

REPUBLIC OF AZERBAIJAN

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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**DIRECTIONS FOR IMPROVING CORPORATE
GOVERNANCE IN COMMERCIAL BANKS' ACTIVITIES**

Speciality: 5301.01 - Internal fiscal policy and public finance

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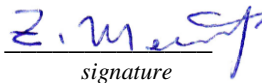
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GENERAL CHARACTERISTICS OF THE DISSERTATION WORK

Relevance and development of the topic. Fundamental banking reforms were implemented following the restoration of our country's independence and the transition to a new socio-economic system. The key elements of the banking sector, such as a modern regulatory framework, institutional framework, staff base, information technology, and modern banking infrastructure, have all been built in a short period of time. The competitiveness, dependability, and prospects of Azerbaijan's banking sector have all improved dramatically in recent years. When we look at the most important quantitative and qualitative indicators of growth, we can see that there has been obvious progress. However, there are a lot of obstacles to overcome in order to improve the banking sector and offer creative development opportunities. These problems include the followings such as strengthening the resource base, boosting capitalization, developing new long-term sources of resources, enhancing the structure of credit investments, and strengthening the flow of investment in our national economy.

Ensure better risk management in banks, improve regulation and control mechanisms, apply a consolidated risk-based control model, and digitalize banks are among the specific measures to be intended in the Strategic Roadmap for National Economic Prospects of the Republic of Azerbaijan approved by the Decree of the President of the Republic of Azerbaijan dated December 6, 2016.

As part of the effective management process, the banks set strategic goals for advanced corporate governance standards, the division of responsibilities at all levels of management, the suitability of members among the governing bodies, the application of an improved control system to manage potential risks, and the transparency of the management process which also requires the use of both internal and external audit services.

Corporate governance aids banks in terms of attracting investors and funding in capital markets, increasing efficiency, accelerating expansion, protecting minority shareholders' rights, and gaining investor and depositor trust. In general, one of the most important prerequisites

for preserving the stability of credit institutions and the financial system is the successful structure of the corporate governance system in the banking sector.

As a result of the foregoing, it was required to research and build a scientific basis for the application and enhancement of the corporate governance system in banks. From this perspective, the topic of directions for enhancing corporate governance in commercial bank activities was significant and influenced the dissertation topic selection.

Object and subject of research. The banking system of the Republic of Azerbaijan in the cases of “Kapital Bank” OJSC, “Bank of Baku” OJSC, “Turan Bank” OJSC, “Pasha Bank” OJSC, “Bank VTB” OJSC and others has been identified as an object of research on the example of commercial banks.

The subject of the research is on the organization, application and improvement of advanced scientific management methods in the management of commercial banks.

The purpose and objectives of the study. The dissertation's major goal is to scientifically support the use and enhancement of modern management practices in the Republic of Azerbaijan's banking system, namely in the activities of commercial banks, through systematic and complete analysis, preparation of recommendations, and proposals. The following tasks have been identified and implemented in order to attain this aim:

- An examination of the theoretical and methodological foundations, as well as the necessity, essence, models, and principles of modern management practices.
- An examination and assessment of the current condition of the implementation of corporate governance standards in commercial banks.
- Look for solutions to bank resource management issues and give recommendations.
- Bank liquidity, the role and importance of corporate governance in its management.
- Preparation of recommendations to understand the mechanism of risk's impact on bank reliability, as well as ways to improve it.
- Defining the responsibilities of corporate governance in ensuring the

stability of commercial banks and upgrading their operations.

Research methods. Theoretical and methodological basis of the research are scientific works of economists of the republic and foreign countries on corporate governance in commercial banks, laws of the Republic of Azerbaijan on banking, rules, instructions, other normative-legal acts adopted by Financial Market Supervisory Authority of Azerbaijan and the Central Bank as well as the recommendations of the Basel Committee on Banking Supervision on “improving corporate governance in credit institutions”. At the same time, steps were done to increase international commercial banks’ experience and application of management methods of our country.

In the research process, observation, economic-statistical, comparison, analysis, balancing, and logical generalization methods and tools have been used.

The main provisions submitted for defense

1. Models, principles and standards of corporate governance
2. The current state of application of corporate governance standards in banks
3. The role of corporate governance in bank liquidity management in Azerbaijan.
4. Methods of improving corporate governance in the effective management of banking resources in the Republic of Azerbaijan.
5. Directions for improving the impact of corporate governance on the efficiency of the banking system in commercial banks of the country.

