

BANKING

The Azerbaijani Banking Sector: A New Period of Development



After the global pandemic, the Azerbaijani banking sector has recovered and entered a period of growth. In the first ten months of 2022, the sector's assets increased by 16.1%, the loan portfolio by 16.9%, the deposit portfolio by 19.9%, and total capital by 10%.

The banking sector's liquidity and total capital indicators exceed the minimum regulatory requirement by almost two times.

Asset quality indicators continue to improve. For example, compared to the beginning of 2022, the share of banks' overdue loans out of the total loan portfolio decreased from 4% to 3% (by the end of 2020, this indicator was 4.5%).

The sector's positive dynamics are based on a rise in demand brought on by the economy's recovery, prompt support actions taken by the government and regulator, wise strategic moves, initiatives for digital transformation, an improvement in the legal system, and bank management decisions.

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President, Azerbaijan
Banks Association

THE STRUCTURE AND CAPITALIZATION OF THE SECTOR

Twenty-five banks operate in Azerbaijan. Of these, two are state banks, and the other twenty-three are private commercial banks (including eleven banks with foreign capital).

In the tenth month of 2022, banks' total capital increased by 10% to 5 billion manat. Based on data the banks disclosed individually, the sector's capital adequacy ratio is above 18%. Exceeding the regulatory total capital adequacy ratio requirement for the banking sector of 1.8 times is an indicator of both the health of banks and the potential for increased activity in all segments.

In the post-pandemic period, the branch network of banks is expanding. By the end of October 2022, the number of bank branches had reached 483, and the number of branches per 100,000 people had reached 4.8. Restoring the financial infrastructure in the liberated territories will enable further expansion of the number and regional coverage of the branch network in the future.

ASSETS AND CHALLENGES

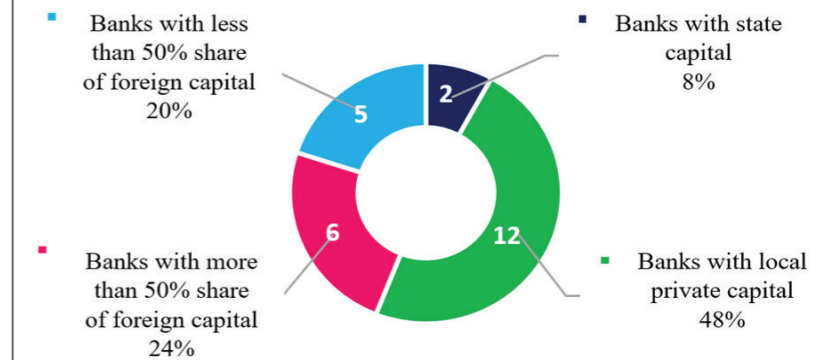
After the difficulty caused by the increase in the volatility of the national currency in 2015–2016, 2017–2018 was a period of recovery for the banking sector.

The implementation of the Decree “On Additional Measures in Connection with the Resolution of the Issues on Problem Loans of Individuals in the Republic of Azerbaijan,” signed by the President of the Republic of Azerbaijan on February 28, 2019, in connection with the resolution of problem loans left over from the crisis period, led to a significant decrease in the volume of overdue loans, the sector's toxic assets were cleaned up and the recovery of problem loans accelerated. This made it possible to move from a recovery phase to a growth phase after 2019.

The global pandemic and related restrictions slowed growth rates. However, the impact of these restrictions on the economy and the sector was minimized due to decisions taken by the government and regulatory bodies.

Activity to eliminate the adverse effects of the pandemic started with “A number of measures to reduce the negative impact of the Coronavirus

Chart 1. The distribution of banks according to the types of capital participants, end of October 2022



Source: CBAR

Chart 2. Assets (billion manats)

Source: CBAR

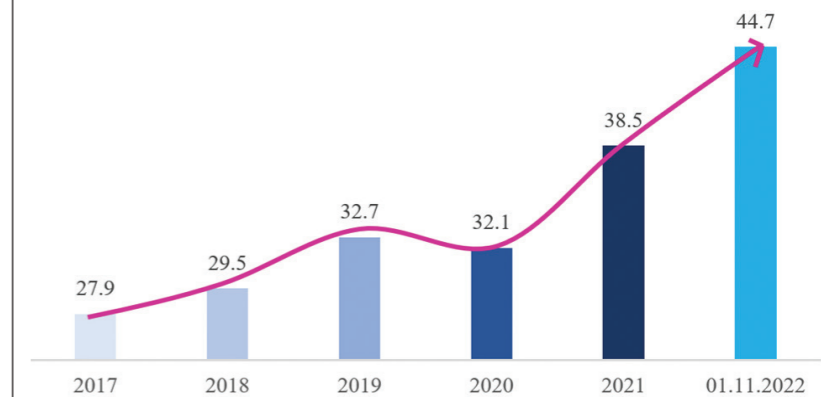


Table 1. The Ranking of the banking sector of Azerbaijan and neighboring countries according to the dynamics of assets

Country	The dynamics of assets in the first ten months of 2022, %
Turkiye	46.0%
Azerbaijan	16.1%
Kazakhstan	15.4%
Georgia	10.9%
Armenia*	8.8%
Russia*	0.2%

*9-month dynamics

Source: Central Banks of Azerbaijan, Georgia, Kazakhstan, Russia, Turkish Banking Supervision and Monitoring Authority, rumels.am

Table 2. The ranking of banks according to volume of assets (million manats)

