



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

Guidelines on Green and Sustainability-linked loans

Approved
by Resolution of the
Management Board of the
Central Bank
of the Republic of Azerbaijan
dated 28 January 2025

Protocol № 04

Table of contents

1. General provisions.....	4
2. Definitions	4
3. Management framework of green and sustainability-linked loans	5
4. Assessment of green and sustainability-linked loans	6
5. Establishing KPIs and SPTs for sustainability-linked loans	7
6. Oversight and monitoring	7
7. Transparency and disclosure.....	8
8. Capacity building	8
Annex 1 to the 'Guidelines on green and sustainability-linked loans'	10
Annex 2 to the 'Guidelines on green and sustainability-linked loans'	15

1. General provisions

1.1. These Guidelines have been developed considering the Green Loan Principles (GLP)¹ (hereinafter – GLP) and Sustainability-Linked Loan Principles (SLLP)² (hereinafter – SLLP), co-developed by the Loan Market Association (LMA), the Asia Pacific Loan Market Association (APLMA) and the Loan Syndications and Trading Association (LSTA), for local banks, local branches of foreign banks, non-bank credit institutions and credit unions (hereinafter – credit institutions) and determine recommendations regarding the issuance of green and sustainability-linked loans.

1.2. The main purpose of these Guidelines is to support the priority of a clean environment and a green growth country, which has been identified as one of the five national priorities to be implemented in the next decade under the ‘Azerbaijan 2030: National Priorities for Socio-Economic Development’ approved by Decree No. 2469 of the President of the Republic of Azerbaijan dated 2 February 2021, by ensuring the formation and promotion of green and sustainability-linked loans.

1.3. The recommendations outlined in these Guidelines are of a minimum nature and are applied considering each credit institution's sensitivity to environmental risks, business environment, and risk profile.

2. Definitions

2.1. The definitions used in these Guidelines bear the following meanings:

2.1.1. **green loan** – a credit product (e.g., loan, guarantee, letter of credit, etc.) issued for full or partial financing, including refinancing, of existing or new green activities (sub-activities).

2.1.2. **green activity** – activity consistent with the minimum requirements specified in the Green Taxonomy approved by Decision No 44 of the Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank) dated 7 November 2024.

2.1.3. **sustainability-linked loan** – a credit product granted based on the measurement of the borrower's predefined sustainability performance targets, aimed at the gradual improvement of the sustainability profile, achievement of sustainability goals, and support for environmentally and socially sustainable economic activities.

2.1.4. **sustainability performance targets (SPTs)** – goals established on key performance indicators to improve the borrower's sustainability profile (e.g., reducing GHG emissions by 30% over five years by increasing the use of renewable energy sources). Local and external ratings, as well as other key performance indicators, can be used as benchmarks.

2.1.5. **key performance indicators (KPIs)** – primary indicators measuring borrower's progress toward achieving sustainability targets (e.g., reduction of Scope 1 and Scope 2 GHG).

2.1.6. **sustainability profile** – a set of indicators representing the impact of borrower's activities on the environment, climate, and society.

2.1.7. **greenwashing** – a practice in which borrower's statements, disclosures, activities, or communicated information regarding sustainability, as well as SPTs of a financial product or service, are not accurately and fairly represented. This practice can be misleading for consumers, investors, or other market participants. Some examples of greenwashing are listed below:

¹ <https://www.lsta.org/content/guidance-on-green-loan-principles-glp/>

² <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/>

2.1.7.1. make a statement about reducing GHG emissions without having an implementation plan.

2.1.7.2. provide overly general information about environmental benefits and other sustainability features of a project without disclosing specific details (e.g., present a minor improvement as having a significant impact or market a product that merely meets minimum regulatory requirements as if it were substantially superior to the standard).

2.1.7.3. misuse terms like 'green' and 'sustainable' (e.g., apply deliberately misleading labels such as 'green' or 'eco-friendly' without standardized definitions, or highlight only environmental aspects while ignoring other negative impacts)

3. Management framework of green and sustainability-linked loans

3.1. The credit institution establishes a framework for managing green and sustainability-linked loan products. The purpose of this framework is to ensure that the respective loan maintains its green and/or sustainable status throughout its loan term.

3.2. In addition to the existing framework for traditional loans, the credit institution defines internal policies and regulations regarding the approval and reporting procedures for green and sustainability-linked loans, their regular monitoring and periodic assessment, collateral appraisal, recovery of non-performing loans, as well as the management of the lending portfolio with such loans.

