > 45%), the CBA has tightened the provisioning requirements and risk weights based on the DSTI ratio.

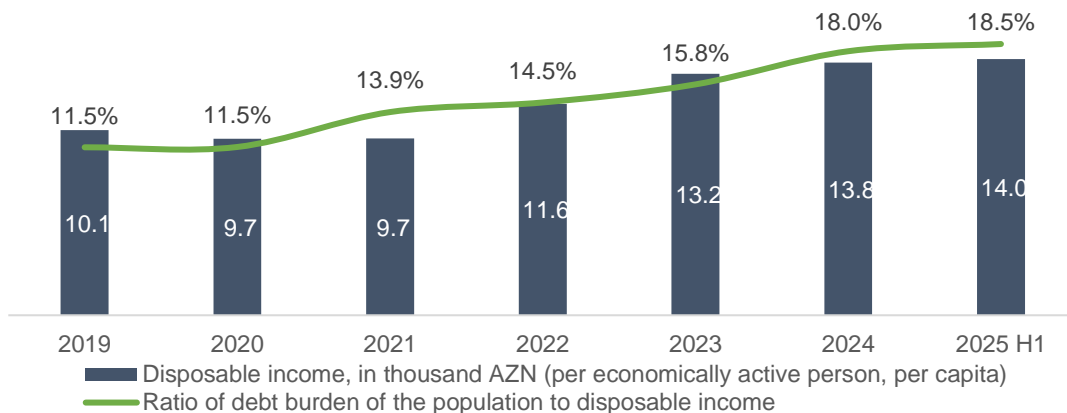
Chart 24. Dynamics of the breakdown of the consumer portfolio on DSTI, in million AZN



Source: CBA

Debt burden of the population² is kept on focus. Although disposable income of the population has shown growth, the share of debt burden in disposable income of the population is rising. The ratio of debt burden of the population to disposable income increased by 0.5 pp to 18.5%. Findings of the Credit Conditions and Funding Sources survey suggest that 49% of banks reported no change, and 50% of banks reported moderate growth in borrowing of the population. The CBA closely monitors the dynamics of borrowing of the population.

Chart 25. Dynamics of debt burden of the population to disposable income



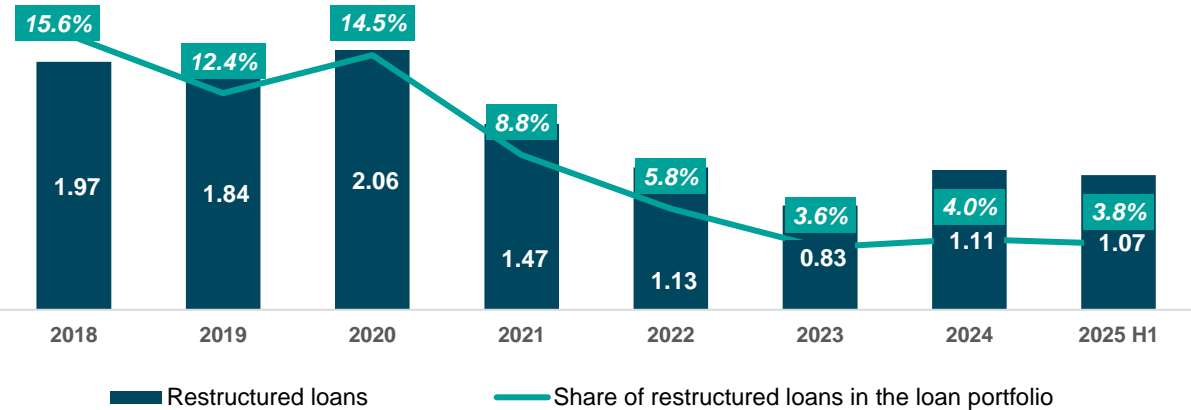
Source: CBA

² Debt burden of the population = the total outstanding amount of consumer and mortgage loans owed by individuals to credit institutions (banks and NBCIs)

The NPL ratio on the mortgage portfolio is on lows of recent years. In H1 2025, the nominal volume of NPL on the mortgage portfolio increased by 3.5% (AZN1.2M) to AZN35.2M. In the mortgage portfolio, the share of NPLs remained unchanged (0.8%). The NPL ratio on mortgage loans issued from government funds stood at 0.3%, and those issued from banks' own funds stood at 1.4%.

The restructured portfolio decreased. The volume of restructured loans portfolio decreased by 3.6% (AZN40M) to AZN1M, driven by the business portfolio (AZN87.5M). While restructured loans on the consumer portfolio increased (AZN45M), those on the mortgage portfolio underwent no considerable change.

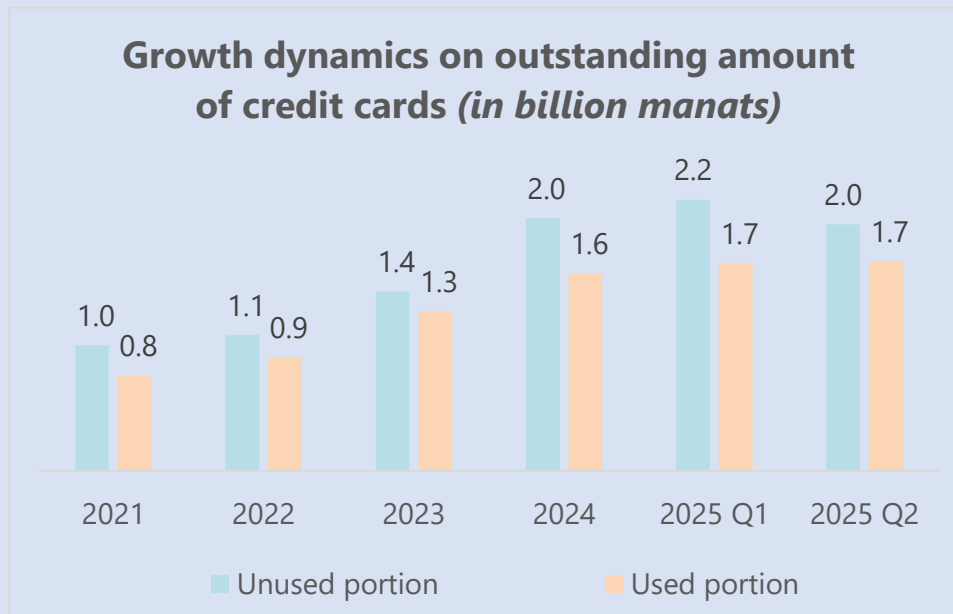
Chart 26. Dynamics of the restructured loans portfolio, in billion manats



Source: CBA

Box 1. Changes to the Regulatory Framework for the Banking Sector: Imposition of Limits on Consumer Credit Cards

Analyses suggest that the recent consumer credit portfolio growth was driven by credit cards. Compared to the end of 2022, the consumer loan portfolio increased by 55%, while the utilized portion of credit cards grew by 89%. Furthermore, amid the increase in the number of credit cards, the volume of credit card transactions has more than doubled over the past three years. Note that, this trend has also been accompanied by an increase in debt burden in households' disposable income. Compared to the end of 2024, households' disposable income increased by 7%, whereas the utilized portion of credit cards rose by 17%.



Consequently, the substantial growth of consumer credit cards gives rise to several potential risks within the financial system:

- **The pro-cyclical use of credit cards acts as a factor that increases systemic risks.** The rapid rise in borrowing through credit cards during periods of economic growth, and the behavior of borrowers during economic downturns (increased use of amounts beyond the balance, deterioration of repayment capacity) amplify cyclical systemic risks.
- **It increases risks related to over-indebtedness of households.** Highly indebted households are more sensitive to income shocks and pose a threat to macroeconomic stability
- **They exhibit higher sensitivity under stress conditions.** According to stress test findings, the main characteristics of banks whose capital adequacy

is threatened are a high volume of off-balance credit card exposure and intensive consumer loan sales in recent years.

- **It increases liquidity risks in banks.** Under stress conditions, mass withdrawals from credit cards may create liquidity risks for banks.

Considering the risks that consumer credit cards pose to the financial system, changes have been made to the existing regulatory framework for credit cards to promote more responsible and healthy borrowing. According to these changes, the **maximum credit card debt of a borrower is limited to five times his net income after tax.** When calculating this limit, the borrower's obligations to other credit institutions are also taken into account. Under the new requirement, total amount of consumer credit lines exceeding this limit should not exceed 1% of bank's Tier 1 capital after deductions. This approach will both strengthen banks' responsible lending practices and reduce system-wide borrowing risks. Additionally, to encourage responsible lending by banks, **a 40% credit conversion factor has been set for consumer credit lines. This 40% conversion level is based on an analysis of historical data regarding the average rate at which credit lines move from off-balance to on-balance accounts. While consumer credit lines remain in off-balance accounts, a 100% risk weight will be applied to these lines. This approach ensures that banks' capital adequacy indicators reflect actual risk levels and supports the stability of the financial system**

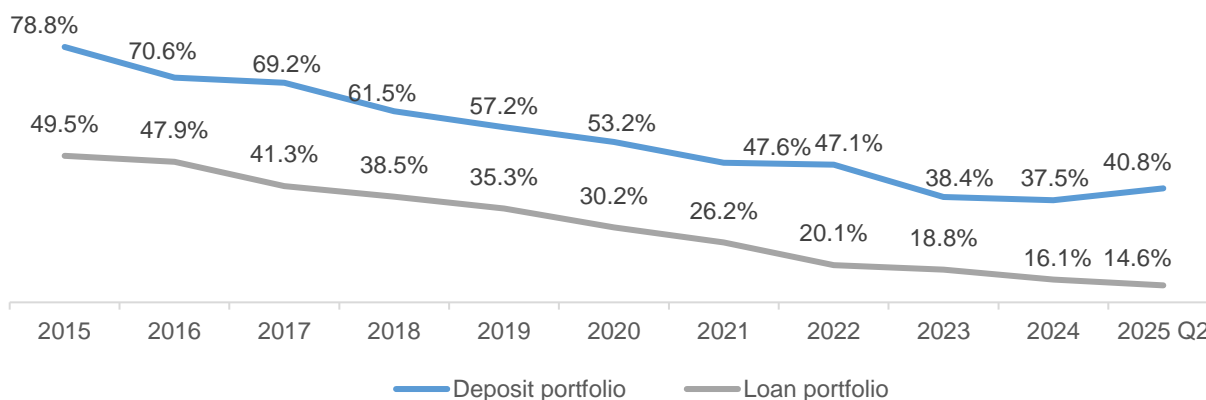
The new approach will enable a more precise assessment of financial indicators that reflect borrowers' actual repayment capacity and allow banks to identify and minimize risks at an earlier stage. The limit imposed on consumer credit cards (credit lines) aims to prevent an excessive increase in the financial burden on households, thereby minimizing social risks

Market risk of the banking system

The banking sector's currency position is within the prudential requirements. In H1 2025, short open currency position of the banking system amounted to AZN97M, the open currency position to total regulatory capital ratio was -1.5%, which is within prudential requirements. According to the *Regulations on setting open currency position in banks*, the maximum threshold on the open currency position on freely convertible currency to bank's total regulatory capital ratio is [-20%, +20%] (for one currency [-10%, +10%]).

De-dollarization of the sector continues. In H1 2025, dollarization of the banking sector's loan portfolio decreased by 1.5 pp to 14.6% (historical lows). Although dollarization of the deposit portfolio increased, it stemmed from demand deposits of LEs. Dollarization of the deposit portfolio increased by 3.3 pp to 40.8% compared to the end of 2024.

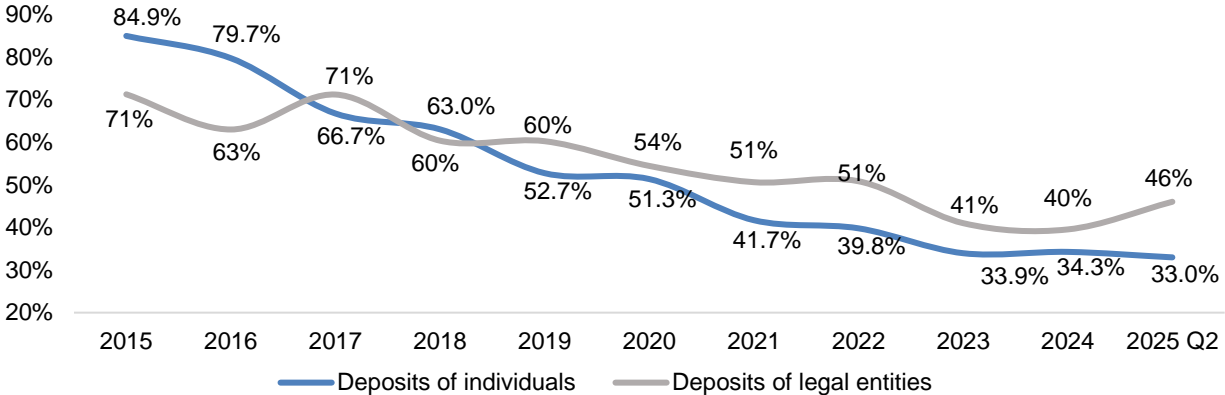
Chart 27. Dynamics of dollarization of deposit and loan portfolios, in %



Source: CBA

De-dollarization of savings of individuals continues. Compared to the end of 2024, in H1 2025, dollarization of term deposits of savings of individuals decreased by 1.5 pp to 33.6%, and that of demand deposits decreased by 1.1 pp to 31.9%. Dollarization of term deposits of LEs increased by 3.7 pp to 56.2%. The share of foreign currency denominated demand deposits of LE in total deposits increased by 7.6 pp to 42.9%. Dollarization of deposits of LEs is attributable to deposits of companies engaged in the oil-and-gas sector.

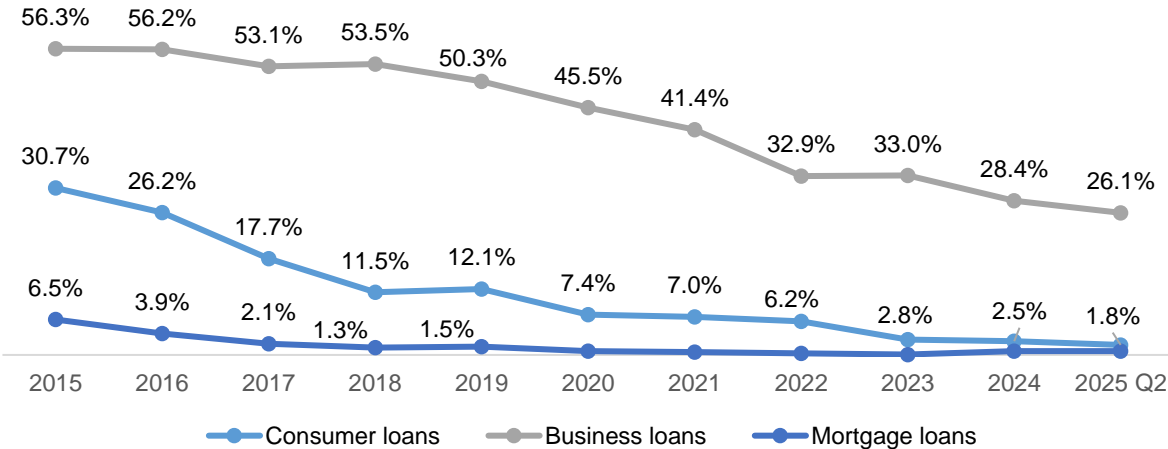
Chart 28. Dynamics of dollarization of the deposit portfolio, in %



Source: CBA

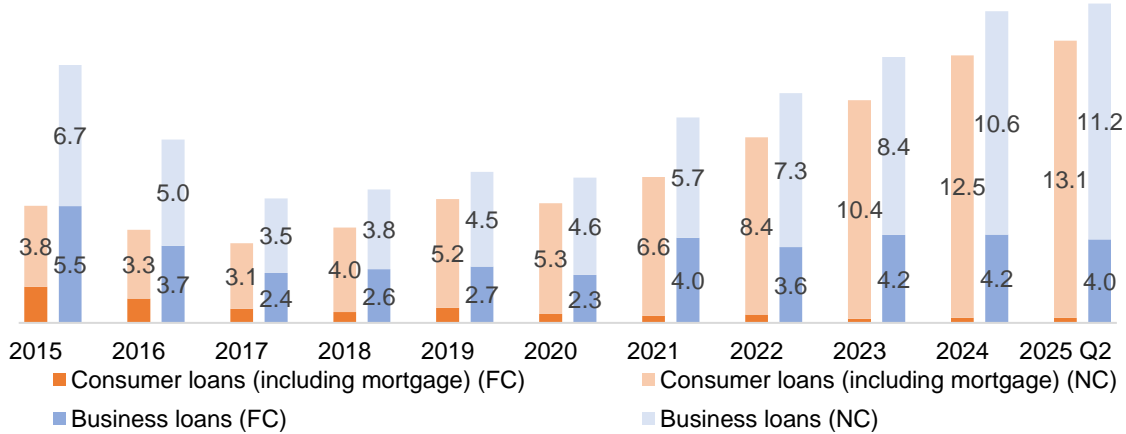
In H1 2025 de-dollarization of the loan portfolio continued. Since national currency denominated loans are the main driver of growth in the loan portfolio, its manatisation has continued. Dollarization of the loan portdolio decreased by 1.5 pp to 14.6% in H1 2025 compared to the end of 2024, driven by business loans. Over the reporting period dollarization of business loans decreased by 2.3 pp to 26.1%. As, according to CBA’s regulations, mortgage loans are required to be issued in the national currency only, the mortgage lending is nearly in the national currency; hence, the number of foreign currency denominated mortgage loans accounted for 0.7% of mortgage loans. On the other hand, in H1 2025, dollarization of consumer loans decreased by 0.7 pp to 1.8%.

Chart 29. Share of foreign currency in the loan portfolio, in %



Source: CBA

Chart 31. Currency structure and dynamics of the loans portfolio, in billion manats



Source: CBA

Banks’ interest rate sensitivity does not threaten their resilience. The interest rate risk was analyzed with the duration method³. Since most assets and liabilities are recognized at a balance value in the sector, calculations were made over the balance value and discounted at the refinancing rate of the CBA. The main source of duration mismatch between assets and liabilities is that the weighted average duration of loans issued is longer than the weighted average duration of deposits attracted. As a result of the positive duration gap, an increase in interest rates has a downward effect on banks’ capital. According to the simulations conducted, a 1 pp increase in the interest rate leads to a 0.9 pp decrease in the capital adequacy ratio, which does not pose a threat to the financial stability of the banking system.

Chart 30. Maturity breakdown and average weighted duration of assets and liabilities

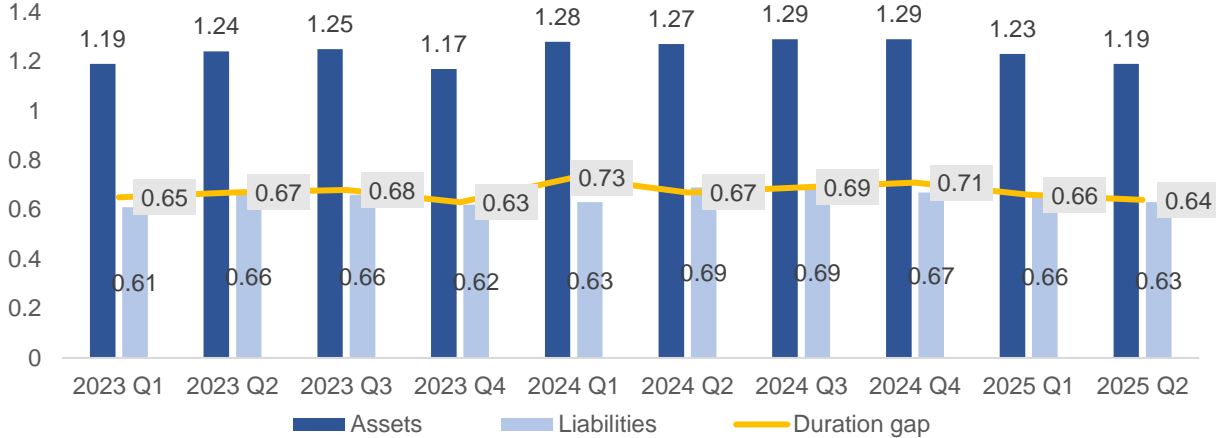
	Assets		Liabilities		Nominal gap (Assets – Liabilities)
Immediate	12.1	21.3%	24.2	49%	-12.1
0-1 year	22.8	40.2%	17.3	34.7%	5.5
1-3 years	12.2	21.6%	4.1	8.3%	8.1
3-5 years	4.1	7.2%	0.8	1.64%	3.3
>5 years	5.5	9.7%	3.4	6.7%	2.1
Total	56.7	100%	49.8	100%	6.9
Average weighted duration	1.19		0.63		

Source: CBA

³ The duration analysis is used for measuring the weighted average term of assets and liabilities according to Macaulay duration concept. To remind, the duration gap analysis measures the sensitivity of banks to market interest rates with the following formula: $\partial(asset) - [\partial(liability) * liability / asset]$. During the analysis, assets and liabilities are discounted by the discount rate of the CBA.

Average weighted duration gap of the sector increased compared to the end of 2024. In H1 2025, the decrease in the weighted average duration of assets compared to the end of 2024 was mainly due to an increase in the share of short-term (<1 year) assets, driven by securities and loans to financial institutions. The decline in the weighted average duration of liabilities, on the other hand, resulted from an increase in demand deposits of LEs, and, to some extent, a decrease in customer deposits with maturities of 1–5 years. As a result, the weighted average duration gap decreased from 0.71 to 0.64 compared to the end of the previous year.