#	Bank	The third quarter of 2021	The third quarter of 2022	Annual change, %
1	ABB OJSC	9432.0	12432.5	31.8%
2	Kapital Bank OJSC	5916.0	7721.5	30.5%
3	PAŞA Bank OJSC	6068.0	7606.0	25.3%
4	Xalq Bank OJSC	2221.2	2599.2	17.0%
5	Bank Respublika OJSC	1194.3	1549.4	29.7%
6	Unibank KB OJSC	960.8	1318.8	37.3%
7	AccessBank CJSC	944.9	1052.1	11.3%
8	Rabitabank OJSC	906.9	892.2	-1.6%
9	TuranBank OJSC	671.3	857.9	27.8%
10	Azer Turk Bank OJSC	368.1	844.2	129.3%
11	Premium Bank OJSC	655.5	802.1	22.4%
12	Yelo Bank OJSC	496.0	795.6	60.4%
13	Muganbank OJSC	643.9	743.5	15.5%
14	Azerbaijan Industry Bank OJSC	866.7	714.1	-17.6%
15	Bank of Baku OJSC	494.5	654.1	32.3%
16	Ziraat Bank Azerbaijan OJSC	340.9	435.8	27.8%
17	Expressbank OJSC	328.8	422.4	28.5%
18	Yapı Kredi Bank Azerbaijan CJSC	356.0	379.6	6.6%
19	Bank BTB OJSC	363.5	361.4	-0.6%
20	Nakhchivanbank OJSC	308.9	343.2	11.1%
21	AFB Bank OJSC	273.1	292.5	7.1%
22	Gunay Bank OJSC	256.2	289.9	13.2%
23	Bank VTB (Azerbaijan) OJSC	206.2	219.2	6.3%
24	Bank Avrasiya OJSC	157.2	205.5	30.7%
25	Bank Melli Iran Baku branch	86.5	91.2	5.4%

pandemic (COVID-19) on the economy of Azerbaijan, macroeconomic stability, employment, and entrepreneurship, “ issued by the President of the Republic of Azerbaijan. In a short time, the implementation of stimulus packages, in which the banking sector actively participated, was started.

In addition to providing direct financial assistance to low-income families, it was decided to subsidize the existing loans of entrepreneurs affected by the negative effects of the pandemic, as well as to provide new concessional and guaranteed loans to businesses in specific industries. At the same time, the Central Bank of the Republic of Azerbaijan adopted the “Rule on the temporary regulation of the activities of credit organizations in the conditions of the COVID-19 pandemic” and the regulatory requirements for the classification of loans were moderated.

The adverse impacts of the epidemic on the nation's economy and financial sector were significantly reduced because of actions taken by the regulator and the government.

Beginning in 2021, when recovery and restoration began, the banking industry regained the growth rate lost in 2020, and this trend continued in 2022.

It is possible to observe this positive progress in the volume of banks' assets. At the end of October last year, total bank assets increased by 27.7% to 44.7 billion manat compared to the same period the previous year. The increase in the volume of assets exceeded last year's nominal economic growth rate. As a result, the ratio of assets to non-oil GDP increased from 63.4% to 65.2% compared to the same period the previous year.

When comparing Azerbaijan with the banking sectors of its neighbors, it appears that only Turkey has a faster growth rate based on asset dynamics in the first ten months of the previous year. This is related to the increase in assets due to the loss in value of the lira against the dollar at the beginning of the year. When evaluated in dollar terms, the assets of the Turkish banking sector increased by 3.9%. Therefore, from this point of view, the banking sector of Azerbaijan is growing at a higher rate than neighboring countries (Table 1).

Per the results of the third quarter of 2022, it can be observed that there are significant increases in the volume of banks' assets. For example, if

there were five banks whose assets exceeded one billion manat in the corresponding period of the previous year, as of 30.09.2022, this indicator has increased to 7. However, the number of banks whose assets range from 500 million to 1 billion manat has also increased (from 7 to 8).

LIQUIDITY AND THE NEW OPERATING FRAMEWORK

By the end of October 2022, the volume of liquid funds in the Azerbaijani banking sector had increased by 25.4% annually and reached 15.6 billion manat. This is equal to 35% of total assets. Moreover, 59% of liquid assets are in foreign currency.

The volume of cash funds in the sector increased 7.9% year-on-year compared to October 2021, reaching 1,919 million manat.

According to the information provided by local banks, the sector's liquidity ratio is around 60% (the minimum regulatory requirement is 30%). This shows that liquidity risks are low in the current period.

The Central Bank of Azerbaijan (CBA) recently developed a new operational framework for managing inflation risks and activating the interbank money market. This created conditions to redistribute liquid funds among sector participants. In addition, open market and permanent opportunity tools were launched to sterilize excess liquidity, mainly to serve the demand of the current period.

Also, a new platform was created by the CBA, commercial banks signed a collective agreement, and rules for calculating indexes by the Baku Stock Exchange on interbank repo transactions and their disclosure on the website came into force.

Operations with the new instrument configuration began on September 1, 2022. As a result, a significant increase in money market transactions was observed during September and October of 2022. In the future, we expect this volume to increase and more long-term deals to be concluded.