Scientific novelty of research work:

- The application of modern management methods in the activities of commercial banks has been assessed;
- Ways to improve the use of corporate governance methods in enhancing bank liquidity and effective resource management are demonstrated.
- Credit risk assessment and bank risk management have been completed.
- Proposals for the management of the long-term housing finance system have been made;

Theoretical and practical significance of the research. The results of the study can be used to improve corporate governance in

commercial banks. The results of the study also show that recommendations can be used in the commercial banks in terms of the efficient use of financial resources and the application of modern management methods. The main provisions of the dissertation can also be used in the teaching process of lectures and seminars.

Approbation and application. The findings of the study were presented and approved at scientific conferences and seminars held around the country, including at the Azerbaijan Cooperation University. The main provisions of the dissertation are also used in lectures and seminars during the teaching process at the Azerbaijan Cooperation University.

The general results of the research were accepted for application by the Bank of Baku OJSC. (Letter №150, 19 April 2012). Theses and articles reflecting the content of the work have been published in scientific journals published in our country and abroad.

In our country and overseas, 15 scholarly publications and theses comprising 8.0 volume and a textbook titled "Banking" totaling 20.0 volume have been published on the research topic.

Name of the organization where the dissertation work has been performed. Azerbaijan Cooperation University.

The total volume of the dissertation with a sign, indicating the volume of the structural units of the dissertation separately. An introduction (7358 characters), three chapters (I chapter - 58904 characters, II chapter – 101076 characters, III chapter – 45351 characters), a conclusion (6587 characters), and a list of references encompassing 90 titles make up the dissertation. The dissertation's text is 130 pages long (219276 characters), including 7 tables and 10 schem's.

CONTENTS OF THE DISSERTATION WORK

INTRODUCTION

CHAPTER I. MODERN MANAGEMENT SYSTEMS IN COMMERCIAL BANKS, THEIR THEORETICAL AND METHODOLOGICAL FOUNDATIONS

1.1. Models, principles and standards of corporate governance

1.2. Features of the organization of management in the activities of commercial banks

1.3. Basics of Management of Corporate Governance in Banks

CHAPTER II. CURRENT STATUS OF THE APPLICATION OF CORPORATE GOVERNANCE IN COMMERCIAL BANKS

2.1. The current state of application of corporate governance standards in banks

2.2. Analysis of the role of corporate governance in the management of bank liquidity in Azerbaijan

2.3. Assessing the risk impact mechanism in the corporate governance of banks

CHAPTER III. DIRECTIONS TO IMPROVE CORPORATE GOVERNANCE IN BANKS

3.1. Methods of improving corporate governance in the effective management of banking resources in the Republic of Azerbaijan

3.2. Risk management in the corporate governance system of commercial banks and ways to improve it

3.3. Improving the influence of corporate governance on the efficiency of the banking system in the country's commercial banks

RESULTS

LIST OF USED LITERATURE

MAIN CONTENT OF THE STUDY

1. Models, principles and standards of corporate governance

One of the current issues is the use of corporate governance methods in modern times, as well as measures to improve it. Corporate governance is a concept that has just recently entered the economic vocabulary. Many observers perceive corporate governance as synonymous with shareholder democracy, while others see it as a mechanism for directors and auditors to fulfill their responsibility to shareholders, according to research. The definition of this phrase varies based on the organization's objectives.

Although the authors use different definitions of corporate governance, they all serve the same purpose and reflect management systems that ensure maximum profit from operations while protecting the interests of the company's (bank's) shareholders and all parties, based on international standards and existing legislation.

There are two main models of corporate governance: the German-Dutch model - the classical model (mainly applied in countries such as Germany, the Netherlands, etc.); Anglo-American model (mainly used in countries such as the United States, Japan, Canada and the United Kingdom).

The German-Dutch “insider” model, in which the governing body is divided into two tiers, is popular in many nations around the world. The Supervisory Board is made up of shareholders or their representatives who have been appointed by the shareholders, and the Management Board is made up of the organization's managers.

The major governing body in the Anglo-American paradigm is a single board of directors. The tasks of management and control are combined in this council.

The Organization for Economic Co-operation and Development (OECD) initially formulated and agreed upon corporate governance principles in 1999 (established in 1961 with 20 member states and currently 38 members). In 2002, these concepts were changed.

The adopted principles mainly cover the following areas:

- The establishment of a basic structure to ensure the effectiveness of corporate governance;
- The functions of shareholders with respect to specific rights and property;
- The treatment of each shareholder differently;
- Stakeholders' role in corporate governance;
- Transparency and disclosure in corporate governance;
- The supervisory board's primary responsibility in company governance.

