

Session 4:
Governance, Risk Management, and Strategic Asset Allocation for Central Banks

SAA and FX Reserves Management Governance

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**2026 ASIAN REGIONAL FORUM
ON INVESTMENT MANAGEMENT
OF FOREIGN EXCHANGE RESERVES**



THE CENTRAL BANK OF THE REPUBLIC OF AZERBAIJAN

SAA and FX Reserves Management Governance

2026 Asian Regional Forum on Investment Management of FX Reserves

Hanoi, 7–9 October 2026

What we would cover

1

Reserve strength

Reserve growth, coverage ratios and external buffers

2

Governance & risk policy

Board, committees, lines of defense; risk policy

3

SAA building blocks & process

Tranching, operational tranche sizing and the joint SAA process

4

Strategy & portfolio structure

Currencies, benchmarks, tranche split and sector mix

5

Diversification trends

How reserve managers diversify: RAMP 2019 vs. 2025

6

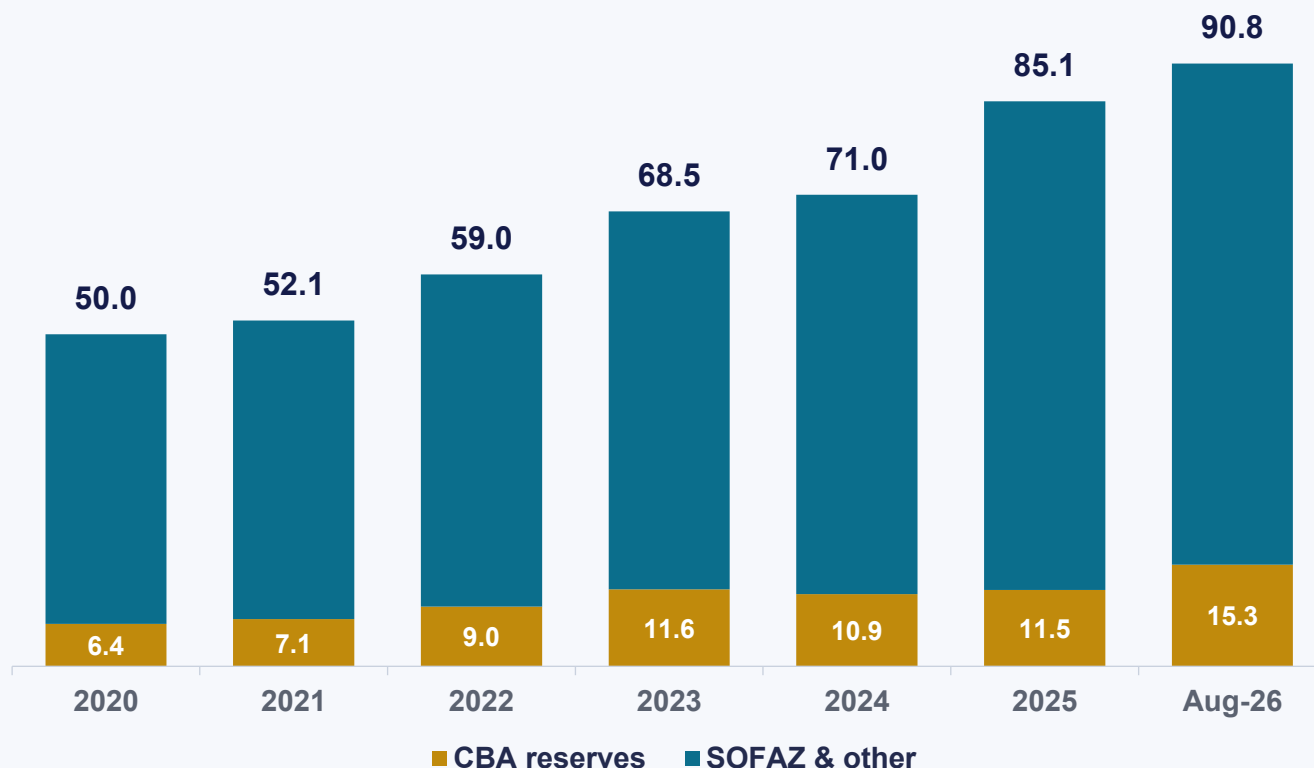
Regime shifts & blind spots

Building resilience and risks not yet in today's SAAs

Azerbaijan Republic: Reserve Strength & External Buffers

Strategic FX reserves, USD bn end of period

+82% strategic reserves since 2020 2.4x CBA reserves



41 months

Import coverage
strategic reserves

~113%

Reserves to GDP
strategic reserves

3.5x

Reserves to broad money
manat M2

~20x

Reserves to external
public debt

What drove the growth

- 1 Current account surpluses**
Hydrocarbon export revenues, peaking in 2022
- 2 FX purchases by the CBA**
Absorbing surplus FX inflows to the market
- 3 SOFAZ income and gold**
Investment returns and the gold price rally
- 4 Fiscal discipline**
Budget surpluses limit reserve drawdowns