In addition, because of the changes in mandatory reserve norms, the national and foreign currency equivalent of approximately 1.1 billion manat was sterilized from the market since the beginning of September 2022. Also, from the end

Chart 3. The liquidity of the sector

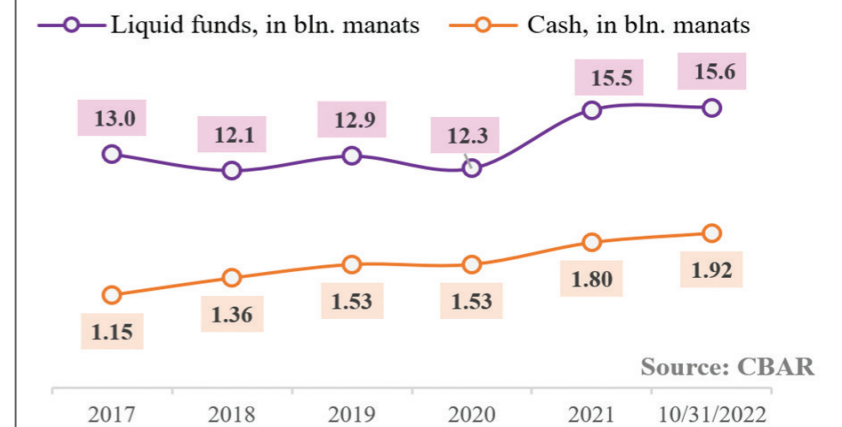


Chart 4. New loans granted by credit organizations

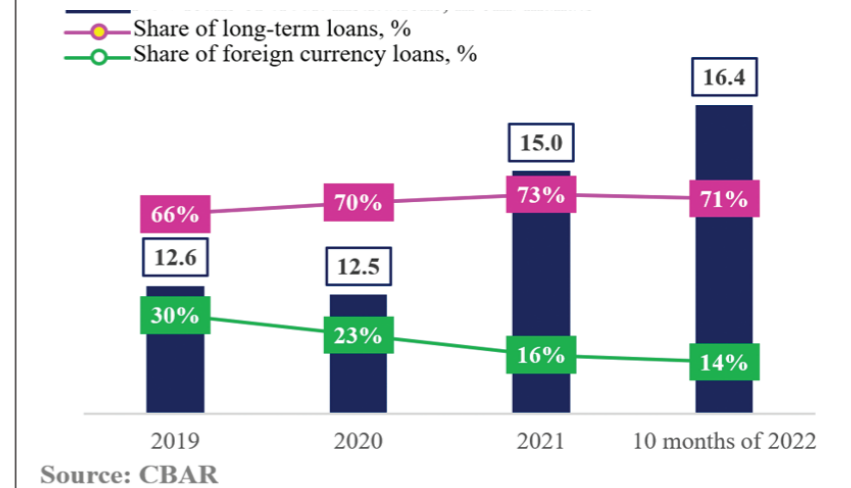


Chart 5. The Structure of the loan portfolios of local banks

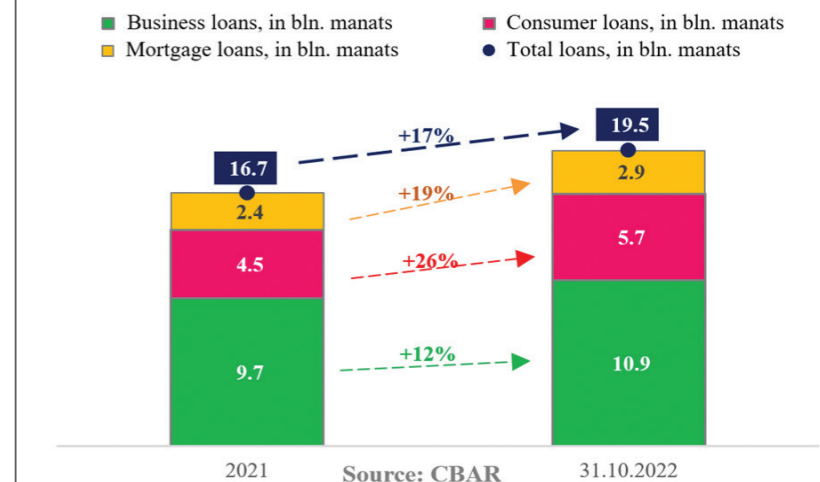


Table 3. The ranking of the banking sector of neighboring countries and Azerbaijan according to loan portfolio dynamics

Country	The dynamics of the loan portfolio in the first 10 months of 2022, %
Turkiye	43.5%
Kazakhstan	21.3%
Azerbaijan	16.9%
Russia*	3.5%
Georgia	0.5%
Armenia*	-0.9%

*9-month dynamics

Source: Central Banks of Azerbaijan, Georgia, Kazakhstan, Russia, Turkish Banking Supervision and Monitoring Authority, rumels.am

Table 4. The ranking of banks according to loan volumes (million manats)

