

Regulation on credit risk management in banks

1. General provisions

1.1. This Regulation has been developed in accordance with Article 34.5 of the Law of the Republic of Azerbaijan ‘on Banks’ and determine minimum requirements on credit risk management in banks.

1.2. Credit risk management is part of a risk management system in banks.

1.3. The organizational structure of credit risk management in banks is regulated with the ‘Corporate governance standards in banks.’

2. Definitions

2.1. The definitions used herein bear the following meanings:

2.1.1. credit risk – the risk of loss resulting from borrower's, issuer's, or counterparty's failure to perform obligations under contractual terms.

2.1.2. effective annual rate – annual interest rate on a loan calculated as per Annex 2 herein.

2.1.3. foreign exchange hedging – means for reducing losses that may arise from exchange rate fluctuations.

2.1.4. non-performing loan – loan classified as substandard based upon regulations of the Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank).

2.1.4-1. *green loan – a loan granted for the purpose of fully or partially financing, including refinancing, existing or new green activities.*

2.1.4-2. *green activity – activities specified in Annex No. 4 to this Regulation.*

2.1.4-3. *sustainability profile – the aggregate of indicators reflecting the impact of borrower's activities on the environment and climate, and consequently on society.*

2.1.4-4. *sustainability-linked loan – a loan product granted based on the measurement of the borrower's performance against predefined key sustainability targets, aimed at improving the sustainability profile over the term of the loan, achieving sustainability targets, and supporting environmentally and socially sustainable economic activities.*

2.1.4-5. *sustainable loans – green and sustainability-linked loans.*

2.1.4-6. *Key Performance Indicators (KPIs) – main indicators for measuring the borrower's achievement of sustainability targets (reduction of Scope 1 and 2 greenhouse gas (GHG) emissions, etc.).*

2.1.4-7. *Key Sustainability Targets (KSTs) – targets established based on KPIs for the improvement of the borrower's sustainability profile (a 30% reduction in GHG emissions within 5 (five) years through an increase in renewable energy sources, etc.).*

2.1.4-8. *climate risk – risks arising from climate change, including: physical risks (resulting from the increased frequency and severity of acute natural events (floods, forest fires,*

landslides, storms, etc.), as well as gradual changes in climate indicators (temperature rise, increased precipitation, sea-level rise, etc.); and transition risks (arising in the process of adaptation to a low-carbon economy, including changes in legal regulation, the technological environment, etc.).

2.1.5. *behavioral model* - a method applied to determine the projected income of the borrower based on information about him/her (turnover, expenses, etc.).

2.1.6. *model validation* - an evaluation process carried out to determine the adequacy of the applied model by comparing predicted outcomes with actual results.

2.2. The definitions 'consumer loan', 'business loan', 'agriculture loan', 'restructuring', 'market price', 'debt-to-income (DTI) ratio used herein bear the meanings specified in the 'Regulation on asset classification and creation of specific reserves for loan loss provisioning' approved by Decision No 29/1-1 of the Management Board of the Central Bank dated 22 July 2022; 'credit exposure', 'loan to value (LTV) ratio' the meanings specified in 'Regulation on prudential ratios and requirements related to credit risks, including large credit risk exposures' approved by Decision No 29/1-2 of the Management Board of the Central Bank dated 22 July 2022; and the definitions 'risk appetite', 'risk profile' və 'shock' those specified in the 'Corporate governance standards in banks' approved by Decision No 41/1 of the Management Board of the Central Bank dated 28 August 2023.

3. Credit risk management system

3.1. The credit risk management system in banks includes the following elements:

3.1.1. the credit risk management policy.

3.1.2. credit risk assessment.

3.1.3. collateral appraisal.

3.1.4. monitoring of credit risks.

3.1.5. management of non-performing loans (NPLs).

3.1.6. stress-testing.

3.1.7. reporting.

3.1.8. the organizational structure of credit risk management.

4. The credit risk management policy

4.1 A chief risk officer (CRO) develops a credit risk management policy according to the bank's business strategy, risk appetite and risk management policy. The credit risk management policy should both meet other prudential norms determined with this Regulation and the Central Bank and be adequate to the size, complexity, and risk profile of its operations.

4.2. The bank's credit risk management policy determines the emergence of credit exposures of the bank, maintenance of investment operations, decision-making related to new bank products, the effect of the macroeconomic environment related to granting of loans. The credit risk management policy should address at least the following:

4.2.1. minimum securitization requirements (types, value of collateral, etc.).

4.2.2. the maximum size of unsecured and foreign currency denominated loans and requirements on their issue.

4.2.3. the cap on the loan amount for credit products.

4.2.4. an activity cycle and seasonal characteristics of the agricultural entity when setting conditions on agriculture loans.

4.2.5. the cap of NPLs in the lending portfolio.

4.2.6. the management of NPLs.

4.2.7. the requirements regarding bank's investment operations.

4.2.8. the internal risk rating system and risk weight criteria.

4.2.9. requirements for a new activity direction and introduction of a new product.

4.2.10. criteria on types of derivative financial instruments and counterparties.

4.2.11. maximum limits on at least the following directions:

4.2.11.1. the DTI ratio (on borrowers, types of loans etc.).

4.2.11.2. a cap on credit exposure per borrower or related group of borrowers.

4.2.11.3. the volume of related party operations.

4.2.11.4. credit exposure on loan products, economic sectors, geographical area, bank branch.

4.2.11.5. maximum amount of a loan automatically assessable via information systems.

4.2.11.6. the ratio of total size of loans to total size of deposits.

4.2.11.7. types of collateral, the LTV ratio on the types of collateral and the size of credit exposure on unsecured loans.

4.2.11.8. the size of credit exposures on other credit institutions.

4.2.11.9. the size of derivative financial instruments that the bank invested in.

4.2.12. segregation of powers and responsibilities of structural units and employees involved in the process of credit exposure creation and credit risk monitoring. The segregation of powers and responsibilities is determined depending on how risky the borrower, the issuer and the counterparty is, as well as the amount of the transaction.

4.3. where the bank's strategic plan envisages financing of agriculture, the credit risk management policy should specify at least the cap on loan amount related to agriculture loans, minimum collateral requirements, credit risk assessment, monitoring, including requirements related to the frequency of monitoring and credit administration.

4.3-1. When a bank uses behavioral models in the lending process, the credit risk management policy should include requirements regarding the bank's risk appetite and risk limits for such loans.

4.4. The Supervisory Board approves and revises the credit risk management policy and changes therein at least annually. In case of discrepancies from the credit risk management policy, the structural unit engaged in the risk management function informs the RMC and the Management Board accordingly.

4.5. If it becomes necessary to allow deviations from the limits set in the credit risk management policy, only the Supervisory Board may decide to allow such deviations based on the proposal of the RMC.

5. Credit risk assessment

5.1. The bank assesses credit risks during emergence of credit exposure, investment activities, as well as introduction of new bank products.

5.2. Borrower's creditability is assessed to evaluate credit risks on borrowers. At that at least the following is considered:

5.2.1. Consumer loans:

5.2.1.1. borrower's DTI ratio.

5.2.1.2. borrower's age and work experience.

5.2.1.3. the purpose and source of repayment of a loan.

5.2.1.4. borrower's credit history.

5.2.1.5. the LTV ratio (in case of a collateralized loan).

5.2.1.6. alternate ways for debt repayment if borrower's main income decreases.

5.2.1.7. the level of borrower's expenses, as well as probabilities for increase or decrease in borrower's expenses over loan maturity.

5.2.2. the following is considered along with the criteria specified in sub-items 5.2.1.3 – 5.2.1.5 herein related to other credit exposures (business loans to large and medium-sized businesses, guarantees, letters of credit, etc.):

5.2.2.1. the ways to repay debt in case of deterioration of borrower's cash flows under different scenarios.

5.2.2.2. if a legal entity, information on borrower's shareholders and members of its management body.

5.2.2.3. borrower's business experience and position in the sector.

5.2.2.4. borrower's financial standing (where the borrower is a holding company or a company in the holding company, on a consolidated basis). At that, borrower's, or issuer's financial statements (if any, financial statements reviewed by an external auditor together with an auditor opinion), reports submitted to tax authorities, as well as borrower's or issuer's business plan (if a new type or area of business is created) are reviewed. Borrower's financial statements cover at least the last 2 (two) year period from the date of submission of the loan application (if the borrower has been in business for less than 2 years, the period during which the borrower has been operating).

5.2.3. At least one annual turnover and financial statements are considered in business loans to small entrepreneurs along with the criteria set in sub-items 5.2.1.3-5.2.1.5 herein.

5.2.4. Along with the requirements of sub-items 5.2.1-5.2.3 herein, borrower's sensitivity to exchange rate risk is assessed on credit exposures issued in foreign currency. In this case, the following is considered:

5.2.4.1. borrower's cash flows in a foreign currency.

5.2.4.2. exchange rate hedging instruments used by the borrower and their validity.

5.2.4.3. borrower's ability to repay increased credit liability in the event the foreign currency gains against the national currency.

5.2.4.4. borrower's currency position (difference between borrower's foreign currency denominated exposures and liabilities).

5.2.5. where the loan is granted to the borrower to use in a foreign country, the effect of economic and political factors in the country where the loan is used on the ability to repay, performance of obligations under the loan agreement, as well as risks likely to occur in the sale of collateral should also be considered, in addition to the requirements of sub-items 5.2.1-5.2.3 herein.

5.3. The requirements of Item 5.2 herein are considered when conducting investment operations, including credit risk assessment of securities trading transactions, depending on the type of counterparty and issuer's business entities (small, medium, large entrepreneur). At that, the credit rating of the counterparty and the issuer issued by international reputable rating agencies ('Fitch', 'Moody's' and 'Standard & Poor's') (if any), liquidity, the ability to meet contractual obligations are included in credit risks assessment.

5.4. When assessing borrower's creditability on agriculture loans, existence of insurance coverage covering at least the loan amount, as well as providing for the condition that in case of an insured event, the balance of the loan insurance payment will be paid to the bank as the beneficiary (agrarian insurance, etc.) along with the requirements of Item 5.2.2 herein are considered. When loan financing is carried out by more than one bank, the insurance agreement should determine the conditions for allocation of insurance funds between banks in the event of an insured event.

5.4-1. For green and sustainability-linked loans, during the assessment of the borrower's creditworthiness, one or more of the following documents confirming the green and/or sustainable nature of the activity, project, and/or product is required from the borrower:

5.4-1.1. a self-assessment document.

5.4-1.2. a validation opinion obtained from specialized person(s) regarding the activity, project, and/or product.

5.4-1.3. a certification document issued by international organizations.

5.4-2. The self-assessment document is prepared by the borrower for the purpose of confirming compliance of the green or sustainability-linked nature of the loan with the requirements of this Regulation.