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



Source: CBA

Box 2. The Central Bank is introducing a new financial hedging instrument

The Central Bank is introducing a new non-deliverable forward instrument aimed at facilitating access to favorable financing resources for real sector participants simultaneously enabling banks to manage market risks. The program is planned to be active for a period of three years starting from 1 August 2025. Under this framework, when banks and NBCIs convert funds borrowed in U.S. dollars from non-resident financial institutions into manats, the CBA provides an opportunity to hedge the exchange rate risks arising from currency fluctuations, thus allowing credit institutions to mitigate potential market-related losses. The main condition set for credit institutions is that the exchanged funds should be used to finance non-state-owned family and household farms, self-employed individuals, and micro, small, and medium-sized enterprises (MSMEs) through credit or leasing instruments. In this way, while institutions hedge their exchange rate risks, additional financial resources are also channeled to the real sector.

The hedging of funds attracted by institutions in U.S. dollars should be carried out in the domestic market rather than directly with the CBA. This approach also enhances other market participants' ability to access U.S. dollar liquidity. The maximum maturity of the hedging instrument is set at one year. It should be noted that for banks, the amount eligible for hedging is limited to the lesser of the funds attracted from non-resident institutions and either 5% of the bank's total capital or 20% of its SME portfolio (whichever is higher), For NBCIs, the hedging limit is capped at the size of their total capital. At the end of the term, the forward exchange rate is determined according to the following formula:

$$\text{Forward rate} = \text{Spot rate} \times \frac{(1 + r_{USD})}{(1 + r_{AZN})}$$

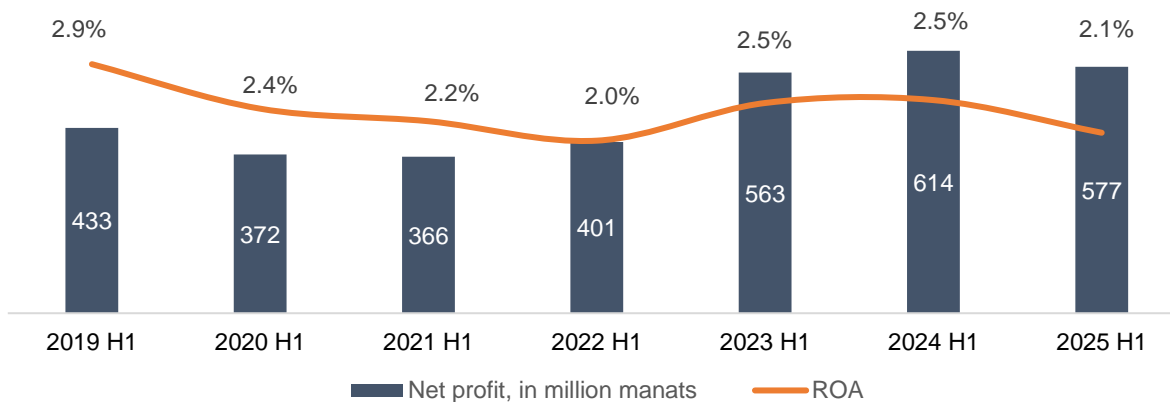
r_{USD} – interest rate on U.S. Treasury bills quoted on the Bloomberg trading platform
 r_{AZN} – the interest rate reflected in the government bond yield curve published on the Central Bank's website

This program will also cover funds attracted within three months starting from 1 May 2025, provided that these funds have already been used to finance the previously mentioned target groups. In such cases, if banks and NBCIs have existing hedging instruments, they may terminate those agreements and enter into a non-deliverable forward agreement with the CBA. In this scenario, 50% of the savings obtained through hedging should be directed toward easing the credit terms offered to customers.

Banking system profitability

While the banking system's profitability decreased slightly due to rising interest and non-interest expenses, the sector's overall profitability remains high. In H1 2025, net profit of the banking system yoy decreased by 6% (AZN-37M) to AZN577M. Amid the drop in sector's profitability, ROA decreased by 0.4 pp to 2.1%.

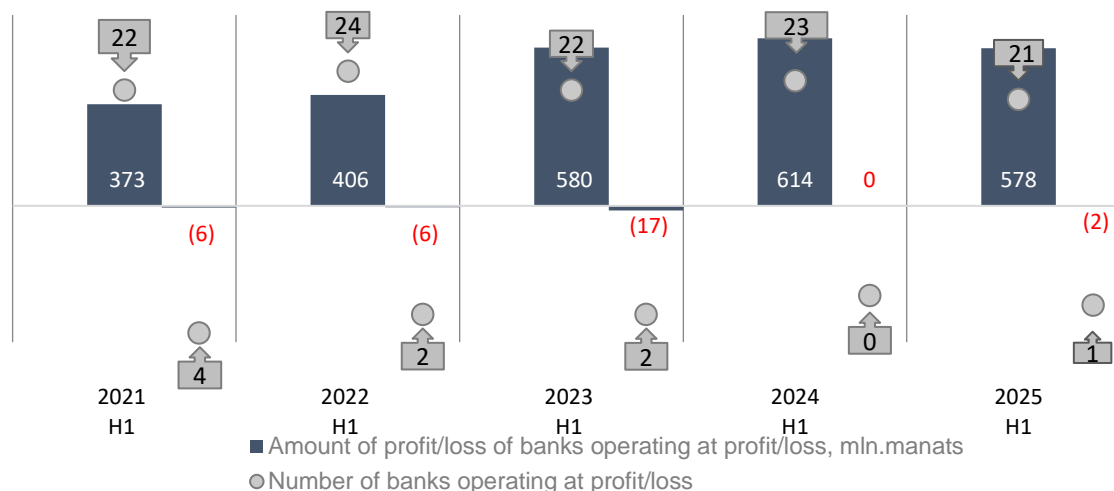
Chart 33. Net profit and ROA of the banking sector



Source: CBA

In H1 2025 all banks operated profitably except for one. Profit of 21 banks that operated profitably amounted to AZN580M, while loss of 1 unprofitable bank was AZN2M.

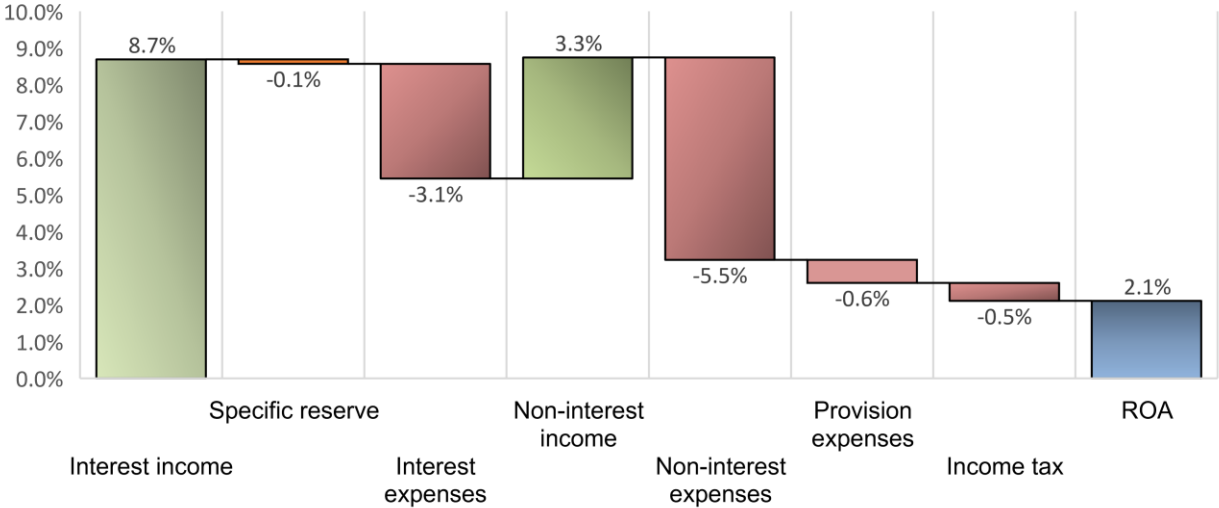
Chart 34. Indicators of banks operating at profit/loss



Source: CBA

The sector's ROA stood at 2.1%. In H1 2025 the sector's ROA yoy decreased by 0.4pp to 2.1% amid the rise in the ratio of sector's interest and non-interest expenses to average assets.

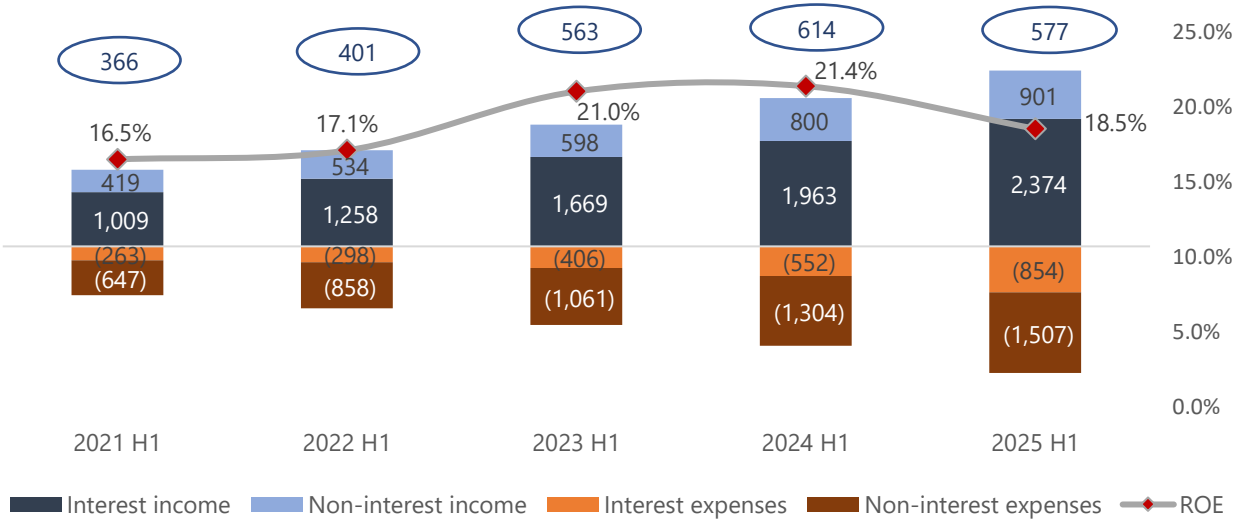
Chart 35. Decomposition of ROA across the banking system



Source: CBA

The sector’s profitability decreased due to rising interest and non-interest expenses. Whereas interest and non-interest income yoy increased by 21% (AZN411M) and 13% (AZN101M), respectively, interest and non-interest expenses increased by 55% (AZN302M) and 16% (AZN203M), respectively. Recently, due to a slight increase in deposit rates by banks, as well as rising operating costs, the banking sector’s interest and non-interest expenses have increased.

Chart36. ROE of the banking sector and its key components, in million manats



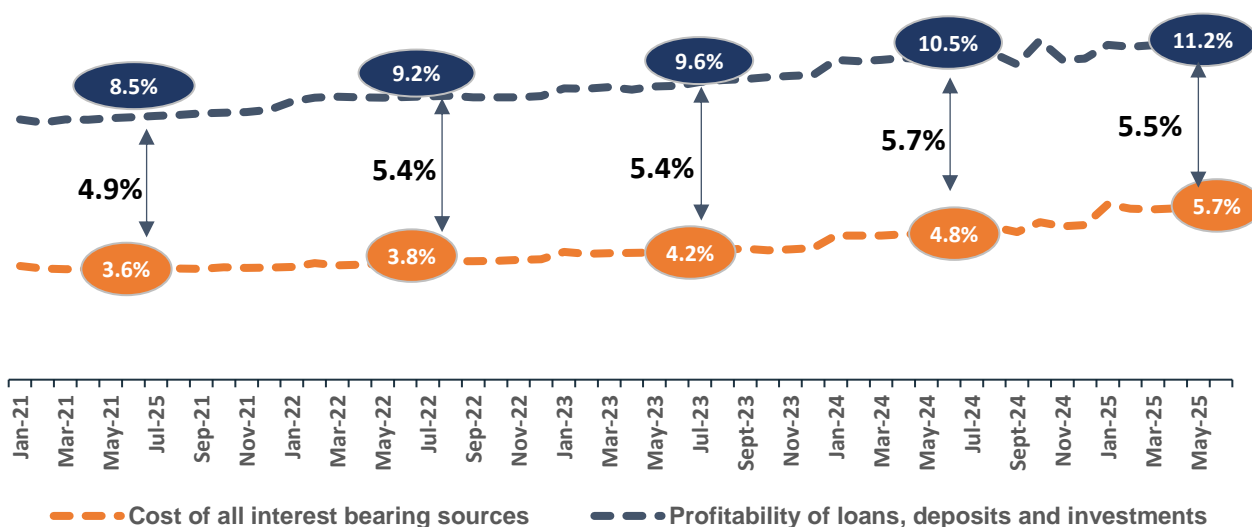
Source: CBA

Funding expenses are rising. Interest expenses of the banking sector yoy increased by 55 % to AZN854M. Interest expenses on deposits account for about 70% of the growth. 43% of the increase in interest expenses was due to the cost of funding term deposits,

while 22% was attributed to the cost of funding demand deposits of legal entities. Recently, the expansion of the term deposit base, considered a more stable source of funding for banks, as well as the offering of higher interest rates by banks to LEs that previously maintained deposits with little or no interest, has led to an increase in interest expenses related to deposits of legal entities.

Net interest rate spread slightly shrank amid rising interest expenses. Cost of all interest-bearing funding sources yoy increased by 0.9 pp to 5.7%, and ROA increased by 0.7 pp to 11.2%. Consequently, interest spread shrank by 0.2 pp year-over-year.

Chart 37. Banking sector funding cost and profitability, %

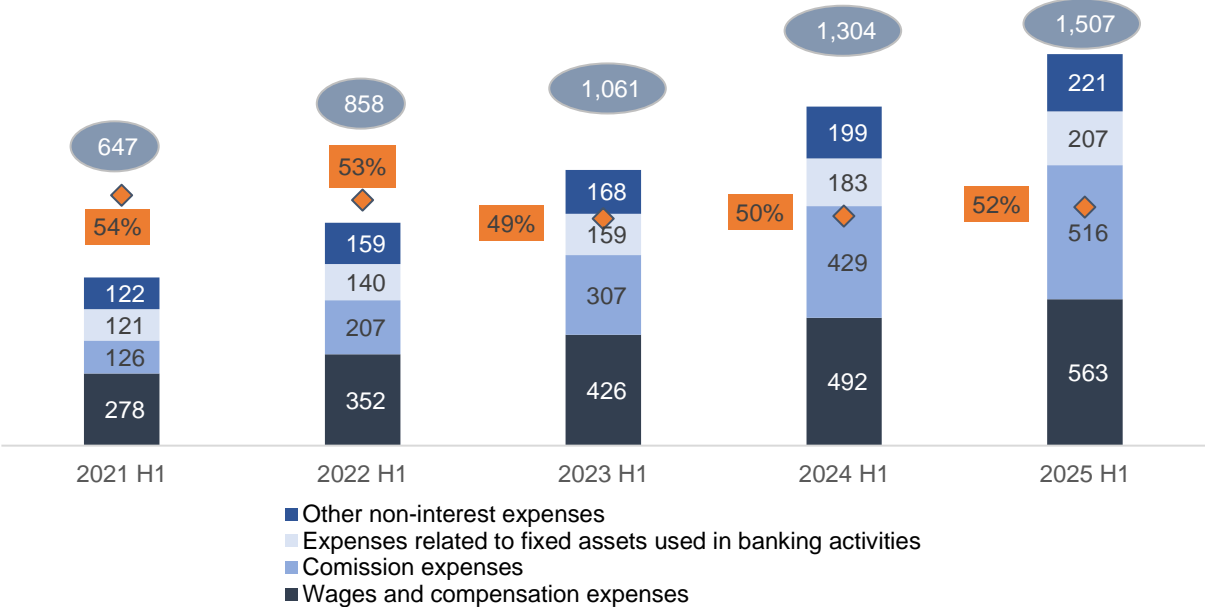


Source: CBA

The efficiency indicator of the banking sector declined against the backdrop of an increase in non-interest expenses. Banks’ non-interest expenses yoy increased by 16% (AZN203M) to AZN1.5B, driven by salary and other compensation expenses (AZN71M) and fee/commission expenses (AZN87M). Due to the growth rate of non-interest expenses outpacing the growth rate of net interest and non-interest income, the sector’s efficiency indicator⁴ declined by 2 pp to 52%.

⁴ Efficiency indicator = (non-interest expenses – commission expenses) / (Net interest income + non-interest income – Commission income)

Chart 38. Efficiency indicators of the banking sector, in million manats

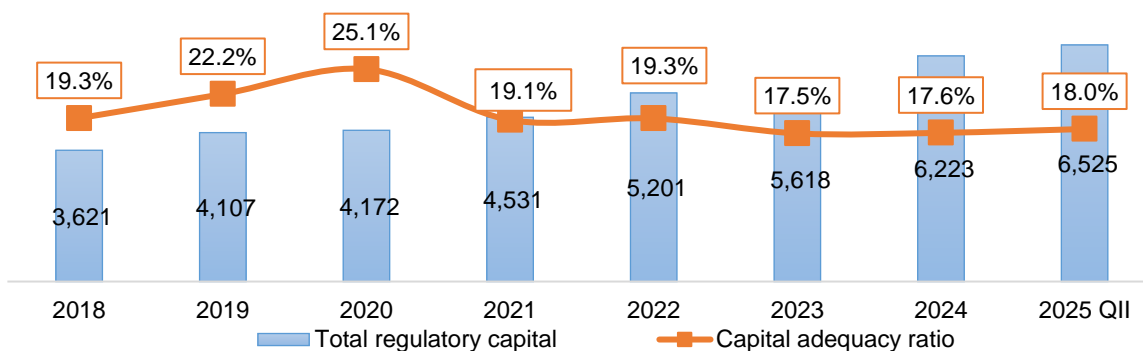


Source: CBA

Capital position of the banking system

The sector's capital position is capable to absorb potential losses surpassing prudential requirements. In H1 2025, total regulatory capital of the banking sector increased by 5% (AZN303M) to AZN6.5B. The CAR increased by 0.4 pp to 18%, up to 1.8 times higher than the minimum prudential requirement. The increase in total capital exceeding the growth of ROA has led to a rise in the CAR.

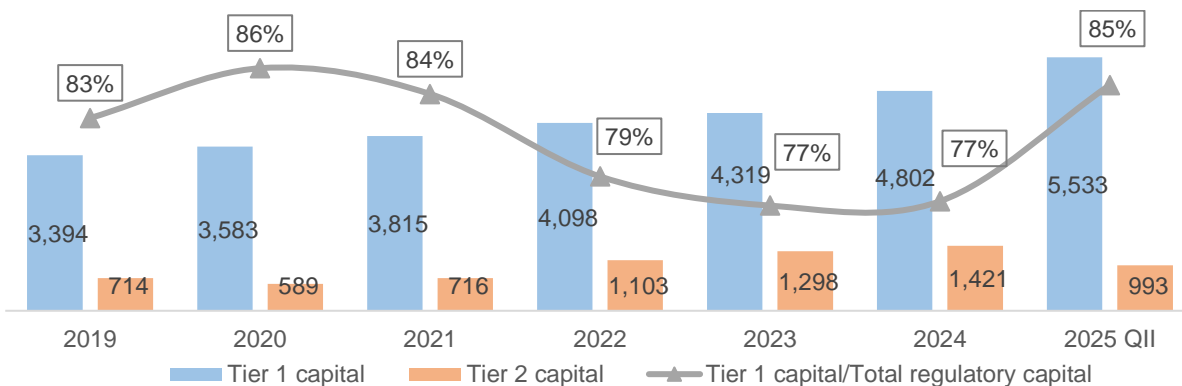
Chart 39. Dynamics of capital adequacy, in million manats



Source: CBA

Total regulatory capital increase stemmed from Tier I capital. Tier I capital increased by 15% (AZN730M) to AZN5.5B, while Tier II capital decreased by 30% (AZN428M) to AZN1B. The decrease in Tier II capital was due to the transfer of accumulated profits from the previous year into Tier I capital. In H1 2025, capital injections of over AZN49M were made in the form of increases to banks' shareholder capital. Additionally, the sector paid out AZN268M in dividends.

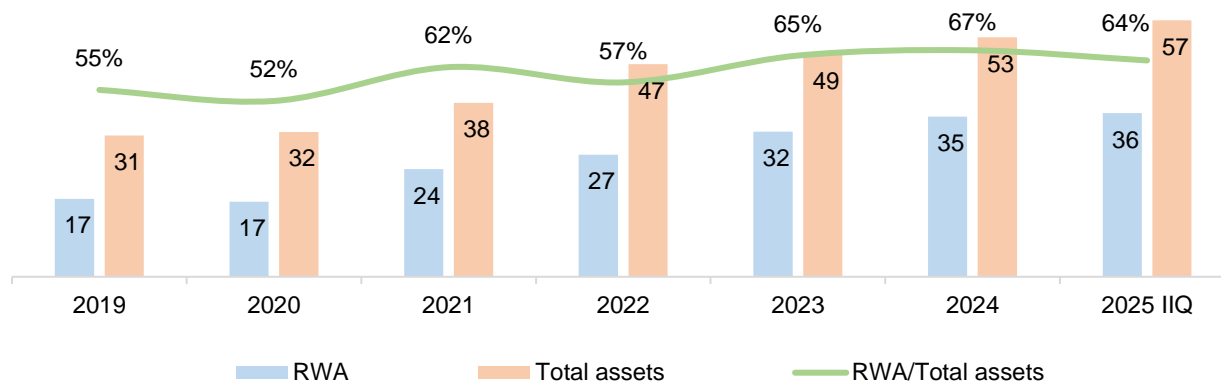
Chart 40. Dynamics of capital adequacy, in million manats



Source: CBA

On the back of the directing of the attracted deposits towards lower risky and highly liquid assets, the share of risk-weighted assets in total assets has decreased. On the backdrop of 7% (AZN3.7B) rise in total assets, RWAs increased by 2% (AZN0.8B). Consequently, the RWAs to total assets ratio decreased by 3 pp to 64%. 93% of RWAs stem from credit, 6% from operational and 1% from market risks.