#	Bank	The third quarter of 2021	The third quarter of 2022	Annual change, %
1	ABB OJSC	2774.0	3518.0	26.8%
2	Kapital Bank OJSC	2472.0	3234.1	30.8%
3	PAŞA Bank OJSC	2335.0	2667.9	14.3%
4	Xalq Bank OJSC	1413.9	1572.1	11.2%
5	Bank Respublika OJSC	624.6	914.8	46.5%
6	Unibank KB OJSC	727.1	878.9	20.9%
7	AccessBank CJSC	572.2	765.4	33.8%
8	Rabitabank OJSC	456.6	597.5	30.9%
9	Yelo Bank OJSC	408.0	580.4	42.3%
10	Bank of Baku OJSC	409.6	531.9	29.9%
11	TuranBank OJSC	408.8	528.8	29.4%
12	Premium Bank OJSC	509.2	478.0	-6.1%
13	Muganbank OJSC	380.5	435.6	14.5%
14	Azer Turk Bank OJSC	204.4	303.1	48.3%
15	Ziraat Bank Azerbaijan OJSC	189.5	299.9	58.3%
16	Expressbank OJSC	242.1	285.3	17.8%
17	Bank BTB OJSC	257.1	254.2	-1.1%
18	Azerbaijan Industry Bank OJSC	226.7	249.3	10.0%
19	Yapı Kredi Bank Azerbaijan CJSC	169.0	218.9	29.5%
20	Gunay Bank OJSC	199.3	206.3	3.5%
21	Nakhchivanbank OJSC	125.0	172.0	37.6%
22	AFB Bank OJSC	156.1	169.5	8.6%
23	Bank VTB (Azerbaijan) OJSC	147.2	156.1	6.0%
24	Bank Avrasiya OJSC	117.1	124.9	6.7%
25	Bank Melli Iran Baku branch	9.9	9.8	-1.0%

of September to December 1, 2022, a significant increase was observed in the CBA's note portfolio; the portfolio volume increased from 510 million manat to 1,230 million manat.

QUANTITATIVE AND QUALITATIVE IMPROVEMENTS IN LENDING

Against the backdrop of high liquidity and a strong capital position, demand growth stemming from economic recovery has created fertile ground for further expansion of lending.

Indicators suggest that banks have used these opportunities well and increased funding. The volume of new loans granted during the first ten months of 2022 exceeded the total indicator of 2021 by 9%. Moreover, from the beginning of 2022, 71% of the loans granted were long-term (more than one year), and 86% were in the national currency.

Active lending has created conditions for the increase of banks' loan portfolios. By the end of October 2022, the total loan portfolio volume had increased to 19.5 billion manat, 17% more than at the beginning of the year. 10.9 billion manat of the credit portfolio belongs to businesses, 5.7 billion to consumers, and 2.9 billion to mortgage loans.

Compared to the past twelve months, the absolute growth of business loans exceeds that of consumer loans. Considering that the increase in consumer loans will create new demand for the domestic market, there will likely be higher growth in business loans at the end of the year.

Another intriguing development relating to loans to the real sector is the increase in the proportion of business loans provided by banks at the expense of their capital in 2022.

In addition to the above, in recent times, continuous de-dollarization trends have emerged. As of 31.12.2021, 26.2% of banks' loan portfolios consisted of foreign currency loans. On 31.10.2022, this indicator was 22.1% (35.3% on 31.12.2019 and 30.2% on 31.12.2020).

Another quality indicator, the share of overdue loans in the portfolio, also shows a declining trend.

As a result of the restoration of demand due to the gradual removal of restrictions related to the pandemic, the quality of the portfolio has im-

proved slightly in 2021 and 2022. This resulted in the share of overdue loans in the portfolio decreasing to 3% by the end of October 2022, while the volume of problem loans decreased to 646 million manat.

As in the previous international comparison, although at first look, it appears to be a significant increase, the dynamics of the loan portfolio of Turkish banks in dollar equivalent is 2.2%. In this regard, lending only in Kazakhstan was 4.4 percentage points higher than in Azerbaijan, and lending in the economy of Azerbaijan was faster than in other neighboring countries.

When we look at the ranking of the banks by the size of their total loan portfolios, we see that several banks in the top ten focussed on providing more business loans have risen to higher positions.

Here, too, we can observe that of the eight banks with a growth rate exceeding 30%, most are mainly business lending banks. Along with these, five banks achieved growth in the range of 20–30% and another five in the range of 10–20%.

CONFIDENCE IN BANKS AND DEPOSITS

The main reason for the strengthening of the banks' liquidity position at the level mentioned in recent times is the increase in their deposit portfolios. Although the average annual growth in the total deposit portfolio in 2016–2020 was 1.4%, in 2021, this growth was 22.7%, and in the first ten months of 2022, it was 19.9%.

In parallel with this growth, there was a positive trend in the dollarization coefficient of the deposit portfolio. As a result, the ratio, which fell below the 50% limit for the first time in 2021 after a long period of devaluation, had already decreased to 48.2% by the end of October 2022.

At the same time, there has been a significant increase in individual deposits, which indicates the public's trust in banks. This indicator increased by 2.3 billion manat, or 24.4%, in the first ten months of 2022 and reached 11.5 billion manat by the end of the period.

The process of de-dollarization in savings has been sharper. The indicator of dollarization, which decreased by 9.8 percentage points to 41% last year, decreased by 2.4 percentage points in

Chart 6. The share of business loans granted by banks against total business loans

