



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

FINANCIAL SECTOR SUSTAINABLE DEVELOPMENT DEPARTMENT

SUSTAINABLE FINANCE REPORT

2025

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Abbreviations

BIS	Bank for International Settlements
CBAM	EU Carbon Border Adjustment Mechanism
COP	Conference of the Parties to the UN Framework Convention on Climate Change
EBRD	European Bank for Reconstruction and Development
ESG	Environmental, Social, and Governance
EU	European Union
GHG	Greenhouse gas
IEA	International Energy Agency
IFC	International Finance Corporation
IMF	International Monetary Fund
IPSF	International Platform on Sustainable Finance
ISSB	International Sustainability Standards Board
MB	Management Board
NDC	Nationally Determined Contributions
NGFS	Network for Greening the Financial System
PCAF	Partnership for Carbon Accounting Financials
SBFN	Sustainable Banking and Finance Network
TCFD	Task Force on Climate-Related Financial Disclosures
UNDP	United Nations Development Programme
UN	United Nations
WMO	World Meteorological Organization

Preface

Climate change and sustainable development are among the main global challenges shaping the development agendas of countries. In this context, the documents "Azerbaijan 2030" and "Socio-Economic Development Strategy of the Republic of Azerbaijan for 2022–2026" prioritize promoting green growth, protecting ecological balance, and ensuring sustainable development. The country's "Updated 3rd Nationally Determined Contributions" (NDC 3.0) document outlines the primary objectives in this regard. According to this document, greenhouse gas emissions are planned to be reduced by 40% by 2035 compared to the 1990 baseline. The Central Bank's main priority is the transition to sustainable finance to increase the financial sector's resilience to climate risks and direct resources toward sustainable initiatives.

As part of implementing the Roadmap for Sustainable Finance, the Central Bank promotes sustainable finance approaches within the financial sector, strengthens management of climate-related and ESG risks, and expands sustainable financing opportunities. In recent years, the regulatory framework for sustainable finance has been improved, and important steps have been taken toward applying ESG principles in financial institutions and developing sustainable financial instruments. The main focus has been on implementing the Green Taxonomy, ensuring the transparent and systematic disclosure of ESG risk information by financial institutions, including climate risk in reports, and applying standardized frameworks. These measures serve to more accurately assess risks and increase market transparency.

The Central Bank has expanded its international cooperation on sustainable finance even further. In this regard, the Central Bank was appointed co-chair of the Sustainable Finance Instruments Working Group of the Sustainable Banking and Finance Network. Additionally, the Central Bank continues to support the implementation of the Taxonomy Roadmap announced at COP 29 by fulfilling its secretariat function. These developments accelerate the country's integration into international sustainable finance standards and bolster the financial sector's ability to adapt to climate challenges. Overall, the Republic of Azerbaijan has achieved higher results in international assessments of implementing sustainable finance. According to the Sustainable Banking and Finance Network's assessment, Azerbaijan has been included in the group of countries that have achieved "progress" in implementing sustainable finance.

The report presents the measures taken to develop a sustainable financial agenda in the country, the progress achieved thus far, and the priority areas for the next period.

Taleh Kazimov

Governor of the Central Bank of the Republic of Azerbaijan

About the Report

The Sustainable Finance Report 2025 has been developed by the Central Bank of the Republic of Azerbaijan (hereinafter referred to as the “Central Bank”), which provides systematic information on the policy initiatives, institutional measures, and results achieved in the country's financial sector towards the transition to sustainable finance. The report's primary goal is to summarize the efforts made to enhance the financial sector's resilience to climate change and other environmental, social, and governance (ESG) risks and opportunities, while promoting transparency in this area.

The report was prepared in accordance with international standards and best practices in sustainable finance. This document aims to serve as a reliable source of information on sustainable finance policies and initiatives for financial market participants, government agencies, international partners, and other stakeholders.

The report is organized into four main sections. The first section presents the main global and national climate change trends, the risks these processes pose to the economy and financial system, and the Republic of Azerbaijan's climate and sustainable development agenda. The second section covers the Central Bank's initiatives and institutional measures implemented within the framework of the Sustainable Finance Roadmap. The third section presents the Central Bank's corporate sustainability activities and international cooperation initiatives. The final section presents the priority areas and planned measures for the upcoming period.

This report systematically presents activities that aim to develop sustainable financial mechanisms in the financial sector, integrate climate and other environmental, social, and governance (ESG) risks into financial decisions, and support sustainable economic transformation in the country.

1. Climate change and country sustainability

1.1. Trends in climate change

The year 2025 clearly demonstrated that the trend of global warming continues, as evidenced by scientific observations and temperature indicators. Annual records show that 2025 was one of the three warmest years on record. According to consolidated data from the World Meteorological Organization (WMO), the global average surface temperature in 2025 was about 1.44°C higher than during the pre-industrial period (1850–1900). Various international temperature databases have ranked 2025 as the second or third warmest year on record. These differences reflect varying measurement methodologies, but do not change the overall warming trend. Additionally, the three-year period from 2023 to 2025 was the warmest three-year interval on record, with an average temperature 1.48°C above pre-industrial levels. This indicates that warming is not just a short-term anomaly; it's a continuous and structural phenomenon.¹ (Chart 1)

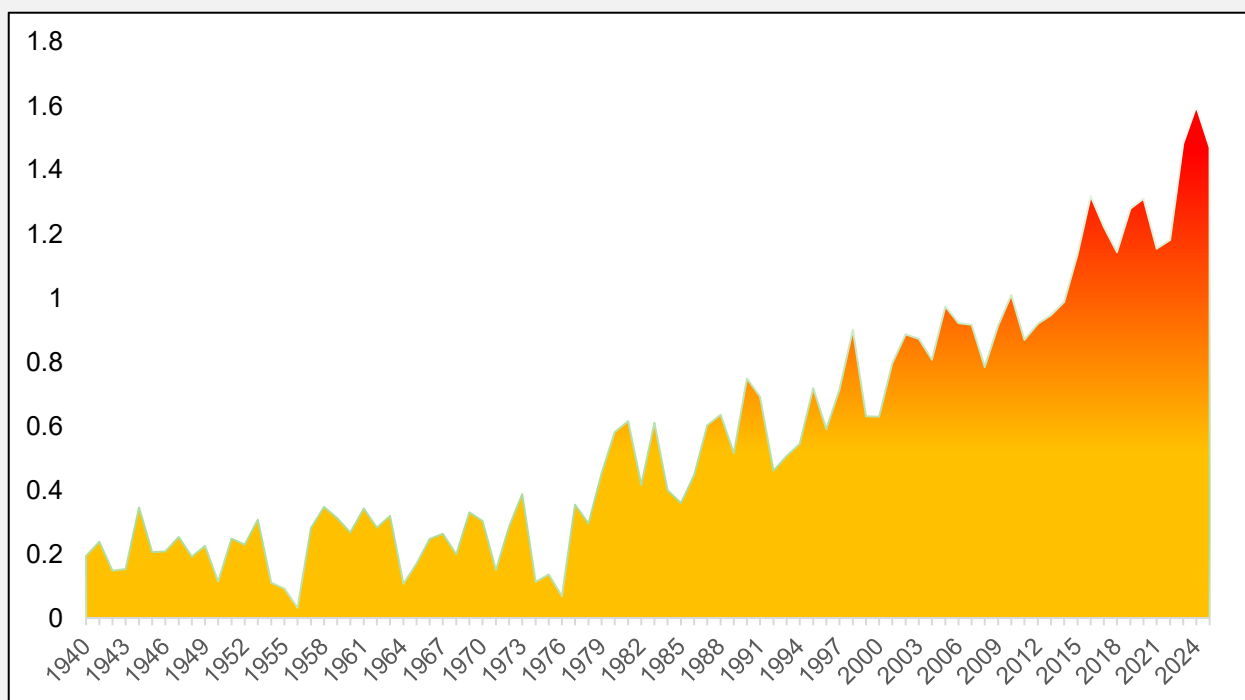
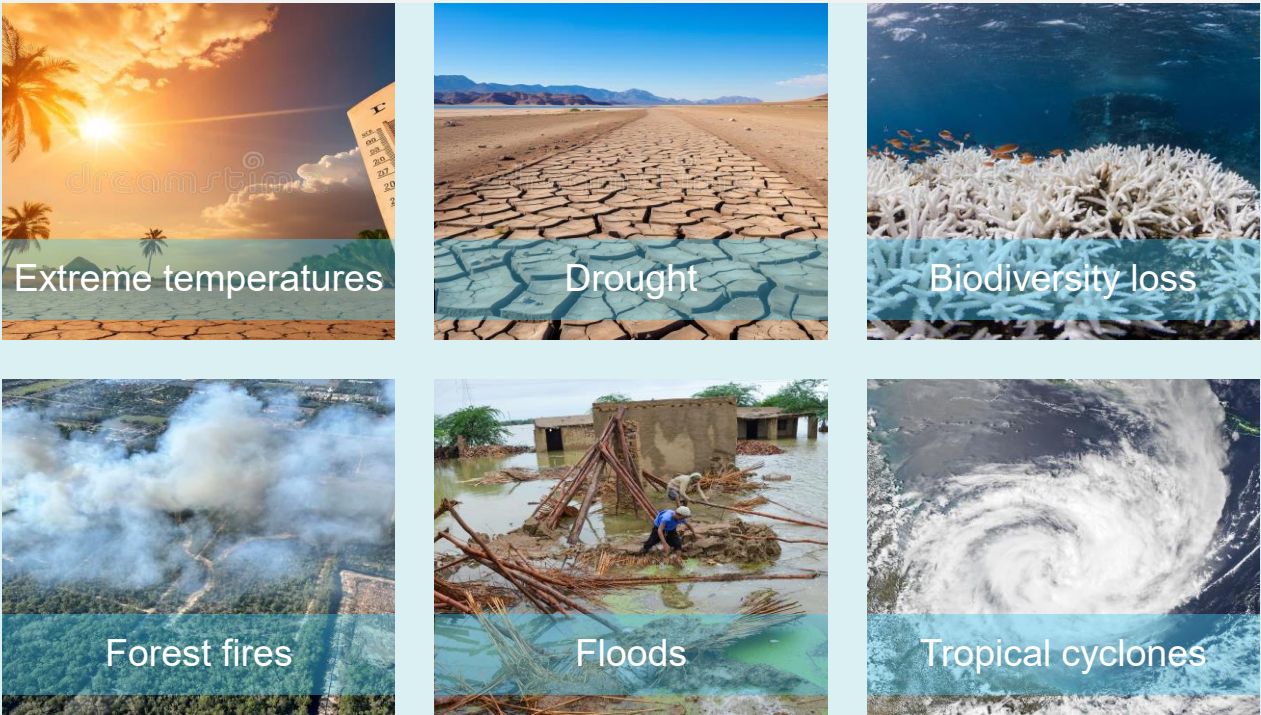


Chart 1. Annual global average surface air temperature increase (°C) compared to the pre-industrial period (1850–1900), Copernicus²

¹ <https://wmo.int/news/media-centre/wmo-confirms-2025-was-one-of-warmest-years-record>

² <https://climate.copernicus.eu/copernicus-2025-was-third-hottest-year-record>



In parts of South Asia, including India and Pakistan, temperatures reaching 48°C have led to decreased labor productivity, increased energy demand, and elevated health risks. Similar trends have been observed in Europe. According to the Copernicus Climate Change Service, 2025 was one of the warmest years on the continent, with the third-highest annual average temperature on record. Consistent with this pattern, the Republic of Azerbaijan has experienced rising temperatures in recent years. (Chart 2).