Strategic reserves = CBA official reserves + SOFAZ assets. Sources: CBA, SOFAZ, IMF; 2022 and 2024 values approximate; ratios as of Aug-Sep 2026.

Buffers cover over three years of imports and exceed GDP, giving ample room to absorb external shocks

Reserves Management Governance at a Glance

MANAGEMENT BOARD — approves policies, Risk Appetite Statement, SAA & annual investment program, continuity plans

Risk Management Committee

Centralized oversight of organizational risks and business continuity; supports Board decision-making

Investment Committee

Safe, liquid and efficient management of FX reserves; provides recommendations to the Board on strategy, SAA and the investment program

THREE LINES OF DEFENSE

1st line — Risk owners

Structural units incl. FX Reserves Management and Payment Systems & Settlements; risk coordinators; RCSA

2nd line — Risk Management Department

Independent centralized risk function: financial, strategic & operational, model, IT & cyber risks

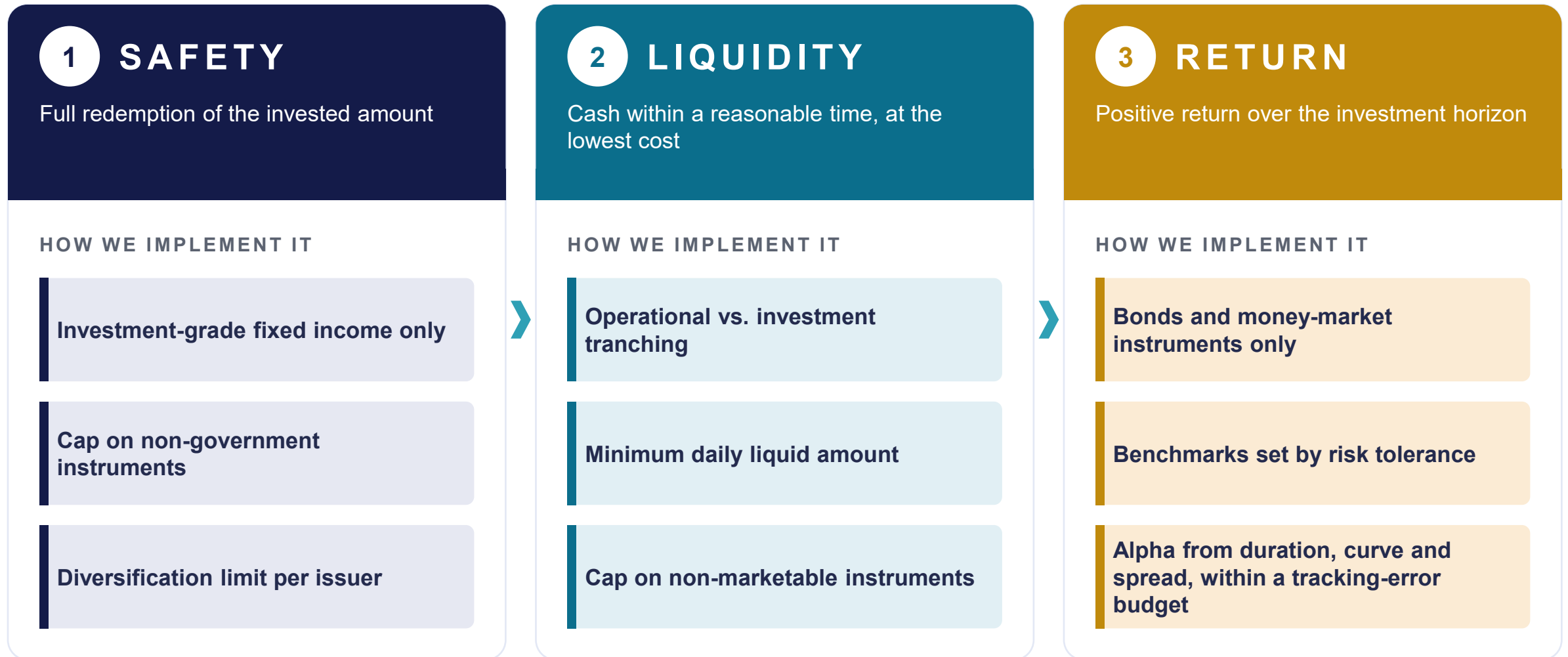
3rd line — Internal Audit

Independent assurance

Escalation: RAS limit breach → immediate notice to management with causes → Risk Management Committee → Management Board (risk reduction or limit recalibration)

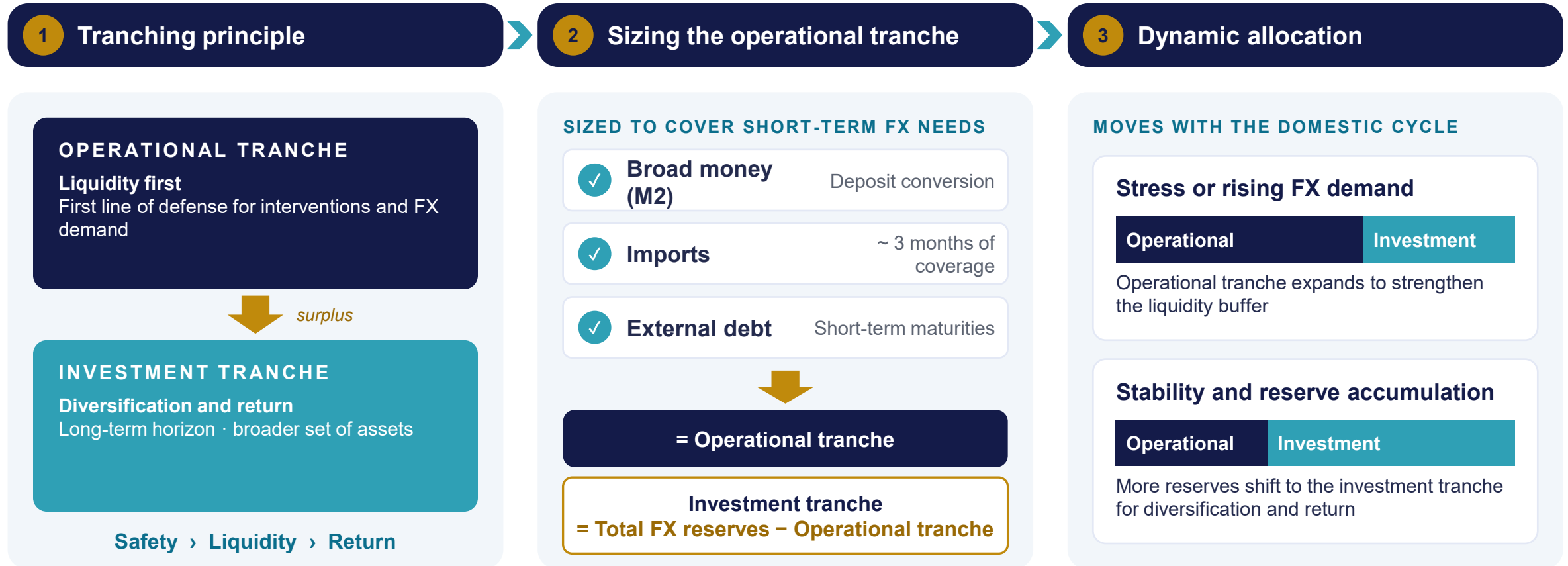
Clear ownership: the Board sets the risk appetite, committees steer, and three independent lines enforce it

Financial Risk Management at the Policy Level



Safety and liquidity set the boundaries; return is pursued only within them

Building Blocks of SAA & Reserve Diversification



Bar proportions illustrative

Liquidity needs are defined first; whatever remains is invested for diversification and return — and the split is reset as the cycle turns

SAA: One Process, Two Teams



Owner: RMD — Financial Risk Management Division · Co-owner: FXRMD — Investment Analysis & External Managers Division · Reviewed annually

SAA is a joint product: risk runs the optimization, reserve management brings the views, the Board approves