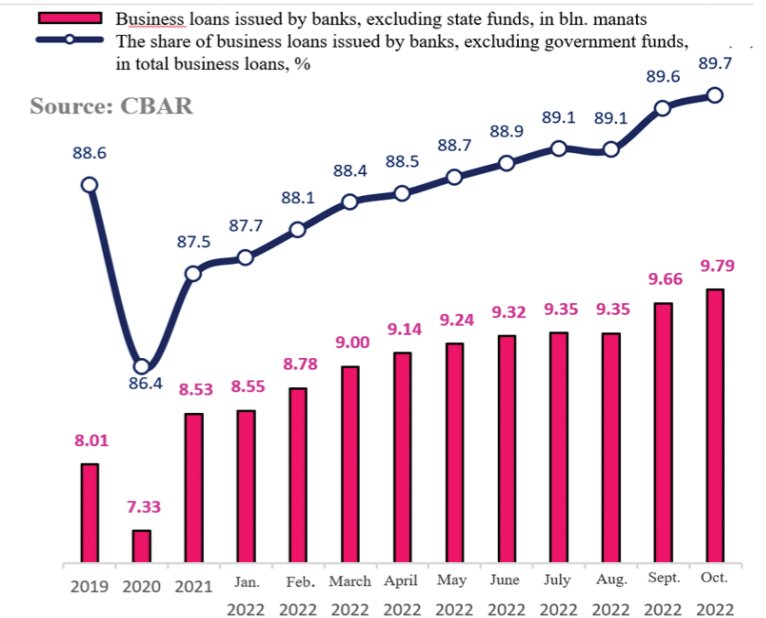


Chart 7. The dollarization rate of loans granted by banks, in percent

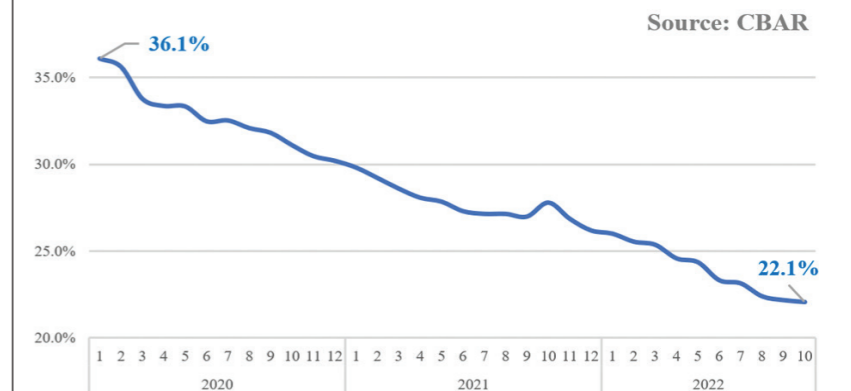


Chart 8. Overdue loans

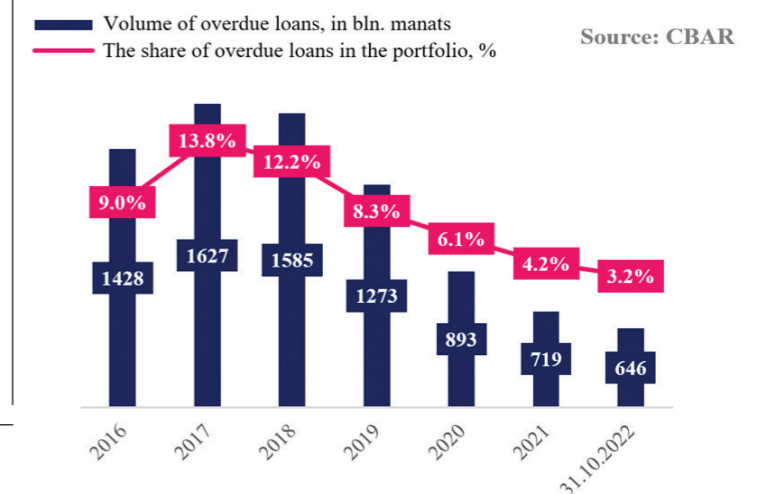


Chart 9. The total deposit portfolios of banks and the dollarization rate

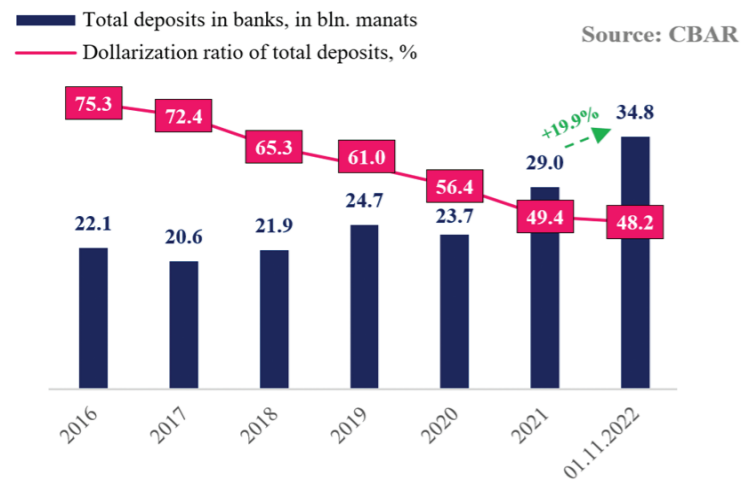


Chart 10. Deposits of households and the dollarization rate

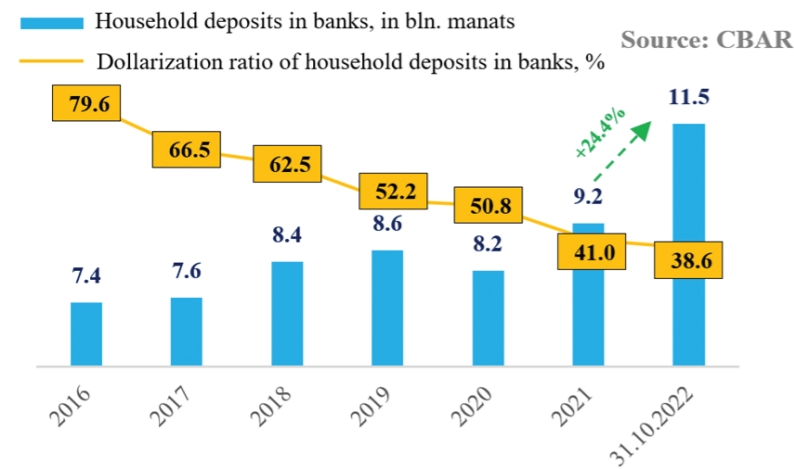


Table 5. The ranking of the banking sector of neighboring countries and Azerbaijan according to deposit portfolio dynamics