3.3. A dedicated internal committee may be established within the credit institution for the development, approval, and implementation of new green and sustainability-linked loans, or these matters may be assigned to an existing internal committee. Members of the internal committee established for or assigned with responsibilities related to green and sustainability-linked loan objectives (hereinafter – the Committee) may consist of members from credit institution's management bodies, as well as heads of strategy, risk management, legal compliance, and other relevant departments.

3.4. The duties of the committee include the following:

3.4.1. defining the strategic and policy framework for green and sustainability-linked loans.

3.4.2. approving criterias for identifying (recognizing) green and sustainability-linked loans.

3.4.3. approving new green and sustainability-linked credit products.

3.4.4. establishing internal limits for green and sustainability-linked loans (e.g., loan size, economic sector, geographical area).

3.4.5. ensuring the implementation of control mechanisms to prevent greenwashing. This also includes making decisions on reclassifying a credit product as 'non-green' or 'non-sustainability-linked' based on the monitoring process.

3.5. The credit institution may establish a specialized structural unit to assess green and sustainability-linked loans. The staff of this unit consists of individuals with the necessary knowledge and experience in green and sustainability-linked financial instruments and issues opinions on whether projects meet green and sustainability-linked criteria and verification documents submitted by borrowers.

3.6. The credit institution develops internal rules concerning the design, structuring, and classification framework of green and sustainability-linked credit products based on the sectors and/or categories covered in the Taxonomy. The rules are prepared in accordance with regulations and guidelines adopted by the Central Bank, as well as international standards such as the GLPs and SLLPs and are reviewed regularly.

4. Assessment of green and sustainability-linked loans

4.1. Borrower due diligence is applied to identify borrowers' eligibility for green and sustainability-linked credit products, and financial and non-financial risks are assessed.

4.2. Credit institutions require borrowers to provide supporting documents confirming that their activities (or products) are green and/or their activities are sustainable to provide green and sustainability-linked credit products.

4.3. The following documents may act as verification/assessment documents:

4.3.1. Self-certification;

4.3.2. External review;

4.3.3. Certification obtained from an independent third party (certificate, rating).

4.4. The self-certification document is prepared by the borrower themselves when they can confirm the compliance with the requirements of green and sustainability-linked loans, as well as the Green Taxonomy, GLPs, or SLLPs, and demonstrate their related expertise. A sample self-certification document for obtaining a loan for the purchase of a green building is provided in Annex 1 to these Guidelines.

4.5. External review may include documents confirming the assessment of the borrower's business activities' ESG impacts, the calculation of KPI and SPT indicators, the framework for green or sustainability-linked loan issuance, and the use of proceeds.

4.5.1. External reviewers may include public authorities (institutions) as defined by law, as well as environmental consultants, consulting firms, or independent rating agencies. The external reviewer should be selected through an agreement between the credit institution and the borrower, and should meet the following requirements:

4.5.1.1. non-governmental reviewers should have at least five-year related experience.

4.5.1.2. have predefined methodologies and procedures to maintain assessments.

4.5.1.3. employ staff with the necessary professional experience and qualifications to cover the relevant fields of assessment.

4.5.2. provide a general description of the purpose of the review, the scope of the review, qualifications of reviewers, and their experience as external reviewer, or indicate where such information can be found.

4.6. Examples of a certification obtained from independent third parties for green loans may include documents such as the ISO 50001 standard referenced in the Green Taxonomy for energy efficiency and the LEED certification. For sustainability-linked loans, certification may include documents demonstrating that the borrower's KPIs and SPTs have been measured against specific criteria and assigned a corresponding rating.

4.7. Certification from independent third parties may be sufficient for assessing the green status of technically less complex products and activities. Examples include loans for purchasing an A+++ energy-rated air conditioner for a business or financing the purchase of an electric vehicle.

4.8. Depending on the project's scope and complexity, one or more of the verification documents specified in Item 4.3 of these Guidelines may be required.

4.9. Sustainability-linked loan terms are determined through mutual agreement and aligned with significant and predefined SPTs. A loan can simultaneously meet both green and sustainability-linked principles. In such cases, it is classified as a green loan.

5. Establishing KPIs and SPTs for sustainability-linked loans

5.1. Each sustainability-linked loan should have relevant SPT and KPI metrics predefined by the borrower for each transaction to measure sustainability performance. The credit institution should recommend that the content of these indicators be validated by external reviewer(s). Annex No. 2 to these Guidelines provides some general SPT categories that can be considered as indicators.

5.2. For sustainability-linked credit products, credit institutions assess borrower's SPTs and KPIs. The SPT should align with borrower's core business activities, be of strategic importance to current and future operations, be calculated based on a clear and precise methodology, and be comparable using predefined indicators.

