

ANNUAL SUSTAINABILITY REPORT 2023



Kapital Bank

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Abbreviations list

AI	Artificial Intelligence	KRI	Key Risk Indicator
AML	Anti-Money Laundering	KPI	Key Performance Indicator
ATM	Automated Teller Machine	LCR	Liquidity Coverage Ratio
CAR	Capital Adequacy Ratio	MBA	Master's in Business Administration
CBAR	Central Bank of the Republic of Azerbaijan	NPS	Net Promoter Score
CEO	Chief Executive Officer	NSFR	Net Stable Funding Ratio
CFT	Combating the Financing of Terrorism	OHI	Organizational Health Index
CLV	Customer Lifetime Value	POS	Point-of-Sale
CSR	Corporate Social Responsibility	RCSA	Risk and Control Self-Assessment
COP	Conference of the Parties	ROA	Return on Assets
DEI	Diversity, Equity, and Inclusion	ROE	Return on Equity
ERM	Enterprise Risk Management	RHI	Risk Health Index
ERP	Enterprise Risk Planning	SDG	Sustainable Development Goals
ESG	Environmental, Social and Governance	SMBDA	Small and Medium Business Development Agency
GDP	Gross Domestic Product	SMB	Small and Medium-sized Business
GHG	Greenhouse Gas	SME	Small Medium Enterprise
GRI	Global Reporting Initiative	SOC	Security Operations Center
HR	Human Resources	STT	Speech-to-text
IT	Information Technology	TTS	Text-to-speech
IRM	Information Risk Management	UN	United Nations
IS	Information Systems	VAT	Value-added Tax
IVR	Interactive Voice Response	WBC	Women Bankers Club

CEO Message

CEO Message

GRI 2-14, 2-22

Dear stakeholders,

I am pleased to introduce Kapital Bank's first Sustainability Report highlighting our initial step towards environmental, social, and governance considerations, and our key milestones throughout the year.

As an innovative and customer-centric bank, we stay committed to developing digital financial solutions, cultivating innovation in the banking sector, incorporating advanced technologies such as artificial intelligence in our operations, and implementing enhanced cybersecurity measures in 2023.

These initiatives are intended to strengthen our position in the market, to enhance the reliability and accessibility of our banking services and elevate the overall customer experience.

We have established the largest service network in the country, with over 110 branches, ensuring convenient access to banking services for everyone. In fact, we proudly serve over 5 million retail customers in Azerbaijan including more than 700,000 social cardholders. Furthermore, our Bank serves to diverse customer base, with 95% of our corporate customers being micro and small businesses, demonstrating

our role in supporting entrepreneurs and fostering economic development.

Building on our innovative spirit, Kapital Bank has pioneered the sector by launching Birbank, the first digital bank in the Country, and offering cutting-edge digital financial solutions.

Our innovative approach to customer services was recognized this year when we received the "Best Use of Artificial Intelligence in Digital Transformation" award from Global Finance Magazine. Additionally, we thrive to offer time-saving services to our customers through our call and chat inquiry services, powered by voice-to-text and text-to-voice conversion technologies. To further enhance customer experience and support entrepreneurs, we introduced Birbank Business, a specialized platform that facilitates business activities and streamlines documentation processes. This initiative allows uninterrupted access to banking services, empowering entrepreneurs to save valuable time and resources.

As the second-largest Bank in the Country in terms of profitability, Kapital Bank demonstrated robust financial performance in 2023, with a net income of

304 million AZN and total assets amounting to 8.8 billion AZN.

These results provide a strong financial foundation for our ongoing and future projects, aimed at fostering the social and economic development of the country, especially in the liberated areas.

We are proud of our contributions to the redevelopment of these territories, making strategic investments to boost economic opportunities and improve the quality of life for residents.

These financial successes are made possible by our dedicated workforce of over 5,000 employees, who are at the heart of our operations. We assist their professional and personal growth by offering comprehensive training and development programs, including educational loans and fully covered expenses. We value their feedback and continuously improve our workplace culture based on their suggestions. To further enhance our supportive environment, inclusivity is very important to us, and we take specific actions to ensure that everyone, not just our employees, feels valued.