5.4-3. The validation opinion obtained from specialized person(s) include the borrower's KSTs and a third-party opinion on the plans for achieving those targets. Specialized person(s) may include public authorities (institutions), environmental auditors, environmental consultants, consulting companies, or rating agencies selected by agreement between the borrower and the bank and should:

5.4-3.1. except for public authorities (institutions), have at least 5 (five) years of professional experience in the assessment of green and sustainability-linked activities, projects, and/or products.

5.4-3.2. have predefined methodologies and procedures to properly conduct assessments.

5.4-3.3. have specialized personnel in the relevant assessment areas (carbon emissions accounting, renewable energy, energy efficiency, etc.).

5.4-3.4. include information on the qualifications and experience of the persons conducting the assessment or indicate the sources where such information is available in the validation opinion.

5.4-3.5. avoid conflict of interests with the borrower.

5.4-4. A certification document issued by international organizations is defined as a certificate confirming the environmental or energy efficiency objectives of a product, issued by internationally recognized and accredited organizations or standard-setting bodies, or directly by the manufacturer. Such documents may include certifications specified in Annex 4 to this Regulation under the section 'Key Criteria/Technical Standards and Required Certifications' for green activities, or, where available, ESG rating documents.

5.4-5. Certification document(s) issued by international organizations are sufficient for assessing whether a product is green in cases where the product is not technically complex and relevant parameters are confirmed by the manufacturer's product certificate. Examples include loans for the purchase of a new air conditioner with an A+++ energy efficiency certificate, loans for the purchase of an electric vehicle, etc.

5.4-6. To assess sustainability-linked loans and monitor sustainability indicators during the loan term, relevant KPIs and KST indicators for each loan are determined in advance by agreement between the parties in the contract. The bank may require confirmation of compliance with the relevant indicators by specialized person(s)

5.4-7. KPIs and KSTs should be aligned with borrower's core business activities, be of strategic significance for its current and future operations, be calculated based on a clear and precise methodology, and remain unchanged throughout the term of the loan.

5.5. At the time of credit exposure, it is verified whether the borrower relates to one borrower or a group of related borrowers, as well as to bank's related parties.

5.6. Borrower's creditability is assessed in all cases, whether the loan exposure is secured or unsecured. No assessment of borrower's creditability is required if the borrower's deposit account in national or freely convertible foreign currency acts as collateral for the credit exposure and is blocked by the bank in equal part to the credit exposure and the bank has the right to write off the funds without the account holder's order according to the agreement.

5.7. Where a bank acts as a participating bank in issue of syndicated or joint loans, it relies on its comprehensive analysis of the loan application in its entirety, rather than a joint assessment of the organizing bank or other participating banks in adequate assessment of the risk assumed by the bank.

5.8. Automated assessment of borrower's creditability via information systems is maintained in consideration of the requirements herein on the loans determined in the bank's credit risk management policy.

5.9. The structural unit of the bank performing credit risk assessment function should be separate from the structural unit of the bank performing the function of issuing loans.

6. The internal risk rating system

6.1. The bank develops an internal risk rating system (hereinafter – IRR) to evaluate a borrower related credit risk in line with the credit risk management policy. The IRR system should classify borrowers on risk ratings and allow to define overall risk profile on the portfolio.

6.2. The IRR system should be adequate to bank's activities and size, and the complexity of its operations.

6.3. The borrower's risk rating is set at the time of credit exposure and is reviewed at least once a year. The borrower's risk rating is reconsidered in the event of changes in economic conditions, as well as the borrower's behavior on the liability.

6.4. When setting the borrower's risk rating, its financial and quality (area of activity, sustainability, credit history, etc.), as well as macroeconomic indicators are considered.

6.5. In case of a new credit exposure, as well as if the amount of an existing credit exposure is increased, borrower's risk rating is reset.

6.6. The credit risk management policy includes a methodology for setting a risk rating, its renewal frequency, and cases.

6.7. At least once a year, the bank's risk management unit conducts re-verification of the IRR system (comparison of probable results of the model with actual ones) and inspection findings are submitted to the RMC and the Management Board.

6-1. Use of behavioral models in the lending process

6-1.1. Behavioral models can be used considering the requirements of the 'Regulation on prudential ratios and requirements related to credit risks, including large credit risk exposures.' Based on behavioral models, the borrower's projected income data can be determined and considered in the calculation of the borrower's creditability in accordance with the requirements of Item 5.2 herein.

6-1.2. Behavioral models are developed and improved by a separate structural unit that is not part of the bank's risk management function

6-1.3. The employees of the structural unit specified in Item 6-1.2 herein, including at least one employee specializing in financial modeling, should have work experience in data analysis (data analytics) or financial modeling within the banking sector.

6-1.4. Employees of other structural units of the bank and/or external experts may be involved in the development process of the behavioral model, avoiding conflict of interests.

6-1.5. Before the behavioral model is approved, internal and external validation are conducted. External validation of the behavioral model follows the internal validation.

6-1.6. The internal validation of the behavioral model is carried out by the structural unit responsible for the risk management function.

6-1.7. The external validation of the behavioral model is conducted by audit firms or specialized companies that perform audits in accordance with international auditing standards. The audit firm or specialized company involved in the validation of the behavioral model should have at least three (3) years of experience in model validation and provide the bank with information about the model validation projects they have participated in.

6-1.8. After the internal and external validation of the behavioral model is carried out and agreed upon with the Management Board and the Risk Management Committee, it is approved by the Supervisory Board. Once the behavioral model is approved, it is internally communicated within the bank, and submitted to the Central Bank within the next 5 (five) working days together with the results of the external validation.

6-1.9. Validation procedures for the behavioral model are regulated by bank's internal rules. The internal validation of the approved behavioral model is conducted regularly in

accordance with internal rules, while the external validation is carried out at least once every two years.

6-1.10. Results of the validation of the approved behavioral model, as well as information regarding the loan portfolio issued based on the behavioral model, including the quality of the portfolio, are submitted to the Management Board, the Risk Management Committee, and the Supervisory Board at intervals specified in the bank's internal rules.

7. Securitization assessment

7.1. When appraising collateral, at least the following is considered:

7.1.1. where a guarantee acts as collateral, whether the guarantor acts as a guarantor of several loan agreements at the same time, as well as the borrower and the guarantor are mutual guarantors of each other's loans is considered. Guarantor's creditability is assessed in accordance with Part 5 herein.

7.1.2. where guarantees function as collateral, creditability of the guarantor is assessed in accordance with Part 5 herein.

7.1.3. where movable property acts as collateral, its encumbrance is verified in the State Register of Movable Property Encumbrance, as well as its market price, sale opportunities are monitored.

7.1.4. where real estate acts as collateral, its market price and sale opportunities are analyzed.

7.1.4-1. *climate and other ESG risks related to collateral are considered (consideration of flood risk based on the geographical location of real estate assessed as collateral, etc.).*

7.1.5. where securities act as collateral, its market price, issuer's creditability, and sale opportunities of securities are analyzed.

7.1.6. where the pledge of rights acts as collateral, the legal validity of the subject of pledge, and where a debt claim acts as collateral, the solvency of the relevant debtor is assessed in accordance with Part 5 herein.

7.2. Where securitization as per Item 7.1 herein acts as collateral, the term of the collateral should not be less than the term of the liability it secures.

7.3. *Collateral is appraised by an employee of the bank who meets the requirements set out in Items 7.4 and 7.4-1 herein or by an appraiser (hereinafter – the appraiser) operating in accordance with the Law of the Republic of Azerbaijan 'on Valuation Activities.' The structural unit responsible for the bank's risk management function reviews the list of individuals conducting the appraisal and re-evaluates their performance at least once a year.*

7.4. *The requirements for a bank employee conducting the appraisal are as follows:*

7.4.1. he/she does not participate in the process of lending.

7.4.2. there is no conflict of interests related to appraisal results.

~~7.4.3. he/she is not a related party to the owner of collateral and the borrower.~~

7.4.4. he/she has at least 3 (three) year related work experience.

7.4.5. borrower's creditability does not influence his/her evaluation results.

7.4.6. he/she develops not distorted and unbiased appraisal report.

~~7.4.7. service fee on appraisal does not depend on appraisal results.~~

7.4-1. *The bank employee conducting the valuation and the appraiser should not be a related party to the owner of the collateral or the borrower.*

7.5. The rights of the bank over the collateral pledged by the borrower should be documented in accordance with the legislation.

7.6. When credit exposures against one borrower or a group of related borrowers is over 5% of bank's total regulatory capital, the collateral is assessed separately by two external appraisers. At that, when prices are different, a bank takes the low cost of collateral as the basis.

7.7. The internal rules of the bank establish the criteria for the valuation of collateral and the selection of the *bank employee or appraiser conducting the valuation*.

8. Credit administration

8.1. For each credit exposure, findings of the borrower's credit risk analysis, the loan decision are documented and stored in a credit file. A list of documents and information to be included in the credit file is provided in Annex 1 herein.

8.2. A register of loan applications is maintained and in case of refusal, a bank responds in writing to the person applying for a loan, stating reasons for refusal.

8.3. *When a loan is issued, a loan agreement is signed between the borrower and the bank. Except in cases where mandatory insurance requirements for issuing a loan are specified in the credit risk management policy, the bank offers the customer the option to sign an agreement for insurance of life against death and loss of work capacity, providing coverage for the risks associated with the loan, before signing a loan agreement, including a remote loan agreement with the individual. The bank should obtain insurance premium offers (or notifications of refusal to be insured) from all insurers authorized to provide this type of insurance and then present those offers to the customer without any alterations. The bank facilitates the completion of the information form provided in Annex 3 to this Regulation by the customer and ensures the possibility of signing the insurance agreement with the insurer chosen by the customer. Relationships regarding loan agreements, including consumer loan agreements, as well as life insurance agreements are governed by the Civil Code of the Republic of Azerbaijan and the "Regulation on insurance of borrower's life against death and loss of capacity for work under loan agreements," approved by Decision No. 20/4 of the Management Board of the Central Bank dated 16 May 2024. The proposal to sign the relevant insurance agreement and complete the information form indicated in Annex 3 to this Regulation is provided to the customer by the bank, either in paper form or electronically, with proper registration at the bank.*

8.4. An effective annual interest rate on the loan is calculated as per Annex 2 herein. According to the Law of the Republic of Azerbaijan 'on Advertising,' where the advertisement related to the consumer loan includes information on any cost of the loan, the effective annual interest rate on the loan should be indicated.

8.5. When a loan agreement is signed remotely, the requirements of the Civil Code of the Republic of Azerbaijan and Part 5 of the 'Regulation on opening, maintaining, and closing bank accounts' should be complied with.