Corporate governance standards are a set of particular laws, rules, norms, and regulations that apply around the world. In the 1960s, the need for international corporate governance norms became apparent.

One of the most significant prerequisites for attracting investment

is adherence to corporate governance norms. High corporate governance standards are, first and foremost, an absolute prerequisite for future investors' partners. In Azerbaijan, it is vital to research and communicate foreign corporate governance experience. The Central Bank of Azerbaijan keeps track of risk management, internal audit, human resources, financial management and reporting, and information technology standards in this respect.

One of the most pressing issues is the administration of numerous socioeconomic systems. Examining the specifics of modern times and the last two centuries, we conclude that in the nineteenth century, entrepreneurship was the driving force of economic development, in the twentieth century, management was the driving force, and in the twenty-first century, corporate governance is the driving force. The implementation and development of corporate governance methods has recently sparked a lot of interest in this area.

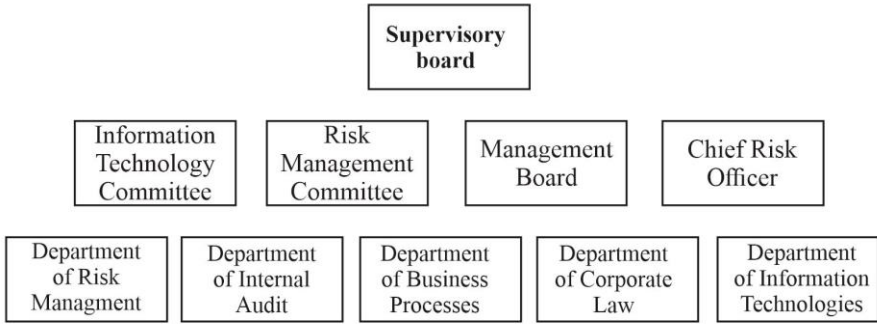
2. The current state of application of corporate governance standards in banks

The Republic of Azerbaijan's financial system has undergone reforms to make it more stable. The basic characteristics of Azerbaijan's banking sector have formed in a short period of time and operate on market economy principles. The Rules "Application of Corporate Governance Standards in Banks" were adopted to ensure the Central Bank's proper implementation of corporate governance standards in the banking sector. The bank's organizational structure, activities, and corporate behavior are all defined by the standards. The Central Bank's rules include various corporate governance principles. The standard organization of the strategic planning process, for example, provides for the definition of bank strategic perspectives, the compilation of mission reports, the definition of strategic planning procedures, the allocation of duties, and organizational structure.

Risk management procedures, functions, reporting design, and control are all defined by risk management standards. A commercial bank's Supervisory Board is in charge of putting in place risk management procedures. The study found that most commercial banks operating in the country have risk management structures that comply with the Republic of Azerbaijan's Law "On Banks", the Central Bank of

Azerbaijan's “Rules on Risk Management in Banks,” other regulations, and worldwide practice.

For example, the risk management function of “Bank of Baku” OJSC is implemented through the following organizational structure:



Scheme 1. Organizational structure of risk management in “Bank of Baku” OJSC

The risk management system is monitored and controlled at the bank’s upper, middle, and lower levels. As shown in Figure 1, the Supervisory Board is responsible for risk management and determining the bank’s risk-bearing capacity. The Supervisory Board understands the risks to which the bank is exposed, obtains extensive information about the risks, determines the appropriate levels of all risks, as well as their management capabilities.

The Supervisory Board also has the ability to monitor transactions and extraordinary transactions with stakeholders. Prevention of abuse of power by management is also within the capacity of the Supervisory Board.

The court also protects the interests of each commercial bank shareholder. If a shareholder’s rights are breached, the shareholders may file a lawsuit against the Supervisory Board and Management Board of the general meeting’s decisions. In any case, a bank’s Supervisory Board plays a critical function in regulating economic ties between a commercial bank’s shareholders and its Management Board.