Country	The dynamics of the loan portfolio in the first 10 months of 2022, %
Turkiye	57.4%
Azerbaijan	19.9%
Kazakhstan	18.6%
Georgia	14.8%
Armenia*	12.1%
Russia*	2.7%

*9-month dynamics Source: Central Banks of Azerbaijan, Georgia, Kazakhstan, Russia, Turkish Banking Supervision and Monitoring Authority, rumels.am

2022 and was equal to 38.6%.

This has been brought on by the growing acceptance of the local currency and the deposit rates provided by banks.

Unlike other comparisons, the increase in the deposit portfolio of Turkish banks was not insignificant. This is due to the relatively high dollarization of the deposit portfolio. However, when we evaluate it in terms of dollar equivalent, the deposit portfolio of the Turkish banking sector is relatively low, with an increase of 12%. In contrast, the growth in the banking sector of Azerbaijan is higher than in neighboring countries.

PROFITABILITY OF THE SECTOR

Over the past six years, the banking sector of Azerbaijan has been able to maintain its profitability despite the pandemic and other challenges. We can see from the results of the first ten months of 2022 that the sector made a net profit of 769.9 million manat. This is 35% higher than the corresponding period in 2021.

The increase in operating profits was even higher. In the first ten months of 2022, the sector made a total operating profit of 1116.7 million manat, which is 37.8% more than last year.

This increase is because the rise in interest income from active lending is higher than the increase in operating expenses. Interest income (adjusted to interest expenses) increased by 13%, and non-interest income by 11.6%. In return, non-interest expenses increased by 11.2%. In other words, banks managed to optimize their costs while expanding operations and, as a result, achieved such high results in terms of net profit.

A significant role in the optimization of operating costs belongs to digital transformation and the application of automated solutions.

According to results up to the ninth month of 2022, twenty-three banks made a profit, and the profitability of twenty-one banks increased compared to the previous period.

Most banks have raised their profitability by seizing chances presented by the current circumstances in accordance with their plans, despite the ranking's high level of volatility.

DIGITIZATION AND CASHLESS PAYMENTS

In the current era, it is only possible to imagine the development of the banking sector in tandem with digitalization and IT solutions.

Looking back over the last five years, we see that not only during the pandemic but also before it, digital transformation was defined as a priority direction of ongoing development strategies and was reflected in strategically essential documents.

Priority goals in the field of digital transformation have been determined in the "Strategic Road Map for the Development of Financial Services in the Republic of Azerbaijan" and the "Strategic Road Map for Development of Telecommunications and Information Technologies in the Republic of Azerbaijan" and based on these strategic road maps, the CBA established the "State Program on Expansion of Digital Payments in the Republic of Azerbaijan for 2018-2020".

In the previous period, within the implementation of the State Program, the Instant Payment System (ISS) implemented by the CBA was put into operation to introduce new digital payment technologies and increase accessibility to payment services. The opportunities created by this system develop conditions for the expansion of digital payments among business entities, a significant increase in the size of the cashless economy in the country, and ultimately the formation of a cashless society.

In addition to the above, the creation of a blockchain-based Digital Identification System by the CBA was completed and presented to the banking community to expand the scope of digital services in the country and provide more secure and effective banking services in digital form in terms of innovative technologies for "customer-bank" relationships.

The regulator also created the "Digital Payment Strategy for 2021-2023" as part of this ongoing process. This strategy envisages directions such as improving the legislation on digital payments, introducing electronic solutions, expanding the payment infrastructure, forming a risk-based regulation and control framework in the payment ecosystem, increasing inclusion, and promoting digital payment services.

Table 6. The ranking of banks by volume of deposits (million manats)

#	Bank	Q3 2021	Q3 2022	Annual change, %
1	ABB OJSC	6754.0	9662.4	43.1%
2	Kapital Bank OJSC	4558.8	6180.9	35.6%
3	PAŞA Bank OJSC	4528.3	6117.8	35.1%
4	Xalq Bank OJSC	1426.1	1778.5	24.7%
5	Bank Respublika OJSC	794.3	943.3	18.8%
6	Unibank KB OJSC	656.5	855.3	30.3%
7	AccessBank CJSC	678.7	802.2	18.2%
8	Premium Bank OJSC	428.6	575.8	34.3%
9	Rabitabank OJSC	622.0	553.2	-11.1%
10	Yelo Bank OJSC	310.0	550.4	77.5%
11	TuranBank OJSC	361.9	492.4	36.1%
12	Azerbaijan Industry Bank OJSC	592.2	438.6	-25.9%
13	Muganbank OJSC	307.8	410.2	33.3%
14	Bank of Baku OJSC	237.8	328.9	38.3%
15	Azer Turk Bank OJSC	174.5	323.7	85.5%
16	Yapı Kredi Bank Azerbaijan CJSC	249.7	266.8	6.8%
17	Ziraat Bank Azerbaijan OJSC	179.5	217.1	20.9%
18	Expressbank OJSC	138.3	178.1	28.8%
19	Nakhchivanbank OJSC	150.1	161.2	7.4%
20	Bank BTB OJSC	144.8	149.4	3.2%
21	AFB Bank OJSC	113.1	118.7	5.0%
22	Gunay Bank OJSC	103.0	116.6	13.2%
23	Bank VTB (Azerbaijan) OJSC	86.5	76.9	-11.1%
24	Bank Avrasiya OJSC	43.5	64.4	48.0%
25	Bank Melli Iran Baku branch	9.8	11.9	21.4%