9. Credit risk monitoring

9.1. The bank should have procedures and information systems in place to monitor the credit risk. The following is performed to monitor credit risks:

9.1.1. financial indicators of a borrower, counterparty, and issuer, debt burden and liquidity are analyzed.

9.1.2. borrower's and issuer's repayment behavior related to principal, interest liabilities and/or other contractual payments is monitored.

9.1.3. the state and storage conditions of collateralized movable or immovable property is monitored, and impact of changes in the economy on its market price is measured.

9.1.4. if any, the credit rating of the borrower, the issuer, and the counterparty, as well as the market price of the securities are monitored.

9.1.5. use of the credit exposure for its purpose is checked.

9.2. In addition to what is mentioned in Item 9.1 herein on agriculture loans, whether the borrower has legal documents required by law for agricultural areas is verified.

9.2-1. The bank should monitor green and sustainability-linked credit risks at least annually and take appropriate measures to ensure the timely identification of activities that are inconsistent with the bank's strategic plan.

9.2-2. When monitoring sustainability-linked credit risks, the bank should require the borrower to provide information on its KPIs and KSTs (baseline indicator, current indicator, and, where possible, a comparison of KPIs with average market indicators for the sector in which the borrower operates, as well as, where available, a three (3)-year trend for such indicators).

9.2-3. The procedure for monitoring green and sustainability-linked credit risks, as well as the scope of supporting documents required during monitoring as provided for in Item 5.4-1 of this Regulation, are determined by the credit agreement.

9.3. The structural unit that performs credit risk monitoring function should be separate from the structural unit that performs the function of issuing loans. Bank's internal rules define the structural unit performing the function and frequency of monitoring, documenting the detected problems and measures to be taken. *Mechanisms should be established to reclassify green and sustainability-linked loans into a non-green or non-sustainability-linked category in cases where such loans are not used in accordance with the contractual terms.*

10. Credit risk management on a portfolio level

10.1. A bank should have a portfolio level credit risk management and monitoring system.

10.2. Credit risk management on a portfolio level is maintained through:

10.2.1. the limitation or complete restriction of new credit exposures.

10.2.2. the introduction of derivative financial instruments.

10.2.3. sale of credit exposures by complying with banking secrecy protection procedures.

11. Management of non-performing loans

11.1. The Supervisory Board approves the NPL management procedure on bank's loan portfolio based on the Management Board recommendation and addresses at least:

11.1.1. the effect of internal and external factors on NPL management.

11.1.2. goals to increase bank's capacity to manage NPLs (HR, IT, etc.).

11.1.3. short-, medium- and long-term targets to reduce NPLs.

11.1.4. monitoring of NPL management.

11.2. The Management Board develops, approves and reviews at least once a year actions plan in line with the NPL management procedure, which covers at least the following:

11.2.1. measures to reduce NPLs and their implementation periods.

11.2.2. classification of NPLs into different segments and actions to be taken per segment.

11.2.3. resources required to implement actions.

11.2.4. coordination of the implementation of the actions plans with stakeholders.

11.3. The actions plan is implemented by the structural unit of the bank, which performs the NPL management function. The structural unit performing the NPL management should be separate from the structural unit performing the function of issuing loans and be provided with necessary resources. The Management Board submits a quarterly report on the implementation of the action plan to the Supervisory Board.

11.4. Effectiveness of the bank's NPL management is monitored at least based on:

11.4.1. the change in the volume of NPLs over the period.

11.4.2. amount of fees and net income from fees.

11.4.3. the number and types of restructuring measures, efficiency indicator per type.

11.4.4. legal measures taken, including the collateral sold.

12. Loan restructuring

12.1. The bank may restructure a loan to ensure fulfillment of liabilities due to borrower's financial difficulties. Loan restructuring consists of the following procedures:

12.1.1. assessment of borrower's creditability under new conditions. Borrower's creditability under new conditions is assessed according to the requirements herein. The assessment uses information provided as of the date of restructuring. The borrower's creditability under new conditions should suffice to repay the loan. Loan security (if any) is valued at the date of restructuring under the following conditions:

12.1.1.1. no revaluation of collateral is made after 12 months from collateral's last valuation date to the date of restructuring (except when changes in the economy have an adverse effect on the market value of collateral).

12.1.1.2. collateral is revalued if more than 12 months have passed since the last appraisal date of the collateral to the date of restructuring.

12.1.2. selection of the restructuring action. Internal rules define restructuring measures in line with diverse types of loans, the nature of the economic sector and borrowers.

12.1.3. establishing repayment terms. Repayment terms are set adequately to borrower's creditability.

12.1.4. monitoring. Effectiveness of restructuring measures is assessed through monitoring in line with the borrower's repayment behavior.

13. Stress – testing

13.1. The bank conducts a stress-test to assess the potential effect of one or several shocks on the loan portfolio.

13.2. Stress testing is an integral part of the bank's risk management system and is conducted at least once every 6 months by the structural unit of the bank, which performs the risk management function for the following purposes, and its findings are submitted to the RMC and the Supervisory Board:

13.2.1. improve credit risk management related policy and internal rules.

13.2.2. pre-determine additional capital requirements.

13.2.3. develop an effective contingency plan.

13.3. Stress-testing relies upon a stress-testing program established by bank's internal rules. A stress testing program is developed by the Management Board, approved by the Supervisory Board, reviewed at least annually, and covers at least the following:

13.3.1. stress-testing methodology, frequency, and cases.

13.3.2. stress-testing scenarios.

13.3.3. expert judgment on stress-test findings.

13.3.4. actions plan in line with the stress test findings.

13.4. The bank should have adequate resources to fulfill stress-test program (HR, IT).

13.5. Scenarios should be adequate to reality and the specifics of the lending portfolio.

13.6. One or more of the following shocks are considered when constructing scenarios:

13.6.1. unfavorable changes in economic conditions or individual economic sectors.

13.6.2. reduction in the cost of collateral (including considerable deterioration of the property condition of the guarantor or warrantor).

13.6.3. liquidity shortfall.

13.6.4. changes in interest and/or exchange rates.

13.6.5. force-majeure cases.

13.6.6. customer insolvency (rise in the number of NPLs).

13.6.7. amendments to the legislation.

13.7. The Bank submits to the Central Bank information on stress testing findings together with prudential reports of the relevant period.

13-1. Third party involvement in the lending process

13-1.1. The national postal operator, non-bank credit institutions, payment and electronic money institutions may be involved in the lending process. In this case such an institution can:

13-1.1.1. receive documents required for the loan application.

13-1.1.2. *conduct initial assessments of borrowers.*

13-1.1.3. *deliver documents related to loans, including those requiring the customer's physical signature, as well as payment instruments, to the bank and/or customers, as appropriate.*

13-1.2. *When the bank involves the persons specified in Item 13-1.1 of this Regulation in the process of granting loans, a bank account is opened for this purpose as follows:*

13-1.2.1. *remotely by the bank or*

13-1.2.2. *If the person applying for the loan is an existing customer of the persons specified in Item 13-1.1 of this Regulation, the bank may rely on the customer due diligence conducted by those persons (except for payment institutions exclusively providing payment initiation services and/or account information services) in accordance with Article 5 of the Law of the Republic of Azerbaijan 'on Prevention of the legalization of criminally obtained property and the financing of terrorism'(hereinafter – the AML/CFT Law) (if the account is not opened remotely).*

13-1.3. *Where the bank's strategic plan includes the involvement of the persons specified in Item 13-1.1. of this Regulation to the lending process, the credit risk management policy and bank's internal rules should specify at least limits on loan products and related products granted with the involvement of third parties (if any), fees for relevant services and a procedure for providing services, credit administration, document and information sharing requirements, and obligations for protecting banking secrecy information. At that, the requirements of Parts 3 and 4, sub-items 5.1 and 5.2.3 of the 'Regulation on the organization of work with payment agents' approved by Decision 02/1 of the Management Board of the Central Bank dated 17 January 2024.*

14. Reporting

14.1. To effectively manage credit risks, a report on the credit risks the bank is exposed to is prepared by the structural unit of the bank performing the risk management function. The report provides information on the risks the bank is exposed to on bank's loan and investment portfolios, adequacy of these risks to the bank's risk management policy, as well as the impact of risks on bank's capital.

14.2. The report is developed monthly and submitted to the bank's Supervisory Board, RMC, and Management Board.

14.3. In case of deviations from the bank's risk management policy, as well as in case of sudden changes in the macroeconomic situation, the credit risk report may be prepared and submitted more frequently than the periodicity specified in Item 14.2 herein.

Credit file

1. General documents

1. Loan application (order) indicating loan amount, currency and term required under the loan agreement signed by the borrower him/herself or his/her authorized person.

2. Regarding the borrower, or his/her authorized representative, along with the information and documents obtained in accordance with the 'Regulations on customer compliance and verification measures during application of new technologies, identification of risk factors and assigning customer profiles to risk groups' adopted in accordance with the AML/CTF Law:

2.1. if the borrower is a legal entity or a private entrepreneur, the actual address.

2.2. borrower's activity area (individual's employment area or social status).

3. If the borrower is a legal entity, a relevant decision of its competent management body on obtaining a loan and a document confirming the authority of the person empowered to sign loan documents.

4. the source of cash flows for loan repayment (indicating main and reserve sources).

5. information whether the loan is secured or non-secured.

6. a report on assessment of borrower's creditability developed by the bank.

7. a business plan (if required depending on the type of the loan).

8. opinion of relevant departments or authorized persons of the bank on granting a loan in accordance with internal procedures.

9. extract from the minutes of the meeting of authorized units of the bank on issuance of loans or a decision to grant a loan signed by relevant authorized persons.

10. loan agreement.

11. Information constituting credit history on borrower's liabilities in the cases provided for in this Regulation.

12. If the borrower is a legal entity, its annual financial statements approved with auditor opinion (if any) (obtained at the time of issue of the loan) for the fiscal year ended and interim financial statements. If the borrower is the bank's related party, its annual financial statements for at least recent 2 years approved by the auditor's opinion (if any).