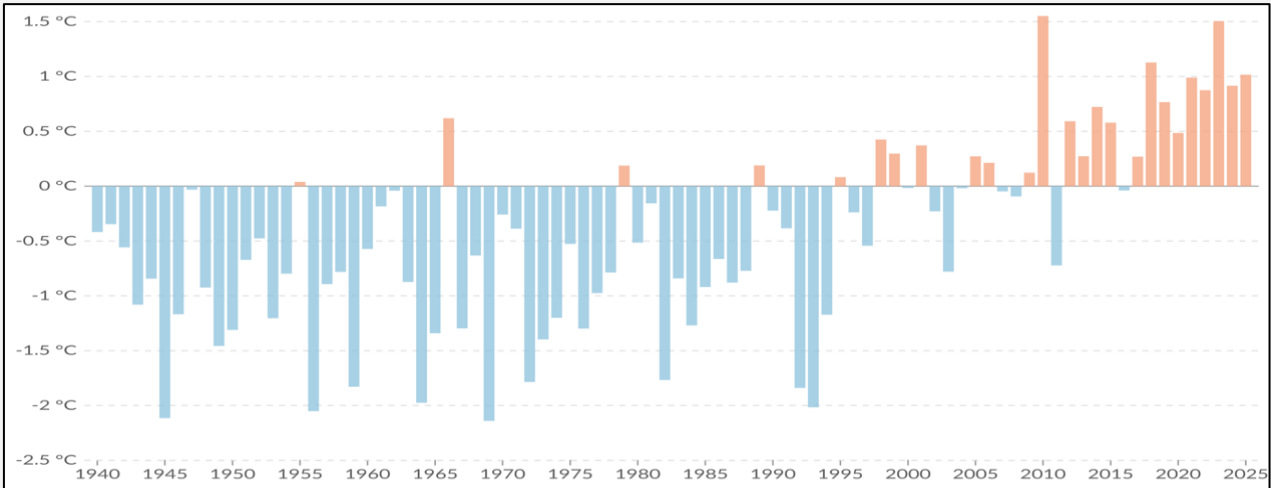


Chart 2. Annual temperature indicators for Azerbaijan, 1940–2025³

³ Copernicus Climate Change Service information (2025)

Several countries have experienced prolonged heat waves, floods, forest fires, and droughts during the summer months, which highlights the regional persistence of global warming. The impact of climate change extends beyond land areas. Large-scale coral bleaching events continued in 2025, highlighting the vulnerability of marine ecosystems to climate change. These events have had wide-ranging economic consequences, including loss of biodiversity, decline in fisheries, and risk to tourism revenues. Extreme weather events have damaged infrastructure, reduced agricultural crop yields, and increased insurance premiums. Thus, the physical risks of climate change are manifesting as tangible financial losses and threats to macroeconomic stability.

Overall, 2025 has confirmed that climate change poses a systemic risk to the global economy and financial system. Strengthening scientific evidence and growing international commitments mean climate issues are at the heart of strategic decision-making. This is particularly important for financial institutions, including those in the banking sector, when it comes to assessing climate risks, conducting sensitivity analysis of portfolios and formulating long-term sustainable strategies.

The International Monetary Fund (IMF) conducted a study titled “This Changes Everything: Climate Shocks and Sovereign Bonds”, which analysed the impact of climate change on country risk based on data from 98 countries between 1995 and 2017. The results show that countries more vulnerable to climate change pay higher interest rates and spreads on sovereign bonds, meaning their borrowing costs increase. Conversely, borrowing costs are relatively lower in countries that are more resilient to climate change. These effects were found to be particularly strong in developing countries, which have limited capacity to adapt to the consequences of climate change. The results were also confirmed to be robust when subjected to various methodological checks.

<https://www.imf.org/-/media/files/publications/wp/2020/english/wpiea2020079-print-pdf.pdf>

Hosted by Baku in 2024, the 29th session of the Conference of the Parties to the UN Framework Convention on Climate Change (COP29) was seen as the beginning of a new phase in the global climate agenda. The Republic of Azerbaijan's presidency at COP 29 led to significant agreements in climate finance and strengthened dialogue among international partners. Within the framework of the summit, a new collective quantitative target was adopted and an agreement was reached to mobilize at least 300 billion US dollars in climate finance for developing countries annually by 2035. Additionally, the Baku to Belém 1.3 T Roadmap initiative was introduced, defining a strategic direction for expanding global climate finance. These initiatives did more than produce results at COP29; they also established the foundation for the next stage of global climate action and shaped the main agenda of COP30. The initiatives launched in Baku, the capital of the Republic of Azerbaijan, played an important role in ensuring the sustainability of global climate finance initiatives.

The main event on the international climate agenda in 2025 was COP30, held in Belém, Brazil. Held within the framework of the COP30 session from November 10 to 21, 2025, the conference was considered an important milestone in accelerating the implementation of commitments in the decade following the adoption of the Paris Agreement. Overall, COP30 showed that the transition from declaring targets to implementing the global climate agenda had strengthened, and that climate finance had become a key part of international economic policy.

The conference primarily focused on scaling up climate finance, reducing emissions, and strengthening adaptation measures. The parties agreed to increase financial resources to support the developing countries most affected by climate change and identified concrete steps to gradually increase adaptation financing. At the same time, there has been a clear expression of will to mobilize approximately 1.3 trillion U.S. dollars annually for global climate finance by 2035. In this context, the implementation of the Roadmap for Advancing Interoperability and Comparability of Sustainable Finance Taxonomies, which was presented by the city of Baku at COP29, has become very important. In the context of COP29, the Central Bank presented the Roadmap for Advancing Interoperability and Comparability of Sustainable Finance Taxonomies in cooperation with the International Finance Corporation (IFC), the Sustainable Banking and Finance Network (SBFN), the United Nations Development Program (UNDP), and the International Platform on Sustainable Finance (IPSF). The main objective of the Roadmap is to increase the comparability and harmonize the sustainable finance taxonomies applied in different countries. Currently, numerous national and regional taxonomies exist around the world. Their preparation based on different methodologies makes it difficult for investors and financial institutions to coordinate and compare them. Significant progress has been made toward harmonizing sustainable finance taxonomies globally within the COP30 framework. Thus, within this framework, documents and digital tools were presented, including the Taxonomy Roadmap Initiative Progress Report, the Principles for the Compatibility of

Taxonomies, and the Sustainable Finance Taxonomies Mapping Tool. Additionally, the official web platform of the Taxonomy Roadmap initiative was launched to implement the initiative and strengthen cooperation among partners. Chart 3 below provides a brief overview of the results achieved during COP30.



The Paris Agreement and Nationally Determined Contributions (NDCs)

Current progress was assessed, and it was called for that NDCs be strengthened.

Expanding access to climate finance for developing countries and financing adaptation measures were identified as priorities.



The Belém Package: adoption of a set of 29 decisions

During COP30, the 195 participating countries adopted the so-called "Belém Package," a set of 29 decisions.

The decisions centered on the practical implementation of climate policies, just transition mechanisms, technology transfer, and issues of gender and social inclusion, as well as the strengthening of adaptation measures.



Climate finance and adaptation resources

A call has been made to triple adaptation finance from current levels by 2035.

The initiative aims to provide a sustainable financial base for energy transition and adaptation measures by scaling up global climate finance to \$1.3 trillion annually in the long term.



Global Adaptation Goal and monitoring indicators

Fifty-nine voluntary indicators have been adopted, covering water resources, agriculture, health, infrastructure, and ecosystem protection.

The goal is to ensure that adaptation measures can be tracked in a consistent and comparable way.

Chart 3. Key outcomes achieved at COP30

Despite international geopolitical tensions and economic uncertainty, the International Energy Agency's (IEA) World Energy Investment 2025 report states that investments in the energy sector will increase by 2% in real terms by 2025, reaching \$3.3 trillion. Of this amount, approximately \$2.2 trillion will be allocated to renewable energy sources, nuclear power, grid infrastructure, energy storage systems, low-emission fuels, energy efficiency improvements, and electrification initiatives. This figure is more than double the \$1.1 trillion invested in oil, natural gas, and coal (see Chart 2). Although questions about the economic and trade outlook have slowed decisions on new projects, spending on existing projects has not significantly decreased.

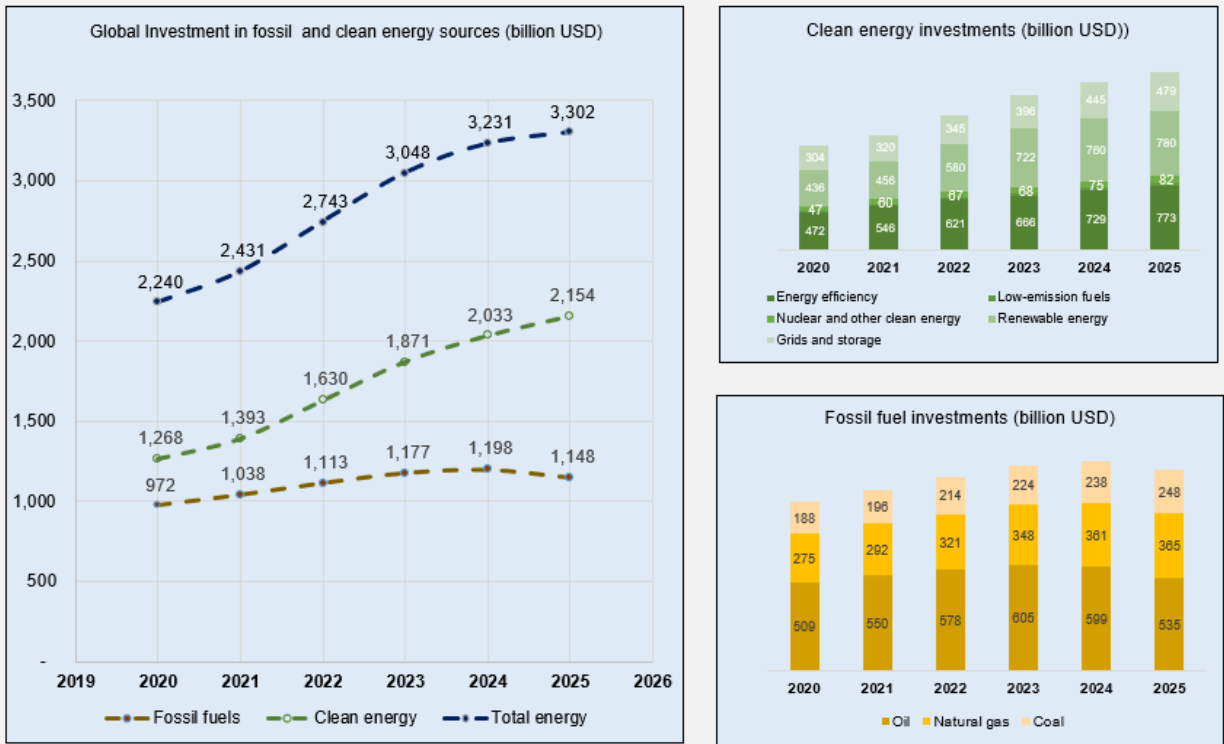


Chart 4. Global investment in fossil and clean energy sources (billion ABS Dollars)⁴