The goal of corporate governance is to enhance the connection between bank managers and their direct shareholders. Every commercial

bank in the country places a premium on the establishment of a corporate governance culture as well as the creation and evolution of corporate governance ethics. Among these banks are Kapital Bank OJSC and Bank of Baku OJSC. Bank of Baku OJSC has formed a product management committee, reward committee, credit committee, risk management committee, investment committee, credit committee, and other committees in its management structure to promote corporate governance. One of the bank's key missions is to achieve strategic objectives. Measures are taken to train staff to apply the concepts and aims of corporate culture in order to meet the company's strategic objectives. Seminars, trainings, and other activities are held on a regular basis to help the Bank's staff become more professional. These trainings will be held at a associated training center run by Bank of Baku OJSC. Employees at the Bank of Baku are rewarded in compliance with corporate governance norms. The Bank's Supervisory Board approves and enforces the procedures for the award policy for this purpose, and the award is given on a monthly or annual basis, depending on the position's type. Transparency is also ensured by timely reporting of financial statements and other critical measures. Because of the dozens of innovative services and products it delivers to the banking sector, Bank of Baku OJSC has always been renowned as an innovator, and it continues to develop its cooperation with the world's leading financial institutions in order to increase the level of service.

An awards committee, a medium credit committee, a microcredit committee, a risk management committee, an asset and liability management committee, a procurement committee, and a strategy and budget committee have all been established at Kapital Bank OJSC. Every employee of Kapital Bank OJSC is always looking out for the bank's best interests. In order to provide professional assistance to customers, one must have a thorough comprehension of their views and ideas. The introduction of corporate governance principles and new methods in Kapital Bank OJSC provided the groundwork for the accomplishments. In the sphere of corporate governance, Kapital Bank collaborates with a number of renowned banks. Citibank N.A., American Express Bank, KBC Bank and others are among such banks. Kapital Bank has an

adequate organizational structure to achieve its strategic goals. This bank envisages equal partnership between the customer and the bank in corporate governance.

Pasha Bank OJSC protects shareholders, customers, and other interested parties from conflicts of interest. The republic’s financial and credit policies are constantly followed by this bank. Risks are not tolerated by Pasha Bank OJSC. This bank’s risk management is tailored to the size and scope of its business. The risk management system is subjected to regular quality checks by the Bank. The bank’s profitability is examined on a regular basis, including profitability. The volume and quality of customer service given by Pasha Bank OJSC has increased as a result of efficient Corporate Governance, resulting in a year-over-year client base doubling (Table 1).

Table 1. Main indicators of Pasha Bank ”OJSC's activity

	2016	2017
Client base	44,140	103,999
Branches	5	6
Employees	478	607
ATMs	31	44
Issued cards	13,218	64,841

Despite these banks’ favorable results, the study showed that a lack of information about how to apply standards in many banks, conflicts of interest in some cases, and senior management’s attempts to avoid losing rights not authorized by the standards caused these institutions to lose money. Between 2016 and 2018, Financial Market Supervisory Authority of the Republic of Azerbaijan withdrew the licenses of 11 commercial banks based on their liquidity levels. Such banks include Parabank, Zaminbank, Texnikabank, and others.

For commercial banks, an effective liquidity management plan entails active asset and liability management. Commercial banks concentrate on asset and liability management when it comes to liquidity planning. Advanced banking systems necessitate both parties’ appropriate use of the balance in liquidity management. We find that commercial banks must maintain a steady amount of total capital and liquid assets. To meet their responsibilities and avoid losses, commercial banks must take the appropriate steps to prevent asset price declines. To

reduce the risk of loss, asset diversification should be ensured. As a result, the adoption of these new management approaches and techniques will be critical in boosting commercial banks' activities.

Many banks are interested in creating Corporate Governance Standards, according to our research to strengthen their organization. However, for a variety of reasons, the Corporate Governance Standards are still not organized in the way that they should be. The major causes for this are a lack of understanding of how standards are applied, conflict of interests in some situations, and top management's desire to avoid losing privileges that are not permitted by the standards.

3. The role of corporate governance in the management of bank liquidity in Azerbaijan.

The Central Bank tries to protect the interests of all depositors and creditors by reducing the risks that may arise in the activity of commercial banks. The Law on Banks of the Republic of Azerbaijan addresses such concerns. In addition to this normative legal document and standards, the Central Bank has the authority to establish new normative legal acts and requirements as part of international banking supervision practice.