13. If the borrower is a legal entity, annual financial statements over the loan maturity.

14. If the borrower is a legal entity, bank's opinion on its corporate governance structure.

15. Information on concentration risk related to one borrower or related borrowers (if any).

16. If the borrower is a legal entity/individual, internal rating issued by the bank.

17. If borrower is a legal entity, results of the analysis of the sector it operates in.
18. Information on exchange rate hedging instruments used by the borrower against currency risk (if any).
19. Documents confirming the intended use of the loan (copies of borrower's agreements with sellers and contractors, documents confirming expenses, etc.).
20. Report on the use of the loan for its intended purpose during the loan maturity and on findings of review and monitoring of the borrower's financial condition, prepared by the relevant department of the bank.
21. Agreements and other documents confirming the loan restructuring.
22. Standard notification form on the consumer loan delivered to the consumer.
23. If the loan is granted through a related credit agreement in connection with the purchase of a specific goods or supply of services, a document confirming the purchase of those goods or services.
24. *An insurance agreement (if any) and other associated documents.*

2. Securitization Documents

1. A collateral agreement concluded (approved) in accordance with the legislation.
2. Copies of documents confirming the right of ownership about collateral.
3. Documents confirming consent of all owners in connection with formalization of collateral if it is jointly or third party owned (in cases where the consent is provided for by law), as well as documents confirming the consent of the previous pledger (mortgagor) during the subsequent pledge, unless the subsequent pledge is prohibited by the previous pledge agreement.
4. Documents confirming the purchase price of the asset if the bank finances purchase of the collateral (real estate, car, etc.).
5. Report on results of the appraisal of the pledged collateral, indicating the date, method, *the bank employee, or appraiser conducting the valuation*, and the appraisal results.
6. Report on inspection of collateral's physical and technical condition: information on the type of collateral inspected, the place of inspection, first, last names and positions of the person conducting it, as well as results of the appraisal (indicating its condition, etc.).
7. Documents related to insurance (insurance contract and certificate) if the bank requires insurance of collateral in favor of the bank.
8. If collateral is in the form of a guarantee or a warranty, information on the financial condition of the guarantor or the warrantor and results of its assessment by the bank.
9. Documentation of the replacement of collateral (if necessary).
10. If the pledger is a legal entity:
 - 10.1. foundation and state registration documents.
 - 10.2. decision of pledger's competent management body (if the powers belong to the collegial management body).
 - 10.3. documents confirming authorities of the person empowered to sign a collateral agreement.

11. If the pledger is an individual:
 - 11.1. information confirming source(s) of his/her income.
 - 11.2. information on his/her creditability, including information constituting credit history.
12. Documents confirming blocking of account for loans secured with pledged money.

3. Other documents

1. Documents on debt collection (letters to borrowers, results of debt collection measures, etc.).
2. Documents on construction projects for construction loans, including reports on project implementation, estimates, actual costs, documents on completion of projects and their stages, and reports on construction inspections.
3. Other legal documents (e.g., any formal claim against the borrower or a formal complaint / claim filed by the borrower against the bank).
4. Correspondence with the borrower.
5. Other documents provided for in internal procedures of the bank.
6. The following documents additionally on agriculture loans:
 - 6.1. permits, certificates and other legal documents of the borrower in the field of agriculture (if required by the legislation).
 - 6.2. sales plans, agreements, or protocols of intent for the sale of the product to be produced.

Methodology for calculation of an effective annual rate (EAR)

A. The EAR is calculated using the mathematical equation shown below:

$$S = \sum_{k=1}^n A_k \left(1 + \frac{x}{m}\right)^{-k}$$

S – net loan amount given to a borrower, i.e., difference between allocated loan and current payables to the bank.

k – serial number of cash flow (payment and other expenses).

n – number of cash flows (payments and other expenses).

x – effective annual rate.

m – annual payment interval.

A_k – k total cash flows (payments and other expenses) on loan agreement. Two-way cash flows are entered in the calculation with opposite mathematical signs, i.e., cash outflows with 'negative' and cash inflows with 'positive' signs.

B. The following spending items are not included to EAR calculation:

a) expenses related to the requirements of the legislation (e.g., compulsory insurance, notary fees, etc.), not to the terms of the loan agreement.

b) insurance costs that do not restrict access to credit.

c) insurance premiums not known to the bank in advance.

d) expenses likely to arise from borrower's non-compliance with the terms of the loan agreement (e.g., penalties for delay, delinquency payments, etc.).

e) payments envisaged in the loan servicing agreement, the amount and/or duration of which depends on the decision and/or behavior of the borrower, including:

i. commissioning expenses for premature repayment of the loan in full or in part.

ii. expenses for exceeding overdraft limit set for the borrower.

iii. payments for obtaining information on the status of the loan debt.

iv. credit card conversions and other similar deductions.

C. EAR on loans issued via credit cards (lines) is calculated considering the following:

a) if the loan agreement allows the borrower to act freely on use of the loan, use of the loan in full on the date of entry into force of the agreement is considered. If the loan is to be used in installments, the amount of the part that can be freely used is considered.

b) if the loan agreement defines a free behavior on loan use and different interest rates and commission requirements are applied on this basis, calculation considers the highest possible requirements.

c) If the loan agreement does not envisage a repayment schedule, the following is assumed:

i. loan maturity is one year.

ii. making repayments monthly and in equal installments.

d) if the loan agreement repayment schedule specified only the term, and amount of repayments is free (i.e. not set by the agreement), it is assumed that the smallest payment (only interest and (or) other payments specified in the agreement) will be made and the principal amount will be paid at the end of the term.

***Information regarding the insurance of the borrower's life against death and loss
of capacity for work under loan agreement***

1. Borrower's identification information:

First, last, middle names: _____

ID card number: _____

PIN: _____

2. The borrower is offered to enter into an insurance agreement on **insurance of life against death and loss of capacity for work** under the loan agreement with one of the following insurers:

" _____ " OJSC

" _____ " OJSC

" _____ " OJSC

" _____ " OJSC

" _____ " OJSC

3. The initially calculated insurance premium for the specified insurers during the term of the loan agreement*:

" _____ " OJSC _____

" _____ " OJSC _____

" _____ " OJSC _____

" _____ " OJSC _____

" _____ " OJSC _____

4. In case of installments, the portion of the initially calculated insurance premium to be added to monthly installment:

" _____ " OJSC _____

" _____ " OJSC _____

" _____ " OJSC _____

" _____ " OJSC _____

" _____ " OJSC _____

5. EAR calculated under the loan agreement without concluding an insurance agreement:

6. **EAR** calculated under the loan agreement concluding an insurance agreement:

- " _____ " OJSC _____
- " _____ " OJSC _____
- " _____ " OJSC _____
- " _____ " OJSC _____
- " _____ " OJSC _____

Note:

* The initially calculated insurance premium offered by life insurers is determined based on the information provided about the customer.

7. I acknowledge that I have been informed about the details of the life insurance agreement against death and loss of capacity for work, as it relates to the loan agreement.

I consent to being insured

I do not consent to being insured

Borrower's signature: _____

Date: _____
(day, month, year)

Green activities

1. Renewable energy

Category	Sub-category	Main criteria/technical standards and required certificates
Solar	<i>Production of electricity from solar energy</i>	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Energy generation activities from solar: • In accordance with the 'List of activities requiring environmental impact assessment specified in the Annex to the Law of the Republic of Azerbaijan 'on Environmental Impact Assessment, solar power plants with a capacity exceeding 10 MW require an Environmental Impact Assessment (EIA).
Hydropower	<i>Production of electricity from water energy</i>	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Energy generation activities from hydropower: • In accordance with the 'List of activities requiring environmental impact assessment specified in the Annex to the Law of the Republic of Azerbaijan 'on Environmental Impact Assessment, hydroelectric power plants exceeding 10 MW require EIA.
Wind	<i>Electricity generation from wind power plant</i>	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Construction or operation of electricity generation facilities that produce electricity from wind power: • In accordance with the 'List of activities requiring environmental impact assessment specified in the Annex to the Law of the Republic of Azerbaijan 'on Environmental Impact Assessment,' wind power plants exceeding 1 MW require EIA. • Compliance with the 'Standards on vibration and noise pollution that negatively affect the environment and human health,' approved by Decree No. 796 of the President of the Republic of Azerbaijan dated July 8, 2008.
Bioenergy	<i>Production of biofuel, biomass, biogas, and other bioenergy products</i>	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • All fuel production activities must be carried out using renewable biomass (excluding food and feed crops) or biomass residues. • Where applicable, if wood materials are used, they must be sourced from sustainable forestry (forests and forest lands managed and used in a manner and at a

		rate that maintains their biodiversity, productivity, regeneration capacity, vitality, and their potential to fulfill relevant ecological, economic, and social functions at local and global levels).
	Electricity generation from bioenergy	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Electricity generation activities must be carried out using renewable fuels of biogenic origin, including biomass, biogas, biofuels, and energy derived from waste or residues. • In accordance with the 'List of activities requiring environmental impact assessment specified in the Annex to the Law of the Republic of Azerbaijan 'on Environmental Impact Assessment,' biogas power plants exceeding 10 MW require EIA.
	Heat/cool production from bioenergy	<p>The activity must meet the following criteria:</p> <p>The use of renewable fuels of biogenic origin, such as energy derived from biomass, biogas, biofuels, and waste or residues, in combined heat and power (cogeneration) plants must result in greenhouse gas emission savings of at least 50% (based on national standards).</p>
	Cogeneration of heat/cool and power from bioenergy	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Electricity generation activities must be carried out using energy obtained from renewable fuels of biogenic origin, including biomass, biogas, biofuels, and waste or residues. • In accordance with the 'List of activities requiring environmental impact assessment specified in the Annex to the Law of the Republic of Azerbaijan 'on Environmental Impact Assessment,' biogas power plants exceeding 10 MW require EIA.
Geothermal	Electricity generation from geothermal	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Heating/cooling and electricity generation activities must be carried out using geothermal energy. • In accordance with the 'List of activities requiring environmental impact assessment specified in the Annex to the Law of the Republic of Azerbaijan 'on Environmental Impact Assessment,' geothermal power plants exceeding 10 MW require EIA.
	Heating/ abstraction production from geothermal energy	<p>The activity must meet the following criterion:</p> <ul style="list-style-type: none"> • Heating/cooling generation activities must be carried out using geothermal energy.

	<p style="text-align: center;"><i>Cogeneration of heating/ cooling and energy from geothermal energy</i></p>	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Heating/cooling and electricity generation activities must be carried out using geothermal energy. • In accordance with the 'List of activities requiring environmental impact assessment specified in the Annex to the Law of the Republic of Azerbaijan 'on Environmental Impact Assessment,' geothermal power plants exceeding 10 MW require EIA.
Transmission and distribution	<p style="text-align: center;"><i>Renewal/reinforcement of existing energy systems</i></p>	<p>The activity must not result in the connection of new fossil fuel-based energy sources or an increase in the use of existing fossil fuels.</p> <p>In addition, the activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Upgrade activities must demonstrate a significant improvement in energy efficiency (e.g., reducing energy losses by at least 10%). • Increasing transmission capacity to accommodate higher amounts of renewable energy. • Equipment and systems must be implemented to enhance the management and monitoring of the electricity system, particularly to enable the real-time dispatch, balancing, and dynamic control of variable renewable energy sources. • Enhancing system resilience against extreme weather events and other climate impacts.
	<p style="text-align: center;"><i>Renewal/complementation of sharing systems for established energy systems</i></p>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Construction/installation and operation of equipment and infrastructure where the main objective is an increase of the generation or use of renewable electricity generation. • Installation of equipment to increase the controllability and observability of the electricity system and to enable the development and integration of renewable energy sources.
	<p style="text-align: center;"><i>Smart grid practices</i></p>	<p>Must strengthen the integration of renewable energy sources and reduce dependence on fossil fuels.</p> <p>In addition, the activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Incorporate advanced technologies such as AI, IoT, and big data analytics to optimize grid performance. • Enhance the grid's ability to manage variable renewable energy sources.