Chart 11. Net profit of banks after tax (million manats)

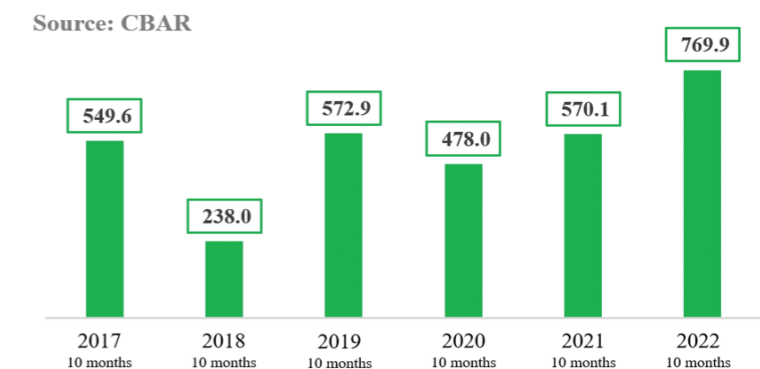


Table 7. Ranking of banks according to net profit (million manat)

#	Bank	Nine months of 2021	Nine months of 2022	Annual change, mln. manats
1	Kapital Bank OJSC	135.2	210.6	75.4
2	ABB OJSC	197.0	209.9	12.9
3	PAŞA Bank OJSC	69.3	109.7	40.4
4	Bank of Baku OJSC	16.8	30.8	14
5	Xalq Bank OJSC	14.2	19.9	5.7
6	Bank Respublika OJSC	12.1	19.1	7.0
7	Rabitabank OJSC	6.6	12.7	6.1
8	Nakhchivanbank OJSC	5.9	12.4	6.5
9	AFB Bank OJSC	8.7	11.5	2.8
10	Expressbank OJSC	8.1	11.2	3.1
11	Bank VTB (Azerbaijan) OJSC	3.9	9.6	5.7
12	Ziraat Bank Azerbaijan OJSC	3.9	6.2	2.3
13	AccessBank CJSC	-0.9	5.3	6.2
14	Azerbaijan Industry Bank OJSC	1.7	4.3	2.6
15	Premium Bank OJSC	7.0	4.0	-3.0
16	Yelo Bank OJSC	11.3	3.2	-8.1
17	Azer Turk Bank OJSC	0.7	3.1	2.4
18	TuranBank OJSC	0.4	2.1	1.7
19	Bank Melli Iran Baku branch	1.0	1.4	0.4
20	Bank Avrasiya OJSC	-2.8	1.1	3.9
21	Muganbank OJSC	0.6	0.7	0.1
22	Gunay Bank OJSC	0.4	0.6	0.2
23	Yapı Kredi Bank Azerbaijan CJSC	-0.7	0.4	1.1
24	Unibank KB OJSC	4.0	-0.6	-4.6
25	Bank BTB OJSC	1.2	-5.7	-6.9

At the same time, the three-year “Financial Sector Development Strategy” announced by the CBA will be directed towards transforming the regulator and banks.

As a result of the work done thus far, significant results have been achieved. In the tenth month of 2022, the volume of payments made through internet banking increased by 55% compared to last year, and payments made through mobile applications increased by three times.

There was also a significant increase in payments made with payment cards. The volume of non-cash transactions carried out with payment cards in the country in the first ten months of 2017 was 1.4 billion manat; in the first ten months of 2022, this number increased to 18.7 billion manat. Compared to the same period last year, this indicator has increased by 123%. As a result, the total share volume also increased by 12.2 percentage points year-on-year and amounted to 42.2%.

In terms of numbers, the annual increase is 117%. So, if 164.3 million non-cash transactions were made with payment cards in January to October last year, this indicator reached 365.4 million in 2022. The share of non-cash transactions out of the number of transactions carried out with payment cards in the country increased by 10.1 percentage points and reached 77.5%.

CHANGES TO THE REGULATORY FRAMEWORK

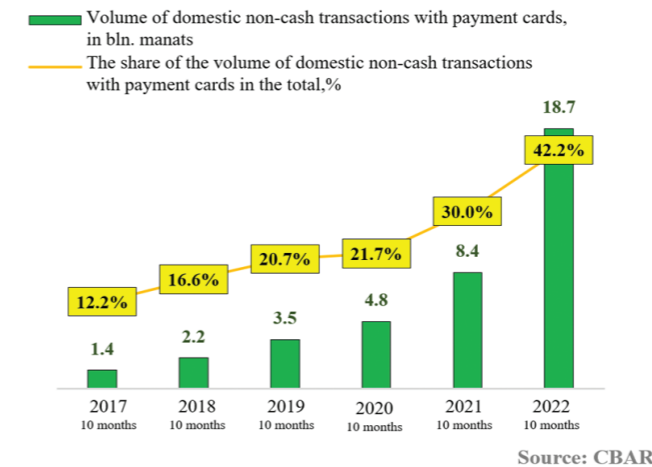
1. Post-pandemic regulatory easing measures have been completed. In 2021, following the pandemic, the Central Bank of Azerbaijan gradually exited the regulatory easing regime. In 2022, paused regulatory requirements were restored, and regulatory benefits were applied. As a result, the financial sector has had no special regulatory requirements or exemptions due to the pandemic.