Over the past five years, the rapid growth of investments in the energy transition has been supported by post-pandemic recovery packages, energy security, industrial policy, and technological competition. Approximately 70% of this growth occurred in countries that are net importers of traditional fuels. China has increased its investments in order to reduce its dependence on imports and strengthen its leadership in new technologies. Europe has accelerated investments in renewable energy and energy efficiency. India has increased investments in solar energy. Supportive policies in the field of clean energy technologies have played an important role in the United States.

⁴ [World Energy Investment 2025](#)

In 2025, the European Union improved the regulatory framework for the Carbon Border Adjustment Mechanism (CBAM)⁵ and adopted several innovations in preparation for the mechanism's full implementation. After a transition phase covering the years 2023–2025, the full implementation regime is planned to begin in 2026. The changes adopted in 2025 aimed to simplify administrative procedures, optimize reporting requirements, and prepare for the next implementation phase. These changes introduced exemptions and simplified procedures for small-scale importers. At the same time, reporting rules were clarified to improve the quality of quarterly emission reports submitted during the transition period (2023–2025).

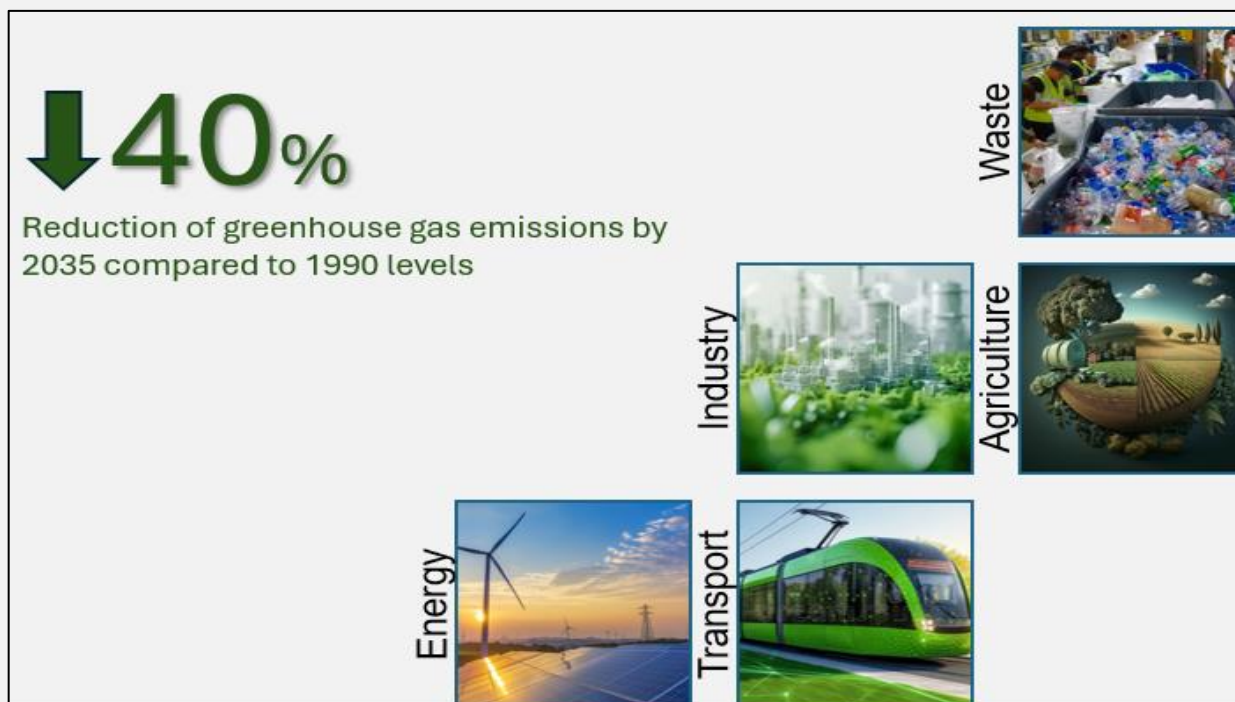
This phased approach is being implemented alongside the gradual elimination of free emission allowances granted to industrial companies under the European Union Emissions Trading Scheme (EU ETS). The goal is to establish a fair market for domestic and foreign producers exporting to the EU while promoting the systematic and balanced decarbonization of European industry. The mechanism will enter full implementation from January 1, 2026, and companies exporting to EU countries will have to obtain CBAM certificates covering the corresponding carbon emissions. CBAM will directly impact exporters' finances and operations, alongside the EU ETS. Starting in 2026, companies exporting products to the EU market (e.g., steel producers) must accurately measure the carbon emissions generated during production and purchase CBAM certificates based on these emissions. For instance, if an Azerbaijani steel plant emits two tons of CO₂ for every ton of steel produced and the EU ETS carbon price is €80 per ton, the exporter will need to purchase a CBAM certificate, paying a carbon tax of around €160 per ton of steel. This can make companies that do not invest in low-carbon technologies less competitive. Additionally, if a manufacturer pays a carbon tax in its home country, that amount can be deducted from CBAM payments. Consequently, CBAM serves as a strong economic signal that encourages exporters to implement transparent reporting systems, reduce emissions, and decarbonize production processes. The transition to low-carbon technology becomes more economically attractive as a result. This necessitates the creation of a carbon tax mechanism in countries.

⁵ https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en

Section	Year / Field	Content	Impact on Exporters
CBAM	2025	The mechanism was adopted	The legal framework was established
	2026	Full application: cement, iron, steel, aluminum, fertilizer, electricity, and hydrogen	Limited direct impact (oil and gas not included)
	2028	Downstream products can be added	Medium-term export risk increases
	2030+	All carbon-intensive areas can be covered	Long-term strategic risk
Economic impact	Export structure	Oil and gas are not in the early stages right now	Low risk in the short term
	Production costs	Additional adaptation costs in carbon-intensive products	Pressure on margins
	Competitiveness	Green Taxonomy application	Positive impact and position strengthening
Financial sector	Credit risk	The risk of transition increases	Risk assessment should be strengthened
	Emission data	CBAM certificates linked to EU ETS price	Transparency and accountability are important
	Capital flow	Focus on low-carbon projects	Green finance growth

1.2. Sustainability of the country's economy and climate indicators for 2025

The Republic of Azerbaijan continues to fulfill its commitments to combat climate change and transition to a low-carbon development model through its updated Nationally Determined Contributions (NDC 3.0). The country's main initiatives for transitioning to a low-carbon economy by 2025 included expanding renewable energy projects, implementing the "green energy zone" concept, and setting more ambitious emission reduction targets. According to the updated Nationally Determined Contributions (NDC 3.0), the Republic of Azerbaijan aims to reduce greenhouse gas emissions by 40% by 2035 compared to 1990. The country has also identified structural transformation measures in the energy, transportation, industrial, agricultural, and waste sectors as priority areas. Decarbonization of the energy system, electrification of transportation, sustainable management of water resources, and expansion of climate adaptation measures are the main pillars of long-term economic sustainability.



According to the document, the previous NDC set a target of reducing emissions by 40% by 2050 compared to 1990; however, this target has been advanced to 2035 in NDC 3.0. The document also presents a detailed, cross-sectoral approach to reducing emissions and systematizes decarbonization measures in the following areas: oil and gas, energy, buildings, transport, industry, waste, agriculture, and forestry. NDC 3.0 emphasizes the importance of transitioning to renewable energy sources, improving energy efficiency, modernizing operations and equipment, reducing methane emissions, electrifying transportation, and transforming heating systems as essential strategies for decarbonization.

Description of updates	NDC 2	NDC 3.0
More ambitious goals	It sets a target of reducing emissions by 40% by 2050 compared to 1990 levels.	It aims to reduce emissions by 40% by 2035 compared to 1990.
A more detailed approach across sectors	Emissions are divided into four main sectors – energy, agriculture, industry and waste.	The energy sector is further broken down into the sub-sectors of electricity, oil and gas, transport and buildings.
Clear reduction plans and implementation roadmaps across sectors	It covers cross-sectoral reduction measures and evaluates the environmental impact of different sectors.	It establishes specific reduction plans and their implementation mechanisms, or roadmaps, for each sector.
Reference and base years	The reference year is 1990, and the base year is 2016.	The latest IPCC methodology is used to update emission levels for 1990, and the base year is set to 2022 to ensure more accurate projections.

Table 1. Summary of comparison between NDC 2 and NDC 3.0

As Chart 5 shows, the Republic of Azerbaijan's total net emissions in 2022 amounted to 69.5 MtCO₂-eq. The oil and gas sector accounted for 28% of these emissions, the power sector for 21%, buildings for 14%, transport for 13%, industry for 13%, waste for 7%, and agriculture, forestry, and other land use (AFOLU) for 4%. The cross-sectoral profile presented in NDC 3.0 shows that the emission burden is concentrated primarily in sectors related to extraction and energy production. However, end-use sectors, such as buildings, transportation, and industry, also play a significant role.