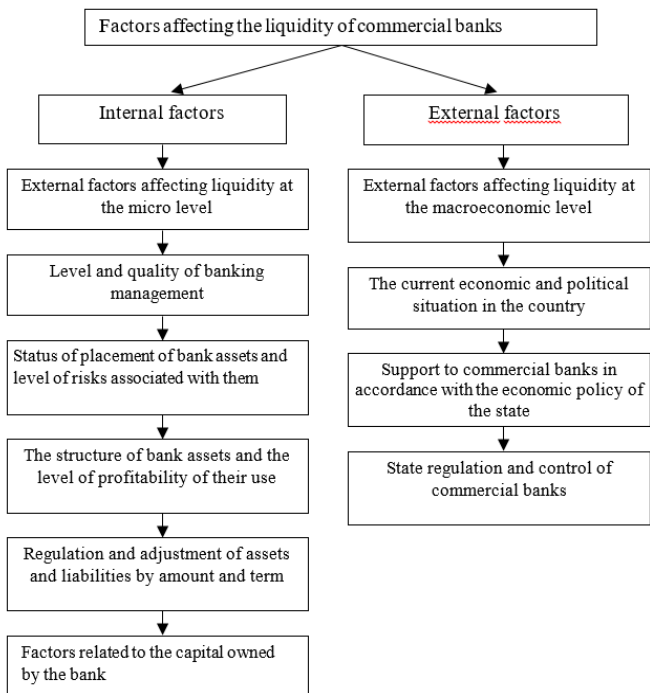
Liquidity ratios are established in order to oversee the credit organization's liquidity condition, according to the Central Bank of the Republic of Azerbaijan's laws on commercial bank liquidity management. The incapacity of commercial banks and their branches to fulfill their duties to clients can be defined as a violation of standards. Statutory penalties may be imposed on them. The Central Bank may also impose the following restrictions on commercial banks:

- Credit organizations (commercial banks) and their individual branches may be barred from accepting deposits and converting them into loans;
- The heads of credit organizations (commercial banks) and their branches were temporarily removed. The relevant bodies of the credit organization may be obliged to fire these officials completely.
- Demand the return of the licenses provided to commercial banks and their branches for conducting banking activities within three months of the month in which the standard was broken in the case of non-compliance with the standard's requirements.

Conflicting considerations can often have a negative impact on the

decision-making process in banking operations. Management, for example, want a big amount of highly liquid assets, such as cash. However, he is missing out on present gains. The loss of earnings is due to the sale of highly liquid government securities to meet liquidity needs and the availability of cheap sources of borrowing compared to the interbank foreign exchange market. On the other hand, when the value of borrowed funds is excessively large, asset sales might be deceiving. As a result, the bank's management must carefully consider all of the advantages and disadvantages in order to meet its commitments. Commercial banks must get fast and accurate information about the state of the financial market. This is a critical and crucial aspect in determining a commercial bank's liquidity.

The bank's liquidity, solvency, and profit levels are all affected by a variety of circumstances. Liquidity-affecting factors can be split into two categories based on their mode of action: external macroeconomic factors and internal microeconomic ones (Scheme 2).



Scheme 2. External and internal factors affecting the liquidity of banks

In accordance with the country's economic policy, the government protects the activities of commercial banks. The impact of this issue on the banking system is manifested as a result of the country's monetary policy. Central banks facilitate commercial banks' access to centralized credit resources through their actions. It provides them with the environment for speedy development and boosts their liquidity in the process. When the government's economic policy changes, credit institutions' policies alter in response. The methods and principles of the state's support of the banking system are adapted to the new conditions and goals.

Interest rates and the exchange rate are influenced significantly by the state's budgetary policies and the Central Banks' operations in the open financial markets with securities and foreign currency. It modifies tax rates on a regular basis to reflect the country's economic status, as dictated by official economic policy. This has an impact on the country's financial system, as well as commercial banks in general, in terms of liquidity and solvency.

Commercial bank policy is influenced by macroeconomic considerations. At the level of commercial bank economic policy, macroeconomic factors exist. Commercial banks do not have the ability to alter external circumstances, nor do they have the ability to control the extent of their effect. Internal factors, on the other hand, are linked to their policies, thus they can impact these elements by altering their economic policies. It has the ability to reduce and eradicate their impact.

Commercial banks' asset placement and related risk variables have a significant impact on bank liquidity. The efficient placement of assets is critical to the success of commercial banks' active operations. According to the financial statements of a number of banks, assets of large banks will increase in 2020 compared to 2019, while assets of relatively small banks would drop.

**Table 2. Report on the financial condition of banks for
2019-2020 (in thousand manats)**

Banks	2019			2020		
	Securities	Liabilities	Capital	Securities	Liabilities	Capital
Kapital Bank OJSC	4 143 322	3 718 268	425 053	5 227 472	4 593 277	634 195
Bank of Baku OJSC	381 094,28	317 086,30	64 007,98	409 563,02	333 164,63	76 398,39
Pasha Bank OJSC	4 767 450	4 291 682	475 768	5 513 021	4 971 876	541 145
Yelo Bank OJSC	484 727.21	417 535.29	67 191.92	390 923.76	333 839.08	57 084.68

(The table has been developed by the author)

In general, the Republic of Azerbaijan's banking sector assets declined by 2% in 2020 compared to 2019 and totaled 32.055.3 million manat¹ (Table 3).