		<ul style="list-style-type: none"> • Ensure robust cybersecurity measures are in place to protect the grid infrastructure. • Enable ICT systems and smart management systems.
Storage	Using hydroaccumulation to store electrical energy	<p>The activity must meet all of the following criteria:</p> <ul style="list-style-type: none"> • Demonstrate high efficiency in storing and releasing electricity to ensure minimal energy loss during the process. • Have low lifecycle greenhouse gas emissions, including emissions associated with manufacturing, installation, operation, and decommissioning.
	Using lithium batteries to store electrical energy	<ul style="list-style-type: none"> • Contribute to grid stability, reliability, and flexibility by supporting the integration of renewable energy sources and helping to manage fluctuations in electricity supply and demand. • Promote resource efficiency, reuse, recycling, and the use of sustainable materials to minimize environmental impact and ensure long-term sustainability. • Construction and operation of electricity storage including pumped hydropower storage or electrochemical storage.
Clean hydrogen	Green hydrogen	<p>The activity must meet all of the following criteria:</p> <ul style="list-style-type: none"> • Renewable energy should be used in the production process. • High efficiency in the electrolysis process should be essential. • Emissions should be minimized to reduce the carbon footprint. • Resource efficiency and usage of sustainable materials should be promoted.
	Blue hydrogen	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Other atmospheric emissions from the process, including GHG, must be minimized. • Resource efficiency must be ensured, and the use of sustainable materials should be promoted. • Carbon capture and storage technology must be implemented.
	Turquoise hydrogen	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • The solid carbon generated during the production process must be properly utilized and ensured for use in soil enhancement.

	<ul style="list-style-type: none"> • Other atmospheric emissions from the process, including GHG, must be minimized. • Resource efficiency must be ensured, and the use of sustainable materials should be promoted.
Transport of green hydrogen	<p>The activity must meet all of the following criteria:</p> <ul style="list-style-type: none"> • The transport activity should adhere to safety regulations for secure handling and utilization of clean hydrogen. <p>Energy-efficient transport methods should be prioritized.</p>
Storage of green hydrogen	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Construction of hydrogen storage facilities. • Conversion of existing underground gas storage facilities into storage facilities dedicated to hydrogen-storage.
Production of electricity and heat energy/ Transportation/ Cogeneration of heat and electrical power	<p>The activity must meet the following criterion:</p> <p>Hydrogen fuel must be labeled as clean hydrogen.</p>

2. Energy efficiency

Category	Sub-category	Main criteria/technical standards and required certificates
Energy Efficiency in Industrial Facilities	Upgrade of industrial machinery and technology	<p>The activity must meet the following criterion:</p> <p>Investments in equipment, machinery, or technology show a measurable enhancement in energy performance, resulting in energy savings of at least 20% per unit as compared to the previous year of operation.</p>
	Purchase of energy efficient industrial machinery and technology	<p>The activity must meet all of the following criteria:</p> <ul style="list-style-type: none"> • The highest class of energy efficiency of a product. • A high-efficiency product must be listed on the Azerbaijani section of the TechSelector platform. • If the product is not listed on the Azerbaijani section of the TechSelector platform, it must demonstrate compliance with recognized international energy efficiency standards (ISO, IEC, etc.).
	Cogeneration systems	<p>The activity must meet all of the following criteria:</p>

		<ul style="list-style-type: none"> • Efficiency must be ensured for cogeneration systems to be considered effective and sustainable. • Cogeneration systems should be capable of operating with various types of energy, including renewable energy sources.
Energy Efficiency in Buildings	Energy efficient lighting	<p>The activity must meet all of the following criteria:</p> <ul style="list-style-type: none"> • The highest class of energy efficiency of a product. • Significant contribution to mitigating climate change through energy efficiency or reducing carbon emissions.
	Energy efficient heating / cooling systems	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • The highest class of energy efficiency of a product. • Energy Efficiency Ratio and/or Coefficient of Performance improvement. • Achieving at least 20% energy efficiency in a retrofitted building.
	Energy efficient appliances (end user)	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • The highest class of energy efficiency of a product. • Significant contribution to mitigating climate change through energy efficiency or reducing carbon emissions.
Energy Efficiency in Agriculture	Upgrade of agriculture machinery and technology	<p>The activity must meet the following criterion:</p> <p>Investments in equipment, machinery, or technology enhance energy efficiency, resulting in more efficient use of energy resources compared to the previous year's performance.</p>
	Purchase of EE agriculture machinery and technology	<p>The activity must meet the following criterion:</p> <ul style="list-style-type: none"> • The highest class of energy efficiency of a product.

3. Sustainable water management

Category	Sub-category	Main criteria/technical standards and required certificates
Water Collection, Treatment and Distribution	Water storage	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Implement practices that comply with national water management laws and align with Integrated Water Resources Management (IWRM) principles, ensuring holistic and sustainable resource management. • Conduct regular assessment and management of the water footprint using national standards, identifying areas for improvement in water usage efficiency.

		<ul style="list-style-type: none"> • Use advanced, energy-efficient pumps and conveyance systems to reduce energy consumption. • Use advanced, energy-efficient systems and integration of renewable energy sources (e.g., solar, wind) for water storage and distribution, ensuring alignment with low carbon technologies.
	Water distribution	<p>The activity must meet the following criterion:</p> <ul style="list-style-type: none"> • Ensure the leakage level calculated using the Infrastructure Leakage Index is lower than 1.5.
	Water treatment facilities	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Compliance with national drinking water quality standards. • Ensure all water treatment processes adhere to Azerbaijan's national standards for drinking water quality, ensuring safe and clean water for public use. • Application of AZS 929:2023 Water Quality Standard. • Regular audits and assessments should be conducted to ensure that the energy management system is functioning effectively, with continuous improvements made to enhance energy efficiency. • Using advanced technologies in water treatment facilities to ensure the highest quality of drinking water. • Implement net energy consumption standards for water treatment, ensuring consumption is below 0.5 kWh per m³ of treated water. • Ensure net energy consumption for treatment plants with a capacity of below 10,000 population equivalents (p.e.) is less than 35 kWh per population equivalent per annum. • Ensure net energy consumption for treatment plants with a capacity of above 100,000 p.e., is less than 20 kWh per population equivalent per annum.
Water monitoring	Smart networks and early warning systems - SMART	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Deploy SMART monitoring systems for real time water data collection and analysis. • Implement early warning systems for water-related disasters.
	Water quality and/or quantity monitoring	<p>The activity must meet one of the following criteria:</p>

	<i>processes</i>	<ul style="list-style-type: none"> • Implement monitoring processes that meet both national and international standards for water quality (e.g., ISO 24512, EPA water quality standards). • Deployment of smart monitoring systems for continuous water quality and quantity assessment, integrated with early warning systems for potential water-related risks. • Develop and maintain comprehensive monitoring systems to ensure sustainability and compliance with water quality and quantity standards. • Conduct regular audits and assessments to ensure effectiveness and efficiency of water management and monitoring systems.
Water management	<i>Irrigation</i>	<p>The activity must meet the following criterion:</p> <ul style="list-style-type: none"> • Use irrigation systems with high water use efficiency, improving water use compared to traditional systems.
	<i>Drought and flood management</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Comply with regulations and standards aimed at protecting public health, the environment, and maintaining ecological and hydro meteorological safety. • Develop and implement robust drought and flood risk assessment and management plans. These plans should be regularly reviewed and updated based on new data and emerging risks. • Adopt accurate, timely and effective weather, climate, and human-centered early warning systems to adapt to the effects of climate change and respond to climate-related threat. • Maintain continuous monitoring and data collection to track changes in weather patterns and water levels, ensuring timely updates and adjustments to management plans.
	<i>Construction, operation, and renovation of urban drainage facilities</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Ensure energy-efficient infrastructure with advanced pumps and low-carbon technologies. • Integrate nature-based solutions for water retention and flood mitigation, such as wetlands and green spaces. • Develop flood defense infrastructure and systems to manage both floods and droughts, improving resilience.

4. Pollution prevention

<i>Category</i>	<i>Sub-category</i>	<i>Main criteria/technical standards and required certificates</i>
<i>Air quality</i>	<i>Prevention of air pollution in industrial areas, recycling facilities</i>	<p>The activity must meet the following criterion:</p> <ul style="list-style-type: none"> • Ensuring the reduction of harmful emissions, including particulate matter, nitrogen oxides (NOx), and volatile organic compounds.
	<i>Reduction of pollution from the agricultural sector</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Implementation of precision farming techniques and adoption of integrated pest management (IPM), which must lead to substantial reductions in agricultural pollution. • Introduction / shifting to the good agricultural practice for reducing ammonia emissions.
	<i>Reduction of pollution from the energy sector</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Ensure the activity aligns with energy efficiency standards, such as reducing net energy consumption by at least 20% compared to baseline levels in energy generation or distribution facilities. • Reduce emissions by at least 20% in terms of NOx, SOx, and particulate matter. • Ensure that the carbon intensity of energy produced is below 100 gCO₂/kWh, in line with global best practices. • Achieve a minimum of 20% energy efficiency improvement in energy production or consumption, as measured by kilowatt-hours (kWh) per unit of output.
	<i>Urban comprehensive solution of dust pollution in urban areas</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Compliance with national laws and energy efficiency standards for buildings, leading to a significant reduction in energy consumption and greenhouse gas emissions. • Implementation of urban green infrastructure that enhances air quality through carbon capture and reduction in particulate matter. • Use of dust suppression techniques on construction sites that result in a substantial reduction of airborne particulate matter (e.g., maintaining PM10 levels below specified environmental thresholds). • Achieve a 50% reduction in particulate matter (PM10 and PM2.5) concentrations in urban areas, measured as an annual average compared to the baseline year.