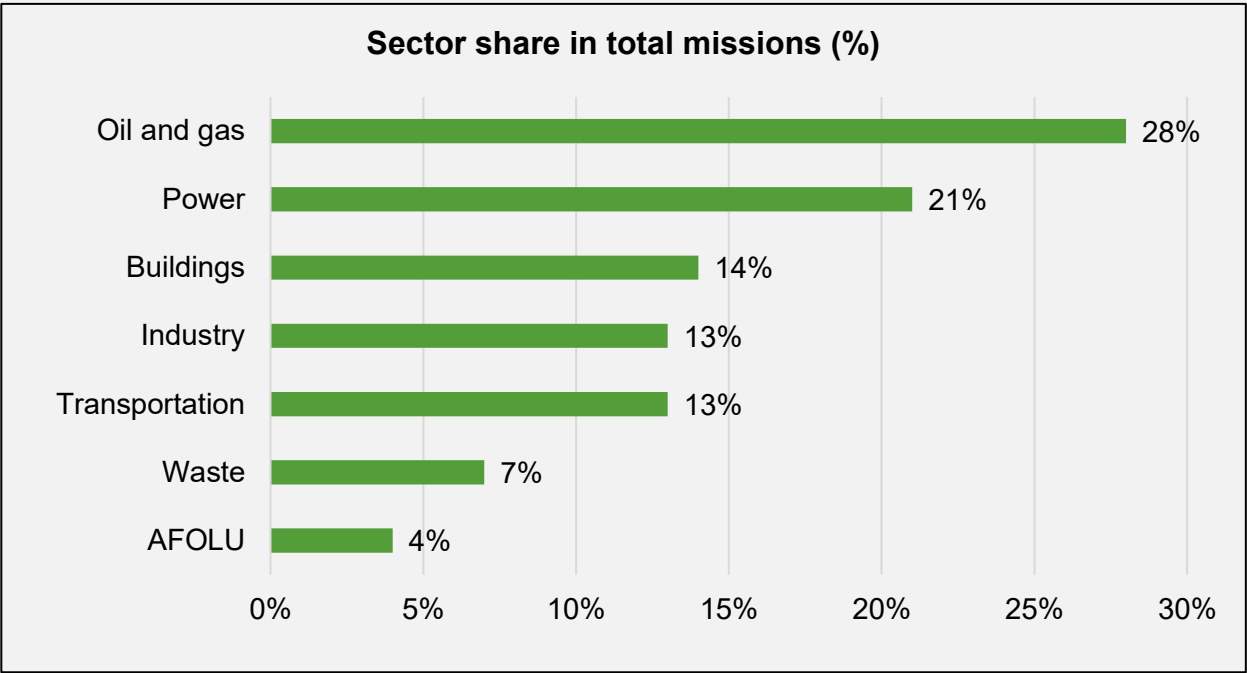


Chart 5. Net emission shares of the Republic of Azerbaijan by sector for 2022 ⁶

The energy system is becoming more decarbonized, and renewable energy sources are becoming more prevalent. The development of renewable energy sources remains a priority in the Republic of Azerbaijan's efforts to decarbonize the energy system and transition to a low-carbon development model. According to the Ministry of Energy, the country currently has 1,829.6 MW of renewable energy sources operating in power plants. The country's total installed capacity from renewable energy sources is expected to surpass the 30% target for 2030, reaching 33.7% in 2027, 37.9% in 2030, and 42.5% in 2035. Solar and wind projects are expected to generate 6.7 billion kWh of electricity annually, saving 1.5 billion cubic meters of gas and reducing greenhouse gas emissions by 3.2 million tons. These developments will further strengthen the Republic of Azerbaijan's regional and global role in terms of energy security, export potential, and accelerating the energy transition. Currently, renewable energy sources account for approximately 18.8% of the total energy capacity (see Chart 6).

⁶ https://unfccc.int/sites/default/files/2025-11/NDC%203.0%20Report_Azerbaijan.pdf

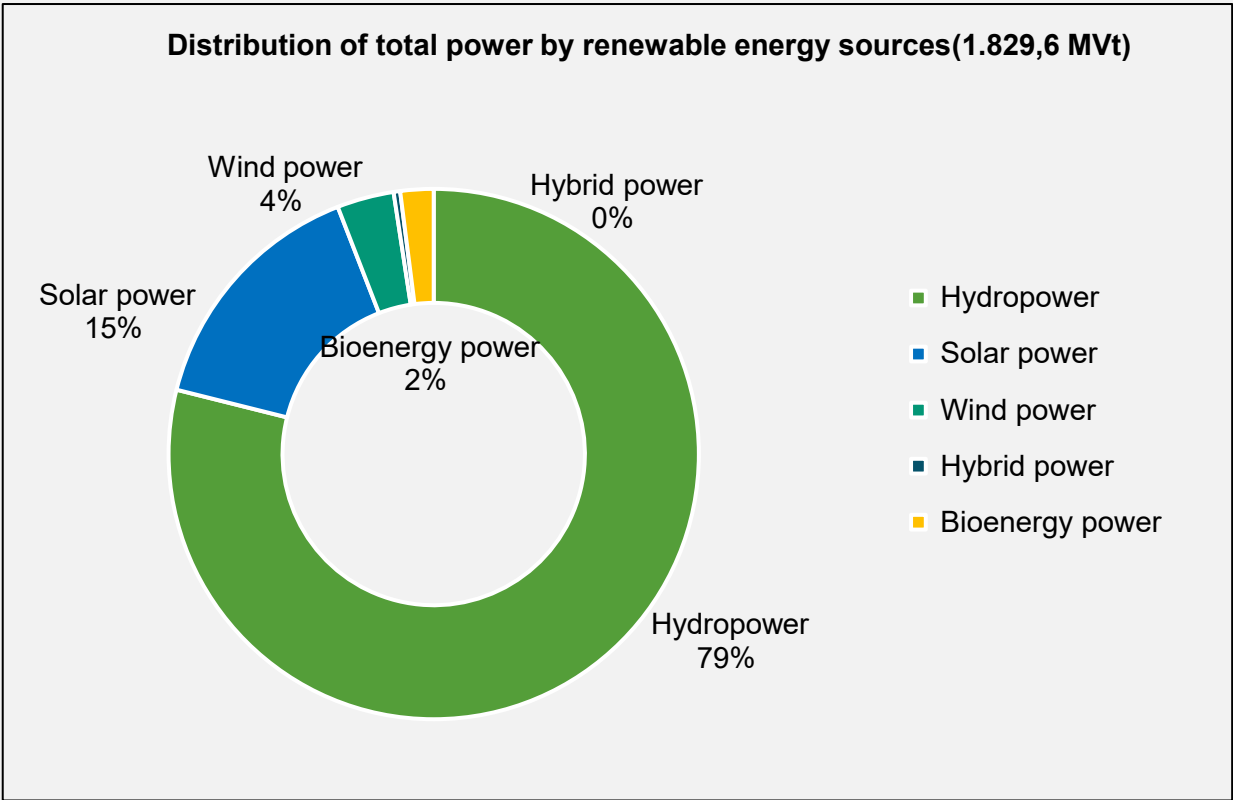


Chart 6. Distribution of total power by renewable energy sources ⁷

In 2025, new investment decisions were made, an investment agreement was signed for the 100 MW Gobustan solar power plant, and it was announced that the project is expected to generate 180 million kWh of electricity per year, save 39 million cubic meters of natural gas, and reduce carbon emissions by 86 thousand tons. Additionally, a final investment decision was made for the 240 MW Shafag Solar Power Plant. It was reported that the project is worth approximately 200 million USD. To increase the network's flexibility, Azerenergy OJSC has begun creating Battery Storage Systems with a total capacity of 250 MW and 500 MWh at the Absheron and Agdash substations. Additionally, the Asian Development Bank has approved a technical assistance project to decarbonize the heat supply sector and promote the integration of renewable energy sources. The project's total financial value has been announced as 1.1 million US dollars.

⁷ <https://minenergy.gov.az/uploads/Hesabatlar/SON-yeni-Energetika%20Nazirliyi%20hesabat%202025%20Z.%C6%8F..pdf>

Construction of solar and wind power plants continues within the framework of the “green energy zone” concept in the liberated territories. The Ufug and Shams solar power plants, along with large-scale wind power projects, aim to increase the proportion of renewable energy sources in the energy balance and achieve emission reduction targets outlined in the Nationally Determined Contributions document. In 2025, energy production from wind power plants increased significantly compared to the previous year (see Chart 7). Compared to 2024, a total increase of 162.3 million kWh was recorded in wind and solar power plants. Consequently, the total electricity production from these sources in 2025 reached 770 million kWh.

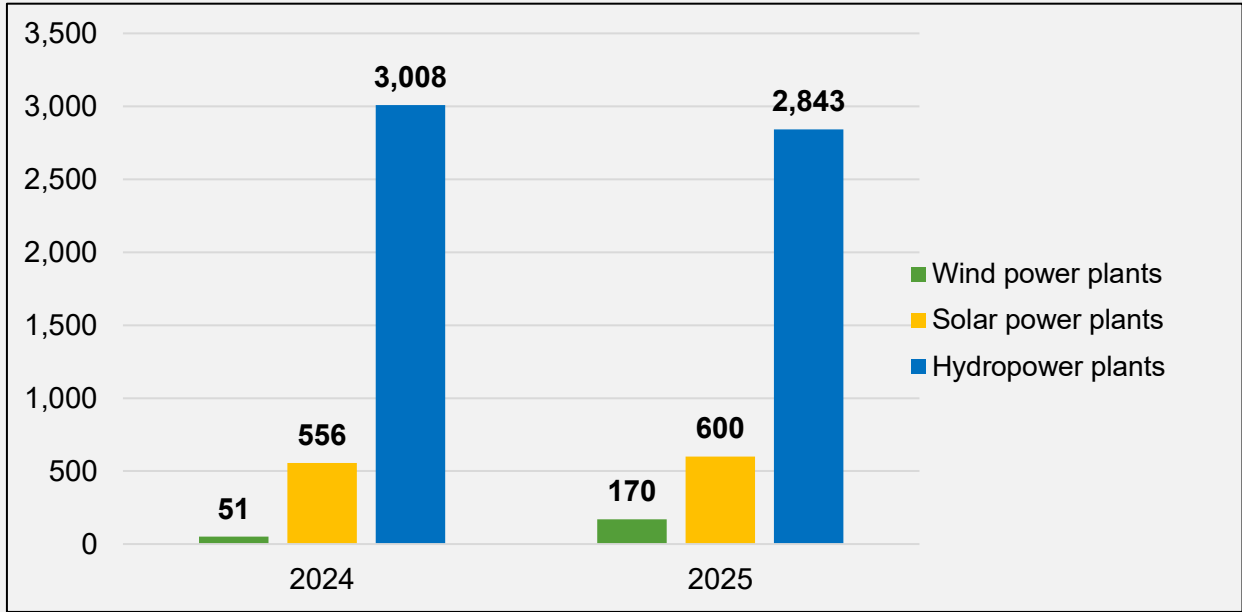


Chart 7. Volume of renewable energy production in power plants ⁸

Measures to strengthen climate resilience in agriculture, reduce emissions, and promote the efficient use of water and other resources are still being implemented. According to the Ministry of Agriculture, a 40% discount is applied to the initial cost of modern irrigation systems and equipment leased or sold through leasing, and a 60% discount is applied to locally produced modern irrigation systems. Additionally, installing climate stations is mandatory to receive a one-time sowing subsidy for certain perennial crops planted in an area of at least 15 hectares with a modern irrigation system between September 1, 2024, and May 31, 2025. Additionally, within the framework of the Agricultural Artificial Intelligence project, which covers the years 2024-2026, research and technical development work has been carried out on 30 modules. The project has noted the potential to reduce greenhouse gas emissions by 15-25% on average by optimizing

⁸ <https://minenergy.gov.az/az/xeberler-arxivi/00714>

fertilizer rates based on soil analysis. Furthermore, efforts are ongoing to develop a roadmap for reducing methane emissions in the livestock sector and incorporating methane into NDC 3.0.