**Table 3: Structure of securities of banking system
(With mln manat)**

N	Securities	31.12.2019	31.12.2020
1	Cash	1,531.5	1,532.2
2	Correspondent account at the Central Bank	2,600.7	3,071.0
3	“Nostro accounts (correspondent accounts with other banks)	3,266.7	3,493.9
4	Deposits in financial institutions, including banks.	5,538.2	4,155.7
5	Securities	3,261.3	4,335.0
6	Loans at financial institutions, including banks	304.8	259.7
	6.1 net loans	287.7	244.7
7	Loans to given to clients	14,900.9	14,157.0
	7.1 Targeted reserves to cover possible losses on loans	1,449.7	1,136.6
	7.2 Net loans	13,451.2	13,020.3
8	Main funds	987.4	741.4
9	Non-material securities	167.8	146.4
10	Other securities (excluding target reserves)	630.3	1,314.7
11	Total securities	32,722.8	32,055.3

The table was prepared by the author on the basis of CBA data.

¹Statistical review of the main indicators of the banking sector of the Central Bank of the Republic of Azerbaijan: [Electronic resource] -Baku, (2019-2020). (www.cbar.az)

The volume of loans in assets declined by 45 percent during the year, as seen in the table (compared to 53.3 percent in 2016). The increase in the volume of problem loans held by banks after 2015 is one of the reasons impacting the decline of the loan portfolio. As a result, the amount of issue loans increased from 16 percent in 2015 to 30 percent in 2016. Furthermore, as a result of banks' inability to receive some of their loans in recent years, lending conditions have tightened, affecting borrowing. Because of the pandemic, the percentage of problem loans in the whole portfolio is still high. Bank capital is still being squeezed by credit losses and currency problems.

For the management of commercial banks and other credit institutions, as well as for the constant regulation of liquidity, special attention should be paid to asset structure. The structure of assets and the amount of profitability, have an impact on the bank's liquidity.

The aspect of asset and liability regulation, both in terms of amount and duration, is particularly important in sustaining a bank's liquidity and financial stability. Liabilities should be placed at a time and in an amount that corresponds to the placement of assets. For great financial performance, they must be regulated by duration and amount. The possibility of a liquidity crisis is eliminated as a factor in preserving liquidity and solvency by adjusting assets and liabilities by amount and period. A commercial bank's liabilities are met with its available resources. The higher the credit institution's liquidity level and the more stable its financial situation is, the more efficiently assets and liabilities are adjusted in terms of amount and period.

Each bank is permitted to design its own liquidity management strategy. The management of liquidity on a day-to-day basis is entrusted to certain structural units, which can then use the ratios indicated or emerging from practice requirements.

The main problems of bank liquidity management:

- In a given period, the bank's demand for liquid funds may rarely match its supply. The bank is frequently faced with a liquidity shortage or surplus;

- There is a trade-off between liquidity and profitability, and when all other factors are equal, the majority of a bank's resources are

focused on providing liquidity, with only a tiny portion devoted to obtaining the desired high return.

As a result, one of the continual difficulties for corporate governance is attaining optimal banking liquidity, and the significance of corporate governance in liquidity management is unquestionably significant. The amount of liquid cash held by management should be commensurate with the bank's decisions on services and other activities.

4. Methods of improving corporate governance in the effective management of banking resources in the Republic of Azerbaijan.

The banking system, as one of the most important factors in the republic's economic development, requires a purposeful, corporate-managed banking mechanism. The management of bank resources is particularly important in a market economy to ensure its efficiency. Because the availability of liquidity may be questioned if commercial banks' resource basis is improved. Commercial banks are unable to conduct active business. Commercial banks, on the other hand, are unable to satisfy their obligations on time. Commercial banks should have access to bank resources. It is the amount of money that commercial banks employ to conduct asset and other operations. As a result, they adopt economic strategies aimed at increasing each bank's financial resources. The resources or liabilities of banks are divided into two categories: There are two types of resources: 1) special resources and 2) involved resources. Specific equity, which includes equity, reserves, and other funds, as well as retained earnings and other sources, is included in the first section. The bank's loans, deposits, funds in customer and correspondent accounts, and other funds are all included in the second section.