Chart 41. Dynamics of assets and RWAs, in billion manats



Source: CBA

The sector's current CAR indicates that banks have substantial potential to expand the volume of their assets, including a significant increase in lending activities. As of the end-June 2025, potential growth of the sector's RWAs is estimated at AZN19.5B.

New regulatory initiatives are planned to be approved by the end of 2025 for the implementation of a capital structure and a new capital buffer in line with Basel III standards. A new regulatory package on capital requirements in the banking sector has been developed. The new approach has been discussed multiple times with the sector, and banks' feedbacks and suggestions have been incorporated into the final draft. The potential impact of the regulation on banks' capital positions has been fully simulated. The package, which is currently undergoing legal review, will soon be submitted to the CBA's Management Board. To ensure the smooth and seamless integration of the new approach into the sector, banks will be granted a transition period of up to one year.

The criteria for assessing banks as systemically important institutions have been updated. On 19 March 2025, new criteria for identifying systemically important banks were approved. The weighting of indicators used to determine banks' systemic importance has been revised, several new indicators have been added, and the calculation methodology has been improved. The newly introduced indicators and their specific weights allow for a more accurate assessment of banks' impact on the country's

financial system and economy in terms of systemic importance. The new approach also enables the application of not a uniform, but an individual systemic importance capital buffer for systemically important banks in the future.

A new regulation on banks' operational risks has been approved. With the increasing level of digitalization, the likelihood of operational risks occurring in the sector has risen, necessitating the strengthening of overall operational risk management. In this regard, the CBA has expanded the regulatory framework and approved the regulation on banks' operational risks in January of this year. The regulation sets out requirements for the operational risk management system in banks, the identification, assessment, and monitoring of operational risks, as well as the more accurate calculation of losses incurred as a result of operational risk events. It also defines reporting obligations to both internal management and the supervisory authority, along with the formation of a database on operational risk events.

Table 2. Main banking system indicators, in million manats

	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2
Balance sheet items							
Total assets	49,178	48,910	50,328	50,841	53,001	54,856	56,734
Liquid assets	13,154	12,673	12,509	11,922	14,243	13,818	15,595
Loan portfolio	23,183	24,103	25,430	26,706	27,478	27,877	28,472
Business loans	12,617	13,202	13,875	14,408	14,787	14,935	15,144
Consumer loans	6,937	7,142	7,634	8,153	8,445	8,604	8,898
Mortgage loans	3,629	3,759	3,921	4,145	4,246	4,338	4,430
Total liabilities	43,115	42,612	44,086	44,550	46,383	47,961	49,788
Current liabilities	23,687	24,769	24,806	24,234	24,866	25,966	26,286
Deposits of individuals	12,582	12,869	13,880	13,849	14,299	14,744	15,061
Term deposits	6,882	7,227	7,751	8,243	8,601	9,009	9,408
Demand deposits	5,700	5,642	6,130	5,606	5,698	5,735	5,653
Deposits of legal entities	21,968	21,944	21,305	22,210	23,397	22,549	22,293
Term deposits	4,500	4,860	5,052	5,401	5,817	5,750	5,244
Demand deposits	17,468	17,085	16,253	16,809	17,580	16,799	17,048
Equity	6,063	6,297	6,242	6,291	6,618	6,895	6,946
Capital position							
Tier I capital	4,319	5,342	4,950	4,755	4,802	5,796	5,533
Total regulatory capital	5,618	5,817	5,792	5,927	6,223	6,501	6,525
RWAs	32,085	31,954	33,126	34,532	35,401	37,291	36,199
Tier I capital adequacy	13.50%	16.72%	14.94%	13.77%	13.57%	15.54%	15.28%
Total regulatory capital adequacy	17.50%	18.20%	17.49%	17.16%	17.58%	17.43%	18.03%

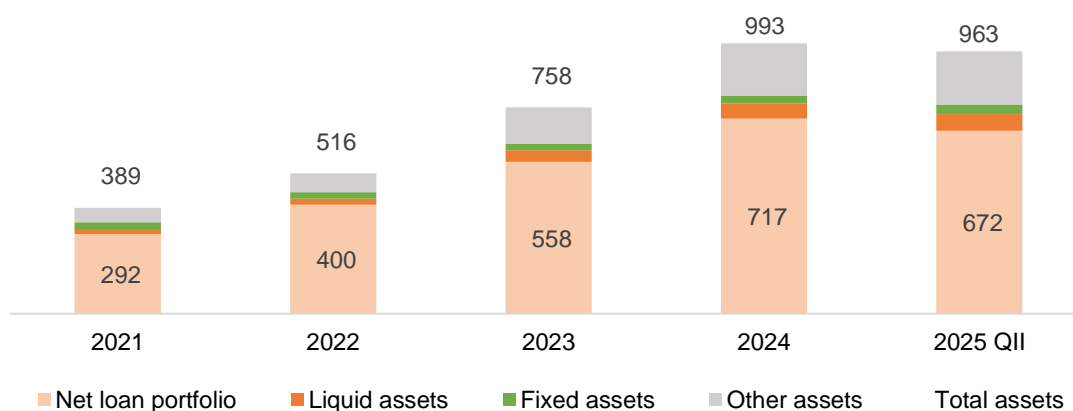
	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2
<u>Profitability</u>							
Net profit	1,076	311	614	830	1,044	253	577
ROA	2.40%	2.54%	2.49%	2.24%	2.10%	1.89%	2.11%
ROE	20.30%	21.86%	21.37%	19.39%	18.12%	16.48%	18.54%
<u>Liquidity risk profile</u>							
Liquid assets	13,154	12,673	12,509	11,922	14,243	13,818	15,595
Liquid assets in total assets	26.7%	25.9%	24.8%	23.4%	26.8%	25.2%	27.5%
Instant liquidity ratio	52.2%	49.9%	49.6%	46.2%	51.9%	53.2%	58.9%
Liquidity coverage ratio, total	134.5%	134.5%	140.9%	133.8%	150.0%	158.2%	179.5%
National currency	106.2%	99.6%	103.6%	95.5%	126.3%	111.8%	124.0%
Foreign currency	118.0%	168.5%	201.7%	191.7%	177.9%	200.9%	259.0%
<u>Credit risk profile</u>							
Non-performing loans	614	660	673	707	655	710	787
Business loans	378	417	406	428	375	391	431
Consumer loans	197	204	226	244	246	284	321
Mortgage loans	39	39	40	36	34	35	35
NPL ratio	2.60%	2.74%	2.65%	2.65%	2.38%	2.55%	2.76%
Business loans	3.00%	3.16%	2.93%	2.97%	2.53%	2.62%	2.84%
Consumer loans	2.80%	2.85%	2.97%	2.99%	2.92%	3.30%	3.61%
Mortgage loans	1.10%	1.00%	1.00%	0.86%	0.80%	0.81%	0.79%
<u>Market risk profile</u>							
Asset dollarization	33.70%	33.30%	32.40%	32.00%	30.60%	32.00%	31.40%
Liabilities dollarization	37.30%	38.00%	36.00%	35.60%	35.80%	37.50%	35.90%
* Prudential reporting methodology based.							

Non-bank credit institutions

The contribution of non-bank credit institutions (NBCIs) to financial intermediation remains limited. As of the first half of 2025, active NBCIs numbered 57, credit unions (CU) numbered 36, total non-bank credit institutions numbered 93. Total market share of NBCIs in the financial system in terms of their assets stood at 1.6%⁵. A license of one NBCI was revoked, and one NBCI was licensed. 15 of the currently active NBCIs operate with foreign capital, of which 12 have foreign capital shares exceeding 50%. The number of persons employed with NBCIs increased by 147 persons to 3 693 persons and the number of branches increased by 5 to 309.

The asset size of the NBCI sector declined. Total assets of NBCIs operating throughout the country decreased by 3% (AZN30M) to AZN963M, driven by the net loan portfolio. Despite the current growth dynamics of NBCIs in lending activity, the net loan portfolio decreased by 6.3% (AZN45M). The *Regulation on prudent management of non-bank credit institutions* of 15 November 2024, introduced, for the first time, a requirement to establish specific reserves by NBCIs, which, in turn, has contributed to a reduction in the net loan portfolio.

Chart 42. Dynamics of NBCIs' assets, in million manats

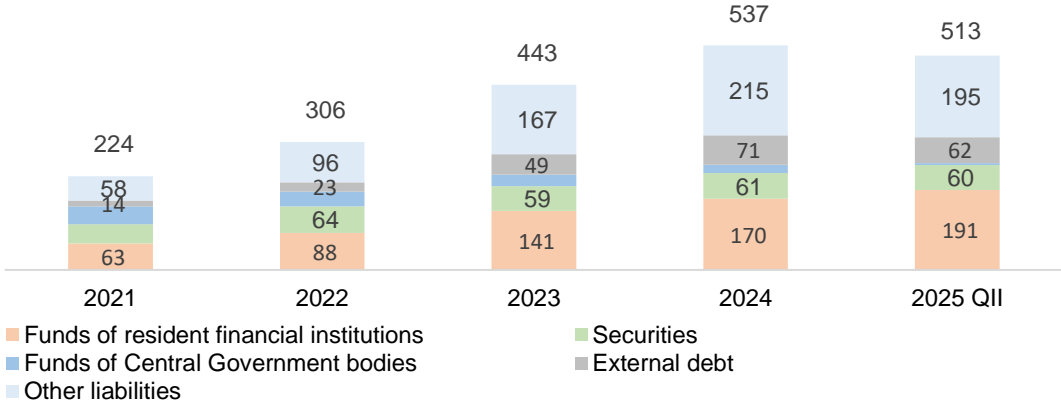


Source: CBA

NBCIs' total liabilities decreased by 4.5% (AZN24.4M) to AZN513M, driven by amounts due to financial institutions and other liabilities (mainly tax payables accrued).

⁵ The analysis of NBCIs was conducted without taking into account the NBCI of 'Aqrarkredit' OJSC.

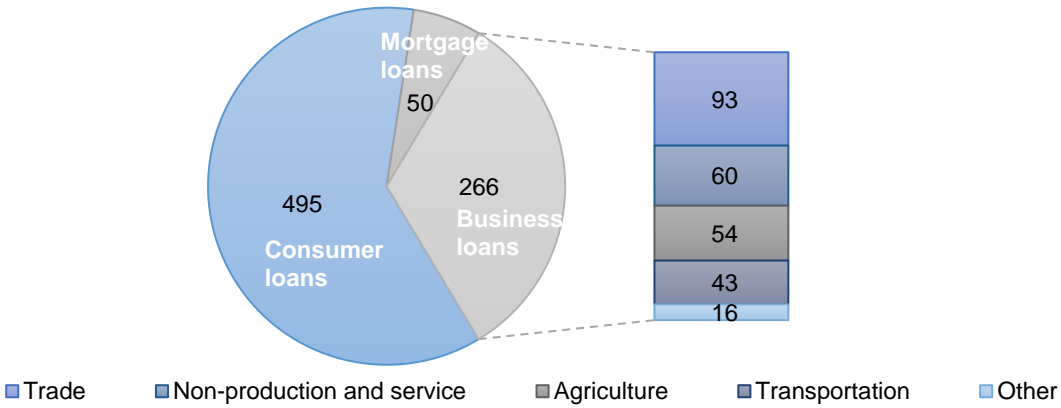
Charter 43. Dynamics of NBCIs' liabilities, in million manats



Source: CBA

Despite business loans driving growth in the first half of 2025, consumer loans remained dominant in NBCIs' portfolios. The total loan portfolio increased by 0.4% (AZN3M) to AZN811M. Six-month growth on mortgage loans stood at 16% (AZN7M), and on the business portfolio at 5% (AZN13M). Consumer loans decreased by 3% (AZN17M). Breakdown of the NBCIs' loan portfolio was as follows: 61% (AZN495M) consumer loans, 33% (AZN266M) business loans, 6% (AZN50M) mortgage loans. Business loans were issued to – trade 35% (AZN93M), other non-production and services 22% (AZN60M), agriculture 20% (54 mln. manat), transport 16% (AZN43M) and other areas 6% (AZN16M).

Chart 44. Loan portfolio structure of NBCIs, in million manats

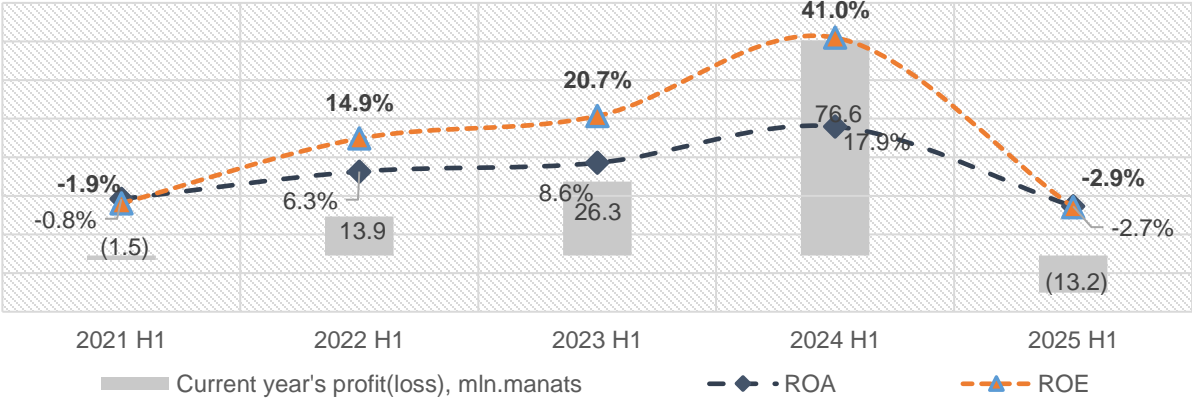


Source: Central Bank

The loan portfolio quality deteriorated amid the rise in the NPL portfolio. In H1 2025, the sector's NPL portfolio increased by 14% to AZN128.8M compared to the end of the previous year. The NPL ratio increased by 1.9 pp to 15.9%, driven by consumer loans. The NPL portfolio on consumer loans increased by 5 pp to 20.8% and decreased by 2.8 pp to 9.7% on business loans. Analyses suggest that the absolute majority of the increase in the NPL ratio for consumer loans was due to daily (short-term) loans. Updated prudential requirements set new definitions and maximum limits daily loans in terms of concept, amount, maturity, and daily interest rate, and stricter prudential norms for such loans. The prudential norms stipulate that daily loans may only be issued in the national currency, with a maximum daily interest rate of 0.3%, a maturity of up to 45 days, and a maximum single loan amount of AZN500 per borrower. The new regulatory requirements are aimed not only at promoting responsible lending practices among NBCIs but also at ensuring that borrowing aligns with consumers' creditability. This approach seeks to minimize social risks by preventing an excessive increase in the population's financial burden. The CBA will continue its efforts to improve regulations in this area, taking into account current developments in the NBCI sector as well as the best practices in the field.

Profitability of the NBCI sector decreased, due to specific provisioning created from expenses. In H1 2025, NBCIs losses amounted to AZN13.2M. Amid sectoral losses, ROA and ROE were recorded at -2.7% and -2.9%, respectively. Following changes to prudential regulation, special provisioning contributed to a decline in net interest income and an increase in credit risk provisions, thus becoming one of the main factors behind the sector's losses. For the first time, provisioning by NBCIs had a significant impact on current year financial results. In subsequent years, as the effect of provisioning on NBCIs' financial performance subsides, profitability indicators are expected to show a positive trend.

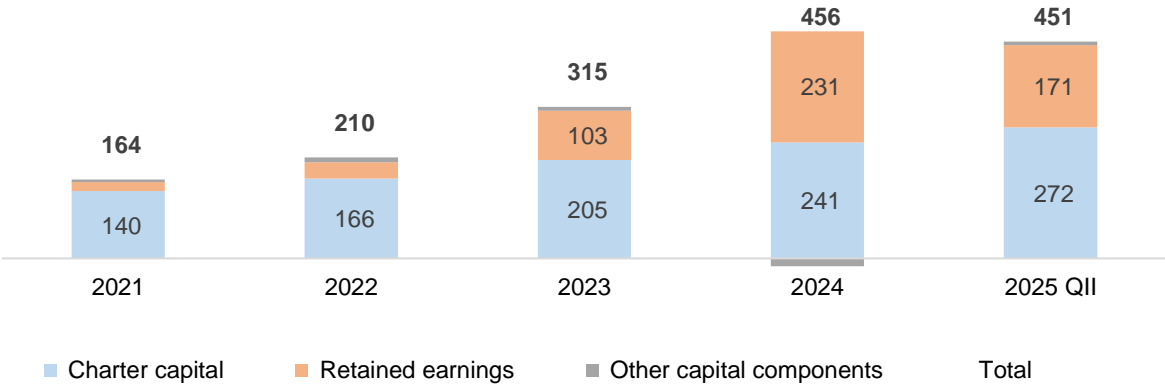
Chart 45. NBCIs' profitability indicators



Source: CBA

The sector’s capital position slightly declined. The capital of NBCIs decreased by 1.1% (AZN 5.6M) to AZN451M. Amid the decline in profitability, additional capital injections and increases in other capital components helped prevent a sharp reduction in the sector’s overall capital. Under the new prudential regulations, the minimum charter capital requirement for newly established NBCIs has been increased, and minimum capital requirements have been introduced for both existing and new NBCIs. The minimum requirement was set at AZN1M for NBCIs established as commercial legal entities and AZN0.1M for those established as non-commercial legal entities (vs. the previous requirements of AZN 300,000 and AZN 30,000, respectively). This, in turn, led to additional capital injections. Consequently, the charter capital of the sector increased by AZN31M in the first half of 2025.

Chart 46. Dynamics of capital components across the NBCI sector, in million manats



Source: CBA

Box 3. Strategic Framework for the Microfinance Model

Microloans provide financial support to small entrepreneurs and low-income individuals, boosting economic activity and contributing to poverty reduction. By promoting financial inclusion, they foster the sustainable development of the economy.

Microloans are provided by banks, NBCIs, credit unions, and other financial institutions. Banks remain the primary source of microloans. As of the end of H1 2025, the outstanding microloan portfolio stood at AZN 3.2B (21% business loans). Over the past three years, the size of microloans has increased by 79%. Furthermore, the majority of business loans issued by NBCIs have been microloans.

Considering these developments, and in line with the *2022–2026 Socio-Economic Development Strategy of the Republic of Azerbaijan*, which emphasizes improving access to finance, a *Strategic Framework for the Microfinance Model* has been developed.

The strategic framework sets out key initiatives aimed at strengthening the role of the microfinance sector in financing self-employed individuals and MSMEs, and in supporting overall economic growth. The microfinance model seeks to unlock the sector's potential and ensure access to affordable financial services for the self-employed and MSMEs and aims to enhance financial inclusion across the country, particularly in rural and regional areas, by expanding access to comprehensive, high-quality financial services that promote regional economic development and employment.

The framework highlights priorities for strengthening the legal and regulatory basis of microfinance, introducing the concept of 'microcredit' into national legislation, supporting the institutional development and funding diversification of NBCIs, and improving risk-sharing mechanisms and identifies measures to enhance the system for identifying self-employed individuals and family farming households.

To achieve its strategic objectives, the framework defines five key priorities:

1. Strengthen the legal and regulatory framework for microfinance.
2. Diversifying the funding sources of NBCIs.
3. Enhance risk-sharing mechanisms.
4. Promote the institutional development of NBCIs.
5. Improve the identification system for self-employed individuals and family farms.

Each of these priorities is supported by strategic initiatives and policy measures aimed at developing a modern, inclusive, and diversified microfinance sector that effectively serves self-employed individuals and MSMEs.

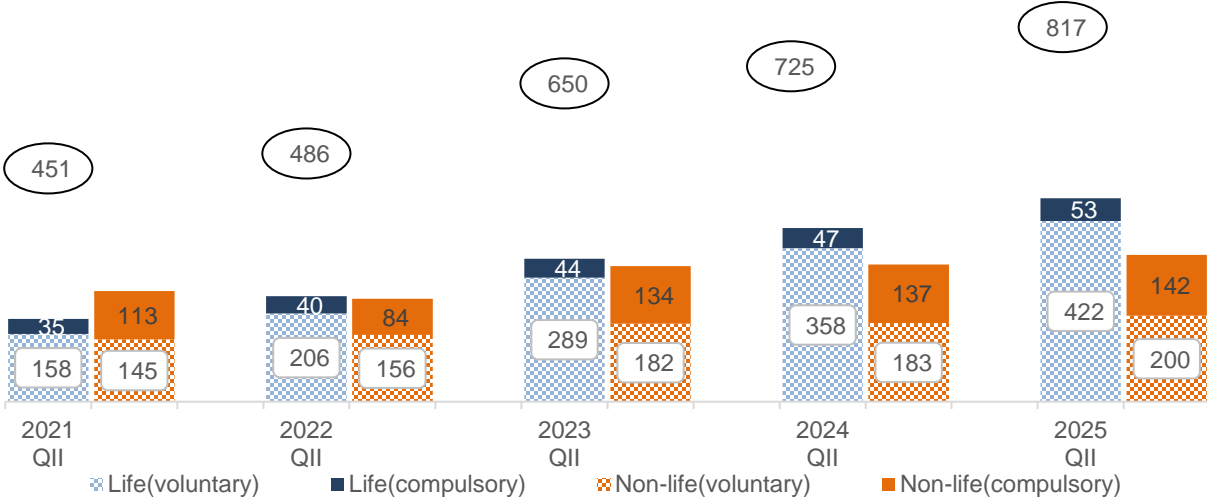
The model will strengthen the ecosystem that supports sectoral growth, enhance capacity of market participants, expand, and improve the range and quality of financial services, and contribute to higher living standards and broader financial inclusion.