The transportation sector's ongoing low-carbon transformation is underway.

According to the Ministry of Digital Development and Transport, the expansion of electrified public transportation continued in 2025. The initiative to establish a new plant for the local production of electric buses was considered an important step toward faster fleet renewal, reduced dependence on imports, and increased use of low-emission vehicles. The transition to low-emission vehicles is reflected in banks' auto loan portfolios. In 2025, both the loan amount (75 million manat) and the number of loans increased compared to 2024. The increase in the number of loans, in particular, indicates an expansion of lending activity (see Chart 8). These dynamics suggest an increased demand for low-emission vehicles and a shift in financial resources towards a more environmentally friendly transportation sector.

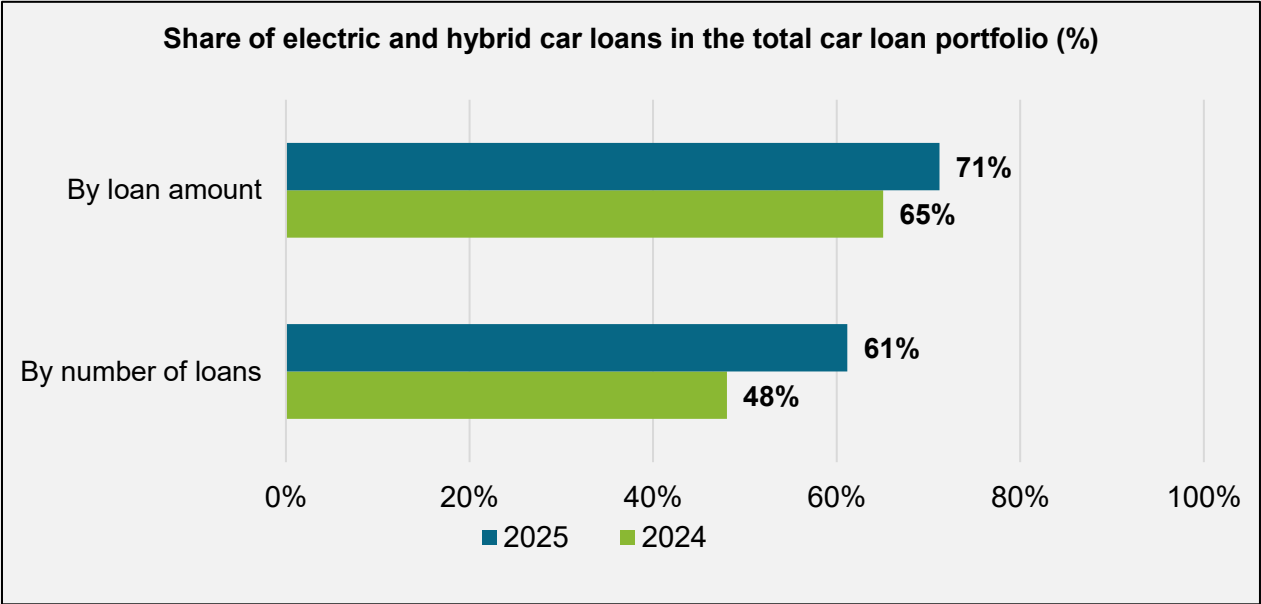


Chart 8. Share of electric and hybrid car loans in the total car loan portfolio

The share of hybrid vehicles among imports increased sharply, reaching 60% by 2025. This increase is due to the greater availability of hybrid vehicles on the market and their growing popularity among consumers. This trend is related to factors such as infrastructure, price differences, energy supply, and consumer behavior (Chart 9).

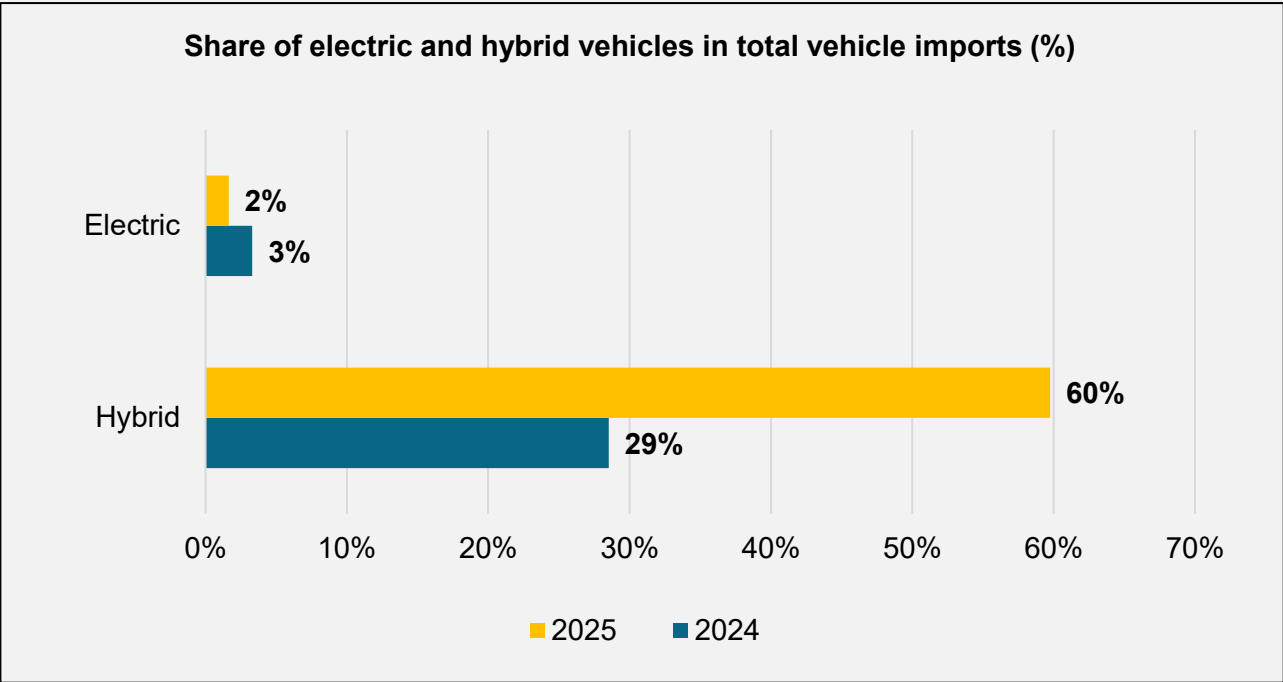


Chart 9. Share of electric and hybrid vehicles in total vehicle imports (%)

2. Implementation of the Roadmap for Sustainable Finance

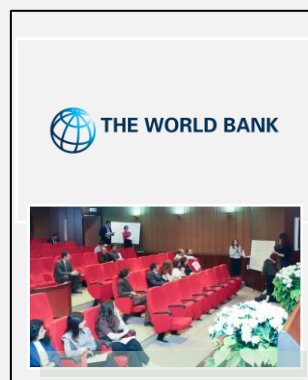
2.1. Capacity building in sustainable finance

In 2025, the Central Bank developed and implemented a training program in cooperation with international partners to promote sustainable finance principles in the financial sector and strengthen institutional capacity in climate and ESG risk management.

The training aimed to increase bank employees' knowledge and skills in identifying and integrating sustainable finance, climate, and other ESG risks into the regulatory framework. The program provided the banking sector with methodological approaches and practical tools to strengthen its readiness for the sustainable finance agenda.



A training on carbon emissions calculation was held for representatives of the banking sector. The training covered greenhouse gas emission measurement methodologies, the differentiation of Scope 1, 2, and 3 emissions, and data collection and reporting mechanisms. Practical approaches for correctly assessing and disclosing emission indicators in the banking sector were also presented. The training was organized jointly with the Partnership for Carbon Accounting Finance (PCAF).



The training organized for banking sector representatives on applying the Green Taxonomy covered criteria for classifying sustainable economic activities, principles for identifying green assets, and integrating the taxonomy into loan and investment portfolios. The training helped establish a unified methodological approach in the banking sector and expand green financing. The training was organized jointly with the World Bank.



The "Climate Transition Planning" training for the banking sector included presentations on the role of banks in the transition to a low-carbon economy, transition risk assessment, scenario analysis, and strategic planning tools. This approach allowed participants to assess the risks and opportunities associated with the climate transition more systematically. The training was organized jointly with the European Bank for Reconstruction and Development (EBRD).



Training sessions were organized for the banking sector in two areas of sustainable finance: emissions accounting and climate-related financial disclosure. The trainings provided detailed information on international reporting standards and the structure of climate-related financial disclosures. They also covered methods for measuring risks and impacts and provided practical examples of how banks can fulfill their disclosure obligations. The training was organized jointly with Ernst and Young.



The training sessions, titled “Introduction to Climate Risk Management: Objectives, Benefits, and Frameworks” and “Managing Physical and Transitional Climate Risks” provided comprehensive explanations of the classification of climate risks and their potential impact on financial stability. The trainings also covered mechanisms for identifying, measuring, and managing risks, as well as international frameworks. These trainings were organized jointly with the IFC.

2.2. Enabling environment for sustainable finance flows

In line with international approaches and frameworks, the Central Bank recognizes the growing importance of ESG-related risks for the financial sector and continues to strengthen the regulatory and institutional framework in this area. ESG risks are those that can negatively impact the operations, financial position, or investment portfolios of financial sector participants by directly or indirectly affecting traditional financial risks, such as credit, market, operational, liquidity, and reputation risks. At the same time, these risks create opportunities for developing sustainable financing, forming new financial instruments, and expanding investment opportunities.