		<ul style="list-style-type: none"> • Conduct continuous air quality monitoring to ensure compliance with a maximum of 50 µg/m³ for PM10 and 25 µg/m³ for PM2.5 in accordance with national air quality regulations.
Soil quality	Soil restoration, remediation, and cleanup	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Invest in activities aimed at the restoration or remediation of degraded land areas. • Achieve a reduction in soil pollutant levels (e.g., heavy metals, hydrocarbons) to levels below the national regulatory standards for safe land use. • Implement bioremediation, phytoremediation, or soil stabilization techniques to enhance soil fertility and reduce erosion, demonstrating improvement in soil structure and water retention capabilities.
	Soil Protection	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Implementation of erosion control measures to prevent soil degradation. • Implement soil protection measures that result in a reduction of erosion compared to a baseline year, as measured by sediment loss in tons per hectare. • Increase soil organic carbon content through actions like reforestation, afforestation, and agroforestry systems. • Introduce practices that minimize soil contamination, ensuring pollutant levels (heavy metals, hydrocarbons) remain below the national environmental safety limits for agricultural or natural land use. • Maintain or improve soil structure by reducing compaction and improving water infiltration rates.

5. Green transport

Category	Sub-category	Main criteria/technical standards and required certificates
Public transport	Passenger rail transport	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Achievement of significant amount of energy efficiency improvement compared to status quo. • Electrification of rail lines. • Implementation of regenerative braking systems. • The trains and passenger coaches produce no direct CO₂ emissions during operation.

		<ul style="list-style-type: none"> • The trains and passenger coaches operate with zero direct CO2 emissions on tracks equipped with the necessary infrastructure but switch to a conventional engine in areas where such infrastructure is unavailable (bimodal operation).
	Electric and hydrogen urban, interurban and rural passenger road transport	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Vehicles must be fully electric or powered by hydrogen fuel cells. • Incorporation of smart charging infrastructure to optimize energy use.
	Hybrid and other types of urban, interurban and rural passenger road transport	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Hybrid passenger vehicles should have a production date not exceeding three years and an engine volume of no more than 2500 cubic centimeters. • Reduction in direct CO2 emissions at significant amount compared to conventional vehicles. • Integration of energy-efficient technologies such as start-stop systems. • Emission standards should comply with the highest implemented Euro Standard regulations or equivalent standard.
Private Transport	Human powered wheeled vehicles and wheeled devices.	<p>The activity must meet the following criterion:</p> <p>The propulsion of personal mobility devices comes from the physical activity of the user, from a zero-emissions motor, or a mix of zero-emissions motor and physical activity.</p>
	Platform rideable vehicles that use electric propulsion	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Small electrically powered vehicles, of a platform rideable variety that are not classified as cycles, mopeds or motorcycles that have zero direct CO2 emissions. • Use of lithium-ion batteries or equivalent with high energy density.
	Electric and hydrogen cars, light commercial vehicles and electric motorcycles/mopeds/bicycles	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • The vehicles have zero direct CO2 emissions. • Compliance with Euro 4, or over high emissions standards. • Incorporation of energy-efficient technologies. • For hydrogen vehicles, the hydrogen used must come from low-carbon sources, such as green hydrogen produced via electrolysis powered by renewable energy.

	Hybrid passenger cars and light commercial vehicles	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Vehicles must be equipped with advanced BMS (battery management system) to optimize battery performance and longevity, ensuring safe and efficient operation. • Manufacturers must conduct an LCA (Life Cycle Assessment) to evaluate the environmental impact of the vehicle production process, aiming for a significant reduction in the overall carbon footprint compared to traditional manufacturing practices. • Vehicles should be equipped with energy efficient systems to improve overall energy efficiency. • Hybrid passenger vehicles should have a production date not exceeding three years and an engine volume of no more than 2500 cubic centimeters.
Freight and Cargo Transportation	Freight rail transport	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Trains and wagons have zero direct CO2 emissions. • Electrification of freight rail lines or use of hydrogen-powered locomotives. • Implementation of energy-efficient technologies. • Adoption of digital technologies and automated systems for optimizing operations, such as smart scheduling, automated train operations, and cargo management to minimize empty runs and increase load factors.
	Freight road transport	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Use of trucks and delivery vehicles powered by electricity or hydrogen. • Euro 4 or an equivalent standard under various classifications.
Water Transport	Passenger transport water	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Zero direct CO2 emissions. • Hybrid and dual fuel vessels derive at least 25% of their energy from zero direct (tailpipe) CO2 emission fuels or plug-in power for their normal operation at sea and in ports. • Incorporation of advanced hull designs and lightweight materials to reduce fuel consumption.

		<ul style="list-style-type: none"> • Waste management systems onboard to reduce waste disposal in water bodies, including proper treatment of wastewater and sewage.
	Freight water transport, vessels for port operations and auxiliary activities	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Zero direct CO2 emissions. • Adoption of energy-efficient propulsion technologies. • Use of shore power systems to reduce emissions during port operations. • Hybrid and dual fuel vessels derive at least 25% of their energy from zero direct (tailpipe) CO2 emission fuels or plug-in power for their normal operation at sea and in ports.
Industrial and Agricultural Vehicles	Industrial and agricultural vehicles	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • vehicles must be powered by electric or hydrogen fuel cells. • achieve a significant amount of improvement in energy efficiency compared to conventional models. • incorporation of energy recovery systems. • vehicles have zero local (direct) GHG emissions (electric). • hybrid and other types of vehicles if direct emissions are below 50 gCO2/km. • Engines in vessels must comply with latest applicable standards.
Infrastructure	Infrastructure for low carbon transport	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Development of charging stations for electric vehicles and hydrogen refueling stations. • Development of electrified railways. • Integration of smart grid technologies to optimize energy use.
	Infrastructure for water transport	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Electrification of port operations and shore power systems. • Development of green logistics hubs and intermodal transport solutions.
	Public walking and cycling infrastructure and cycling schemes	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Construction of dedicated pedestrian and cycling paths. • Implementation of bike-sharing schemes with electric

Smart Transport Systems		bicycles.
	Bicycle parking and storage facilities and equipment	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Secure and weather-protected bicycle parking facilities • Use of sustainable and durable materials in construction.
	Smart transport services and logistics	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Implementation of intelligent transport systems to optimize traffic flow and reduce congestion. • Use of real-time data analytics for efficient logistics and supply chain management. • Development of mobile applications for multimodal transport integration.
Energy Efficiency in Transportation	Energy Efficiency in Road Transportation	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Construction, modernization, maintenance and operation of motorways, streets, roads, other vehicular and pedestrian ways. • Surface work on streets, roads, highways, bridges, or tunnels. • Construction of airfield runways, including the provision of architectural services, engineering services, drafting services, building inspection services and surveying and mapping services and the like as well as the performance of physical, chemical, and other analytical testing of all types of materials and products, and excludes the installation of street lighting and electrical signals.
	Energy Efficiency in Rail Transportation	<p>The activity must meet one of the following criteria:</p> <p>Purchase, financing, leasing, rental, and operation of freight transport on mainline rail networks as well as short line freight railroads.</p>
	Energy Efficiency in Air Transportation	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Purchasing, financing and operation of air crafts, including passenger and freight transportation. • Aircraft must meet or exceed specific fuel efficiency thresholds per passenger kilometer, based on current best practices and comply with the latest ICAO emission standards, including limits on CO₂, NO_x, and

		particulate emissions, in accordance with the CO ₂ Standard for New Aircraft of the International Civil Aviation Organization.
	Energy Efficiency in Maritime Transportation	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Purchase, financing, leasing (with or without crew), and operation of vessels designed and equipped for the scheduled or unscheduled transportation of cargo, passengers, or combined cargo and passengers at sea, along the coast, or on inland waters. • Sea vessels must meet or exceed a specific fuel efficiency threshold (such as liters per passenger-kilometer) or be based on current best practices, and comply with the latest IMO emission standards, in accordance with International Maritime Organization regulations and MARPOL Annex VI – Regulations for the Prevention of Air Pollution from Ships.

6. Sustainable agriculture, farming and aquaculture

Category	Sub-category	Main criteria/technical standards and required certificates
Sustainable Agriculture and Farming	Crop production	<p>The activity must meet one of the following criteria for GHG emission reduction:</p> <ul style="list-style-type: none"> • Implement practices to reduce GHG emissions (CO₂e) per production unit compared to last year, with baseline established through surveys, farm data, LCA, or benchmarks. • Invest in technology or equipment to improve energy performance, resulting in significant savings in energy, greenhouse gases, or resources, (These improvements must be verified by a confirming opinion obtained from specialized persons, as specified in Item 5.4-1.2 of this Regulation, and must be reported to ensure compliance with the required standards). • Conduct mandatory energy audits via energy managers or ISO50001 standards. • Transition to low-carbon crop techniques like agroforestry, conservation tillage, crop rotation, and organic farming. • Enhance soil health, biodiversity, and carbon sequestration through certified sustainable farming practices (e.g., regenerative agriculture, organic farming, or precision agriculture). • Use organic and bio fertilizers in operations.

	<ul style="list-style-type: none"> • <i>Adoption and maintenance of monitoring and tracking technology for precision in agricultural operations, supporting sustainability and adaptability.</i> • <i>Implement agroforestry or similar practices to enhance biodiversity and carbon sequestration.</i> <p><i>The activity must meet one of the following criteria for Sustainable Land and Water Management:</i></p> <ul style="list-style-type: none"> • <i>Implementation of erosion control measures on slopes and other vulnerable areas to prevent soil degradation and promote long-term sustainability.</i> • <i>Using irrigation systems that increase water use efficiency, reducing water consumption by at least 25% compared to conventional irrigation methods.</i> • <i>Application of ISO 46001:2019 Water efficiency management systems standard to optimize use of water.</i> • <i>Application of ISO 14046:2014 Water Footprint – Principles, Requirements, and Guidelines to assess and improve water resource management.</i> • <i>Use precision agriculture technologies to optimize input application, reduce runoff, and enhance overall resource use efficiency compared to baseline practices.</i> • <i>Implement a nutrient management plan that identifies the right rate of nitrogen (N) fertilizer use for the production unit.</i> • <i>Ensure management of soil for net carbon sequestration through a project length of at least five years, including:</i> <ol style="list-style-type: none"> 1. <i>Reduced tillage.</i> 2. <i>Avoided erosion.</i> 3. <i>No open burning.</i> 4. <i>Evidence that soil carbon sequestration is likely to be achieved.</i> • <i>Incorporate soil conservation practices such as planting cover crops and mulching to protect soil resources and enhance soil health.</i>
<p style="text-align: center;"><i>Growing of bio perennial crops</i></p>	<p><i>The activity must meet one of the following criteria:</i></p> <ul style="list-style-type: none"> • <i>Implement of integrated pest management (IPM) strategies that minimize pesticide use and promote sustainable pest control methods.</i> • <i>Develop and implement a farm-level climate risk assessment and adaptation plan to enhance resilience against climate-related risks.</i> • <i>Align with Azerbaijan’s National Adaptation Plan (NAP) process.</i>
<p style="text-align: center;"><i>Growing of</i></p>	<p><i>The activity must meet one of the following criteria:</i></p>