The funds raised should be included in the term obligations of a commercial bank. These funds should be brought in for a set amount of time. This includes money such as time deposits, funds attracted by persons and legal entities on a contractual basis for a set length of time, interbank loans, funds received in conjunction with the issuing and placement of certificates of deposit, and other time funds. This group of funds has higher costs than other liability groups. This

category of passive funds, on the other hand, is more long-term. On the one hand, when the proportion of time liabilities in total borrowings rises, the value of the resource base rises, and on the other, it becomes easier to identify obligations, execute them on time, and ensure liquidity.

Savings and deposits have a special weight in funds attracted by commercial banks. (Table 4)

Table 4
Indicators on deposits and savings attracted
by banks operating in the Republic of Azerbaijan (end of
year), mln.man

	2018	2019	2020
Deposits of legal entities	10,311.5	12,818.7	12,678.3
Deposits of individuals	8,375.4	8,638.0	8,177.9
Total deposits	18,686.9	21456.7	20,856.2

The table was prepared by the author on the basis of CBA data.

The analysis shows that the resource base of banks operating in the country is formed mainly at the expense of funds attracted from customers.² The structure of the resource base of the banking system is shown in Table 5.

Table 5
Structure of resource base in the banking system (%)

Resource base	2019	2020
CBA's claim against banks	1,09	1,27
Liabilities of banks and other financial institutions	6,90	7,31
Deposits of individuals	28,90	27,83
Deposits of legal entities	42,87	43,15
Foreign debt	0,79	0,79
Capital	15,33	16,00
Other liabilities	4,12	3,65

²Statistical review of the main indicators of the banking sector of the Central Bank of the Republic of Azerbaijan: [Electronic resource] -Baku, (2019-2020). (www.cbar.az)

The table was prepared by the author on the basis of CBA data.

According to statistics, there has been a steady increase of legal entity deposits since 2014. In 2015, there was a 3663.1 million manat increase over 2014. Deposits climbed 2.26 times in 2016 compared to 2014. This growth was 2.36 times in 2017. However, due to the depreciation that occurred during that time, the rise in individual deposits was insufficient. The share of foreign currency funds in total funds attracted from the people and non-financial legal entities was more than 80% as a result of bank deposits being converted to US dollars. High growth was observed only in 2018-2019, and in 2020, this figure decreased again in the context of a pandemic.

84 percent of bank liabilities and 16 percent of bank capital are included in the banking system's resource base.

Table 6
Liabilities of the banking sector (in million manats)

Liabilities	31.12.2019	31.12.2020
1. Deposits (excluding financial institutions)	21,456.7	20,722.9
a. Deposits of individuals	8,508.0	8,044.7
b. a. Deposits of legal entities (excluding deposits of central and municipal authorities)	12,818.7	12,678.3
Deposits of individuals engaged in entrepreneurship	130.0	133.2
2. CBA's claims against the bank, total	326.1	374.4
3. Loro accounts	235.0	232.0
4. Deposits of financial institutions	1,205.5	1,078.2
5. Bank loans	74.5	48.7
6. Loans from other financial institutions	1,991.6	2,099.0
7. Securities issued by banks	1,747.7	1,729.7
8. Other liabilities	1,232.7	1,071.1
9. Total liabilities	28,139.8	27,356.1

Table 6. was prepared by the author based on CBA data.

In general, there is a growth in savings and deposits of economic entities in the banking system as compared to prior years. All of this allows us to draw broad conclusions based on the structural analysis of liabilities, which reflects the resource base's quantitative and qualitative features. As previously stated, the great bulk of commercial banks' resources should be derived from borrowed

capital. The funds in clients' accounts at commercial banks are the primary banking resource. In the corporate governance framework of commercial banks, these resources play a unique function. A particular ratio of special funds to borrowed money must be expected by commercial banks. The enormous amount of borrowed funds raises the possibility of the bank's solvency being jeopardized. As a result, the bank's competitiveness against other banks may be lowered. As a result, private capital management is critical to guaranteeing high bank profitability and the long-term viability of obligations.

The formation of resources mainly at the expense of private capital is not considered the right policy. The disproportion in the structure of capital can lead to a weakening of the indicators reflecting the activities of a commercial bank, a decline in the image of the money market.

The following measures should be taken to improve the management and supervision of commercial banks.