Risks



Physical risks

- **Acute:** acute risks include an increase in extreme weather events, such as droughts and floods.
- **Chronic:** temperature changes and sea level rise

Transition risks



- **Legal and regulatory:** carbon tax, emissions reporting, tightening regulations
- **Technology:** costs of transitioning to low-emission technology and failed investments



- **Market:** changing customer behavior and uncertain market signals
- **Reputation:** stigma of the sector, growing dissatisfaction of stakeholders

Opportunities



- **Resource efficiency:** recycling, efficient buildings, reducing water use
- **Energy:** low-emission energy, new technologies



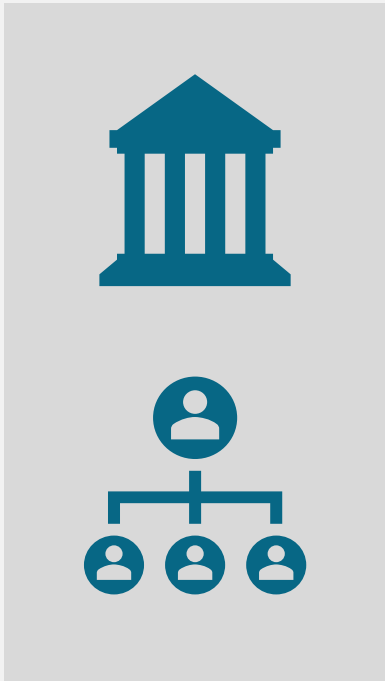
- **Products and services:** low-emission products, climate finance investments
- **Market:** new markets, carbon market, policy incentives



- **Resilience:** Financial sustainability, resource diversification



Amendments to the Corporate Governance Standards in Banks



In accordance with the amendments to the Corporate Governance Standards in Banks, ESG factors have been integrated into the bank’s strategic decision-making and risk management systems. ESG risks and opportunities have been assessed in the short-, medium-, and long-term. The division of duties and authorities has been determined and included in the overall risk management framework. The Supervisory Board oversees ESG risks, and the Management Board measures, monitors, and eliminates risks while ensuring the reliability of information. The internal audit function evaluates effectiveness, and the remuneration and dividend policy considers risk appetite and ESG factors. This approach strengthens sustainability and transparency in corporate governance.

2.3. Integrating climate-related risks and ESG factors into risk management



Amendments to the Regulation on Credit Risk Management in Banks



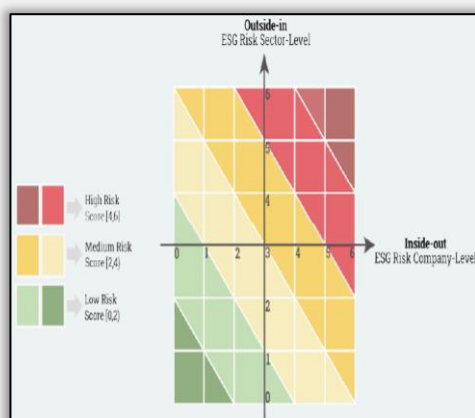
The amendments to the “Regulation on Credit Risk Management in Banks” include, in addition to the existing framework for credit risk management, the establishment of internal policies and regulations for banks' green and sustainability-related loan portfolio management, the assessment, monitoring of green and sustainability-related loans, relevant approval and assessment documents for the purpose of increasing transparency and accountability, the key performance indicator for sustainability-related loans, the process for determining key sustainability targets, and the criteria for green activities.



ESG Risk Radar tool

NACE-Kodu	Sector	ESG-Risk Sector-Score
A	Agriculture, Forestry and Fishing	8
B	Mining and Quarrying	8
C	Manufacturing	5
D	Electricity and Gas	9
E	Other sectors of industry	8
F	Construction	7

Agriculture	7.2%	
7-9 Construction	5.2%	16,09%
Transportation	2.8%	
Other non-manufacturing and service sectors	8.1%	
5-6 Manufacturing	5.3%	14,83%
Financial and Insurance Activities	1.5%	
Wholesale and Retail Trade	14.0%	
3-4 Information and Communication	2.7%	16,70%
Public Administration	0.0%	
1-2 Retail (Mortgage and Consumer Loans)	52,38%	52,38%



Together with the Azerbaijan Banks Association and the German Sparkassestiftung for International Cooperation, the Central Bank is implementing a project to introduce the ESG Risk Radar tool to the banking sector. The tool enables the measurement and comparison of ESG risks when information at the loan and customer level is limited.

The ESG Risk Radar is a tool that provides a complete overview of ESG risks in a loan portfolio. It uses heat map analysis and a systematic "top-down" assessment methodology. This methodology is in line with the Bank for International Settlements' "Principles for Effective Management and Control of Climate-Related Financial Risks"⁹ and "Core Principles for Effective Banking Supervision"¹⁰. At the sector level, the ESG Risk Radar evaluates three primary categories: physical risks, transition risks and other ESG risks. Using the identified sector scores, a heat map can be generated to provide an overview of concentrations of climate-related and other ESG risks in the bank's loan portfolio. After determining the ESG risk scores at the sector level, banks send their customers risk questionnaires prepared by experts. A separate ESG risk score is calculated for each company based on the information provided by customers. This approach allows risks to be systematically assessed at both the sector and company levels. Consequently, banks can effectively utilize these scores for credit policies, portfolio management, and the overall risk control process. The ESG Risk Radar is expected to be fully implemented by the end of 2026.

⁹ Principles for the effective management and supervision of climate-related financial risks.

¹⁰ Core Principles for effective banking supervision



Work done to address data gaps



In accordance with the Roadmap for Closing Data Gaps on Transition Risks from Climate Risks, the Central Bank is implementing measures to reduce the data gap. To this end, GHG emission data will be collected from enterprises during loan applications and structured in the Centralized Credit Registry. Additionally, the financial database will be expanded for stress testing and scenario analysis. Additionally, work is underway to further classify emission data at the sub-sector level.

2.4. Ensuring transparency and market discipline in financial markets



Requirements for disclosure and reporting of sustainability indicators in banks

The Corporate Governance Standards for Banks now require banks to disclose information on their sustainability indicators to users. This information must be disclosed annually starting in the first quarter of 2027 and covering 2026. This information is organized into four main categories according to the Task Force on Climate-Related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB) frameworks.

Quantitative sustainability information includes the bank's "sustainable" loan portfolio; the number of loans that have passed ESG screening, as well as those that have been rejected; the bank's Scope 1, 2, and 3 greenhouse gas (GHG) emissions in millions of tons of carbon dioxide equivalent (MtCO₂e); and the bank's financed emissions across its loan portfolio by economic sector. Starting in 2027, reporting on GHG emissions will be required (see Chart 10).



Management

- Governance structure for managing ESG risks and opportunities
- ESG skills
- Supervisory Board supervision mechanism
- Integration into ESG targets and reward policy
- Management and control processes of ESG risks and opportunities in HR



Strategy

- Information on procedures for assessing the potential impact of ESG risks on the bank's business lines, customer base, product portfolio and geographical presence
- Information on the consideration of ESG risks in the strategic decision-making process and, if applicable, the transition plan
- The current and expected impact of ESG risks on the bank's financial position, financial results (revenues, expenses, access to capital, etc.) and cash flows
- Information about sustainable products and services



Risk management

- The process of classifying ESG risks into physical risks and transition risks, and assessing their probability of occurrence, as well as risks over short, medium and long time horizons
- Information on the Bank's internal processes and policies for identifying, assessing, prioritizing, and monitoring ESG risks.
- Information on the integration of ESG risks into the overall risk management framework



Quantitative data

- Information about sustainable loan portfolio
- Distribution of loan portfolio by economic sectors
- Funded emissions
- All 3 levels of IR emissions
- Number and share of loans that passed ESG screening

Chart 10. Required disclosure of information about the bank's sustainability indicators



Amendments to the Regulation on the Form, Content and Submission of Prudential Reports in Banks



Regarding the regular reporting of sustainable loans, several new categories of information have been added to the Regulation for the Form, Content, and Submission of Prudential Reports Prepared by Banks and Local Branches of Foreign Banks. Starting April 1, 2026, banks must report to the Central Bank on the distribution of the Sustainable Loan Portfolio by economic sector, the sectors' financed issues, and the duration of sustainable loans. Additionally, analysis of overdue sustainable loans and classification information by risk level of the sustainable loan portfolio have been added.

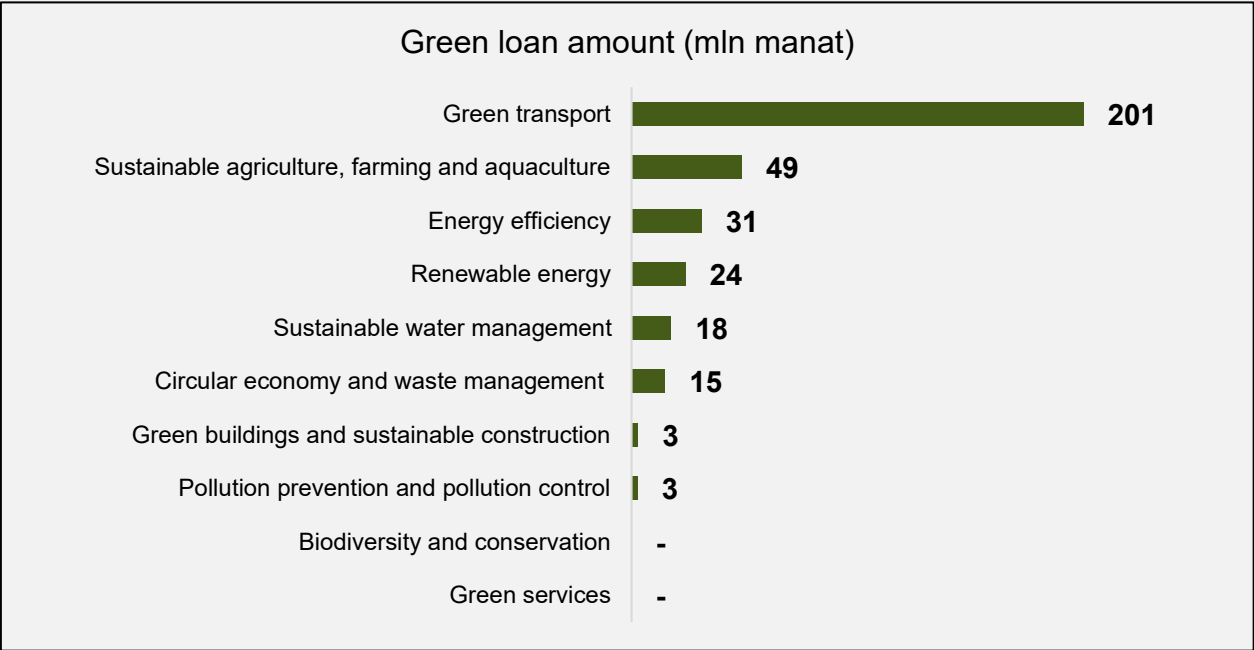
2.5. Results of the implementation of the Roadmap for Sustainable Finance

Implementing the Roadmap for Sustainable Finance has positively impacted the country's position in international rankings in this area. According to the "Progression Matrix" rating system of the "Global Progress" report of the Sustainable Banking and Finance Network (SBFN), which is part of the World Bank, Azerbaijan has moved up to the "Progressing" category (Table 2).¹¹ It should be noted that the report aims to systematically assess countries' progress in sustainable finance. The SBFN Measurement Framework used in the report measures the extent to which countries implement sustainability principles in their financial sectors and how consistent their national policies are with international best practices. The assessment framework is based on 110 indicators that analyze the regulatory environment and institutional mechanisms, as well as the level of financial institutions' practical implementation. This approach enables us to evaluate the stage of development of countries' policies and initiatives on sustainable finance and determine future development directions. The assessment is carried out based on three main pillars:

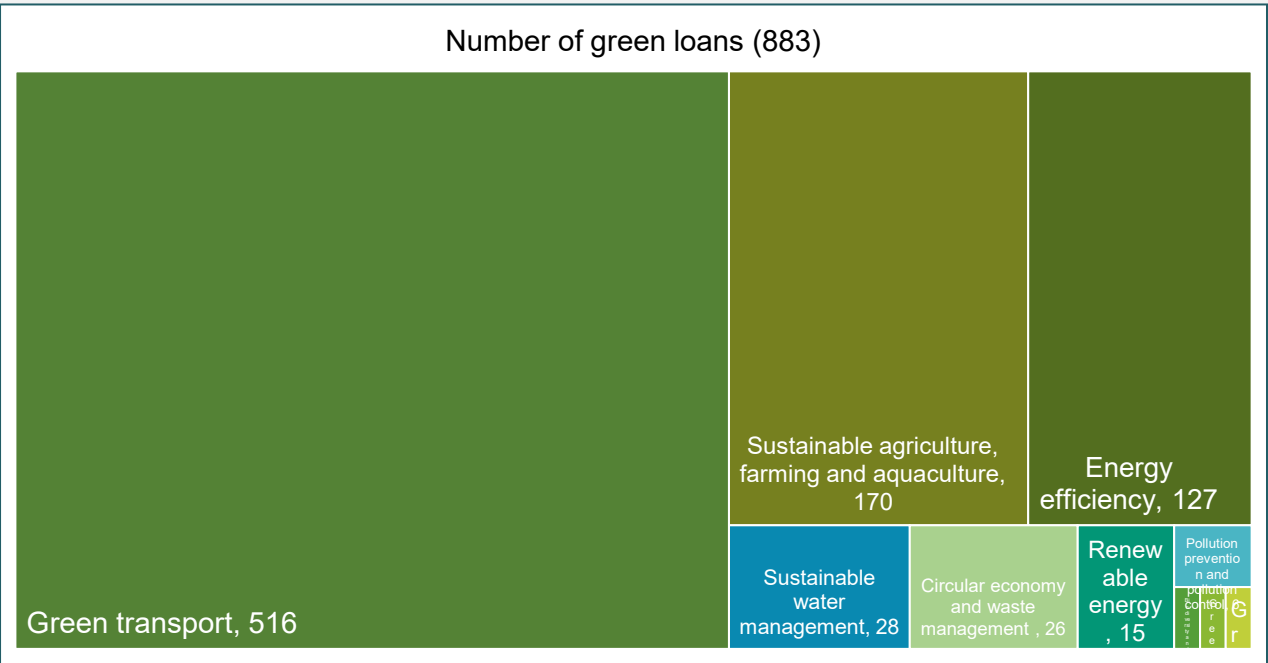
¹¹ <https://data.sbfnetwork.org/country/azerbaijan>

Green and sustainability-related loans

Within the framework of COP29, the banking sector of the Republic of Azerbaijan planned to allocate 2 billion manats to sustainable and green projects by 2030. As a result, 344 million and 27 million manats were allocated to green and sustainability-related projects, respectively, in 2025.



The majority of loans have been allocated to green transportation and sustainable agriculture. Although there is financing for other areas, such as energy efficiency and water management, the number of loans for these areas is relatively low.



3. Central Bank and sustainability

3.1. Corporate social responsibility

The Central Bank considers corporate social responsibility principles an integral part of its operating strategy. This includes implementing projects that increase financial literacy and public awareness, as well as supporting sustainable development initiatives. The Central Bank also places great importance on transparency, ethical management, and strengthening social welfare. This approach demonstrates the Central Bank's commitment to being a responsible member of society and the economy.

The Central Bank is taking important steps toward promoting gender balance, keeping the principles of equality at the forefront. The bank creates equal opportunities for women and men in the workplace, in their professional development, and in their participation in management positions. Policies and measures based on gender equality strengthen workforce diversity and foster an inclusive, balanced work environment. This approach also eliminates gender stereotypes in society and increases social responsibility.

Category of employees	2025	2024	2023
Management Board, Female %	16.7%	16.7%	0.0%
Executive Directors, Female %	11.1%	20.0%	16.7%
Department heads, Female %	25.7%	17.1%	20.8%
Unit / Division heads, Female %	27.6%	27.4%	20.7%
All employees, Female %	38.1%	37.1%	34.7%
Number of employees hired in the past 12 months, Female %	40.5%	38.0%	41.1%

Table 3. Share of female employees at the Central Bank (%)

The increase in the percentage of women serving as department directors, from 17% to 26%, indicates their true representation at key decision-making levels of management. This concrete indicator reflects the existence of opportunities for women to advance to leadership positions within the organization, ensuring gender diversity at the practical level.

 Corporate social activities

In accordance with the Central Bank's corporate social responsibility principles, various social events were organized for its employees. These events aim to contribute to society and strengthen team spirit and social responsibility among employees. For instance, the tree-planting activity carried out by employees supports ecological sustainability and contributes to environmental protection. Additionally, the joint cinema day organized for children in orphanages was planned to provide social support to the community. This initiative increases the social well-being and motivation of children and allows employees to strengthen empathy and corporate values. These events demonstrate that the Central Bank contributes not only to financial and economic functions, but also to the social and environmental well-being of society. (Chart 11).



Chart 11. Cporporate social activities



Sustainable Finance Survey

The 2025 assessment shows that financial institutions consider climate change and ESG risks important elements of the sustainable finance agenda. According to the respondents, these risks will have a more limited impact in the short term but a more significant impact in the medium and long term. Notably, the high risk expectations for the long term that remain relevant compared to last year indicate that climate change and ESG factors are important considerations for the future performance and sustainability of financial institutions.

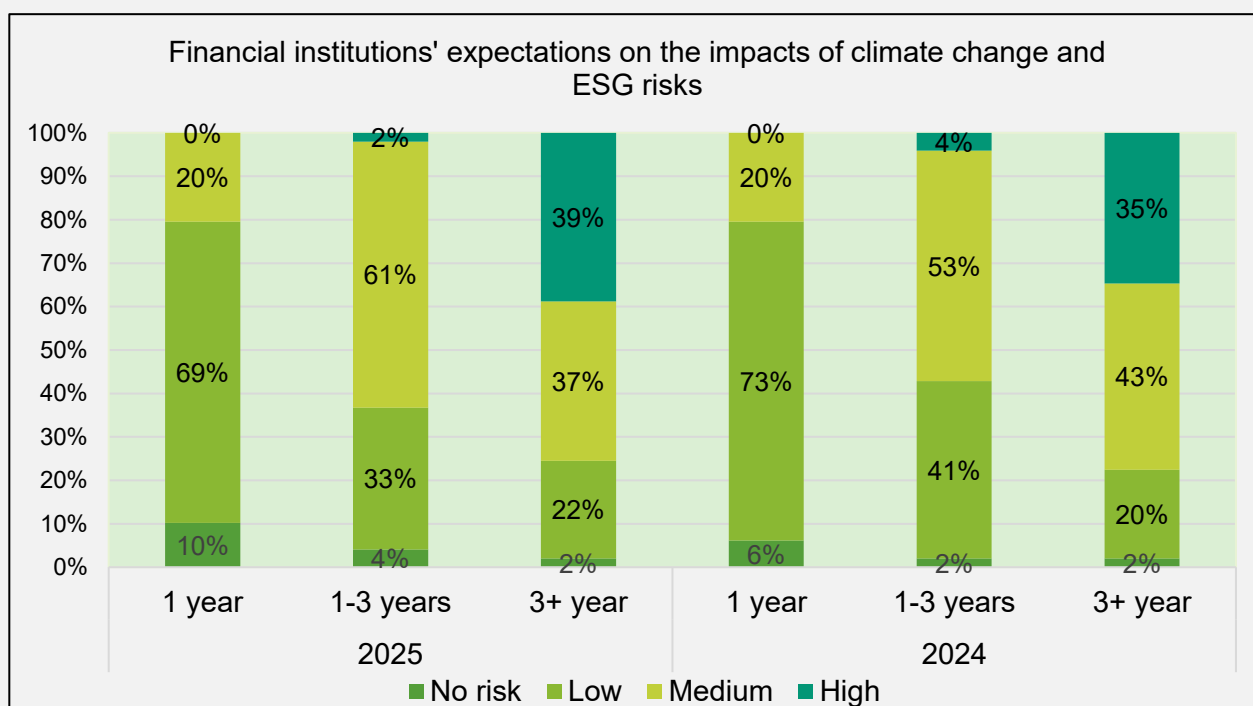


Chart 12. Financial institutions' expectations on the impacts of climate change and ESG risks

Other survey results indicate that environmental, social, and governance (ESG) factors are gradually being integrated into strategic planning, management, and product initiatives in the financial sector. Seventy-seven percent of banks reported having plans to comply with the Roadmap for Sustainable Finance, and 67% noted the appointment of a person responsible for ESG at the board level. Additionally, 55% of banking sector participants take environmental risks and opportunities into account when developing credit products, and 45% take social components into account. This indicates the integration of ESG principles into banking products and decision-making processes.

There are also positive dynamics in the insurance sector regarding the consideration of ESG factors at the strategic level. Sixty-three percent of sector participants reported that ESG factors

have been integrated into their long-term business strategy. Among investment companies, 42% of respondents said ESG factors have been integrated into their business strategy, while 33% said preparatory work is underway. Additionally, the appointment of an ESG representative at the board level in 33% of investment companies suggests that capital market participants are beginning to consider the sustainable finance agenda at the management level.

3.2. Decarbonization measures

Throughout 2025, systematic and targeted measures toward decarbonization and environmental sustainability were implemented in the Central Bank's new administrative building. These measures ensured proper waste management, promoted recycling, and fostered a culture of environmental responsibility among employees.



In this context, Azersun Holding provided 24 recycling bins for paper waste, which were placed on all working floors of the building near printers and paper shredders. Placing the bins precisely where paper waste is generated allows employees to actively participate in the sorting process and increases the amount of paper waste that can be diverted for recycling.

Additionally, eight special collection boxes provided by the Ministry of Ecology and Natural Resources as part of the "Hand over batteries, protect nature" project have been installed on different floors of the building. This initiative creates conditions that prevent the harmful impact of used batteries on the environment by ensuring the proper disposal of hazardous waste.