2. Against rapid growth in consumer lending, appropriate measures have been taken to ensure healthy lending and responsible borrowing. In the post-pandemic period, changes to the regulatory framework were adopted to prevent the increase of consumer loans due to the recovery of economic activity, as well as the sharp rise in the debt burden of the vulnerable population against the background of increasing inflation and to minimize potential threats to the quality of the consumer loan portfolio. The maximum limit for a borrower's income ratio (BIR) for consumer loans is 70%. Borrowers whose debt burden has reached this limit will be limited in their ability to take on new debt obligations. Simultaneously, the current maximum term of consumer loans, limited to 0.1% of the Tier I capital of banks, was reduced from seven to five years.

In addition to the above, the Central Bank of Azerbaijan adopted changes to the “Rules for Calculating Bank Capital and its Adequacy” to limit banks' aggressive consumer credit policies and stimulate the provision of healthy and low-interest consumer credit. This framework determined more capital requirements for banks with BIR and high-interest-rate loans (the risk rate was increased to 50 percentage points).

3. Work has been done to improve risk management by banks so that it is more successful in

Chart 12. The volume of domestic non-cash transactions by card and their share out of total transactions



responding to contemporary global concerns. The application of the risk-based approach in creating provisions has been further improved, and the classification of restructured loans has been tightened. According to the “Regulation on the creation of special reserves for the classification of assets and the compensation of possible losses,” which came into force on 22.07.2022, additional reserve requirements are specified in the case of restructuring an asset more than once (attributing the asset to a worse classification category in each subsequent restructuring).

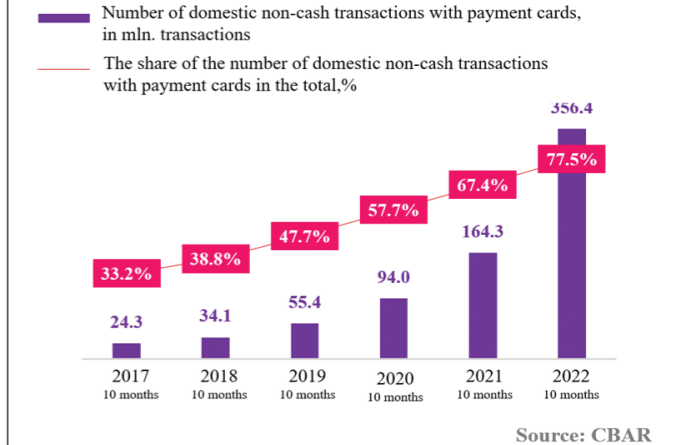
4. The use of environmentally friendly cars is being encouraged. For example, in the “Roadmap for the Stimulation of the Use of Environmentally Friendly Vehicles and the Preparation of Relevant Proposals for 2022,” measures in several directions have been taken, such as lowering the initial loan payments for electric and hybrid vehicle purchases.

In this framework, the experiences of several countries, as well as the recommendations of international organizations on bank supervision, were examined. As a result, a decision was made to determine softer loan-to-value ratios (LTV) to stimulate lending for purchasing electric and hybrid vehicles.

The initial payment requirement for electric vehicles with a production year of up to three years has been reduced to 10% (LTV requirement 90%). For corresponding cars older than three years, the initial payment requirement has been reduced to 40% (LTV 60%). The corresponding down payment requirement is set at 20% if the production year is one year or less, 40% between one and three years, and 50% if it is more than three years.

At the same time, the initial payment for other (fuel engine) new cars is set at 40%, and for vehicles with a production year of one to three years and less than three years, at 50% and 60%, respectively. In addition, the currently applied limit on the price

Chart 13. The number of domestic non-cash transactions with payment cards and their share out of total payments



of vehicles has been removed.

5. A new framework for reducing credit risks in foreign currency has been defined. The capital maintenance requirement for business loans granted to borrowers sensitive to foreign exchange risk has been tightened. The risk rate of foreign currency business loans for unhedged borrowers (with no income in foreign currency) has now been raised from 120% to 200%.

6. Appropriate steps have been taken to reduce the risks arising from large loan requests. According to the “Rule on prudential norms and requirements related to credit risks, including large credit risks,” a limit of 50% of Tier I capital has been set for the gross amount of credit requirements without considering the effect of other guarantees on credit demand, except for cash, state, and CBA securities.

7. Facilitation of the population's access to real estate loans has been ensured. To support the granting of sustainable real estate loans by banks, according to the “Rule on prudential regulations and requirements related to credit risks, including large credit risks,” a lower down payment for the purchase of a first apartment by individuals who do not own a residential property has been applied. The maximum LTV coefficient was raised to 85%.

8. In the framework of ensuring the effective use of large-scale business loans for financing and adapting the regulation to advanced international practices, the Central Bank of Azerbaijan adopted the “Rule for prudential regulation of project financing loans”. As part of the country's development strategy, project financing instruments, as well as the need for project financing in the real sector, will also increase to restore the territories liberated from occupation, and within the framework of the relevant rules adopted in this regard, there will be an increase in new business loans by banks.