5.3. During the assessment, the credit institution should require the borrower to provide detailed information on the predefined SPTs related to the sustainability-linked loan (including relevance, significance, baseline level, and, where possible, comparison with industry standards and indicators for at least three years), as well as details on the SPTs (substantiation and depth of the goals, alignment with general sustainability goals described in ESG/sustainability strategies, comparative approaches, borrower's SPTs on sectoral average benchmark values, and the borrower's plan to achieve these SPTs).

5.4. SPTs should reflect significant improvements in relevant KPIs and go beyond the Business-as-Usual scenario.

5.5. SPTs should be determined based on positive impact and integrity and remain relevant throughout the loan maturity (if applicable).

6. Oversight and monitoring

6.1. The credit institution implements appropriate oversight and monitoring measures to ensure that the status of green and sustainability-linked loans obtained by the borrower is maintained. For this purpose, credit institutions periodically review their green and sustainability-linked loan portfolios at least on an annual basis and assess the efficient and designated use of allocated funds. In this context, the compliance of products and equipment purchased, as well as work performed and services provided using the relevant loan funds, with the established criteria is verified, cases of misuse are identified, and measures specified in these Guidelines are implemented.

6.2. During periodic assessments, documents confirming the appropriate use of funds are obtained from borrowers. These documents may include a self-assessment report submitted by the borrower, or verification documents issued by an external reviewer and/or an independent third party. Specific documents required for monitoring and assessment should be agreed upon in the agreement between loan participants (borrower and credit institution).

6.3. If SPT-related information is not publicly disclosed or otherwise confirmed with an audit, it is recommended that an external reviewer assesses the borrower's compliance with SPTs. Publicly disclosed information may be sufficient to confirm compliance with SPTs for publicly traded companies.

6.4. Internal rules and procedures are developed for cases where green and sustainability-linked loans are not used in accordance with the contractual terms. Mechanisms are established for the reclassification of such loans into non-green or non-sustainability-linked categories.

6.5. Based on regular monitoring of sustainability-linked loans, loan terms and conditions may change depending on the borrower's achievement of SPTs. Examples of such changes include, but are not limited to:

6.5.1. for short-term (annually revolving) loans, if the borrower meets the pre-determined SPTs, interest rates may be reduced; otherwise, they may be increased.

6.5.2 for long-term (over one year) loans, if the borrower meets the pre-determined SPTs, interest rates and/or other charges may be reduced; otherwise, they may be increased.

6.6. When SPTs are achieved, the bank offers the borrower to disclose the achievements and its active role in sustainability management through its website or other public resources.

6.7. If the borrower fails to achieve the SPTs agreed upon in the agreement, instead of increasing the loan terms, those funds may be directed towards positive social projects (for example, the amount equivalent to the increase in the interest rate may be directed by the borrower to support social projects).

7. Transparency and disclosure

7.1. Ensuring transparency of borrowers receiving financing through green and sustainability-linked loans is essential. To achieve this, the credit institution provides appropriate support in preparing and disclosing relevant reports to the public.

7.2. The credit institution makes public its strategy and policy framework, including the classification system for green and sustainability-linked credit products. The disclosed information also includes opinions obtained from specialized experts regarding green and sustainability-linked credit products.

7.3. The credit institution publicly discloses the information on environmental impacts of green and sustainability-linked financial activities. This includes details such as the number of green and sustainability-linked loans, total amount of allocated credit funds, and the environmental impact of these investments (e.g., reduction of carbon emissions, etc.).

7.4. To ensure the transparency of reports on all green and sustainability-linked financial activities, the credit institution aligns its publications with leading international standards, including the Global Reporting Initiative (GRI) and International Financial Reporting Standards (IFRS) S1 and S2.

7.5. Assessment documents should include qualitative and where possible, quantitative indicators (e.g., energy savings, reduction of greenhouse gas emissions) and comprehensively cover the methodology and assumptions used in developing these indicators. If quantitative indicators cannot be calculated, documentation confirming the product's green status and other qualitative information may be provided.

7.6. It is recommended that the evaluation documents be prepared using internationally recognized indicators and definitions as much as possible to facilitate the assessment and comparison.

7.7. During the monitoring of sustainability-linked loans, any changes to SPTs and KPIs, as well as their methodologies, should be agreed upon between the parties.

8. Capacity building

8.1. The credit institution prepares guidelines and conducts training sessions for its staff on green and sustainability-linked credit products. The primary objective of these training sessions is to develop the necessary expertise and skills for conducting detailed assessments and risk evaluations related to green and sustainability-linked credit products.