Insurance sector

As of the first half of 2025, the Azerbaijani insurance market hosted 16 insurance and one reinsurance companies. Of insurance companies 5 were life and 11 nonlife companies. 22 insurance brokers and 488 insurance agents also contributed to activities of the insurance sector.

The insurance sector is realizing its growth potential. Insurance premiums collected in H1 2025 yoy increased by 12.7% (AZN92M) to AZN817M, derived from life (58%) and non-life insurance classes (42%). Life insurance premiums increased by 17.3% to AZN475M, and non-life insurance premiums increased by 6.9% (AZN22M) to AZN342M, both stemming from voluntary insurance.

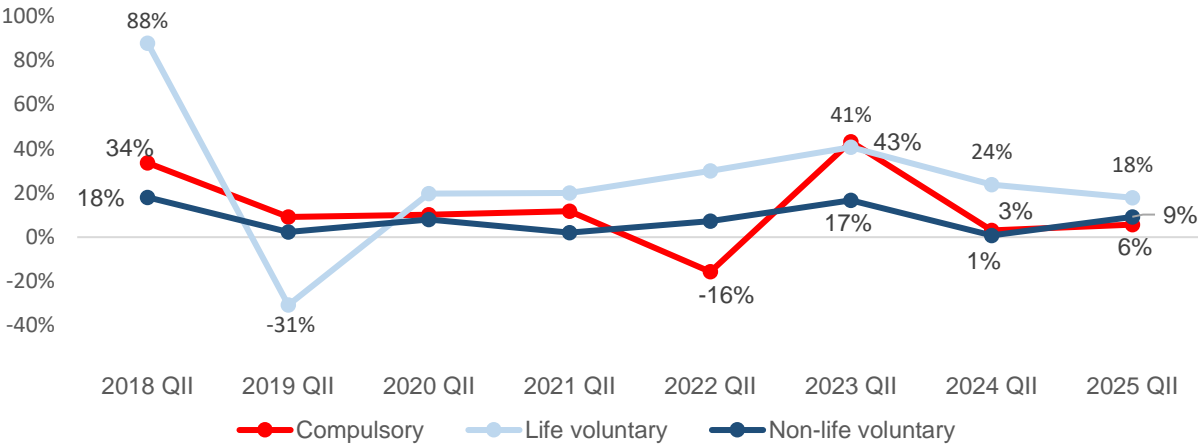
Chart 47. Dynamics of insurance premiums, in million manats



Source: CBA

Both compulsory and voluntary insurance is growing. Both compulsory and voluntary insurance premiums increased year-over-year. Compulsory insurance classes increased by 6% (AZN11M) to AZN195M, (average annual growth dynamics 11%), voluntary life insurance classes increased by 18% (AZN64 M) to AZN422M, (average annual growth dynamics 22%), voluntary non-life insurance classes increased by 9% (AZN17M) to AZN200M (average annual growth dynamics 8%).

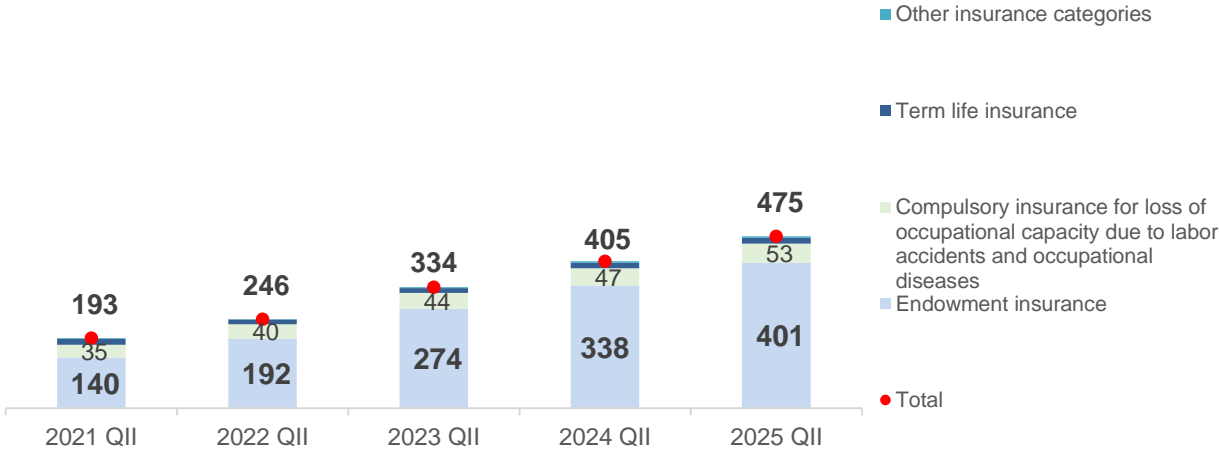
Chart 48 Dynamics of growth of insurance premiums, in %



Source: CBA

The main driver of life insurance growth was endowment life insurance. Insurance premiums collected on endowment life insurance yoy increased by 19% (AZN63M) to AZN401M. Although the growth rate of insurance premiums slowed down due to the expiration of the grace period in life insurance on 31 December 2024, and the resulting lack of new insurance agreements among insured employees in the public sector, the increase in the intensity of recently paid premiums supported the growth of insurance premiums in this class in H1 2025. Insurance premiums collected on the endowment life insurance accounted for 85% of total insurance premiums. Over recent five years the share of that insurance class in life insurance premiums shifted to 85% from 73%.

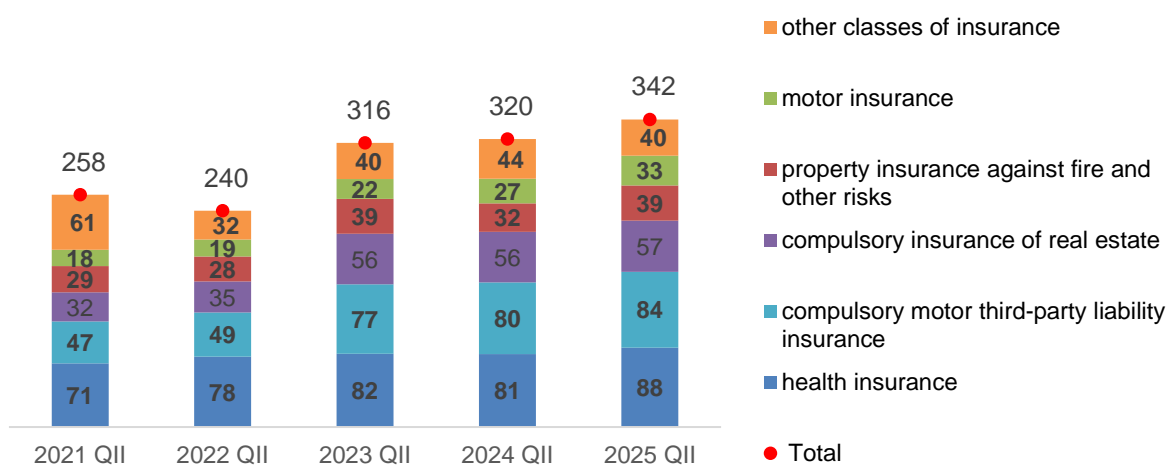
Chart 49. Dynamics of insurance premiums on non-life insurance classes, in million manats



Source: CBA

Health insurance and compulsory motor third-party liability insurance dominate in non-life insurance premium collections. Premiums collected under the health insurance class accounted for 26% of total non-life insurance collections, while premiums from the compulsory motor third-party liability insurance class made up 25%. The main drivers of growth in non-life insurance collections were health insurance, property insurance against fire and other risks, and motor insurance. Premiums collected under the health insurance class yoy increased by 9% (AZN7M) to AZN88M; premiums under the property insurance against fire and other risks class grew by 23% (AZN7M) to AZN39M; and premiums under the motor insurance class rose by 22% (AZN6M) to AZN33M.

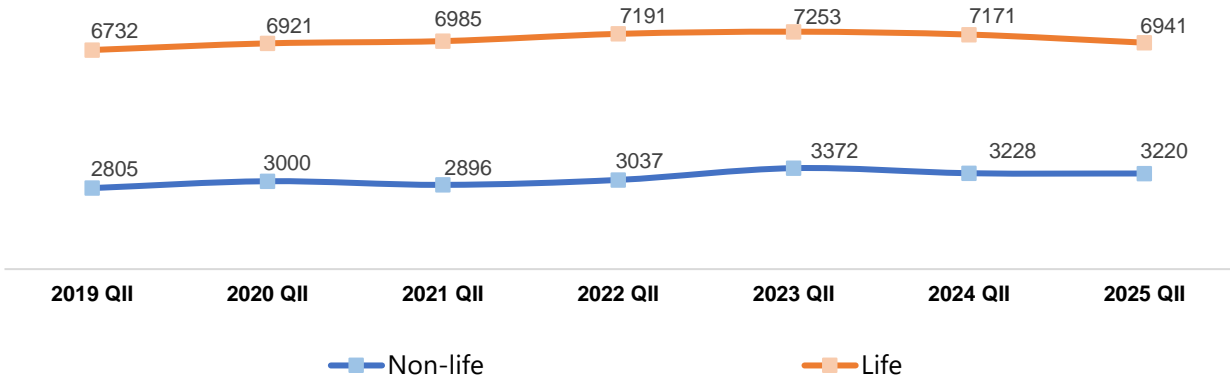
Chart 50. Dynamics of insurance premiums on non-life insurance classes, in million manats



Source: CBA

The concentration of insurance premiums has undergone no significant change. According to the HHI index, there was no notable change in the life and non-life insurance sectors in H1 2025. The index for life insurance decreased by 230 points to 6,941, while the index for non-life insurance declined by 8 points to 3,220.

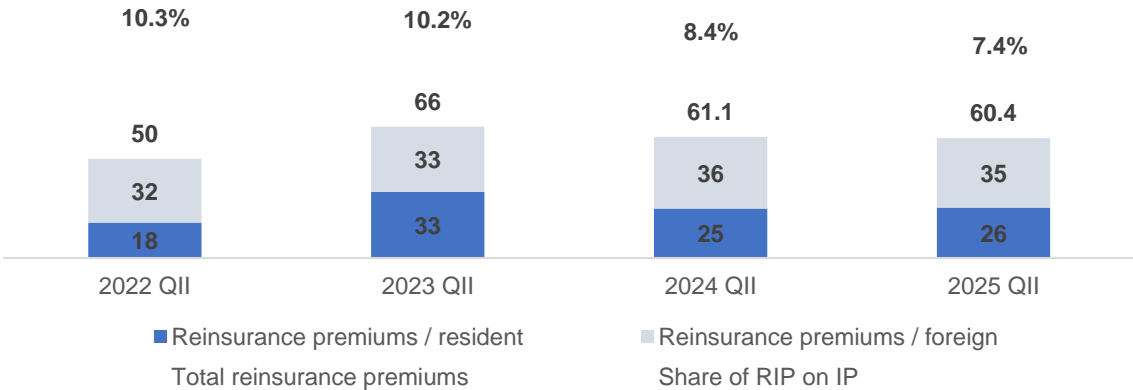
Chart 51. HHI Index for life and non-life insurance companies (premiums)*



Source: CBA

The share of ceded reinsurance premiums in total insurance premiums remains low. In H1 2025, ceded reinsurance premiums yoy decreased by 1% (AZN0.6M) to AZN60M. The share of ceded reinsurance premiums in total insurance premiums was 7.4%. Of the total ceded reinsurance premiums, 6% (AZN3.55M) came from life, while 94% (AZN57M) from non-life insurance classes. Ceded reinsurance premiums in the life insurance segment accounted for 0.7% of total life insurance premiums, whereas in the non-life segment, they made up 16.6% of total non-life insurance premiums.

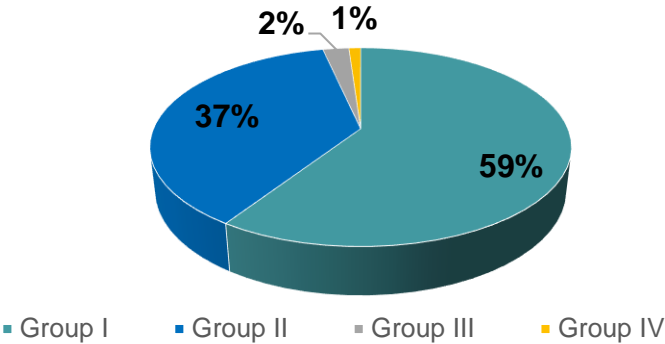
Chart 52. Dynamics of reinsurance premiums calculated to domestic and foreign reinsurers, in million manats



Source: CBA

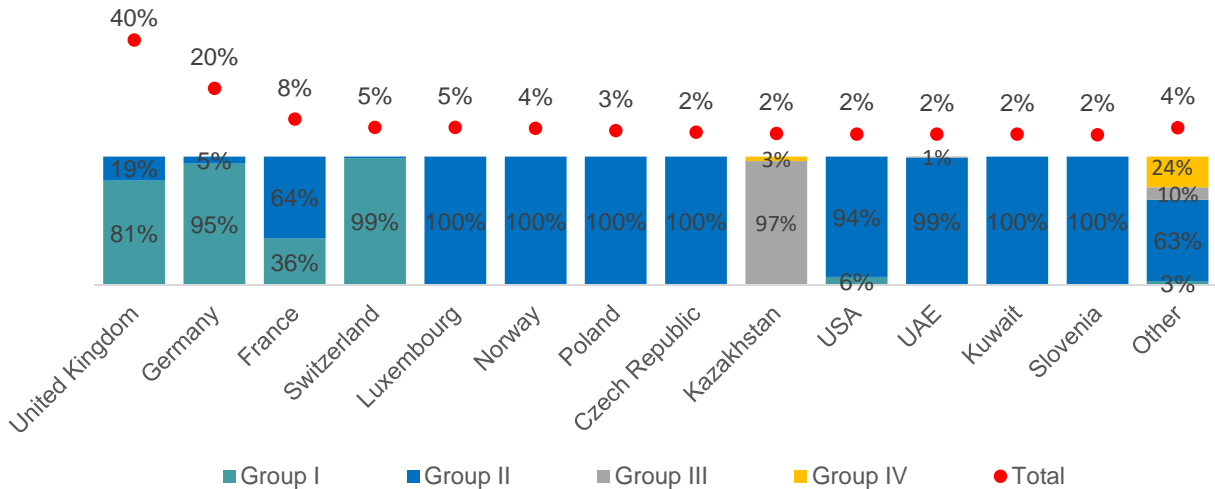
The risks ceded to reinsurance were mainly mitigated through foreign reinsurers with high credit ratings. In H1 2025, reinsurance premiums ceded to foreign reinsurers amounted to AZN35M. The *Regulation on the reinsurance of accepted risks with foreign reinsurers*, adopted in November 2023, contributed to the transfer of reinsurance premiums primarily to reinsurers with high credit ratings. Of total reinsurance premiums ceded to foreign reinsurers, 59% (AZN 20.7M) were transferred to Group I reinsurers (with credit ratings above “AA–”), 37% (AZN13M) to Group II reinsurers (from “A–” to “A+”), and 3% (AZN1.2M) to Group III and IV reinsurers (from “BB–” to “BBB+”). In terms of geographical distribution, 40% (AZN14M) of reinsurance premiums ceded abroad were directed to the UK, 20% (AZN7M) to Germany, and 8% (AZN2.7M) to France.

Chart 53. Reinsurance premiums ceded to foreign reinsurers by credit rating, %



Source: CBA

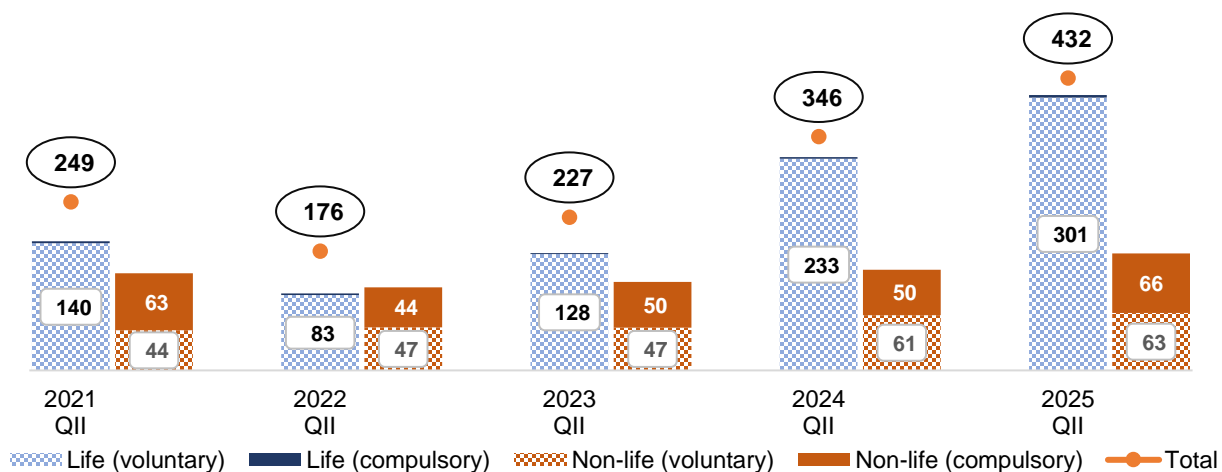
Chart 54. Reinsurance premiums ceded to foreign countries, in %



Source: CBA

In the first half of 2025 the size of insurance payments increased⁶. Insurance payments made as of the first half of 2025 yoy increased by 25% (AZN87M) to AZN432M – life insurance classes 70% and non-life insurance classes 30%. Life insurance payments increased by 29% to AZN303M and non-life insurance premiums increased by 16% to AZN129M. The life insurance growth was driven by voluntary and non-life insurance growth was driven by compulsory insurance classes.

Chart 55. Dynamics of insurance payments, in million manats



Source: CBA

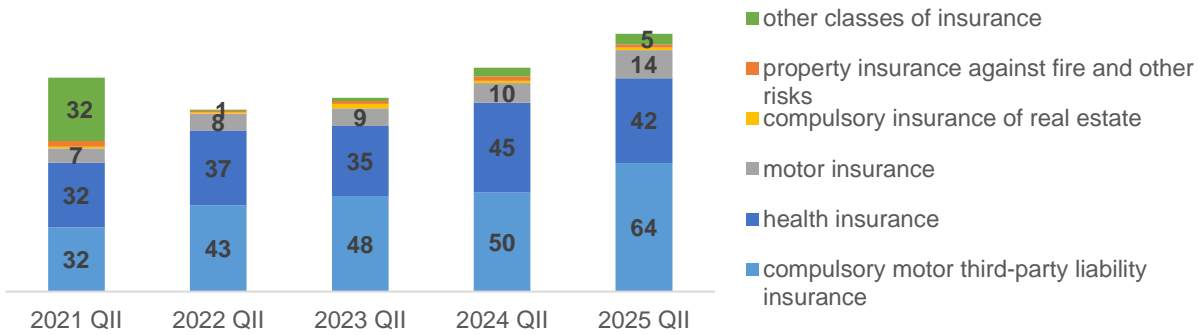
Growth of insurance premiums on life insurance was driven by endowment life insurance. Payments on endowment life insurance yoy increased by 28.4% to AZN298M. Insurance payments made on this insurance class accounted for 98.3% of insurance payments made on life insurance.

The main drivers of insurance payments on non-life insurance were compulsory civil liability insurance for motor vehicle owners and medical insurance. Insurance payments under both the health and the compulsory motor third-party liability insurance classes each account for more than 30% of total non-life insurance payments. The primary driver of growth in non-life insurance claims has been the compulsory motor third-party liability insurance class. Payments on the said insurance class yoy increased by 29.9%

⁶ Adjustments have been made to insurance payment statistics to account for insurers whose licenses have been revoked.

to AZN64M. Over the past five years, the share of the compulsory motor third-party liability insurance class in non-life insurance claims has increased from 30% to 50%.

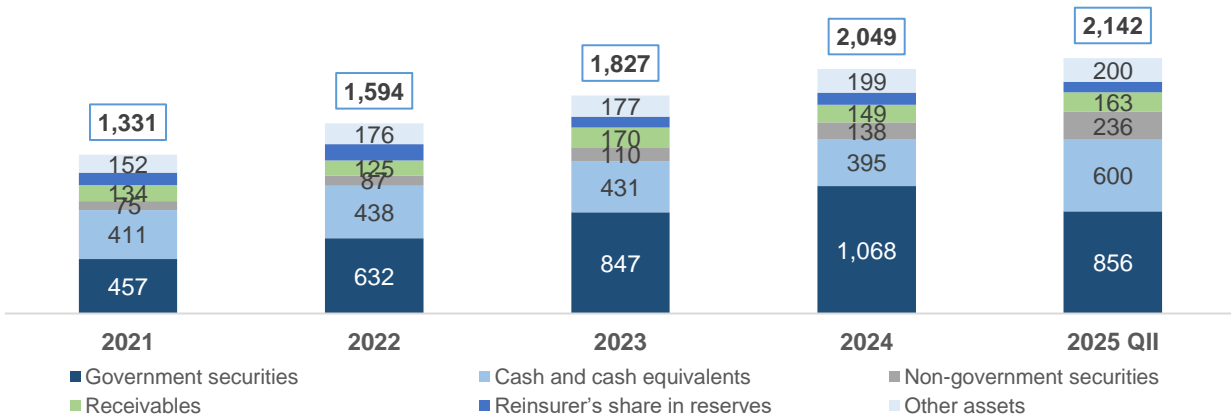
Chart 56. Dynamics of insurance payments on non-life insurance classes, in million manats



Source: CBA

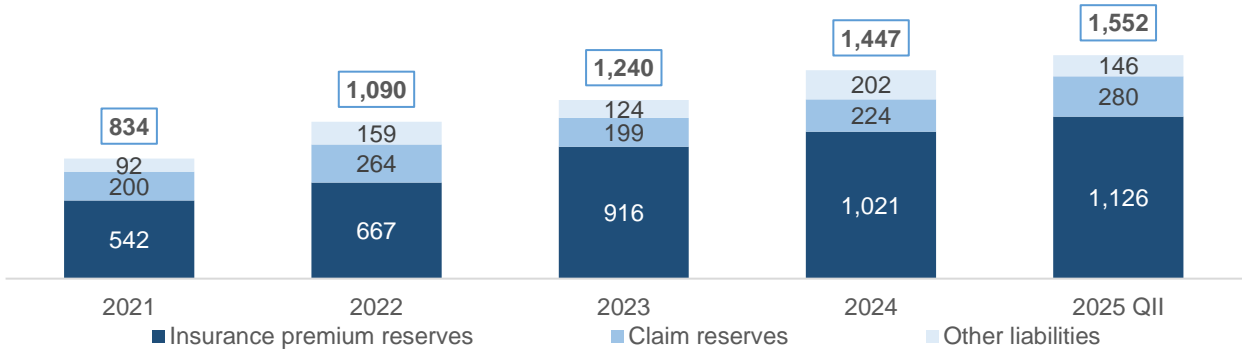
Amid market expansion, the insurance sector’s assets have posted positive growth. In H1 2025, insurance sector’s assets increased by 4.5% (AZN93M) to AZN2.14B – government securities 40% (AZN856M), bank deposits 28% (AZN600M), non-government securities 11% (AZN236M) and receivables 8% (AZN163M). Liabilities of the sector increased by 7.3% (AZN105M) to AZN1.55B – insurance premium reserves 73%, claim reserves 18% and other liabilities 9%.