Farid Huseynov
Chairman of the Board ,
Chief Executive Officer

In terms of community development, our focus on CSR activities is multifaceted, supporting educational scholarship programs, animal protection initiatives, and other social projects. Through our CSR activities and the Red Hearts Fund, we are involved in impactful projects like the 'Vətən Bağı' tree-planting initiative and reconstruction projects in formerly occupied regions, promoting economic revitalization and community development. As part of the "Hər şey mümkündür" project, we held eight master classes for children with Down syndrome and autism, benefiting around 100 children.

Education is also another cornerstone for Kapital Bank, and we support educational advancement at all levels through impactful projects. Our ongoing sponsorship of the Science Olympiads, in partnership with the Ministry of Science and Education, highlights our focus on academic excellence. By forming strategic alliances with institutions like ADA University and the Azerbaijan State University of Economics, we nurture the development of talented individuals. Our internship programs also provide students and recent graduates with practical experience, facilitating their transition into the workforce.

In the competitive banking industry, Kapital Bank stands as one of Azerbaijan's largest financial institutions, committed to continuous improvement. We focus on developing innovative solutions, expanding digital services, and making strategic investments that benefit society and contribute to the nation's economic development.

The upcoming 29th session of the Conference of the Parties to the UN Framework Convention on Climate Change (COP29), which will be hosted in our country, presents significant opportunities for the banking industry to shift towards sustainable practices.

We believe that this pivotal event will introduce new regulatory standards that will shape the operational models of businesses nationwide, including Kapital Bank.

We are prepared to align our business conduct and processes with these forthcoming changes, enhancing our sustainability efforts and broadening our focus on environmental and social responsibility. As a pioneering financial institution in Azerbaijan, we are ready to embrace this transformative journey, ensuring that we remain at the forefront of economic and technological advancements while contributing to global climate initiatives.

Sincerely,
Farid Huseynov
Chairman of the Board,
Chief Executive Officer



KAPITAL BANK AT A GLANCE

Kapital Bank serves more than 5 million individuals and more than 22,000 legal entities

Service network

Number of ATMs



1030

Number of branches

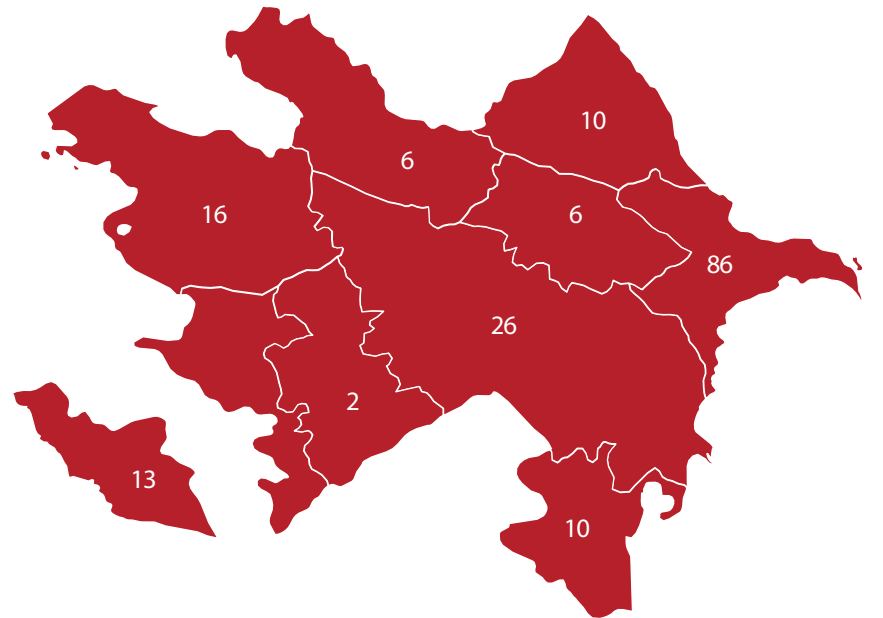


117

Number of digital offices



2



Ratings

MOODY's

Baseline Credit Assessment	Ba3
Long -term Bank deposit	Ba2
Long- term Counterparty Risk Ratings	Ba1