	<p><i>bio non-perennial crops</i></p>	<ul style="list-style-type: none"> • Obtain a bio certificate from accredited entities specified in sub-item 5.4-1.3 of this Regulation (EuroCert, Global G.A.P, etc.). • Use renewable energy powered or resource-efficient agricultural equipment. • Apply low-carbon crop management, including regenerative agriculture and agroforestry. • Use organic and bio fertilizers. • Implement physical and biocontrol methods for managing pests and weeds. • Adopt precision technologies to enhance agricultural predictability and resilience. • Utilize superior seeds from conventional breeding or genetic engineering. • Develop water infrastructure for Protected Agriculture, following international standards.
	<p><i>Climate Smart-Agriculture</i></p>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Obtain a bio certificate from accredited entities specified in sub-item 5.4-1.3 of this Regulation (EuroCert, Global G.A.P, etc.). • Implement low-carbon crop management practices such as regenerative agriculture, organic farming, or precision agriculture to reduce environmental impact. • Use organic and bio fertilizers to minimize chemical inputs. • Apply water-efficient irrigation systems that reduce water use compared to traditional methods. • Adopt IPM strategies to reduce reliance on chemical pesticides.
<p>Sustainable Animal Husbandry</p>	<p><i>Sustainable livestock products</i></p>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Achieve at least 10% reduction of GHG emissions compared to baseline (e.g., through reduced tillage, improved manure management, or the development and application of alternative energy sources in agriculture). • Enhance water use efficiency by at least 25% compared to current practices (e.g., through the implementation of drip irrigation and rainwater harvesting). • Use of animal breeds that better adapt to heat, disease, and feed changes, and are resilient to climate change and have low emissions. • Improvement of animal health systems to reduce productivity losses and mortality (early warning systems against disease outbreaks, vaccination campaigns, etc.)

		<ul style="list-style-type: none"> • Develop or modernize old chain and processing infrastructure for meat, milk, and other livestock products to reduce product losses. • Support the development of postharvest/food processing infrastructure in the regions. <p>The activity must meet one of the following criteria for Animal Welfare:</p> <ul style="list-style-type: none"> • Adhere to internationally recognized animal welfare standards (e.g., Organization for Animal Health) for housing, feeding, health, and transport. <p>The activity must meet one of the following criteria for Sustainable Feed Production:</p> <ul style="list-style-type: none"> • Reduce the environmental footprint of transport (e.g., using local feed sources, reducing transport emissions). • Apply sustainable feeding standards that lower the environmental impact compared to conventional practices. <p>The activity must meet one of the following criteria for manure management:</p> <ul style="list-style-type: none"> • Implement at least one of the following practices where manure is stored in liquid form (anaerobic conditions): <ul style="list-style-type: none"> - Processing manure in bio digesters to produce energy. - Using slurry covers. - Shifting to aerobic storage or processing methods. - Adopting any practice that reduces or offsets CH₄ and N₂O emissions.
Sustainable textile processing and producing	Sustainable textile production	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Invest in equipment, machinery, or technology that leads to measurable improvements which must be reported in energy performance, resulting in significant energy, GHG, or resource savings. • Obtain bio certificate or equivalent, ensuring the sustainable production of natural fibers and textiles. • Adhere to the Global Organic Textile Standard (GOTS) for organic fiber processing and textile production.
Sustainable fishery & aquaculture	Sustainable Fishing	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Any practice or measure that reduces or neutralizes CH₄ emissions or • Obtain a bio-certification (e.g., EuroCert, etc.) issued by the specialized organizations mentioned in subitem 5.4-1.2 or by the international organizations mentioned in sub-item 5.4-1.3 of this Regulation. • Use high-quality feed (with a high proportion of digestible dry matter)

	<p>The activity must meet the following criterion for Sustainable Harvest:</p> <ul style="list-style-type: none"> • Comply total allowable catches (TACs) set by relevant authorities. <p>The activity must meet one of the following criteria for Ecosystem-Based Management:</p> <ul style="list-style-type: none"> • Implement practices that minimize the impact of fishing on marine habitats and ecosystems. • Adhere to the Convention on Biological Diversity and the Ecosystem Approach to Fisheries.
Sustainable Aquaculture	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Obtain Bio certificate or equivalent. • Apply national standards regarding sustainable aquaculture management. <p>The activity must meet the following criterion for Environmental Impact Mitigation:</p> <ul style="list-style-type: none"> • Minimize environmental impacts of aquaculture operations on water quality, benthic habitats, and wild fish populations. <p>The activity must meet the following criterion for Sustainable Feed Production:</p> <ul style="list-style-type: none"> • Use responsibly sourced feed ingredients that do not contribute to overfishing or habitat destruction.

7. Biodiversity and conservation

Category	Sub-category	Main criteria/technical standards and required certificates
Species Conservation	Protection of animal species	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Contribute to the conservation endangered animal populations through initiatives such as research, captive breeding programs, habitat restoration, and protection. • Support the establishment and management of reserves, national parks, and other protected areas for rare and endangered animal populations. • Promote responsible tourism and community involvement in conservation efforts for rare and endangered animal populations.
	Protection of plant species	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Contribute to in-situ and ex-situ conservation efforts.

		<ul style="list-style-type: none"> • Support research and the establishment of botanical gardens and seed banks. • Implement reforestation and afforestation projects using native species. • Engage in habitat restoration and protection. • Combat invasive species and the illegal trade of endangered plants. • Promote public awareness and education on plant conservation.
Ecosystem Conservation	<i>Establishment and management of Protected Areas</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Demonstrate a clear contribution to the conservation of biodiversity through the creation, management, and monitoring of national parks, nature reserves, wildlife sanctuaries, protected landscapes, and seascapes. • Contribute to ecosystem conservation outside protected areas through sustainable land management, community-based conservation, and ecological restoration projects. • Implement practices associated with a management system that ensures the levels of carbon stocks and sinks in the forest area are preserved or enhanced over the long term.
	<i>Restoration and protection of rivers, lakes, and wetlands and other water bodies</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Contribute to the restoration and rehabilitation of degraded water bodies. • Support the conservation of wetlands and watersheds • Improve water quality through pollution reduction and prevention measures. • Adopt sustainable water management practices. • Promote eco-tourism and public awareness. • Enhance education on water resources conservation and protection.
	<i>Habitat restoration and remediation activities</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Demonstrate a clear contribution to the restoration of natural habitats such as forests, grasslands, and wetlands, as well as the remediation of contaminated land, mine sites, and other degraded habitats. • Include practices such as soil remediation, reforestation, revegetation, and the reintroduction of native species. • Prioritize the use of sustainable practices and

		<i>materials to ensure long-term ecological benefits.</i>
	<i>Comprehensive management of sea areas and coastal zones</i>	<p><i>The activity must meet one of the following criteria:</i></p> <ul style="list-style-type: none"> <i>• Implement integrated coastal zone management plans, including actions such as land-use planning, regulating coastal development, and restoring degraded coastal ecosystems (e.g., mangroves, coral reefs).</i> <i>• Establish and manage marine protected areas to protect biodiversity and preserve critical habitats for marine life, ensuring that at least 10% of the coastal area is designated as a protected zone.</i> <i>• Adopt sustainable fisheries management practices, such as setting catch limits, using selective fishing gear to reduce bycatch, and promoting seasonal closures to allow fish stocks to recover.</i> <i>• Install pollution control measures, including the construction of wastewater treatment facilities, implementing runoff management, and monitoring water quality to prevent pollution from entering marine environments.</i> <i>• Engage in coastal habitat restoration, such as restoring seagrass beds, salt marshes, or coastal wetlands, or conducting coastal dune stabilization activities, with a target to restore at least 20% of degraded habitats over the next five years.</i> <i>• Monitor and track the health of marine ecosystems, using technologies like satellite imaging, drones, or water quality sensors to ensure continuous oversight of coastal and marine health.</i>
Forests	<i>Sustainable management of protected forests</i>	<p><i>The activity must meet one of the following criteria:</i></p> <ul style="list-style-type: none"> <i>• Comply with national legislation and policies on sustainable forest management, with a specific focus on the protection of biodiversity and ecosystem services.</i> <i>• Include conservation activities designated for biodiversity protection, the preservation of endangered species, and the maintenance of ecosystem services.</i> <i>• Include activities such as monitoring and research, habitat restoration, and the implementation of management plans that minimize human impact and promote natural regeneration.</i>
	<i>Sustainable management of protected forests</i>	<i>The activity must meet one of the following criteria:</i>

		<ul style="list-style-type: none"> • Adhere to national legislation and policies on sustainable forest management, with an emphasis on the protection of forests for specific purposes such as watershed protection, soil conservation, and prevention of erosion. • Demonstrate the implementation of management practices that promote soil stability, prevent landslides, and enhance the forest's ability to provide ecosystem services. • Include activities such as afforestation, and the use of sustainable harvesting techniques where appropriate. • Incorporate practices within a management system that ensures the levels of carbon stocks and sinks in the forest area are preserved or enhanced over the long term.
	<p><i>Sustainable management of resort and recreational forests</i></p>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Develop and maintain recreational infrastructure (e.g., trails, picnic areas, campsites) in a way that minimizes environmental disturbance, ensuring the protection of sensitive ecosystems and species. • Implement eco-friendly tourism practices, such as limiting visitor numbers, using sustainable materials in construction, and promoting environmental education programs for visitors. • Rehabilitate and restore degraded areas within the forest by planting native species and removing invasive species to maintain ecological balance. • Engage local communities in the management and operation of the forest, ensuring that recreational activities provide economic benefits to surrounding areas while protecting natural resources. • Monitor and manage waste and water usage within the resort or recreational areas to minimize pollution and conserve resources.
	<p><i>Protection and tending</i></p>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Implement forest fire prevention and suppression measures, including the creation of firebreaks, controlled burns, and community training programs to reduce fire risks. • Carry out pest and disease control activities through monitoring, biological control methods, and selective use of pesticides to protect forest health.

		<ul style="list-style-type: none"> • Perform thinning and pruning to improve tree growth, increase forest resilience, and enhance productivity. • Apply silvicultural treatments such as enrichment planting and selective harvesting to maintain the forest's health and productivity, ensuring long-term ecological balance. • Conduct regular forest health assessments to identify and address issues impacting forest ecosystem services, including carbon sequestration, biodiversity conservation, and water regulation.
	Reforestation and afforestation	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Aim to restore forest cover and ecological functions in areas that have been deforested or degraded. • Involve the selection of appropriate tree species based on ecological considerations, site preparation, planting, and subsequent care to ensure the successful establishment of new forests.