Managing Risk at the Strategy Level

PROCESS



CRITERIA

- Adequacy measures
- Potential annual liquidity needs

- Currency composition of interventions
- Currency structure of imports & external debt

- Investment horizon
- Credit risk
- Risk tolerance (CVaR)

- Credit-spread duration deviation
- Duration deviation from benchmark

SAMPLE

Operational tranche — X bln USD

SAMPLE

Operational tranche — 100% USD

SAMPLE

Benchmark — ICE BofA 0–1y UST

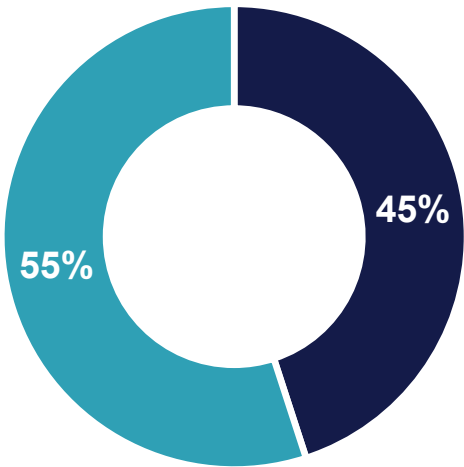
SAMPLE

Duration $\pm$ 2 months vs. benchmark

Each step narrows the strategy: from how much liquidity is needed, to which currencies, to which benchmarks — and how far portfolio managers may deviate

Tranche Structure and Sectoral Allocation of FX Reserves

TRANCHE SPLIT · % OF TOTAL FX RESERVES



- Operational tranche
- Investment tranche

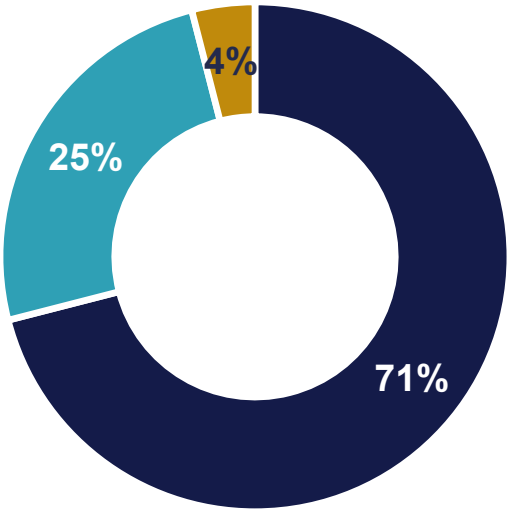
Operational tranche — 45%
0–1y UST; tactical SSA, money market instruments and liquidity funds

Investment tranche — 55%

UST	50–75%
HTM	15–20%
Global Sov. Bond Index	5–10%
MBS	5–10%
Green	≤5%

Ranges as % of investment tranche, illustrative

SECTOR MIX · % OF INVESTED RESERVES



- Government
- Supra & agency
- Corporate

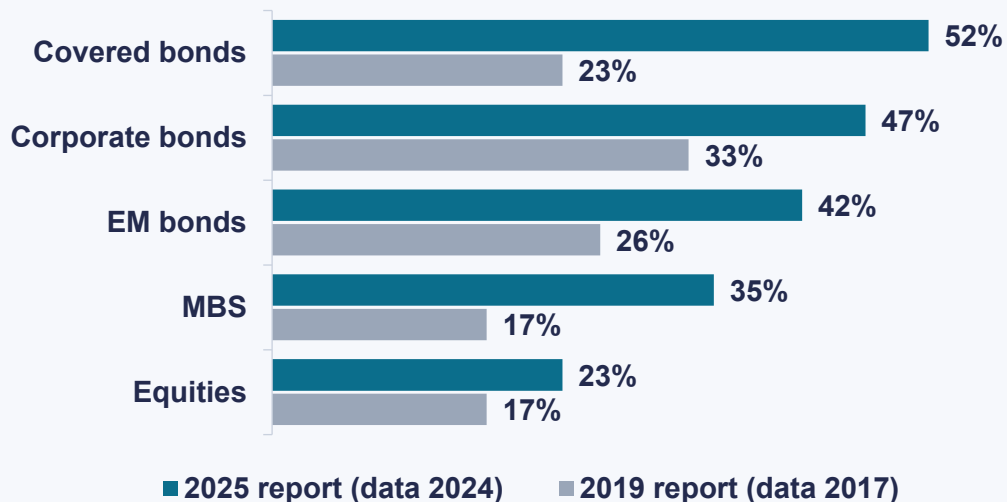
Ranges are illustrative

Liquidity sits in the operational tranche; the investment tranche drives diversification and return, with the portfolio anchored in government bonds