S&P Global

Long -term Ratings for Loans	BB-/B
Short -term Ratings for Loans	BB-/B

Financial overview , in AZN

8.8 billion	total assets
1.1 billion	total revenue
6.6 billion	deposit loan
571 million	mortgage loan portfolio
304 million	net income
2.3 billion	retail loan portfolio
984 million	corporate loan portfolio

Customer portfolio

3,836,309	active number of customers
3,638,261	active individual customers
163,679	active individual entrepreneurs
34.369	active corporate customers

Social and Environmental impact

5313	number of employees
1081	hired of employess
20	mIn AZN community investments
26.33	tons of non-hazardous waste recycled

Awards and Recognitions

- “Great Place to Work” Award winner,
- “Gold Employer Brand Stars” Award winner,
- “NETTY” Award winner,
- Winner of “Corporate Social Responsibility” nominee in 2021 and 2022 Banking Awards,
- Winner of “Most Active Bank Supporting Educational Projects” nominee in 2021 and 2022 Banking Awards,
- Winner of “Electronic Banking” nominee in 2021 and 2022 Banking Awards,
- Winner of “ABA Member Implementing Measures to Improve the Financial Inclusion of Small and Medium Businesses” nominee in 2021 Banking Awards,
- Winner of “Awareness projects on security in digital payment” nominee in 2022 Banking Awards,
- Winner of “Best Salary Project” nominee in Visa International Awards,
- Winner of “Highest volume of incremental growth” nominee in Visa International Awards,
- Winner of “Strong support of the World of Privileges” nominee in Visa International Awards,
- Winner of “Tap2Phone” nominee in Visa International Awards.

Reporting on sustainability

As an innovative financial institution, we are proud to present Kapital Bank's inaugural Sustainability Report, showcasing our achievements in environmental, social, and governance (ESG) performance. This report is a significant milestone in our journey towards sustainable development, highlighting our efforts to positively impact society and the environment.

By following the Global Reporting Initiative (GRI) Standards and aligning with the UN Sustainable Development Goals (SDGs), we provide a comprehensive overview of our sustainability efforts, methods, and achievements from January 1, 2023 to December 31, 2023. Our goal is to build trust and confidence among our stakeholders by offering clear, understandable, and reliable information on our progress.

This report demonstrates our proactive approach to addressing the environmental and socioeconomic impacts of our operations. It has been developed with input from various stakeholders and through rigorous assessments, ensuring it meets global norms and standards. The collaborative efforts across all departments within Kapital Bank underscore our strong focus on sustainable business practices and responsible corporate citizenship.

Scope and boundaries

GRI 2-2, 2-3

Legal name and form of the organization	Kapital Bank Open Joint-Stock Company
Headquarters	Baku, Azerbaijan
Reporting cycle	Annual
Reporting period	1 January 2023 – 31 December 2023
Reporting boundary	Kapital Bank (Stand Alone Entity)
Reporting frameworks	This Report is written in accordance with: Global Reporting Initiative (GRI) Standards
Available language(s)	English, Azerbaijani



Materiality assessment

GRI 3-1, 3-2, 3-3

We effortlessly work on aligning our business operations with the stakeholder expectations, ever-changing sustainability trends, and regulations. Therefore, it is essential to have a multifaceted comprehension of what activities and spheres of our business have a significant impact on the stakeholders and carry a significant role in the longevity of our operations. In order to investigate current and potential impacts, we have conducted

a comprehensive materiality assessment during the reporting period. This assessment was guided by best practices in the industry, insights from peer reports, and the principles outlined in the GRI Standards, ensuring a thorough evaluation of our sustainability priorities. This thorough assessment underlines the relevance and impact of revealed topics on Kapital Bank's organizational framework.