8.2. Training sessions cover employees at all levels (management bodies and other staff of the credit institution) and various functions (risk management, compliance, legal, internal audit, treasury, and others).

8.3. The credit institution ensures the allocation of necessary resources to effectively organize the development processes of green and sustainability-linked credit products.

Green Borrower Questionnaire

General information

First, last, middle names and title of person completing survey:

Legal entity's name and organizational-legal form:

Date of response:

Subject property questions

1. Property name:

2. Please provide the following information about the property:

a. Zip code:

b. Year of Construction/Renovation:

c. Square Footage/Number of Units:

3. What is the Subject Property Type?

- Multifamily Hotel Industrial
 Office Retail
 Mixed-use (please specify).
 Other (please specify):

4. Has the building obtained or plan to obtain any ESG building certifications (e.g., LEED, BREEAM, Green Globes, etc.)?

No

Yes. In the following table, please select the certification scheme(s), level of certification, and insert the date obtained or the year it will be obtained.

Certification	Obtained	Date Obtained or Year to be Obtained	Planned
LEED Building Design & Construction <input type="checkbox"/> Platinum <input type="checkbox"/> Gold <input type="checkbox"/> Silver <input type="checkbox"/> Certified	<input type="checkbox"/>		<input type="checkbox"/>
LEED Building Operations & Maintenance <input type="checkbox"/> Platinum <input type="checkbox"/> Gold <input type="checkbox"/> Silver <input type="checkbox"/> Certified	<input type="checkbox"/>		<input type="checkbox"/>
Green Globes <input type="checkbox"/> 4 <input type="checkbox"/> 3 <input type="checkbox"/> 2 <input type="checkbox"/> 1	<input type="checkbox"/>		<input type="checkbox"/>
OTHER	<input type="checkbox"/>		<input type="checkbox"/>

5. Is the property Energy Star Certified?

No

Yes Certification date _____

6. Are there any capital projects planned that will improve the sustainability performance of the property?

No

Yes. Please summarize the general scope and intended sustainability impact of the planned capital project.

8. Are there any existing improvements that support the green or sustainability performance of the property? *Examples include but are not limited to LED lighting, low flow plumbing fixtures, permeable pavement, waste minimization, low emissivity windows, etc.*

No

Yes. Please summarize the general scope, timeline and intended sustainability performance impact of the existing improvements.

7. Is Utility Data consumption for the subject building tracked?

No

Yes. Please identify the tracking method, tracking party, frequency and third-party review of tracking below:

Tracking method:

ESPM

Other (please specify)

Tracking Party:

In-house

Third-party tracking (name of third party):

Frequency:

Monthly Quarterly Annual

Other (please specify):

Will you be willing to share your Energy Star Portfolio Manager (ESPM) account with lender?

Yes

No. If no, will you share key metrics from your ESPM or other tracking program, annually? Yes No

8. Heating and cooling

a. What kind of heating is provided in your building? Please select all that apply:

Air-source heat pumps

Central heating and air conditioning

Forced air

Steam Radiator

Other (please specify):

b. What heating fuel(s) are used to heat your building? Please select all that apply:

Oil (#2,#4,#2 oil blended with biodiesel)

Natural Gas

#4 Heating Oil blended with biodiesel

Natural Gas and Oil (Dual burner)

Other (please specify):

c. Does your building have more than one unit?

No

Yes. Is the electricity:

Master-Metered Sub-Metered Direct-metered

*Master metering is metering of the electricity use of an entire building. Sub-metering is metering of an individual unit. Direct billing/direct metering is direct billing of an individual unit based on sub-metering.

Sponsor questions

9. Does your organization maintain a sustainability, responsible investing, or ESG policy?

No If no, are you intending to develop a plan or policy?

Yes. If available, please attach the plan(s) and/or policy(ies). Alternatively, please include the relevant web link(s) in the space provided below.

If yes, what is the frequency of reviewing the policy?