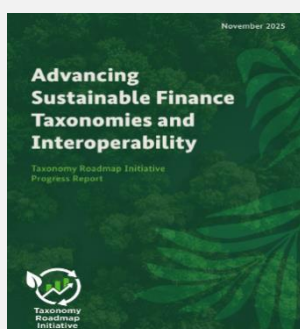
The waste sorting process was organized more efficiently, recycling opportunities were expanded, and a low-carbon, responsible management approach was implemented in the new administrative building as a result of the measures taken.

3.3. The role of the Central Bank in global sustainability initiatives

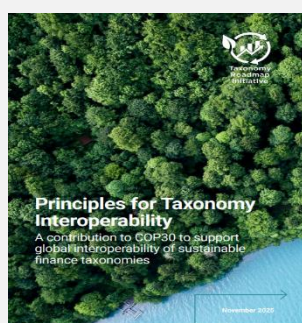
3.3.1. Taxonomies Roadmap

The Taxonomies Roadmap initiative was launched by the Central Bank, the International Finance Corporation (IFC), the Sustainable Banking and Finance Network (SBFN), the United Nations Development Programme (UNDP), and the International Platform on Sustainable Finance (IPSF) during the Sustainable Finance Taxonomy event held in Baku at COP29 in 2024. The initiative's primary goal is to increase cross-border investment in sustainable activities, aligning with Article 2.1(c) of the Paris Agreement.

During COP30, the partners presented the main results of the "Roadmap for the Development of Interoperability and Comparability of Sustainable Finance Taxonomies," showcasing the collaboration of governments, financial institutions, and the private sector in harmonizing taxonomies and enhancing data comparability. The Central Bank performed the secretariat function, and the official website of the Taxonomy Roadmap Initiative was developed and launched.



Taxonomy Roadmap Initiative Progress Report – This report provides an analytical overview of global trends, advancements, and best practices in developing and ensuring the interoperability of sustainable finance taxonomies. It also covers the Initiative's results and developments in the broader taxonomy ecosystem.



Principles for Taxonomy Interoperability – These high-level principles serve as a guiding framework for taxonomy developers and policymakers, promoting interoperability and comparability across jurisdictions. The principles aim to improve alignment and support the practical implementation of the Roadmap during development and implementation.



The Sustainable Finance Taxonomy Mapper – It enables users to compare, explore, and analyze existing sustainable finance taxonomies across jurisdictions. By mapping taxonomy criteria, structures, and objectives into a single, accessible format, Mapper supports interoperability, transparency, and informed decision-making.



Taxonomy Roadmap Initiative Website – this dedicated online platform provides stakeholders with access to information, resources, and tools for the effective implementation and coordination of the taxonomy. It will share updates on the roadmap, facilitate partner engagement, and promote global collaboration.

[Taxonomies Roadmap](#)

The main international events organized within the framework of the Taxonomies Roadmap implementation in 2025 are as follows:



Regional Roundtable, October 2025, Brussels

The Regional Roundtable, organized by the UNEP Finance Initiative, addressed key priorities for sustainable finance, such as climate and regulatory issues. The Taxonomies Roadmap emphasized that aligning global taxonomies decreases fragmentation and promotes cross-border investments.

Hamburg Sustainability Conference, June 2025, Hamburg

During the conference, the panel organized by SBFN, IFC, and GIZ discussed the harmonization of sustainable finance taxonomies. The session emphasized support for the Taxonomies Roadmap and the use of taxonomies for climate and Sustainable Development Goals (SDGs), as well as the strengthening of global adaptation. A memorandum of cooperation was also signed between SBFN and GIZ.



Roundtable, March 2025, Johannesburg

The roundtable, hosted by SBFN, focused on harmonizing and implementing sustainable finance taxonomies. The discussions emphasized the importance of increasing harmonization between taxonomies, promoting cross-border investments, and strengthening knowledge exchange within the framework of the Taxonomies Roadmap.



Roundtable, March 2025, Geneva

During the roundtable, the implementation of the Taxonomies Roadmap was discussed, with an emphasis placed on the fact that the initiative is being carried out jointly with the Central Bank and other partners. Organized by UNDP, the meeting emphasized the importance of global alignment and stated that the initiative will serve as a key platform for cooperation and coordination.

3.3.2.SBFN: Sustainable Financial Instruments Working Group

The Central Bank of the Republic of Azerbaijan was elected Co-Chair of the Working Group on Sustainable Financial Instruments for Eastern Europe and Central Asia. The Sustainable Finance Instruments Working Group was established in 2018 in response to the market's rapid growth and member institutions' increasing interest in sustainable finance instruments. One of the group's first major products was a report that provided a comprehensive assessment of the green bond market in over 22 emerging markets. In 2024, the SBFN Toolkit on Sustainable Finance Taxonomies was launched following two years of collaboration with SBFN members. This initiative aims to support the development and implementation of national and regional taxonomies in emerging markets by building on international best practices. As part of these efforts, the Taxonomies Roadmap initiative was announced at COP29 in Baku to improve the interoperability and comparability of sustainable finance taxonomies. A progress report was presented at COP30 in Belém, summarizing the development of taxonomies globally, the progress that has been made, and the best practices that have emerged.

3.3.3. Other initiatives:

The inaugural meeting of the Turkish Green Finance Council took place on September 4, 2025, at the Astana International Finance Center. During the meeting, the Central Bank presented the Republic of Azerbaijan's green finance and regional cooperation initiatives. Topics discussed at the meeting included promoting cooperation between member organizations and observer parties to advance sustainability and expand joint development activities. According to the memorandum signed by the central bank, the Astana Financial Center, the Kyrgyz Stock Exchange, and the Turkish Securities Institution, the council's main goal is to provide its member organizations with advisory and consulting services to promote green and sustainable finance and investments that consider environmental, social, and governance factors.

4. Goals for 2026

4.1. Targets for implementing the Roadmap for Sustainable Finance

In line with the strategic goals established for 2026, the Central Bank's initiatives in sustainable finance aim to bolster sustainability in the financial sector, manage climate risks effectively, and encourage green financial flows.

- 1. Capacity building in sustainable finance:** To this end, specialized training programs are being developed and implemented to increase knowledge and skills in sustainable finance within the banking sector. These programs will be organized in collaboration with international organizations and will provide an opportunity to study and apply advanced global practices. Additionally, expanding membership and cooperation with international organizations will strengthen the institutional capacity of the banking sector and promote the adoption of modern approaches and standards in the country. The goal is to systematically develop financial institutions' knowledge base on sustainable finance through seminars, workshops, and methodological support mechanisms.
- 2. Shaping an ecosystem for sustainable financial flows:** Comprehensive measures will be taken to establish an ecosystem that promotes sustainable financial flows. These measures include preparing a legislative framework that aligns with international standards for developing the green bond market, defining emission and reporting requirements, and introducing incentive mechanisms.

Additionally, a Sustainable Insurance Action Plan will be developed to strengthen the sustainability of the insurance sector. This plan will promote climate risk management and the

implementation of ESI criteria. These measures will increase sustainable investments and the sustainable development of the financial sector.

- 3. Integrating climate change and ESG factors into risk management:** To strengthen the integration of ESG risks in the banking sector by 2026, the ESG Risk Radar Tool project framework will develop ESG guidelines and determine how to integrate Risk Radar results into credit decisions. At the same time, awareness-raising activities will be held for banks and credit analysis questions for the construction sector will be completed within the pilot project framework. Once the final report on the Risk Radar Tool is prepared, measures will be taken to integrate the tool into prudential policy.

Additionally, stress tests on transition risks are planned to comprehensively assess the financial system's resilience to climate risks. Initially, a top-down approach will be used to systematically analyze how transition risks arising from climate policies, carbon pricing, and technological transformation affect the banking sector through macroeconomic indicators. Within this framework, scenarios will be formulated for key macroeconomic variables (economic growth, inflation, interest rates, etc.) and the impact of these scenarios (Annex 1) on the financial stability indicators of the banking sector will be assessed. In particular, the impact of transition risks on banks' asset quality, the dynamics of non-performing loans, the sensitivity of loan portfolios by sector, and their possible impact on capital adequacy will be measured through quantitative models. Additionally, the results will be used to determine the sensitivity of the banking sector to climate risks, assess potential systemic risks, and prepare substantiated proposals to improve prudential policy tools if necessary.

- 4. Ensuring transparency and market discipline in financial markets:** In this context, an annual report on sustainable finance will be prepared, and a unified methodology for disclosing sustainability indicators will be developed. Additionally, a suitable legal framework will be established to integrate greenhouse gas emissions data into the Central Credit Registry. This will enable financial institutions to make more efficient and sustainable investment and lending decisions.

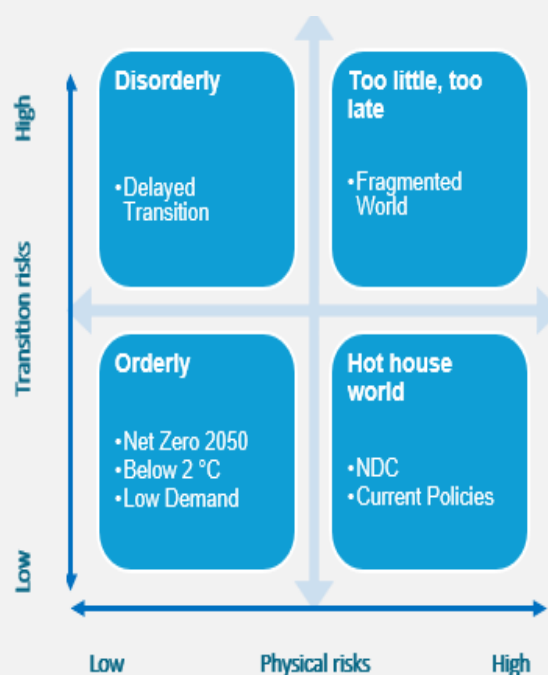
These measures will help implement sustainable development principles more systematically in the financial sector and manage climate risks more effectively from a financial stability perspective.

Annex 1. Overview of the Network for Greening the Financial System (NGFS) Scenarios

In line with the framework presented in the NGFS First Comprehensive Report, the Network for Greening the Financial System (NGFS) scenarios cover seven different scenarios and reflect the following directions:

- **Orderly** scenarios assume that climate policies are implemented early and gradually tightened, resulting in relatively low physical and transition risks.
- **Disorderly** scenarios reflect higher transition risks due to policy delays or differential implementation across countries and sectors. For instance, shadow carbon prices tend to be higher in order to achieve a specific temperature outcome.
- **Hot house world** scenarios assume that climate policies are implemented in some countries, but global efforts are insufficient, resulting in severe global warming. These scenarios result in severe physical risks, including irreversible impacts.
- **Too-little-too-late** scenarios demonstrate that delayed and uncoordinated transitions are ineffective at limiting physical risks.

NGFS Scenarios Framework in Phase V



Source: https://www.ngfs.net/system/files/import/ngfs/medias/documents/ngfs_scenarios_main_presentation.pdf