Figure 1: Materiality assessment process

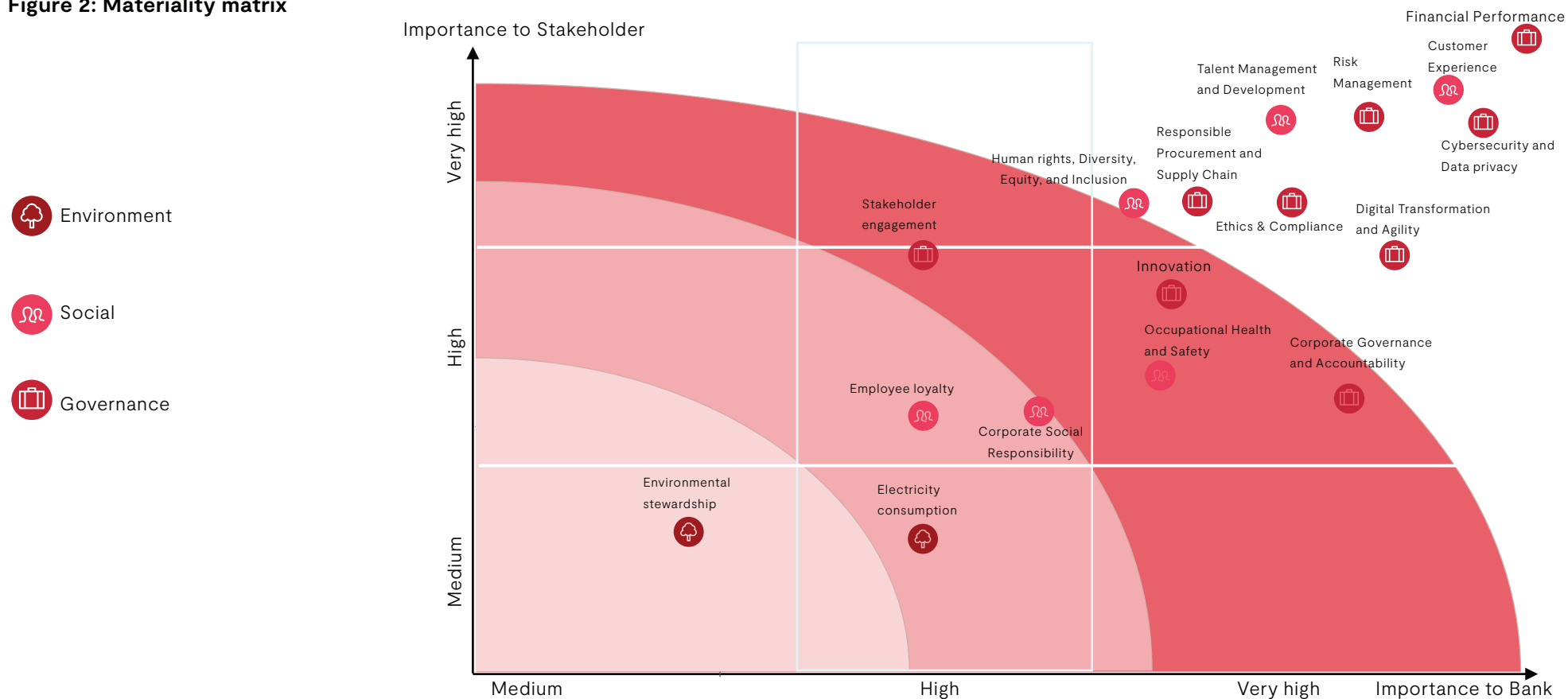


The preliminary action in our methodology takes place by establishing a well-grounded foundation by grasping the fundamentals of Kapital Bank’s business activities pioneering our sustainability approach. Initially, we identify and collect a vast amount of material topics. In the process of determining the material topics, we consider the general strategy of our bank along with industry best practices and external factors such as legal regulations, global trends

and our impact on the supply chain. To continue, we have additionally administered a stakeholder engagement through an online survey with key stakeholders and interviews with key process owners. As a result, we comprehend the diverse perspectives of key stakeholders and align our findings with the expectations of the stakeholders.

The implementation of materiality assessment allows Kapital Bank to evaluate the potential impact of material topics from two perspectives – both stakeholders and the Bank. In the light of the materiality assessment, Kapital Bank has identified 17 material topics which is depicted in the form of materiality matrix.