Quarterly Annual Other (please explain):

10. Does your organization include ESG-specific requirements in its standard lease contracts?

No

Yes. Is the entity recognized as a Green Lease Leader as part of U.S. Department of Energy's Better Buildings Alliance? No Yes

11. Has your organization set long-term performance improvement targets across its investments?

No

Yes. Select the metrics below that apply to the organization's long-term performance improvement targets:

Energy Consumption Renewable energy use

Green House Gas emissions

Water Consumption Data Coverage

Other, please specify:

If yes, in the following table please elaborate on the targets that were selected in Question 11 above:

Improvement Target <i>(Example measurement)</i>	Baseline <i>(Starting Year)</i>	End Year	Target Metric	Reduction Target	Targets Communicated externally?
Energy Consumption <i>(Mwh, kWh/SF, m2, KBtu)</i>					<input type="checkbox"/> No <input type="checkbox"/> Yes
Renewable energy use <i>(MWh or % of renewable)</i>					<input type="checkbox"/> No <input type="checkbox"/> Yes

GHC emissions (MtCO ₂ e or mtCO ₂ e/SF)					<input type="checkbox"/> No <input type="checkbox"/> Yes
Water Consumption (Kliters or m3)					<input type="checkbox"/> No <input type="checkbox"/> Yes
Waste diverted from landfill (% diverted)					<input type="checkbox"/> No <input type="checkbox"/> Yes
Data Coverage (% data coverage)					<input type="checkbox"/> No <input type="checkbox"/> Yes
Other					

Has this data been assured by a third party?

- No.
 Yes (name of the third party)

12. Does your organization disclose its ESG actions and/or performance to external stakeholders?

- No

If no, are there plans to introduce ESG-related disclosures in the future?

- Yes. Please describe the process and channels, as well as share examples if possible.

(Examples could be ESG actions related).

If yes, please also attach or provide a link to the applicable public document when submitting this completed questionnaire.

13. Has your organization made a public commitment to, or become a member of, any ESG leadership standard or reporting framework listed below? Please select all that apply:

Leadership Standard / Reporting Framework	Membership	Commitment
<input type="checkbox"/> None	N/A	N/A
United Nations' Principles for Responsible Investment (UNPRI)	<input type="checkbox"/>	<input type="checkbox"/>
Global Real Estate Sustainability Benchmark (GRESB) <i>Latest GRESB rating?</i>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon Disclosure Project (CDP)	<input type="checkbox"/>	<input type="checkbox"/>
Global Reporting Initiative (GRI)	<input type="checkbox"/>	<input type="checkbox"/>
Energy Star	<input type="checkbox"/>	<input type="checkbox"/>
Task Force on Climate-Related Financial Disclosures (TCFD)	<input type="checkbox"/>	<input type="checkbox"/>
Sustainability Accounting Standards Board (SASB)	<input type="checkbox"/>	<input type="checkbox"/>
Sustainable Development Goals (SDG)	<input type="checkbox"/>	<input type="checkbox"/>
Science Based Targets Initiative (SBTi)	<input type="checkbox"/>	<input type="checkbox"/>
United States Green Building Council (USGBC)	<input type="checkbox"/>	<input type="checkbox"/>
Partnership for Carbon Accounting Financials (PCAF)	<input type="checkbox"/>	<input type="checkbox"/>
Global Investor Coalition on Climate Change	<input type="checkbox"/>	<input type="checkbox"/>
Net Zero Carbon Buildings Commitment	<input type="checkbox"/>	<input type="checkbox"/>
Net Zero Asset Managers Initiative	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

For the ESG program listed above, what is the official reporting name for your organization?

14. Does your organization plan to pursue the use of renewable energy at your properties?

No

Yes. Please briefly describe your retrofit plans and timeline.

15. If applicable, list any other actions you have taken or plan to take to cut utility costs, increase resilience, or improve ESG performance at the company or property level, including scope and timeline.

Annex 2 to the ‘Guidelines on green and sustainability-linked loans’

The following list includes some common examples of SPT categories that can be accepted as indicators.

Category	Example
Energy efficiency	Reduce energy consumption by 30% over 3 years by implementing LED lighting and high-efficiency HVAC (Heating, Ventilation, and Air Conditioning) systems
GHG emissions	Reduce GHG emissions by 30% over 5 years by increasing the use of renewable energy sources
Renewable energy	Increase the share of renewable energy in total energy consumption to 50% over 5 years
Water consumption	Reduce water consumption by 25% in all operations over 5 years by implementing water recycling technologies and rainwater harvesting systems
Affordable housing	Build 300 affordable housing units, ensuring that at least 30% comply with green building standards within 5 years
Sustainable source	Source 75% of raw materials from certified sustainable suppliers by the end of 3 years.
Circular economy	Improve waste management and increase recycling rates by 40% over 5 years through employee training programs
Sustainable agriculture and food	Transition all agricultural operations to organic practices over 5 years to improve soil health
Biodiversity	Restore 1,000 hectares of degraded land over the next 10 years to improve local wildlife habitats
Global ESG Assessment	Improve the borrower’s ESG rating by at least 2 levels over 3 years through targeted sustainability initiatives