Chart 57. Dynamics of insurance sector assets, in million manats



Source: CBA

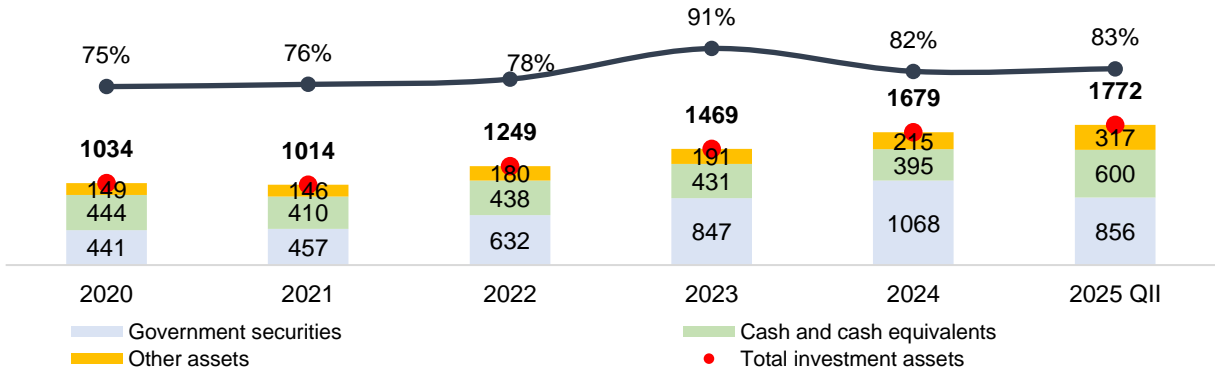
Chart 58. Dynamics of insurance sector liabilities, in million manats



Source: CBA

Although insurance companies have limited investment options, they are realizing their potential as institutional investors. Insurance company investments yoy increased by 5.6% (AZN94M) to AZN1772M. The absence of new government securities issuances by the Ministry of Finance influenced insurers to turn to alternative investment instruments. The investment portfolio growth was driven by bank deposits (AZN205M) and non-government securities (AZN102M). In addition, insurance companies actively participated in the repo market as counterparties placing funds. In general, the investment portfolio accounted for 92% of life insurance company assets and for 73% of non-life insurance company assets. Investment assets of insurance companies comprise of government securities and bank funds. In H1 2025, the insurance sector earned AZN55M worth of income from investment activities (7.15% of total income).

Chart 59. Dynamics of investment activities of the insurance sector, in million manats

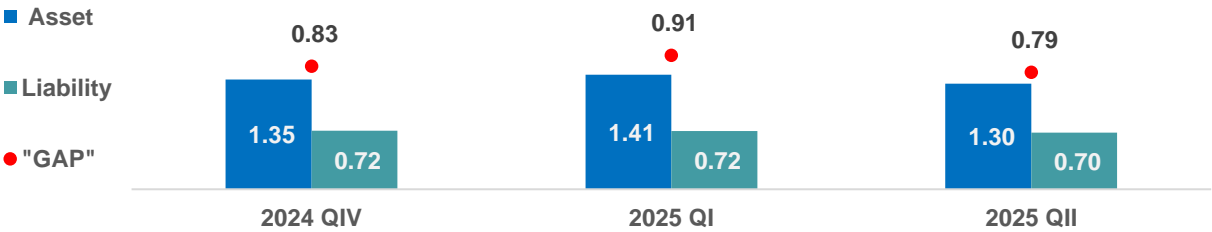


Source: CBA

The insurance sector’s duration decreased amid a decline in government securities. Insurers’ sensitivity to interest rate risk was assessed using the duration

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

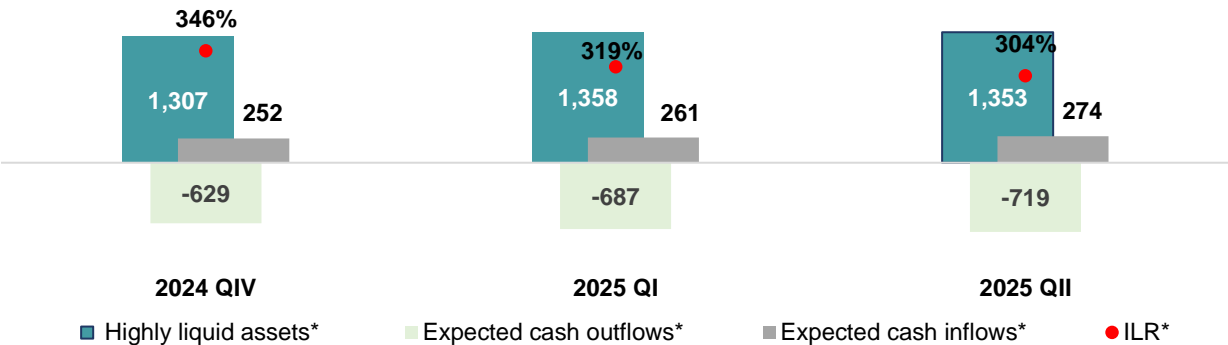
Chart 60. Average maturity or duration of insurance sector assets and liabilities (in years)



Source: CBA

The sector's liquidity is within the comfort zone. The sector's liquidity position was assessed using the 'Insurance Liquidity Ratio' (ILR*) based on the methodology of the International Association of Insurance Supervisors (IAIS). The ILR ratio evaluates whether insurers' highly liquid assets are sufficient to cover the expected net cash outflows from insurance liabilities over a three-month period. In H1 2025, insurers' liquidity position was calculated using the ILR methodology. The insurance sector's highly liquid assets amounted to AZN1,353B, expected cash outflows were AZN719M, expected cash inflows were AZN274M, and the sector's liquidity ratio (ILR) was estimated at 304%.

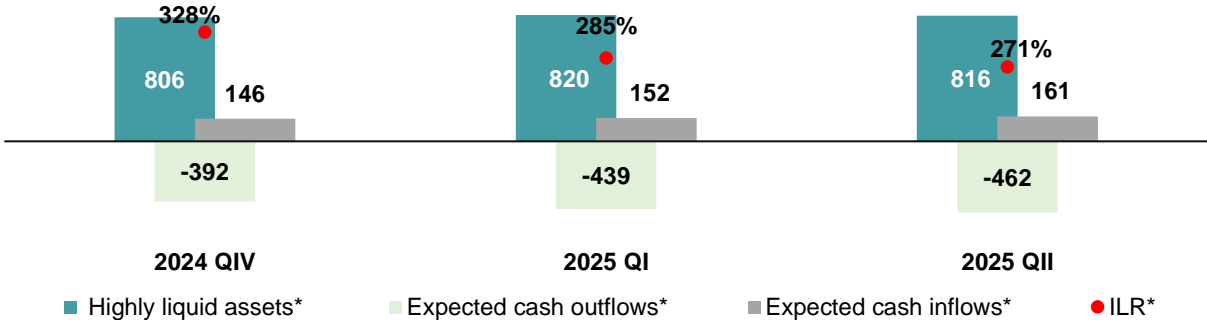
Chart 61. Insurance sector's liquidity ratio (ILR)



Source: CBA

In the life insurance sector, highly liquid assets are estimated at AZN816M, expected cash outflows at AZN462M, expected cash inflows at AZN161M, and the sector's liquidity ratio (ILR) is assessed at 271%.

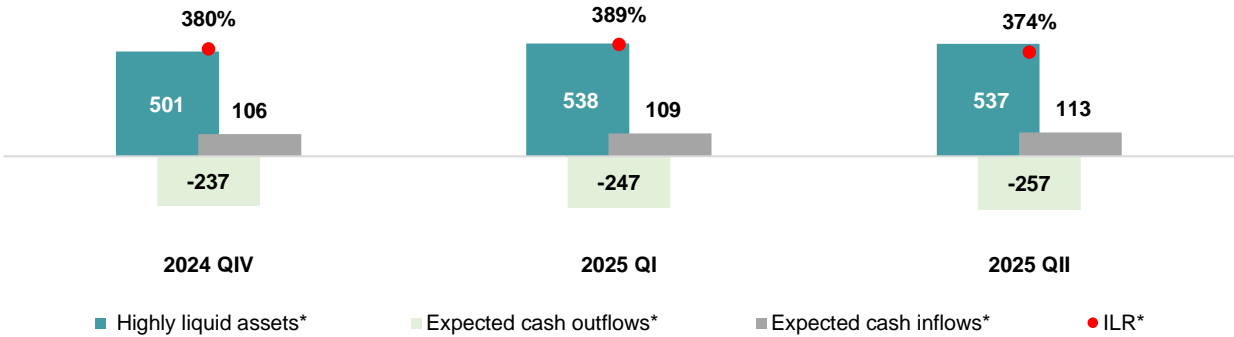
Chart 62. Life insurance sector's liquidity ratio (ILR)



Source: CBA

In the non-life insurance sector, highly liquid assets are AZN537M, expected cash outflows are AZN257M, expected cash inflows are AZN113M, and the sector's liquidity ratio (ILR) is estimated at 374%. Thus, maintaining an adequate level of high-quality liquid assets enhances insurers' resilience against short-term (3-month) liquidity shocks.

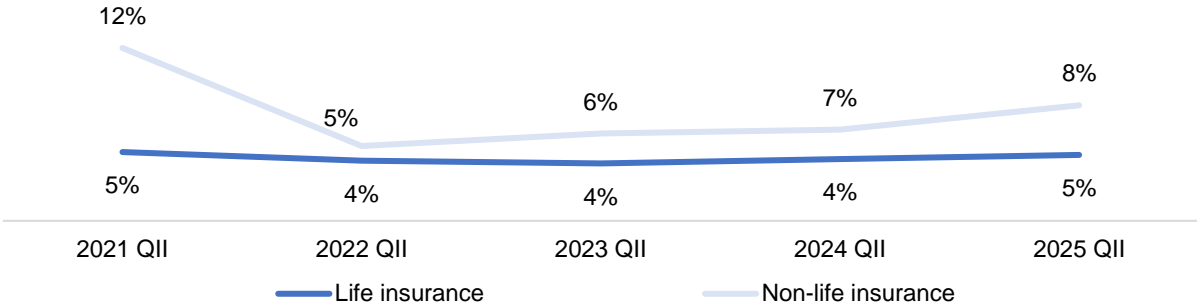
Chart 63. Non-life insurance sector's liquidity ratio (ILR)



Source: CBA

Accounts receivable from insurance premiums do not pose a threat to the resilience of insurance companies. Insurers' receivables from insurance premiums yoy increased by 26% (AZN25.5M) to AZN122M, receivables from life insurance premiums rose by 21% (AZN 9M) to AZN53M, while accounts receivable from non-life insurance premiums increased by 31% (AZN16M) to AZN69M. The share of accounts receivable from insurance premiums in the insurance sector's assets is 6%.

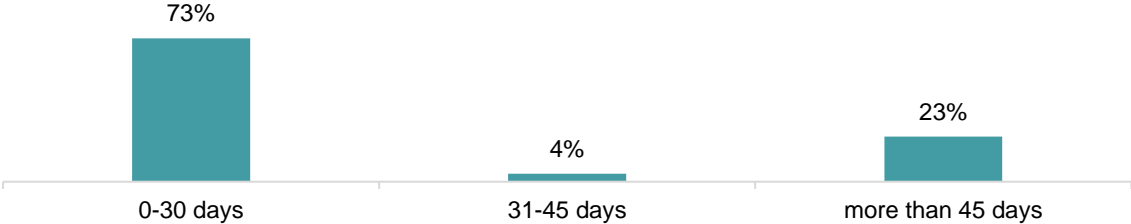
Chart 64. Dynamics of insurance premium payables in total assets, in %



Source: CBA

Of the accounts receivable on insurance premiums, 73% are premiums delinquent by up to 30 days, 4% by 31–45 days, and 23% by more than 45 days. Premiums delinquent by more than 45 days in connection with insurers’ investment operations are not included in the calculation of total regulatory capital. Therefore, these accounts receivable do not pose a threat to the resilience of insurers.

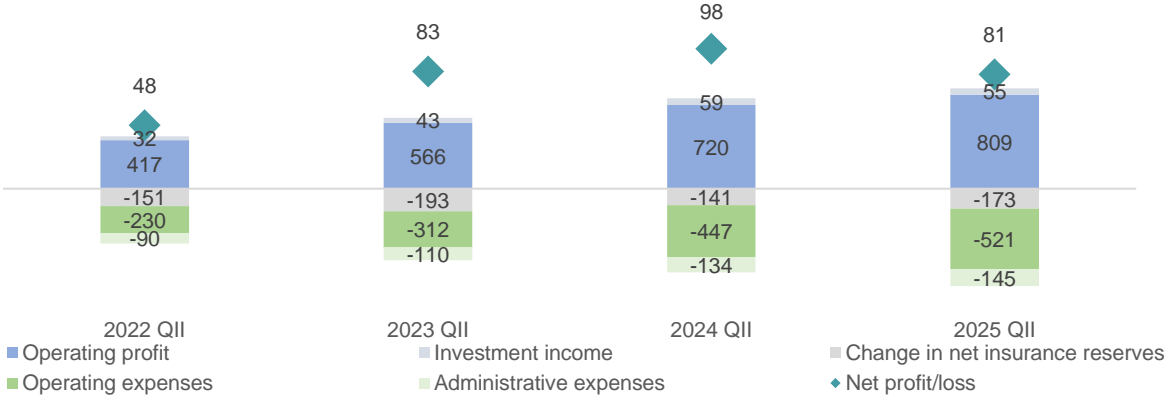
Chart 65. Breakdown of payables on delinquencies, in %



Source: CBA

Although the insurance sector remains profitable, its profitability decreased year-over-year. In the first half of 2025, net profit of the insurance sector yoy declined by 17% (AZN17M) to AZN81M. During the reporting period, profitability of non-life insurance companies decreased by AZN14M to AZN42M, while profitability of life insurance companies fell by AZN2M to AZN39M.

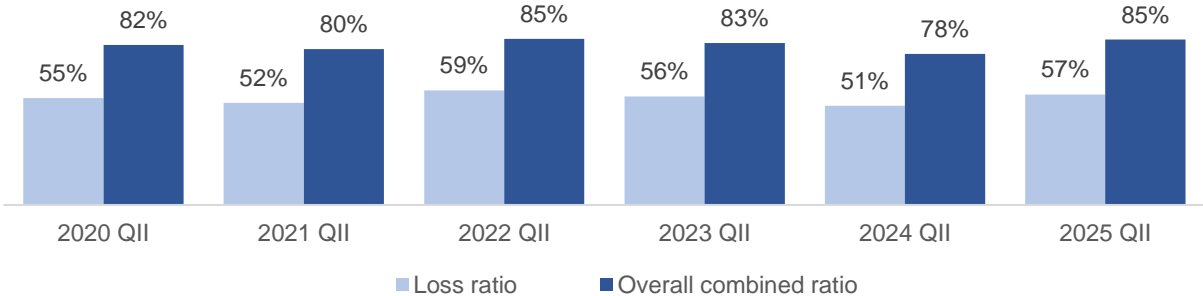
Chart 66. Dynamics of insurance sector profitability, in million manats



Source: CBA

The loss ratio of the insurance sector increased by 7 pp. In H1 2025, the insurance sector’s loss ratio yoy rose by 7 pp to 85%.

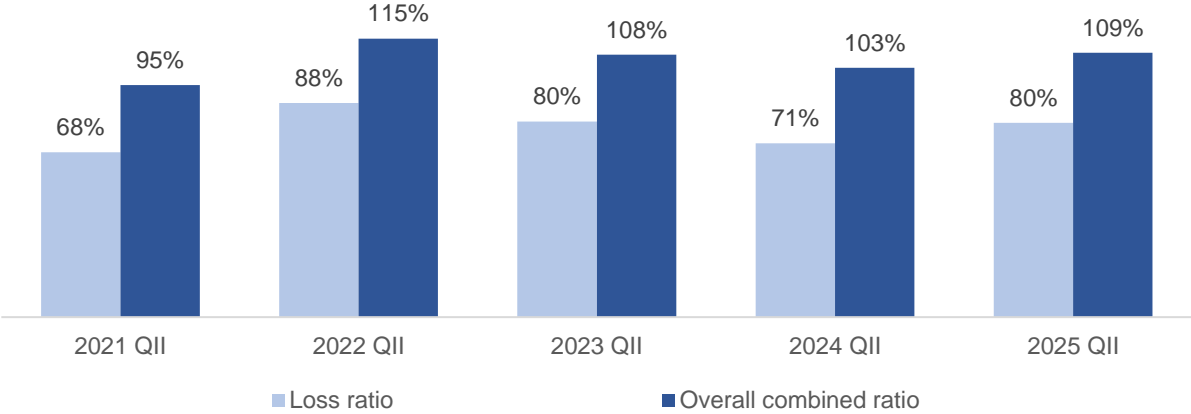
Chart 67. Dynamics of insurance sector’s loss rate, in %



Source: CBA

The increase in loss ratios in several insurance classes with high market shares has contributed to the rise in the insurance sector’s overall loss ratio. In the first half of 2025, for compulsory motor third-party liability insurance (25% market share), the loss ratio increased by 9 pp to 80%, the expense ratio decreased by 3 pp to 29%, and the combined ratio rose by 6 pp to 109%

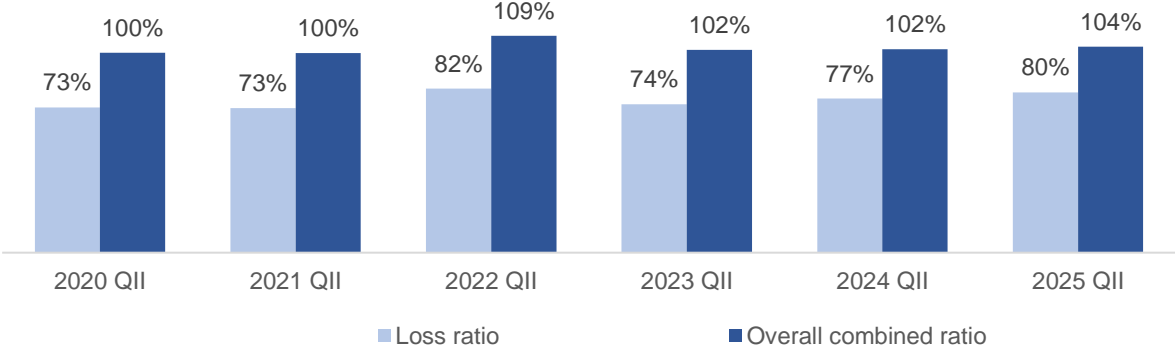
Chart 68. Dynamics of loss rate on auto civil liability compulsory insurance, in %



Source: CBA

For medical insurance (26% market share) the loss ratio increased by 3 pp to 80%, the expense ratio decreased by 1 pp to 24%, and the overall combined ratio increased by 2 pp to 104%.

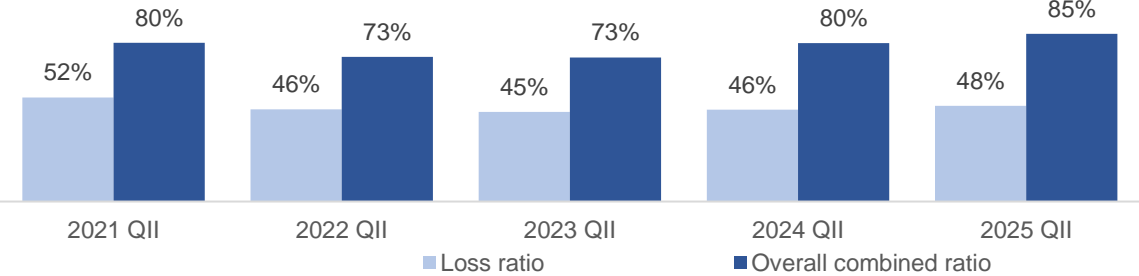
Chart 69. Dynamics of loss rate on medical insurance, in %



Source: CBA

For motor vehicle insurance (10% market share), the loss ratio increased by 2 pp to 48%, the expense ratio increased by 3 pp to 37%, and the overall combined ratio increased by 5 pp to 85%.

