

# Chapter 9

## Azerbaijan Banking Sector Financial Performance Evaluation With SECA Method

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### ABSTRACT

*The success of organizations is evaluated by measuring performance. This chapter examines the financial performance of banks in Azerbaijan. The analysis was carried out using the SECA method, based on the information obtained from the official websites of 23 banks operating in Azerbaijan in 2022. The SECA method is a multiple-decision method in which performance evaluation and the weighting of the decision criteria are determined simultaneously. Indicators of liquidity, capital adequacy, and profitability are used as decision criteria. Despite the growing number of studies on performance measurement, there is still a gap in the application of multiple decision-making methods in the banking sector. This chapter is structured as follows: Initially, literature related to the banking sector in Azerbaijan and SECA analysis is presented. Subsequently, the methodology employed in the SECA method is elucidated. Following this, there is an examination of the financial performance of banks operating in Azerbaijan. Finally, the study's findings are assessed by drawing on relevant literature.*

### 1. INTRODUCTION

Banking sector is a crucial sub-sector within the financial sector and is at the center of economic activity. It is a vital player for savers, households, entrepreneurs, investors, producers, and the private and public sectors. The banking sector is also a substantial aspect of the financial sector in Azerbaijan. Banks in the Azerbaijani financial sector hold about 95% of the total assets of the financial sector, and the Azerbaijani financial sector is primarily managed by these banks. Although the initial progress of the banking system in the Republic of Azerbaijan began in the 19th century, the institutional and legal establishment of the Azerbaijani banking system took place on October 18, 1991, after the state gained its independence.

DOI: 10.4018/979-8-3693-2683-1.ch009

Azerbaijani banking sector has played a pivotal role in the restructuring of the economy and in implementing the government's policy to accelerate economic growth, which is expected to act as an essential element (Garsov, 2022). The banking sector in Azerbaijan is two-tiered. The Central Bank of Azerbaijan operates in the first tier, while credit institutions, commercial banks, and the State Bank operate in the second tier (Misirli, 2016). Out of the 25 banks operating in Azerbaijan, nine are operated as banks with foreign capital in 2022. All banks operating in Azerbaijan are subject to the supervision of the Central Bank, the establishment of banks is only allowed with the approval of the Central Bank. As a young and independent oil-producing country, Azerbaijan has garnered significant interest from foreign banks. They have entered into cooperation agreements with Azerbaijani banks and have expressed interest in establishing their own branches in Azerbaijan.

One of the factors that contributes to the development of the banking sector is competition among banks. Due to increasing competition, efficiency and performance improvement have become top priorities for banks. For this reason, comparisons between banks in the sector have gained importance. The financial data generally consist of financial ratios calculated from banks' financial statements, which are used in performance evaluation and are referred to as performance criteria (Yılmaz, 2023).

The aim of this research is to evaluate the financial performance of banks operating in Azerbaijan. In 2022, a total of 25 banks were in operation, with nine of them having foreign capital. The study involves retrieving financial data from the official websites of these banks, resulting in obtaining financial information from 23 of them. The analysis focuses on assessing financial ratios derived from the financial statements of these 23 banks within the Azerbaijani banking sector for the year 2022. Multi-criteria decision-making methods (MCDM) are employed to identify the most suitable option among various alternatives based on crucial criteria. The SECA method, a specific MCDM technique, is utilized for performance assessment. Notably, this method allows the simultaneous calculation of both the ranking of financial performance and the weights of the evaluation criteria (Keshavarz-Ghorabae et al., 2018). Due to its unique features, the SECA method is used in this chapter. When applying the SECA method, liquidity, capital adequacy, and profitability indicators are used, which are frequently employed in the literature for financial performance measurement. While previous research has delved into the financial assessment of the Azerbaijani banking sector both before and during the COVID-19 pandemic, as far as the author is aware, there is a gap in the literature concerning research conducted after the pandemic. This chapter stands out by offering a financial performance evaluation specifically focusing on the post-pandemic period. Initially, the chapter presents a review of the literature pertaining to the Azerbaijani banking sector and the SECA analysis. Subsequently, the methodology of the SECA method is elucidated. Following this, an analysis of the financial performance of banks operating in Azerbaijan is outlined. Lastly, the study's findings are assessed in the context of existing literature.

## **2. LITERATURE**

The financial performance of the banking sector holds significant importance for its contribution to economic growth. Several studies in the literature focus on assessing the financial performance of the banking sector in Azerbaijan. This section provides a summary of examples of financial performance measurement by Azerbaijani banks and the methods employed in these studies. Mamedov and Zeynalov (2011) thoroughly examine the characteristics and structure of the Azerbaijani banking sector in the context of the 2008 financial crisis. Their research not only scrutinizes the restructuring efforts within

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