How Reserve Managers Diversify: Then vs. Now

Eligible asset classes beyond the traditional core

% of central banks, World Bank RAMP surveys



78%

can invest in nontraditional assets
vs. 59% in the 2019 report

77%

have gold as an eligible asset
vs. 51% in the 2019 report

THEN · RAMP 2019 report

NOW · RAMP 2025 report

Main driver

Low rates: return generation gains weight (37% rate it highly relevant)

Resilience:
diversification, risk-adjusted returns and protection against shocks

What was added

Corporate credit (33%), EM bonds (26%), covered bonds (23%)

Inflation-linked and covered bonds now mainstream (>50% eligible); gold widely eligible

Actual allocation

Held by: corporates 29%,
equities 16% of central
banks;

Held by: IG corporates 32%, DM equities 17%; avg. allocation 2.8% and 1.9%

Gold and USD

Gold eligible for 51%; USD
median allocation 68%

**Gold eligible for 77%,
held by 45%; USD avg.
allocation 64%**

Sources: World Bank RAMP inaugural survey (published 2019, data Sep 2017, N=92); Reserve Management Survey 2025 (data Dec 2024, N=133). 2019 categories not split by IG/HY, DM/EM.

Evolution, not revolution: the investable universe has widened, but the real shift is in motive — from yield to resilience — and in gold

Navigating Regime Shifts: What Reserve Managers Should Consider

Build for resilience, not just for optimization under normal conditions

1

Anchor in priorities

Safety and liquidity first — not an investment return

2

Protect the liquidity layer

Liquid operational tranche; diversify at the margin of it

3

Stress-test usability

Market access, settlement and conversion — not just prices

4

Diversify across risks

Ask: “what risk should this asset hedge?”

5

Build liquidity optionality

Repo, swaps, gold financing: backstops, instead of substitutes

6

Let risk capacity set the pace

Limits, governance and market depth — not solely yield

BE READY FOR THE REGIME SHIFT

2022: bonds and equities fell together

Total return, %

-18.1%

S&P 500

-13.0%

US Aggregate

-3.7%

UST 1-3Y

+0.4%

Gold

Readiness means

✓ Scenario-based SAA

inflation, stagflation, fiscal stress, risk-off

✓ Trigger-based reviews

yield, term-premium or correlation shocks

✓ Playbooks & decision rights

rebalance without waiting a year

✓ Operational readiness

custody, settlement, funding tested early

Expand selectively, diversify incrementally, protect the liquidity buffer — and be ready to rewrite the SAA when the regime changes

Blind Spots: Risks Not Yet Built into Reserve Allocation

Visible in WEF, IMF and Asset Manager outlooks — but rarely in today's SAAs

● Partially incorporated ● Not yet incorporated

MARKETS & MACRO	GEOPOLITICS & STRUCTURE	TECHNOLOGY & OPERATIONS
Safe havens failing together Partial ➔ Scenario where the hedge is the shock; gold, non-USD sovereigns	Geeconomic access risk Partial ➔ Score assets by jurisdiction, custodian and sanctions exposure	Stablecoins and digital dollarization Not yet ➔ Add to operational tranche sizing; track T-bill demand
Fiscal dominance in reserve issuers Not yet ➔ Fiscal and term-premium triggers; cap duration per issuer	Gold concentration after the rally Partial ➔ Rebalancing bands; tested gold repo/swaps; storage location mix	Tokenized settlement, cyber and quantum Not yet ➔ Operational drills, legal readiness, crypto-agile custodians
Core bond market fragility Partial ➔ Liquidity-adjusted SAA: stressed haircuts, repo/FIMA backstops	Structural shifts in export inflows Not yet ➔ National balance-sheet ALM with the SWF; buffers for lower inflows	Speed of runs Not yet ➔ Same-day liquidity tier and communication playbooks

Sources: WEF Global Risks Report 2026; IMF Global Financial Stability Report, April 2026 and October 2025. Status assessment is indicative.

The next shock is likely to come from where frameworks are not looking — make blind spots an explicit part of the SAA review



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Thank you

Foreign Exchange Reserves Management Department