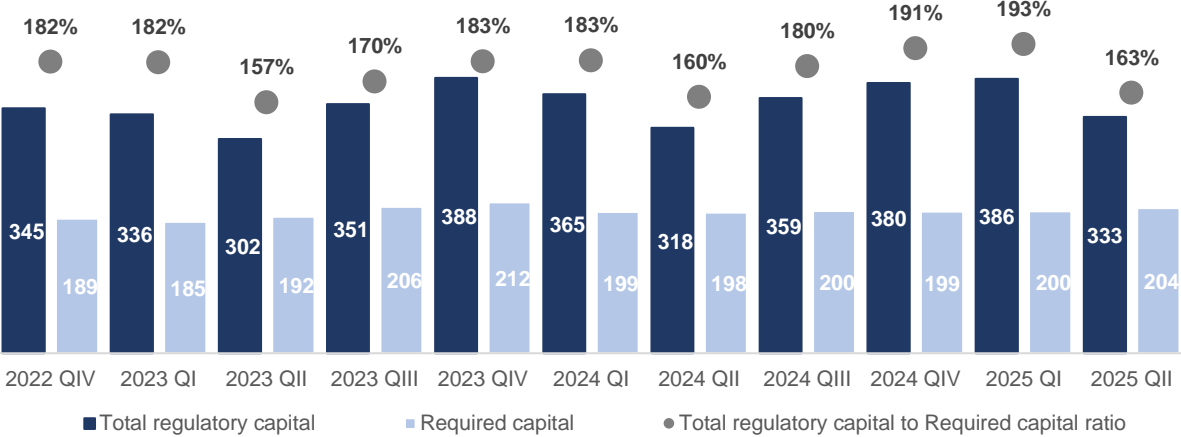
Chart 70. Dynamics of the loss ratio for the motor vehicle insurance class, in %



Source: CBA

Although the capital position of the insurance sector declined, it still exceeds prudential requirements. In H1 2025, total regulatory capital of the insurance sector decreased by 12% (AZN47M) compared to the end of the previous year to AZN333M. The required capital increased by 2.5% (AZN5M) to AZN204M, while the capital buffer decreased by 28.7% (AZN52M) to AZN129M. The decrease in total regulatory capital was due to dividends distributed to shareholders – the sector paid AZN98M in dividends.

Chart 71. Dynamics of total regulatory and required capital, in million manats



Source: CBA

Box 4. Amendments to compulsory insurance legislation for motor vehicle owners' liability insurance

On 17 June 2025, a number of amendments were made to the compulsory insurance legislation for motor vehicle owners' liability insurance. In connection with the update of Green Card tariffs applicable to vehicles registered in the Republics of Georgia and Kazakhstan, amendments were made to the existing tariff tables under the 'Regulations on determining the amount of the one-time payment made by insurers wishing to operate within the Green Card System to the account related to the current liability reserve formed by the Compulsory Insurance Bureau, and on the insurance premiums to be applied by insurers authorized to operate under the Green Card System' and a new tariff table was established. Green Card insurance agreements for vehicles registered in the Republics of Georgia and Kazakhstan are divided into two groups based on the coverage area: 1) Wide coverage, 2) Limited coverage.

Wide-coverage Green Cards are those that provide insurance coverage in the territories of all countries participating in the Green Card System.

Limited-coverage Green Cards provide insurance coverage only in the territories of the Russian Federation, the Republic of Belarus, the Republic of Moldova, the Republic of Turkey, and the Islamic Republic of Iran.

Under the latest amendments, the same insurance tariffs are applied to both countries. The tariffs for limited-coverage Green Cards have been revised, while the tariffs for wide-coverage Green Cards are applied separately for each country: insurance tariffs for vehicles registered in the Republic of Kazakhstan have been changed, whereas those for vehicles registered in the Republic of Georgia remain unchanged at their current level.

To optimize the information required when concluding border insurance agreements, amendments have been made to the Regulations for calculating insurance premiums under compulsory motor vehicle liability insurance regarding the calculation of premiums for border insurance agreements and the necessary data requirements. For border insurance agreements, uniform insurance tariffs have now been determined solely based on the type of vehicle and the duration of the insurance agreement.

Under the old rules, insurance tariffs were determined based on the driver's experience and age, the number of persons authorized to drive the vehicle (for legal entities, the driver's experience and age and the number of authorized persons were replaced with a 'legal entity' coefficient), the type of vehicle, the area where the vehicle is used, the vehicle's years of operation, and the Bonus-Malus coefficient. Then, the insurance tariff calculated based on the duration of the insurance contract:

1. For agreements concluded for one month – 20%.
2. For agreements concluded for three months – 45%.

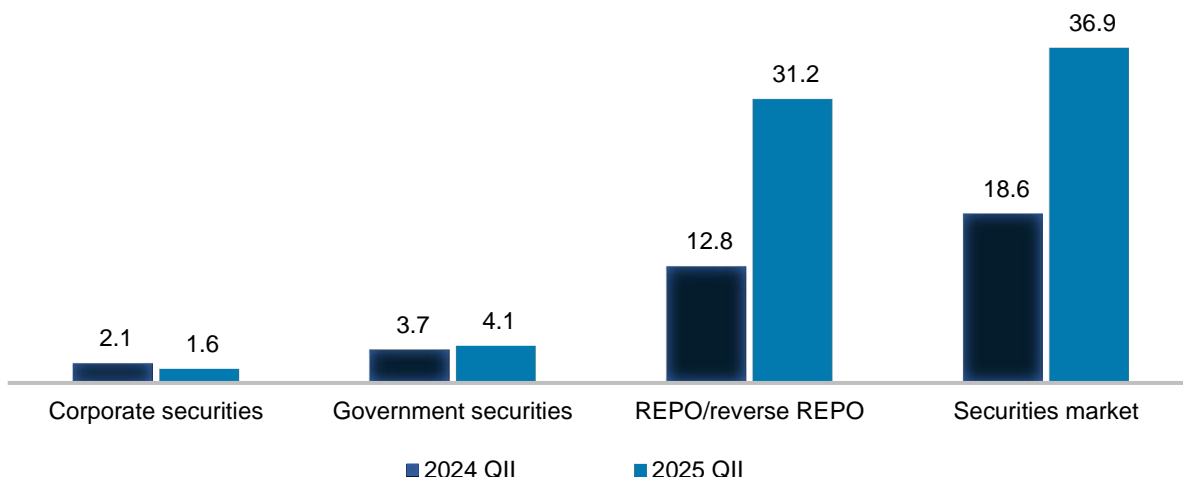
3. For agreements concluded for six months – 70%.
4. For agreements concluded for twelve months – 100%.

In addition, to facilitate the acquisition of border insurance agreements and enable obtaining them electronically, an online sales platform (www.tpl.az) has been created. As a result, owners of foreign vehicles can conveniently and easily conclude border insurance agreements online without leaving their country

Capital markets

The securities turnover increased year-over-year, driven by repo/reverse repo operations. Trade turnover of the securities market yoy increased by 98% (AZN18.2B) to AZN36.9B. The amount of repo/reverse repo operations yoy increased by 2.4 times (AZN18.4B) to AZN31.2B. The main factor behind the increase in repo and reverse repo operations was the more active use of the secondary market by banks to meet their daily liquidity needs in the context of the implementation of the new operational framework of the monetary policy. Corporate securities turnover yoy decreased by 27% (AZN0.6B), while that of government securities increased by 11% (AZN0.4B).

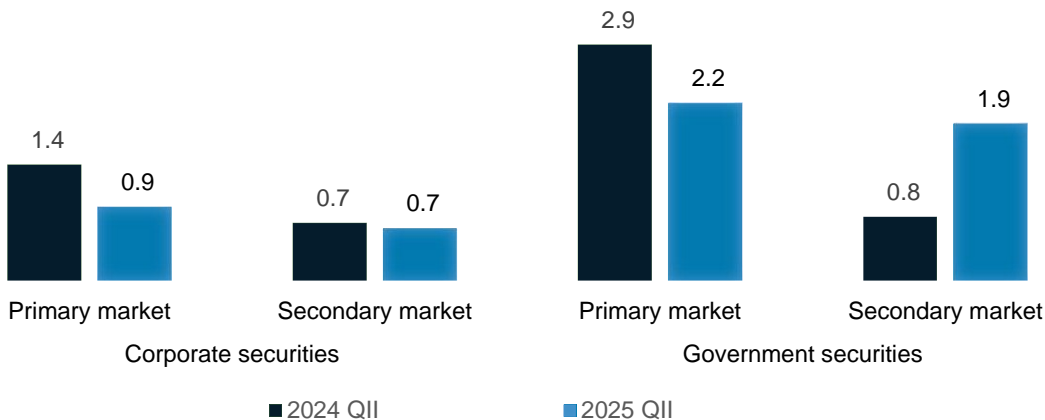
Chart 72. Capital market turnover, in billion manats



Source: CBA

Trade turnover of corporate securities decreased, while that of government securities increased. The size of primary market turnover of corporate securities yoy decreased by 36% (AZN0.5 B) to AZN0.9B, and secondary market turnover decreased by 9% (AZN0.1B) to AZN0.7B. The turnover of government securities increased year-over-year. While primary market turnover of government securities decreased by 25% (AZN0.7B), secondary market turnover increased by 142% (AZN1.1B) to AZN1.9B.

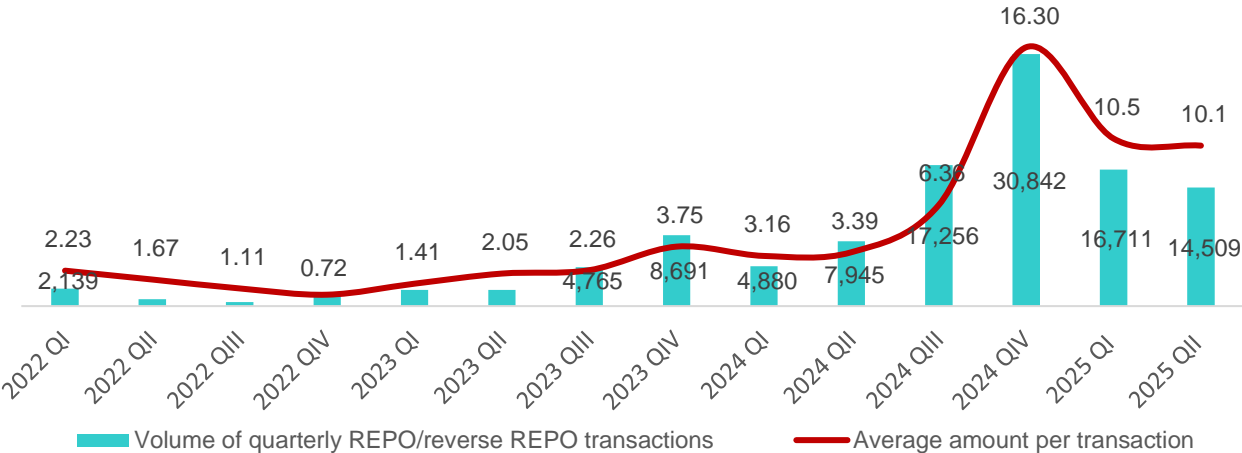
Chart 74. Size of primary and secondary market operations, in billion manats



Source: CBA

Activity in the repo market remains high. In the first half of the current year, the volume of repo/reverse repo operations amounted to AZN31.2B, yoy up by 2.4 times (AZN18.4B). Overall, both total volume of operations and the average amount per transaction grew year-over-year, indicative of a high level of market activity.

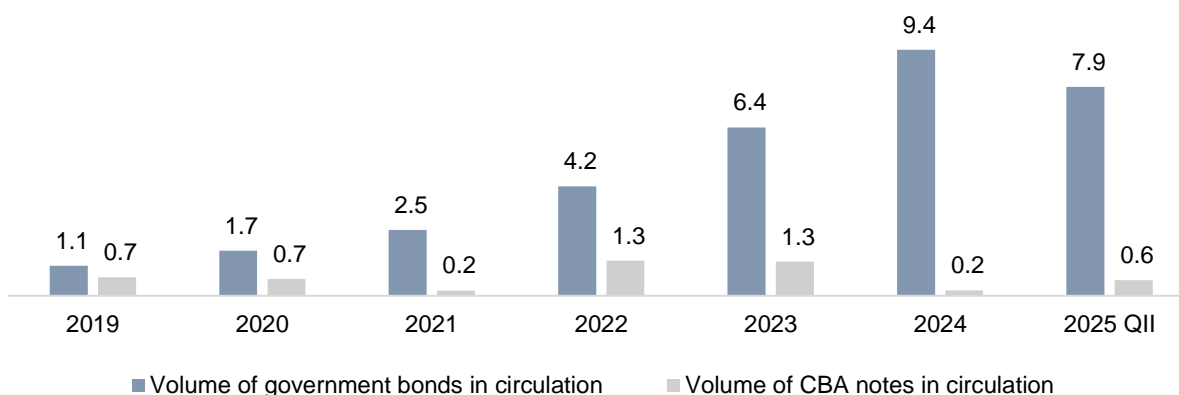
Chart 73. Dynamics of repo operations, in million manats



Source: CBA

As of the end-June 2025, the volume of government securities in circulation decreased. Compared to the end of the previous year, the volume of government securities in circulation declined by 11% (AZN1.0B) to AZN8.5B, due to the absence of new issuances by the Ministry of Finance during the first half of the year. The volume of government bonds in circulation fell by 15% (AZN1.5B) compared to the end of the previous year, amounting to AZN7.9B. In the reporting period, the volume of CBA notes in circulation increased 2.9 times (AZN0.4B) to AZN0.6B.

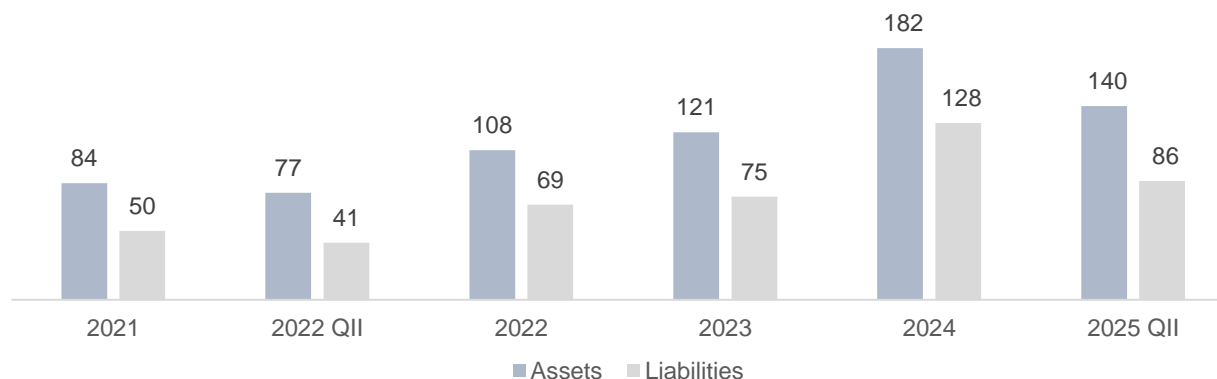
Qrafik 75. Dynamics of government securities in circulation, in billion manats



Source: CBA

During the first half of the current year, balance sheet indicators of investment companies decreased. Compared to the end of 2024, assets of investment companies decreased by 23% (AZN42M) to AZN140 M, and liabilities decreased by 33% (AZN42M) to AZN86M. The main factor behind the decline in assets and liabilities of investment companies was the decrease in the volume of interest-bearing financial assets (repo/reverse repo operations).

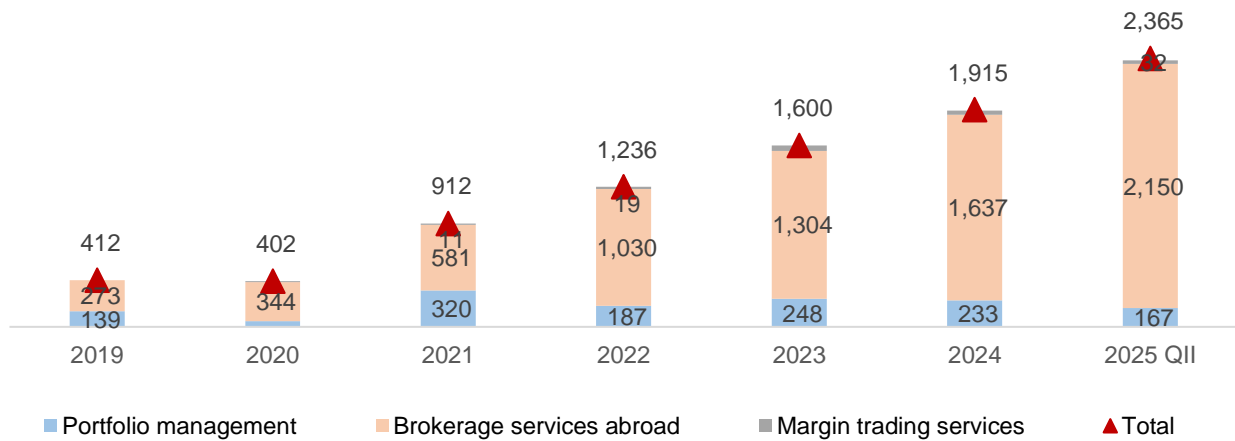
Chart 76. Dynamics of balance sheets of investment companies, in million manats



Source: CBA

During the period, the client assets of investment companies expanded . In the first half of the current year, client assets of investment companies increased by 23% (AZN450M) to AZN2.4B. The main driver of the growth in client assets was brokerage services in foreign markets. Client assets related to brokerage services in foreign markets grew by 31% (AZN513M) to AZN2.1B.

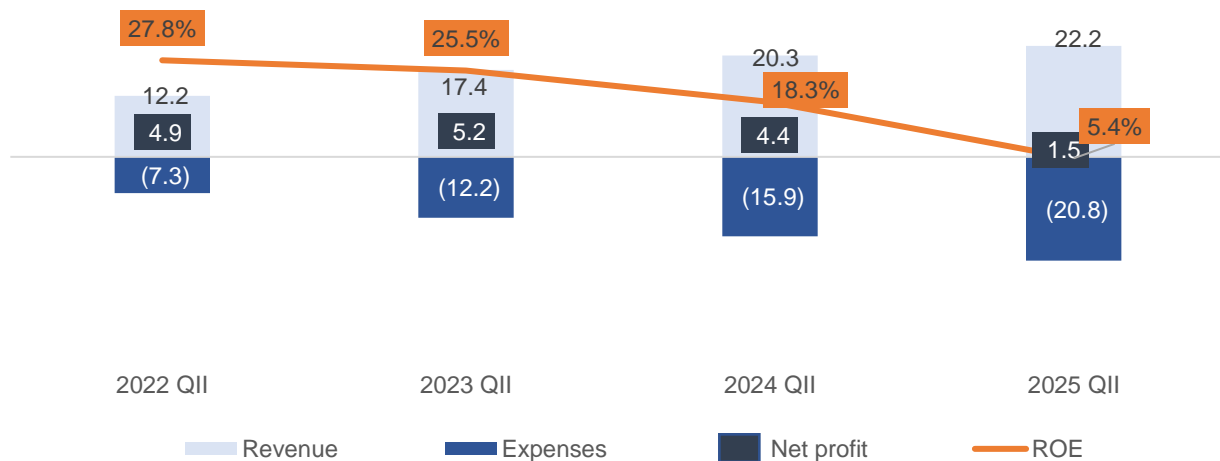
Chart 77. Dynamics of client assets of investment companies, in million manats



Source: CBA

Net profit of investment companies decreased. In H1 2025, net profit of investment companies yoy decreased by 67% (AZN2.9 M) to AZN1.5M, due to rising fees and commissions, salary and social allowances and administrative expenses.

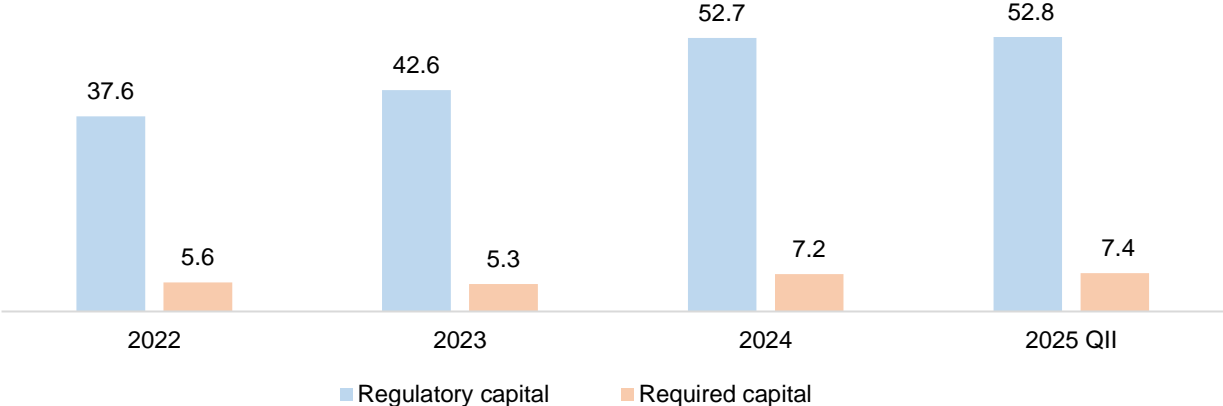
Chart 78. Dynamics of profitability of investment companies, in million manats



Source: CBA

The capital position of investment companies is in a comfort zone. As of end of the first half of 2025, total regulatory capital of the sector amounted to AZN52.8M, and required capital stood at AZN7.4M, ensuring a sufficient capital buffer for investment companies.