8. Circular economy and waste management

Category	Sub-category	Main criteria/technical standards and required certificates
Preparation, Collection, Handling & Storage	Separate collection of waste of reusable or recyclable material	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Compliance with National Laws and Legislations regarding Waste Segregation and Identification, Collection Infrastructure and Logistics, Contamination Control, Environmental and Safety Standards and Resource Efficiency and Optimization. • Collection and transportation of non-hazardous waste that is segregated at source or at an intermediate sorting facility that is intended for preparation for reuse, recycling operations or energy recovery. • Include waste collection containers, transfer stations, transportation vehicles and other related infrastructure.
	Separate collection of waste that is going to landfill	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Compliance with National Laws and Legislations regarding Waste Segregation and Identification, Collection Infrastructure and Logistics, Contamination Control, Environmental and Safety Standards and Resource Efficiency and Optimization.

		<ul style="list-style-type: none"> • Activities should include measures to prevent, control, or reduce pollution (air, water, soil) and harmful emissions. Projects must adhere to local and international environmental standards and regulations regarding emissions and pollutants.
	Waste collection infrastructure	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Compliance with National Laws and Legislations regarding Waste Segregation and Identification, Collection Infrastructure and Logistics, Contamination Control, Environmental and Safety Standards and Resource Efficiency and Optimization. • The project should have the potential to scale and be replicated in other regions or sectors. Scalability should include considerations for resource availability, technological adaptability, and market demand. • Activities should include measures to prevent, control, or reduce pollution (air, water, soil) and harmful emissions. Projects must adhere to local and international environmental standards and regulations regarding emissions and pollutants.
Recycle & Reuse	Facilities for recycling of materials	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Projects must demonstrate a measurable reduction in greenhouse gas (GHG) emissions compared to baseline scenarios (virgin material production). • Material recovery efficiency should be in line with Best Available Technologies (BAT). • The project must incorporate strategies to minimize waste and optimize resource recovery and recycling. • Activities should include measures to prevent, control, or reduce pollution (air, water, soil) and harmful emissions. Projects must adhere to local and international environmental standards and regulations regarding emissions and pollutants. • Initiatives should be compatible with existing infrastructure or include plans for necessary upgrades. Projects must assess the technical requirements and potential challenges of integrating new technologies.
	Facilities for re-use of materials monitoring processes	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Projects must demonstrate a measurable reduction in GHG emissions compared to baseline scenarios (virgin material production). Emissions reductions

		<p>can be enhanced through renewable energy deployment or energy efficiency improvements.</p> <ul style="list-style-type: none"> • The project must incorporate strategies to minimize waste and optimize resource recovery and recycling. • Activities should include measures to prevent, control, or reduce pollution (air, water, soil) and harmful emissions. Projects must adhere to local and international environmental standards and regulations regarding emissions and pollutants. • Initiatives should be compatible with existing infrastructure or include plans for necessary upgrades. Projects must assess the technical requirements and potential challenges of integrating new technologies.
Wastewater Management	Wastewater treatment facilities	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Compliance with national regulations on wastewater collection infrastructure, treatment processes, contamination control, environmental safety, and resource optimization. • Projects should employ Best Available Technologies for wastewater treatment, including physical processes, biological processes, chemical process, and further treatment options. • Replacements/ upgrade projects should achieve net GHG emission reduction through centralization of wastewater treatment thus substituting previous sanitation systems with higher GHG emissions.
	Wastewater reuse and recycling	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Compliance with national regulations on wastewater collection infrastructure, treatment processes, contamination control, environmental safety, and resource optimization. • Projects should employ Best Available Technologies for wastewater recycling, including physical processes, biological processes, chemical process, and further treatment options.
Waste to Energy	Composting of biowaste	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> • Compliance with national regulations on bio-waste collection, composting processes, contamination control, environmental and safety standards, and resource efficiency. • Waste should be segregated at the source, or at least not polluted to be in line with national standards.

		<ul style="list-style-type: none"> The compost produced should be used as fertilizer, soil improver or at least capable of being rehabilitated to be used as other purposes.
	Landfill gas capture and utilization	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> Compliance with national regulations on environmental protection and safety standards. If the electricity generation, heat generation or supply to national grid after upgrade from landfill gas is found to be not feasible, landfill gas should be flared instead.
	Waste Incineration	<p>The activity must meet the following criteria:</p> <ul style="list-style-type: none"> Compliance with national regulations on waste feedstock management, combustion processes, air emissions control, energy recovery, environmental safety standards, and ash disposal. Metal recovery from bottom ash should be in line with Best Available Technologies. Overall plant efficiency should be in line with Best Available Technologies.

9. Green buildings and sustainable construction

Category	Sub-category	Main criteria/technical standards and required certificates
New buildings	New Residential Buildings	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> LEED certificate. BREEAM certificate. EarthCheck certificate. EDGE certificate. Building incorporate renewable energy sources (solar, wind, geothermal) to meet a specified percentage of energy demand. Building materials comply with specific environmental product declarations (EPDs) or certifications. Waste management plan must be in place to minimize construction and demolition waste. Building implement water-saving technologies (e.g., low-flow fixtures, rainwater harvesting). Green roofs or vertical gardens should be considered to enhance biodiversity.
	New Commercial Buildings	
	New Industrial Buildings	

Retrofitting Existing Buildings	<i>Retrofitting Existing Residential Buildings</i>	<p><i>The activity must demonstrate compliance with all relevant national laws and regulations.</i></p> <p><i>The activity must meet one of the following criteria:</i></p> <ul style="list-style-type: none"> • <i>LEED certificate</i> • <i>BREEAM certificate</i> • <i>EarthCheck certificate</i> • <i>EDGE certificate</i>
	<i>Retrofitting Existing Commercial Buildings</i>	<ul style="list-style-type: none"> • <i>The retrofitted building must achieve a significant amount of reduction in energy consumption compared to the baseline consumption prior to retrofitting.</i> • <i>The retrofitted building must incorporate water-efficient fixtures and systems to achieve a significant amount of reduction in water use compared to the baseline consumption.</i> • <i>Retrofitting materials comply with specific environmental product declarations or certifications.</i>
Infrastructure Development	<i>Green Infrastructure</i>	<p><i>The activity must meet one of the following criteria:</i></p> <ul style="list-style-type: none"> • <i>LEED certificate</i> • <i>BREEAM certificate</i> • <i>EarthCheck certificate</i> • <i>EDGE certificate</i> • <i>Incorporation of sustainable urban drainage systems to manage storm water effectively and reduce flood risks.</i> • <i>Projects must include measures to restore or enhance local ecosystems and create new habitats to support biodiversity.</i> • <i>Incorporation of energy-efficient technologies and design practices to minimize energy consumption;</i> • <i>Use of construction materials must adhere to sustainability criteria, including recycled content and low environmental impact.</i>
	<i>Water Management Systems</i>	<p><i>The activity must meet one of the following criteria:</i></p> <ul style="list-style-type: none"> • <i>Water management systems must achieve a significant amount of reduction in water consumption compared to standard practices.</i> • <i>Projects must incorporate an Integrated Water Resources Management approach to optimize the use and management of water resources across different sectors.</i>

		<ul style="list-style-type: none"> • Implementation of storm water management systems that reduce runoff and enhance water quality. • Water management systems must be designed to be resilient to climate change impacts, including extreme weather events and shifting precipitation patterns.
	<i>Sustainable Landscaping</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Significant amount of landscaping plants must be native to the region or drought resistant species. • Landscaping projects implement water efficient irrigation systems, such as drip irrigation or smart irrigation controllers. • Landscaping projects include measures to maintain soil health and prevent erosion. • Landscaping projects incorporate features that enhance biodiversity, such as pollinator gardens and wildlife habitats. • Use of sustainable materials for landscaping features (e.g., recycled materials for pathways) and practices (e.g., reducing lawn areas).

10. Green services

<i>Category</i>	<i>Sub-category</i>	<i>Main criteria/technical standards and required certificates</i>
Consulting and Services	<i>Environmental and Social Services</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • The service provider must demonstrate professional expertise and relevant qualifications in environmental and social services. • Stakeholder engagement and transparent processes must be maintained, with regular updates and public disclosures. • Sustainable practices and adaptive management strategies should be employed to minimize environmental impact and promote social well-being.
	<i>Certification and Labeling</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • Products must have clear labeling that provides transparency about their ecofriendly attributes, including detailed information on the certification standards. • Products must demonstrate significant environmental performance improvements, such as reduced carbon

		<i>emissions, energy consumption, and use of harmful chemicals.</i>
	<i>Services to Improve Energy Efficiency</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • <i>Services must include measuring and analyzing the volume of energy consumed, assessing efficiency, and implementing energy efficiency measures.</i> • <i>Recommendations must prioritize the use of best available technologies to maximize energy efficiency.</i> • <i>Services must be conducted by certified professionals with recognized qualifications in energy management and auditing.</i>
	<i>Other Green Services including R&D</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • <i>Projects should deliver measurable environmental benefits, such as reductions in GHG emissions, energy consumption, water use, or waste generation.</i> • <i>Products, technologies, and services must comply with relevant international standards and certifications for sustainability and environmental performance (e.g., ISO 14001, ISO 50001).</i> • <i>Green certifications, such as LEED for buildings, Cradle to Cradle for products, or Green Seal for services, to validate their sustainability credentials.</i>
Sustainable Tourism	<i>Products and Services that promote the Development of Ecotourism</i>	<p>The activity must meet one of the following criteria:</p> <ul style="list-style-type: none"> • <i>All tourism projects with over 300-person capacity must undergo an EIA to assess potential environmental impacts and ensure sustainable development practices.</i> • <i>Projects should demonstrate the use of sustainable resource management practices, including water and energy efficiency, waste management, and biodiversity conservation.</i> • <i>Projects must involve and benefit local communities, ensuring fair labor practices and promoting local culture and heritage.</i> • <i>Projects should minimize their carbon footprint through the use of renewable energy, sustainable transportation options, and carbon offset programs.</i>
	Sustainable Tourism	The activity must meet one of the following criteria:

• Sustainable tourism accommodation certificate/label issued by international or national accredited organizations, GSTC.

• Technical screening criteria defined for the Category of Sustainable Buildings.

Activities related to the screening of motion pictures must meet one of the following criteria:

- LEED certificate
- BREEAM certificate
- EarthCheck certificate

Activities related to the organization of conferences and professional exhibitions must meet one of the following criteria:

- LEED certificate
- BREEAM certificate
- EarthCheck certificate

Activities related to theaters and concert halls must meet one of the following criteria:

- LEED certificate
- BREEAM certificate
- EarthCheck certificate

Activities related to recreation and amusement parks must meet one of the following criteria:

- LEED certificate
- BREEAM certificate
- EarthCheck certificate