On bank asset management:

- Monitoring of balances on correspondent accounts;
- Monitoring of lending volume;
- Quality monitoring in the loan portfolio;
- Monitoring of loan interest rates;
- Monitoring of the bank's securities portfolio;
- Monitoring of repo transactions of purchased securities;
- Monitoring of assets used as collateral;
- Monitoring of fixed assets and other non-liquid assets that can be sold in order to maintain an adequate level of liquidity.

On the management of banks' liabilities

- Monitoring of the volume of deposits, deposits of the bank and other legal entities, "overnight" operation;
- Conducting regular monitoring of deposits and other liabilities;
- Monitoring of the existing concentration on the sources of the liability, taking into account the type of obligation, the creditor of the obligation and the area in which it is located;
- Monitoring of off-balance sheet liabilities.

The topic of commercial bank corporate governance is complex

and varied in general. A detailed assessment of bank activities, as well as a comprehensive projection of macroeconomic indicators and the state of the Azerbaijani economy, is required to solve this problem.

5. Directions for improving the impact of corporate governance on the efficiency of the banking system in commercial banks of the country.

The size and growth of the banking sector, as well as the regulatory environment, have all changed dramatically in recent years. In this regard, significant focus should be made to enhancing the banking system's management mechanism. The most up-to-date corporate governance principles and standards should be extensively used. Corporate governance should assist banks in attracting investors and money in the capital markets, increasing efficiency, accelerating growth, protecting minority shareholder rights, and gaining the trust of investors and depositors. Commercial banks must take measures to assure the safety of investments in order to attract temporarily free capital and convert it into genuine credit resources. During growing activities to attract temporarily free cash to the resource base, the quality of customer service is especially important. The professionalism of management and staff has an impact on the quality of service. They should take into account the amount of interest provided on deposits, protecting depositors' interests while also encouraging interest in bank savings accounts.

The Credit Committees and Credit Departments of Commercial Banks of Azerbaijan use "mathematical" approaches based on internal and external credit rating systems, chance of loan default, and accumulation rate, as well as "conventional" ways for improved credit risk management. This method can be used to calculate the results of operations as well as capital distribution. Calculations should be conducted not only of loan repayments, but also of data that represents the concentration of risks towards a specific consumer or industry, as well as changes in the value of collateral to measure credit risks. This process should be examined in order to assess the credit risks associated with each loan or the entire loan portfolio.

Given the foregoing, it is important to mention that risk

management systems used by banks to control banking risks in the Azerbaijani banking sector should be continually enhanced, and an Information System Management should be built. Banks must build a particular decision-making mechanism in order to progress in high-risk areas. This system should establish what kind of risk commercial banks are willing to assume, as well as if the predicted return fits the risk standards. Risk management requires an effective internal management structure. The essential requirements here are the clear description and limits of job responsibilities, the provision of control, the rotation of specialists, and the allocation of working hours required to achieve these objectives. Even if there is no internal control system in place to prevent the use of service positions, a well-organized control mechanism should be in place to considerably reduce the risk of fraud.

For effective bank management, a strategic action plan should be devised. The strategic plan should be a comprehensive and easy-to-understand document. It should also be based on the most accurate estimates of market demand, consumer base, competition, and overall economic conditions. The Strategic Plan, which embodies solid banking principles, should take into account both market economic and competitive situations. It should be based on a realistic evaluation of the dangers that commercial banks face. The essential elements of the strategic plan should reveal in full the features of activity in various market categories, such as credit cards or banks that only provide service business customers.

For commercial bank administration to be effective, they need a good database. For the solution of complicated problems and the supply of financial services, timely management of the information bank is important.

A commercial bank's strategic plan for using Internet channels should include a clear description of the market it serves and the services it delivers through electronic channels. Information about the market and services offered should be made available on the Internet because it has a potential worldwide client base and anyone can access it.

Issues with bank governance must be linked with excellent

governance practices. The format of general meetings of shareholders (GMSs) in banks, for example, has to be changed, as does the exercise of shareholders' rights. This involves ensuring that bank CEOs and shareholders with a significant stake in the bank possess the necessary traits to prevent commercial banks from developing in a healthy environment and becoming a tool for money laundering.

In recent years, a number of significant steps have been taken to enhance the country's banking sector, including the use of contemporary management methods and the adoption of normative standards. As a result of the actions adopted, fast changes in the banking sector and legislative framework have been noticed. When we look at the most important quantitative and qualitative indicators of growth, we can see that there has been obvious progress. New challenges, however, lay ahead: banks must bring all of their activities in line with international standards, enhance management procedures, and widely apply corporate governance norms.

The main content of the dissertation work is reflected in the following published works:

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