Chart 79. Dynamics of total regulatory and required capital, in million manats



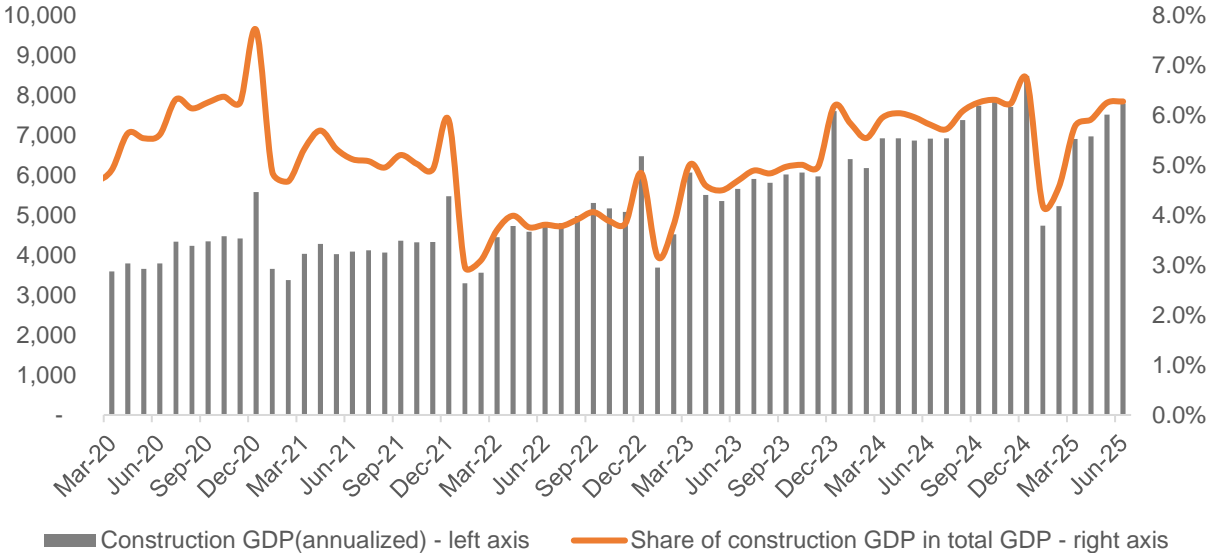
Source: CBA

Real estate market

Although activity in the construction sector was low in the early months of the current year, it increased in the following months and surpassed the year-over-year level. In recent years, although the share of the construction sector in GDP fluctuated, overall, both the nominal GDP volume of the construction sector and its share in the total economy have been increasing. The nominal GDP of the construction sector yoy grew by 12.4%, while its share in total GDP increased by 0.5 pp to 6.3%, driven by the recovery of investment inflows, large-scale infrastructure projects aimed at restoring deoccupied territories, major construction projects in Baku and surrounding areas, and the sustained high demand factors in the real estate market.

The stable growth rate of the construction sector had a positive impact on strengthening the overall investment environment in the economy and maintaining the employment level. The recent increase in the construction sector’s share in GDP played a significant role in supporting overall economic activity. As of the end of June 2025, the number of hired labor in construction enterprises increased by 5.7% compared to the end of 2024 to 119,000 people.

Chart 80. Dynamics of construction GDP, in million manats



Source: SSC

In the first half of the current year, AZN8.1B was allocated from all financial sources to fixed capital in Azerbaijan, of which AZN6.1B was spent on construction and installation works, yoy up by 12.5%. Of the total funds directed to fixed capital for construction and

installation works across the country, 31.5% (AZN2.0B) accounted for the deoccupied territories.

Although investments directed toward the construction sector fluctuated over certain periods, funds allocated for residential building construction and their share in investments in fixed capital are increasing. Recently, this trend strengthened further, leading to a rise in market activity. The rise in investments in residential construction has been driven both by high demand and new projects implemented by public and private sectors. Overall, amid recovering investment flows, ongoing construction and development works in the country, and the continuation of the process of legalizing undocumented houses under a Presidential decree, activity in the construction sector and the real estate market is expected to remain high.

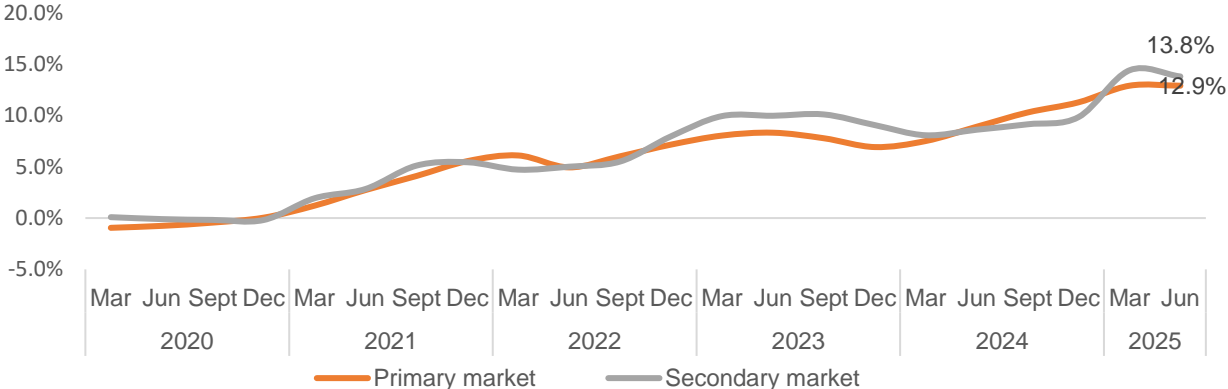
Chart 83. Investments in fixed assets in the construction sector and the dynamics of the share of investments in residential building construction within those investments



Source: SSC

Housing prices are increasing both in primary and secondary markets. In 2020, due to the pandemic, prices in the real estate market were relatively stable; however, in the following years, they were prone to rising. In general, (compared to June 2020), housing prices jumped by 46%.

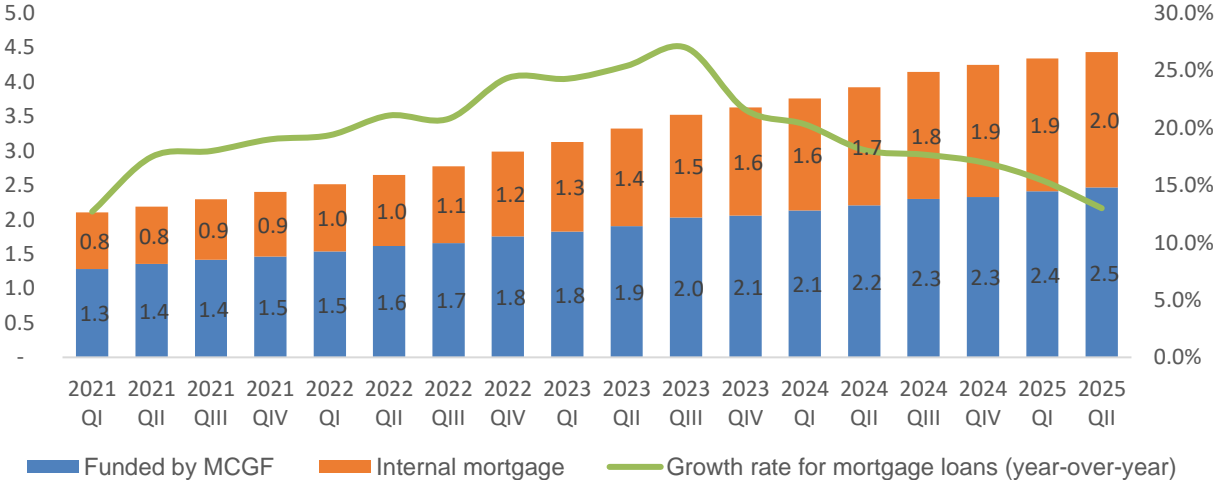
Chart 84. Dynamics of annual growth rate of primary and secondary market housing prices, in %



Source: SSC

Whereas mortgage lending has grown over recent years, the growth rate has been decreasing recently. Since 2020, the volume of mortgage loans has increased; however, since 2023, the growth rate has slowed down, attributable to both demand- and supply-side factors. The sharp rise in housing prices and the increase in average interest rates on newly issued mortgage loans have led to a slowdown in demand for mortgages. At the same time, the limited amount of mortgage loans issued through the MCGF, and the funding structure of banks, has constrained their ability to provide mortgage lending using own resources.

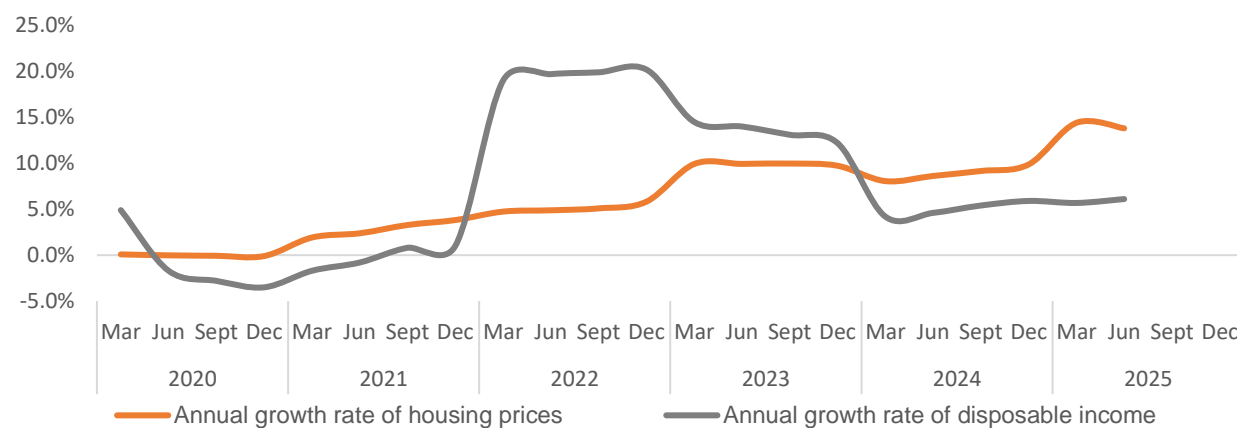
Chart 81. Dynamics of mortgage portfolio, in billion manats



Source: CBA

In H1 2025, the growth rate of housing prices surpassed that of disposable income. According to the SSC, housing prices were up by 13.8% year-over-year, while the growth rate of disposable income stood at 6.1%. Overall, housing prices have increased by 46%, and disposable income by 50% over five years (since June 2020).

Chart 82. Dynamics of the growth rate of housing prices and disposable income of the population, in %



Source: SSC

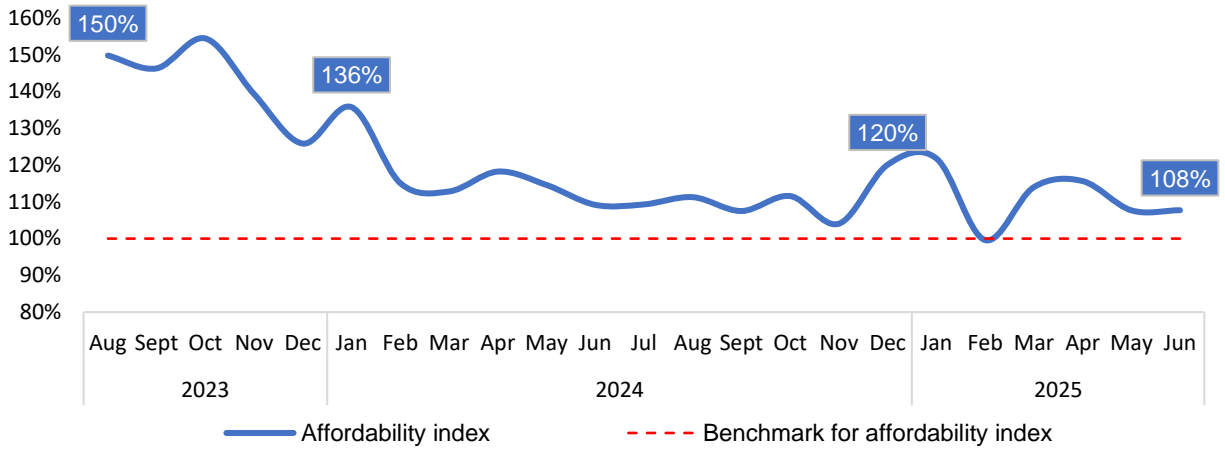
Despite the rising prices offered at the housing market⁷, population’s disposable income allows sustainable mortgage lending. The affordability index⁸ widely used in international practice is calculated as the ratio of per capita disposable income to the average monthly payment on newly issued mortgage loans within a month. A value above 100% indicates that the population's disposable income is sufficient to cover mortgage payments, while a value below 100% shows that the monthly mortgage payment exceeds the available income.

⁷ The offered prices in the housing market have been obtained from open sources, including websites specialized in real estate transactions.

⁸ Affordability index= (monthly disposable income* 70%) / Average monthly payment on newly issued mortgage loans within a month.

* The main reason for taking 70% of the disposable monthly income is the requirement for loans issued through the MCGF.

Chart 83. Dynamics of affordability index, in %



Source: CBA, SSC, Real estate trading related open sources

In H1 2025, the increase in housing prices, as well as the rise in average interest rates on newly issued domestic mortgage loans, decreased the affordability index. However, the positive dynamics of the population's disposable income resulted in the affordability index being higher than the benchmark indicator index.

Based on the information from available open sources for the housing market, as of the end of June, the median monthly rental price in Baku is AZN883, which results in a capitalization period of⁹ 22.5 years for real estate. The ratio of average house prices to the average nominal monthly salary (for Baku) is 217 months, or 18.1 years¹⁰.

⁹ Capitalization Period = Median Housing Price / Median Annual Rent

¹⁰ The calculations were based on property sale and rental listings published on open sources related to real estate transactions. Specifically, more than 75% of the property sale listings used in the calculations for the end of 2024 were new constructions. Additionally, 82% of the rental property listings used in the calculations were for new buildings. Listings for rental apartments in the city center and nearby areas accounted for 75% of the total rental property listings.

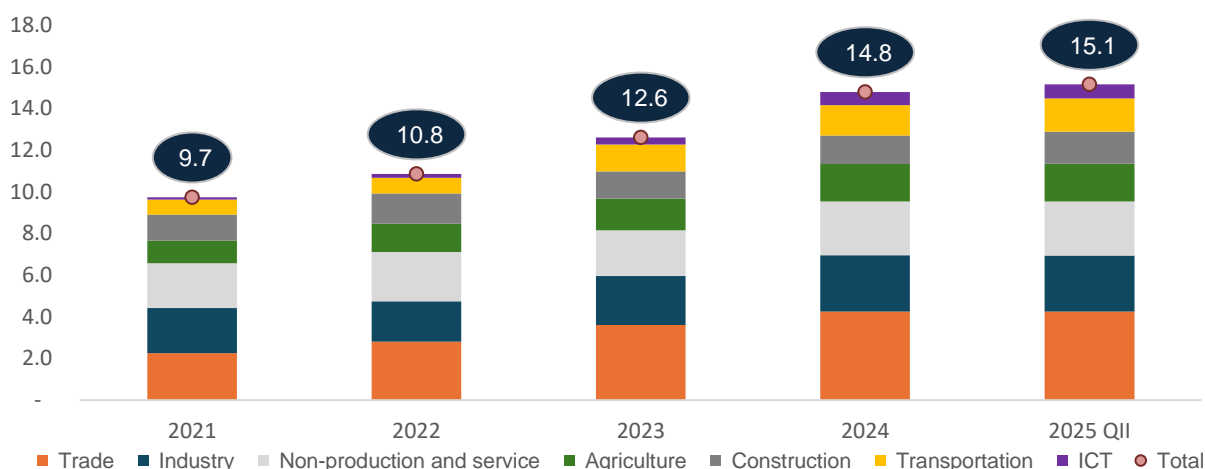
Non-financial sector

Although risk zones remain for non-financial institutions, overall resilience indicators have shown positive dynamics amid ongoing uncertainties at the regional and global levels. Dollarization tendencies have weakened, with no significant change in the share of non-performing loans within the total portfolio.

The role of the banking sector in financing non-financial institutions continued to increase, and corporate bond issuances expanded. Amid annual economic growth, the loan portfolio of the non-financial sector grew, and its share in GDP rose.

The growth of the business portfolio supports activity in the real sector. The business portfolio yoy increased by 9.3%. For comparison, during the same period, the annual nominal growth rate of GDP amounted to 4.3%. In H1 2025, the volume of the loan portfolio extended to sectors of the economy, excluding the industrial sector, increased. The highest growth was observed in construction and transportation posted the highest growth.

Chart 84. Dynamics of the business portfolio, in billion manats

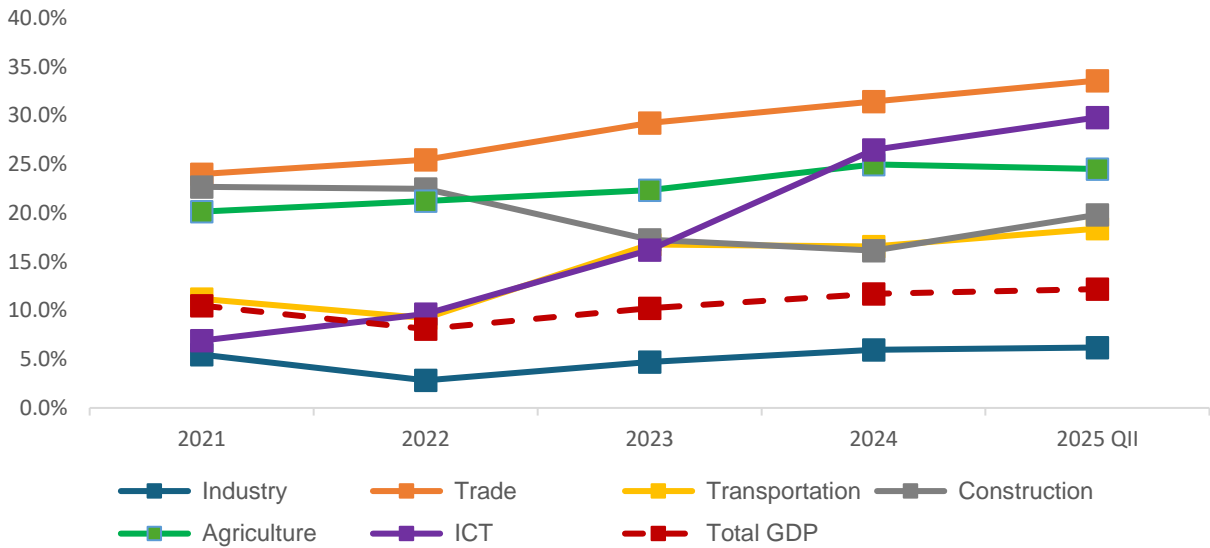


Source: CBA

In recent periods, the depth of the business portfolio within GDP¹¹ has been increasing. Compared to 2022, the share of the business loan portfolio in GDP rose by 4.1 pp to 12.2%. Excluding the construction sector, the share of business loans in nominal GDP increased across all sectors of the economy, with the highest growth recorded in the information and communications sector.

¹¹ Business loans/GDP

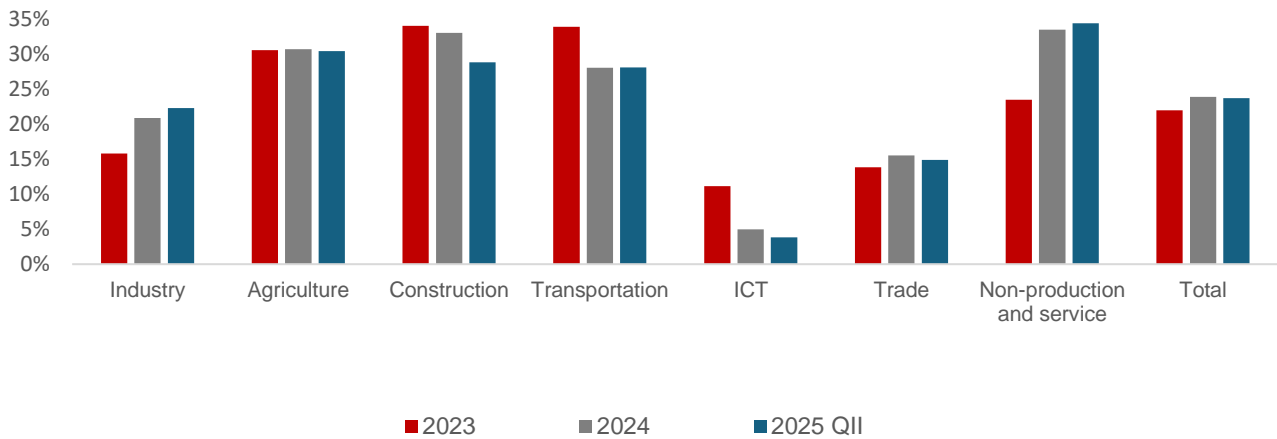
Chart 85. The loan portfolio to GDP ratio (across economic sectors)



Source: SSC

As of June 2025, one-fourth of the loans issued to the real sector were directed toward fixed capital. During the reporting period, 24% of the business loan portfolio was allocated to financing the purchase construction, and reconstruction of real estate, acquisition of equipment, and other investment expenditures. Loans issued for the formation of fixed assets play an important role in ensuring the sustainable development of the economy. Sectoral analysis shows that, in recent periods, there has been a positive trend in loans channeled to fixed capital in the non-production and service sectors, as well as in the industrial sector.

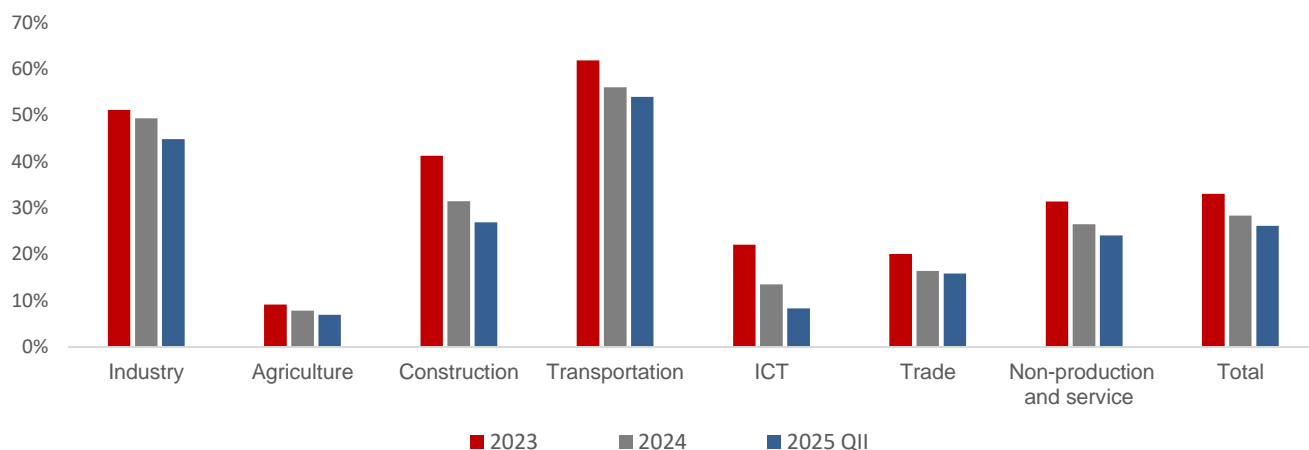
Chart 86. Share of loans directed to fixed capital by sectors of the economy, in %



Source: CBA

The de-dollarization within the business loan portfolio has continued its upward momentum. As of June 2025, the dollarization level of the business portfolio decreased by 2.3 pp compared to the end of the previous year to 26.1%. Although a decline was observed across all sectors, it was more pronounced in the construction and information and communication sectors. Amid complex macroeconomic environment and geopolitical risks, the reduction in dollarization indicators is considered significant in terms of ensuring the resilience of both the real sector and the banking system.

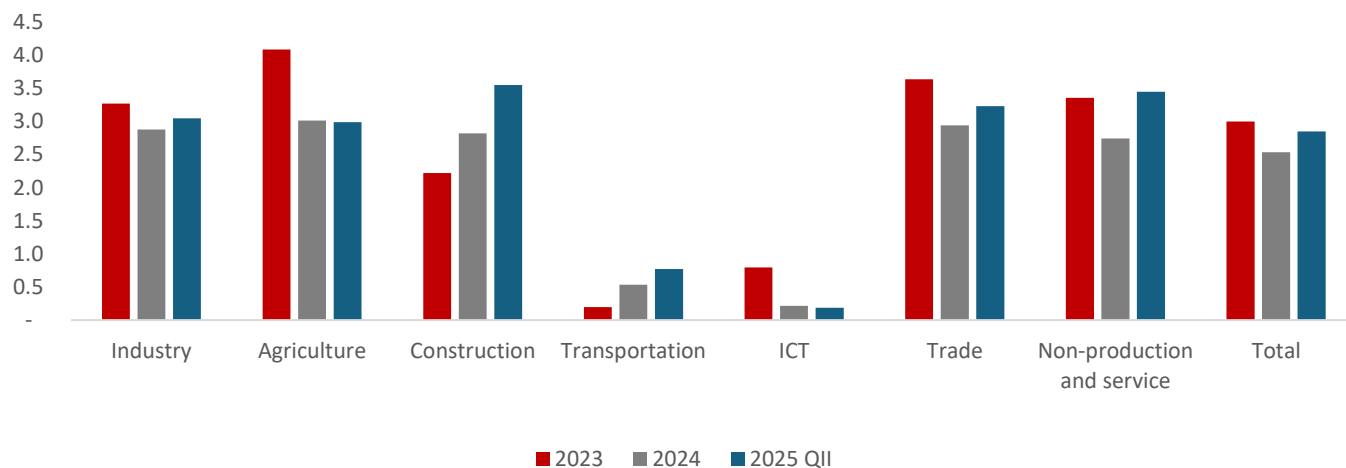
Chart 87. Dollarization of the business portfolio, in %



Source: CBA

There has been no significant change in the banks' business portfolio. Compared to the end of the previous year, the NPL on the business portfolio increased by 0.3 pp to 2.8%. Credit risks of the portfolio are closely monitored.

Chart 88. Dynamics of the NPL ratio across economic sectors, in %



Source: CBA

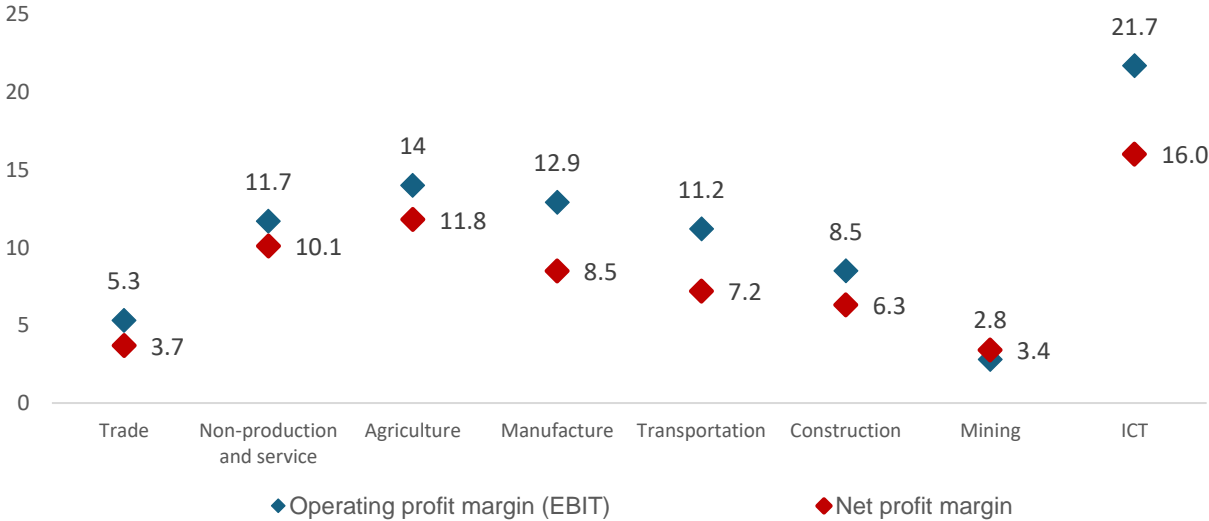
Analyses suggest that risks of the non-financial sector are on a manageable level.

As of end 2024, the total size of the banking sector’s business portfolio amounted to AZN14.8B. Analyses conducted on clients accounting for 56% of the business portfolio, concluded that risks in the non-financial sector remain at a manageable level.

Profitability

Based on the calculations, 91% of the companies included in the analysis are operating profitably. The sector’s profitability was assessed using operating profit margin¹² and net profit margin indicators¹³. Among the sectors, the information and communications sector exhibited higher profitability compared to other sectors.

Chart 89. Profitability of non-financial companies, in %



Source: CBA

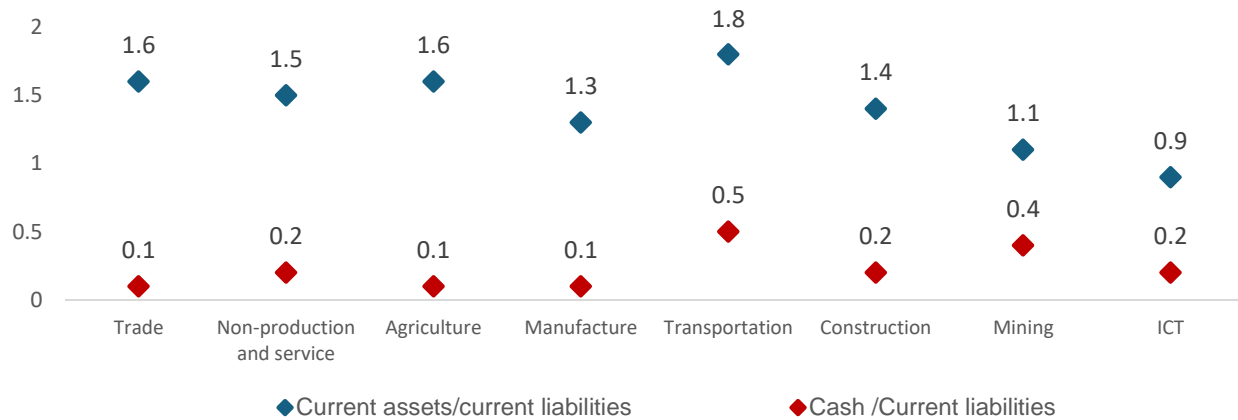
¹² Operating Profit (EBIT) Margin = Operating Profit (profit before interest and tax obligations) / Revenue from Sales

¹³ Net Profit Margin = Net Profit / Revenue from Sales

Liquidity

The liquidity of the non-financial sector was assessed based on the absolute and current liquidity ratios. According to the analysis, although the absolute liquidity ratio in the real sector¹⁴ was low, the current liquidity ratio¹⁵ was above 1 (except in the information and communication sector, where this indicator was below 1).

Chart 90. Liquidity of non-financial companies

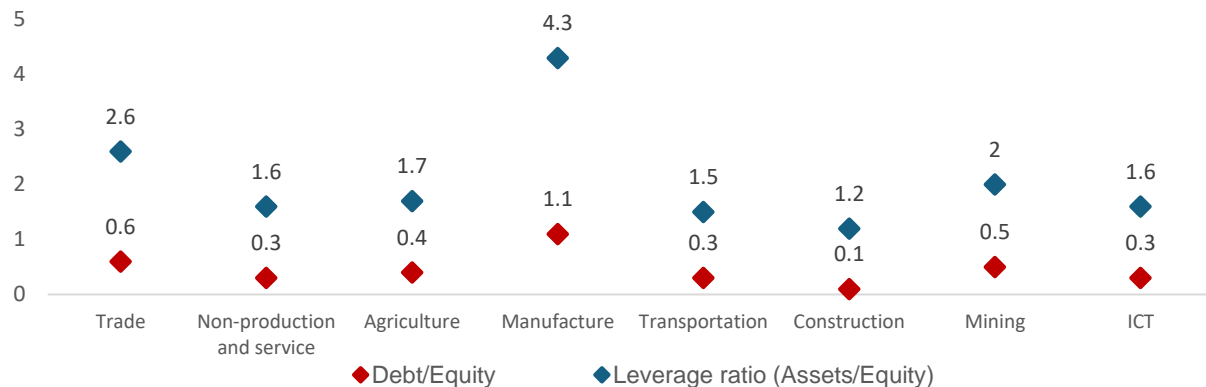


Source: CBA

Debt and leverage

According to the analysis, the highest debt-to-equity ratio¹⁶ and the highest leverage ratio¹⁷ are in the processing sector.

Chart 91. Leverage of non-financial companies



Source: CBA

¹⁴ Absolute liquidity ratio=Funds/Current liabilities

¹⁵ Instant liquidity ratio= Current assets/Current liabilities

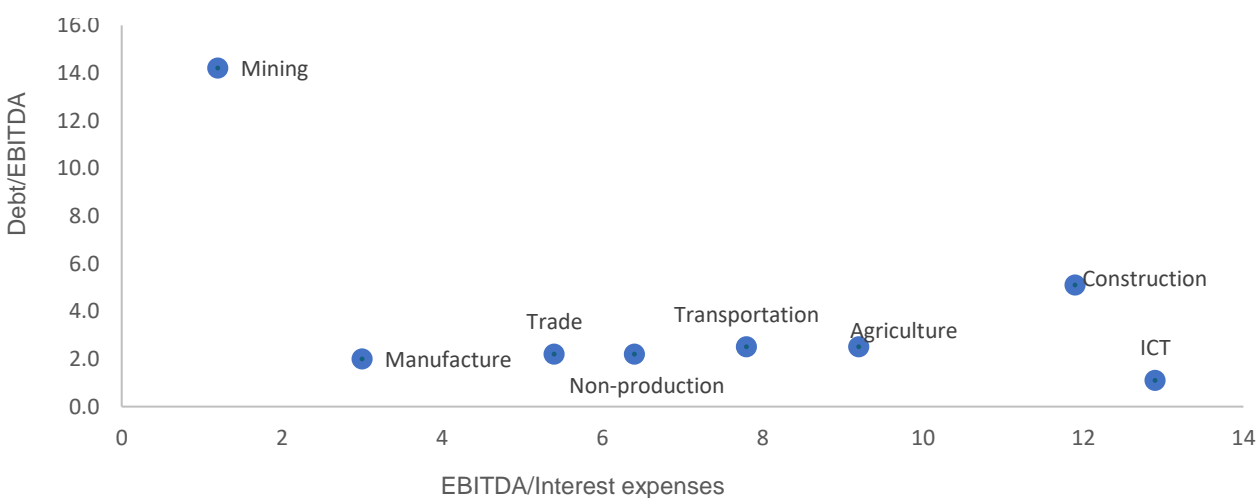
¹⁶ Total debt/Total equity

¹⁷ Leverage ratio= Total assets/Total equity

Resilience

The analysis evaluates the level of indebtedness and debt repayment capacity of business clients in each sector based on **Moody's rating methodology**. For this purpose, companies' ratings were determined using **ratios of debt to operating income**¹⁸ and **coverage of interest expenses**¹⁹ according to submitted financial statements. Companies that received a **Caa** or **Ca** rating under Moody's rating methodology were classified as **risk categories** (Note: Companies with a Caa or Ca rating are those operating at an operating loss, or having high debt relative to operating income, or unable to cover interest expenses with earnings before interest, taxes, depreciation, and amortization).

Chart 92. Ratios of operating income to interest expenses and debt to operating income for non-financial companies



Source: CBA

According to findings of the analysis, although there are companies categorized as risky at the individual firm level, no sector falls into the risk category. It should be noted that the financing of the real economy by the banking sector remains a constant focus of the CBA. The regulatory framework established by the CBA is aimed at stimulating business lending. To support business development, the Central Bank applies regulatory reliefs in RWAs for loans extended to certain areas, particularly export-oriented businesses, the agricultural sector, as well as micro and small enterprises.

As a continuation of the stimulative regulatory measures, during the reporting period, the CBA amended the *Regulation on asset classification and creation of specific reserves for*

¹⁸ Total debt/Operating profit (EBITDA)

¹⁹ Operating profit (EBITDA)/Interest expenses

loan loss provisioning. The amendment clarifies the concept of a borrower operating at a loss. According to the revision, a borrower's operation at a loss is no longer defined by net loss; instead, it is determined based on whether the entrepreneur's earnings before interest, taxes, and depreciation (EBITDA) are less than, or negative compared to, their total interest expenses. This amendment enables banks to assess the efficiency of entrepreneurs' economic activities more realistically within the framework of business lending and manage credit risks more effectively.

Charts and tables

Chart 1. Global GDP growth forecasts, in %	8
Chart 2. Consumer price index, in %	9
Chart 3. Commodity price change	9
Chart 4. Financial condition index	10
Chart 5. Economic growth rate of non-oil-gas areas, in %.....	11
Chart 6. Dynamics of import and export, in billion US dollars	13
Chart 7. Dynamics of foreign exchange reserves of the CBA and SOFAZ, billion US dollars.....	14
Chart 8. State budget revenues and expenditures, in billion manats.....	15
Chart 9. Dynamics of assets and liabilities of the banking system, in billion manats	16
Chart 10. Dynamics of the structure of banking systems assets and liabilities, in billion manats.....	17
Chart 11. Dynamics of the HHI index across the banking sector	18
Chart 12. Dynamics of deposit portfolio of individuals and legal entities, in billion manats.....	19
Chart 13. Six-month growth rate of the loan portfolio, in million manats	20
Chart 14. Loan portfolio and nominal non-oil-gas GDP annual growth rate, in %	20
Chart 15. Dynamics of the securities portfolio, in million manats	22
Chart 16. Sectoral breakdown of business loans, in billion manats	22
Chart 17. Liquidity coverage ratios in aggregate, foreign currency and manat, in %.....	23
Chart 18. High-quality liquid assets and total expected net outflows, in billion manats.....	24
Chart 19. Dynamics of the structure of banking sector's liquid assets, in billion manats	25
Chart 20. Dynamics of the currency structure of banking sector's liquid assets, in billion manats	26
Chart 21. Maturity structure of banking sector's assets and liabilities.....	26
Chart 22. Dynamics of the loan-to-deposit ratio	27
Chart 23. Dynamics of the NPL portfolio of the banking sector, in billion manats	28
Chart 24. Sectoral dynamics of the NPL portfolio, in million manats.....	28
Chart 25. Dynamics of the NPL portfolio of business loans on economic sectors, in million manats	29
Chart 26. Dynamics of consumer portfolio's loan-to-debt breakdown, in million manats	30
Chart 27. Dynamics of the population's debt burden to disposable income	30
Chart 28. Dynamics of restructured loans portfolio, in billion manats	31
Chart 29. Dynamics of dollarization of the deposit and loan portfolios, in %.....	34
Chart 30. Dynamics of dollarization of the deposit portfolio, in %	35
Chart 31. Share of foreign currency in the loan portfolio, in %	35
Chart 32. Maturity breakdown and average weighted duration of assets and liabilities	36
Chart 33. Currency structure and dynamics of the lending portfolio, in billion manats	36
Chart 34. Average weighted duration and duration gap of assets and liabilities.....	37
Chart 35. Net profit and ROA of the banking sector	39
Chart 36. Indicators of banks operating at profit/loss	39
Chart 37. Decomposition of ROA of the banking system.....	40
	86

Chart 38. ROE of the banking sector and its key components, in million manats	40
Chart 39. Funding cost and profitability of the banking sector, in %	41
Chart 40. Efficiency indicators of the banking sector, in million manats.....	42
Chart 41. Dynamics of capital adequacy, in million manats	43
Chart 42. Dynamics of capital adequacy, in million manats	43
Chart 43. Dynamics of assets and RWAs, in billion manats	44
Chart 44. Dynamics of NBCIs' assets, in million manats	48
Chart 45. Dynamics of NBCIs' liabilities, in million manats	49
Chart 46. Loan portfolio structure of NBCIs, in million manats	49
Chart 47. Profitability indicators of NBCIs	50
Chart 48. Dynamics of capital components across the NBCI sector, in million manats.....	51
Chart 49. Dynamics of insurance premiums, in million manats	53
Chart 50 Dynamics of growth of insurance premiums, in %.....	54
Chart 51. Dynamics of insurance premiums on life insurance classes, in million manats	54
Chart 52. Dynamics of insurance premiums on non-life insurance classes, in million manats ..	55
Chart 53. HHI Index for life and non-life insurance companies (premiums)*	56
Chart 54. Dynamics of reinsurance premiums calculated to domestic and foreign reinsurers, in million manats	56
Chart 55. Reinsurance premiums ceded to foreign reinsurers by credit rating, %	57
Chart 56. Reinsurance premiums ceded to foreign countries, in %	57
Chart 57. Dynamics of insurance payments, in million manats	58
Chart 58. Dynamics of insurance payments on non-life insurance classes, in million manats....	59
Chart 59. Dynamics of insurance sector assets, in million manats	59
Chart 60. Dynamics of insurance sector liabilities, in million manats.....	60
Chart 61. Dynamics of investment activities of the insurance sector, in million manats	60
Chart 62. Average maturity or duration of insurance sector assets and liabilities (in years)	61
Chart 63. Insurance sector's liquidity ratio (ILR)	61
Chart 64. Life insurance sector's liquidity ratio (ILR).....	62
Chart 65. Non-life insurance sector's liquidity ratio (ILR).....	62
Chart 66. Dynamics of insurance premium payables in total assets, in %	63
Chart 67. Breakdown of payables on delinquencies, in %	63
Chart 68. Dynamics of insurance sector profitability, in million manats.....	64
Chart 69. Dynamics of insurance sector's loss rate, in %	64
Chart 70. Dynamics of loss rate on auto civil liability compulsory insurance, in %	65
Chart 71. Dynamics of loss rate on medical insurance, in %	65
Chart 72. Dynamics of the loss ratio for the motor vehicle insurance class, in %.....	66
Chart 73. Dynamics of total regulatory and required capital, in million manats.....	66
Chart 74. Capital market turnover, in billion manats.....	69
Chart 75. Dynamics of repo operations, in million manats	70
Chart 76. Size of primary and secondary market operations, in billion manats	70
Chart 77. Dynamics of government securities in circulation, in billion manats.....	71

Chart 78. Dynamics of balance sheets of investment companies, in million manats	71
Chart 79. Dynamics of client assets of investment companies, in million manats	72
Chart 80. Dynamics of profitability of investment companies, mln manatla	72
Chart 81. Dynamics of total regulatory capital and capital requirement, in million manats	73
Chart 82. Dynamics of GDP from construction, in million manats	74
Chart 83. Investments in fixed capital in the construction sector and the dynamics of the share of investments in residential building construction within those investments	75
Chart 84. Dynamics of annual growth rate of primary and secondary market housing prices	76
Chart 85. Dynamics of mortgage portfolio, in billion manats	76
Chart 86. Dynamics of the growth rate of housing prices and disposable income of the population, in %	77
Chart 87. Dynamics of affordability index, in %	78
Chart 88. Dynamics of the business portfolio, in billion manats	79
Chart 89. Loan portfolio to GDP ratio (across economic sectors)	80
Chart 90. Share of loans directed to fixed capital by sectors of the economy, in %	80
Chart 91. Dollarization of the business portfolio, in %	81
Chart 92. NPL ratio dynamics across economic sectors	81
Chart 93. Profitability of non-financial companies, in %	82
Chart 94. Liquidity of non-financial companies	83
Chart 95. Leverage of non-financial companies	83
Chart 96. Ratios of operating income to interest expenses and debt to operating income for non- financial companies	84
Table 1. Plan of implementation of the LCR ratio requirement in the national currency	24
Table 2. Main banking system indicators, in million manats	46