Figure 2: Materiality matrix



Stakeholder engagement

GRI 2-29, 207-3

At Kapital Bank, we are carrying out our operations in a transparent manner where all our stakeholders have equal access to information about our activities. The presence of such open dialogue allows our stakeholders to provide valuable feedback assisting us to enhance our practices and decision-making processes. Therefore, we continuously work on maintaining a well-grounded

and effective stakeholder relationship management incentivizing open communication, mutual trust, and transparency in our business conduct.

We acknowledge the fact that we have a widespread impact on people, communities, and organizations. Upon identifying key stakeholders, we established a

communication methodology for periodic interactions through various channels, including social responsibility projects, seminars, and other engagement activities. In turn, we are well-equipped to grasp the expectations of communities and to develop ad-hoc communication methods in alignment with local conditions.

Figure 3: Stakeholder Communication



Customers

Interaction Frequency	Engagement activities	Communication channels
24/7 basis: As part of the customer service	Provided a wide range of tailored offerings to meet customers' diverse needs. In order to maintain the customer satisfaction high, a robust complaint-resolution process is implemented. Our customer satisfaction strategy ensures we effectively address customer concerns in a precise manner.	Kapital Bank branches, ATMs, call center, mobile banking, customer relations representatives, direct emails/messages, website



Employees

Interaction Frequency	Engagement activities	Communication channels
Daily basis: As part of the business conduct	Empowered open dialogue through the NAVEX platform in which employees submit their complaints anonymously. Further, we actively encourage Diversity, Equity, and Inclusion (DEI) principles to ensure equal treatment and opportunities are present for all employees.	Intranet, periodic performance reviews, employee surveys, trainings, social events, website



Local Communities

Interaction Frequency	Engagement activities	Communication channels
Ongoing basis: As part of the social responsibility projects	Implemented numerous philanthropic activities, community partnerships and volunteer events aiming to promote social and economic progress by supporting community development in accordance with their specific needs.	Social responsibility projects, partnerships, volunteer programs, sustainability reports, financial & non-financial statements, conferences



Shareholders and Investors

Interaction Frequency	Engagement activities	Communication channels
As-needed basis: As part of the investor relations	Engaged with our shareholders through general meetings, annual reports, conferences, and other channels to provide a thorough understanding of the current performance, prospects, strategic directions, and our commitments to ESG practices at an organizational level.	General meetings, annual financial & non-financial statements, regulatory filings, presentations, conferences, website



Government and Public Authorities

Interaction Frequency	Engagement activities	Communication channels
As-needed basis: As part of regulatory compliance	Developed projects to foster the well-being of the community across economic, social, and environmental aspects with government authorities. In this collaboration, we are accountable for our bank's impact on the overall economic activity and complying with the regulations within the Republic of Azerbaijan.	Reports to CBAR, press releases, round tables, briefings, regulatory filings, data submissions



Rating agencies

Interaction Frequency	Engagement activities	Communication channels
As-needed basis: As part of business conduct	Cultivated a strong working relationship with rating agencies through ongoing communication is essential for our continuous business conduct. Currently, our bank has engaged in several discussions with rating agencies to determine possible ways of integrating ESG principles into our lending practices	Financial statements, regulatory compliance reports, pre-rating meetings, conference calls



Suppliers and Contractors

Interaction Frequency	Engagement activities	Communication channels
Daily basis: As part of the business conduct	Prioritized working with suppliers who passed through our comprehensive supplier selection procedure. By doing so, we continuously work on cultivating mutual trust with our suppliers in the frame of our Code of Ethics and our Conflict-of-Interest policy.	Due diligence annual disclosures, supplier assessment, pre-bid meetings, signed contracts, order procedures, online platforms



Media

Interaction Frequency	Engagement activities	Communication channels
Daily basis: As part of public relations	Increased our media presence to provide accurate and complete information regarding our business activities. By doing so, we grasp their perception towards our business conduct and evaluate our current business performance.	Website, press releases, Facebook, LinkedIn, X, Instagram, YouTube

About Us

Development history

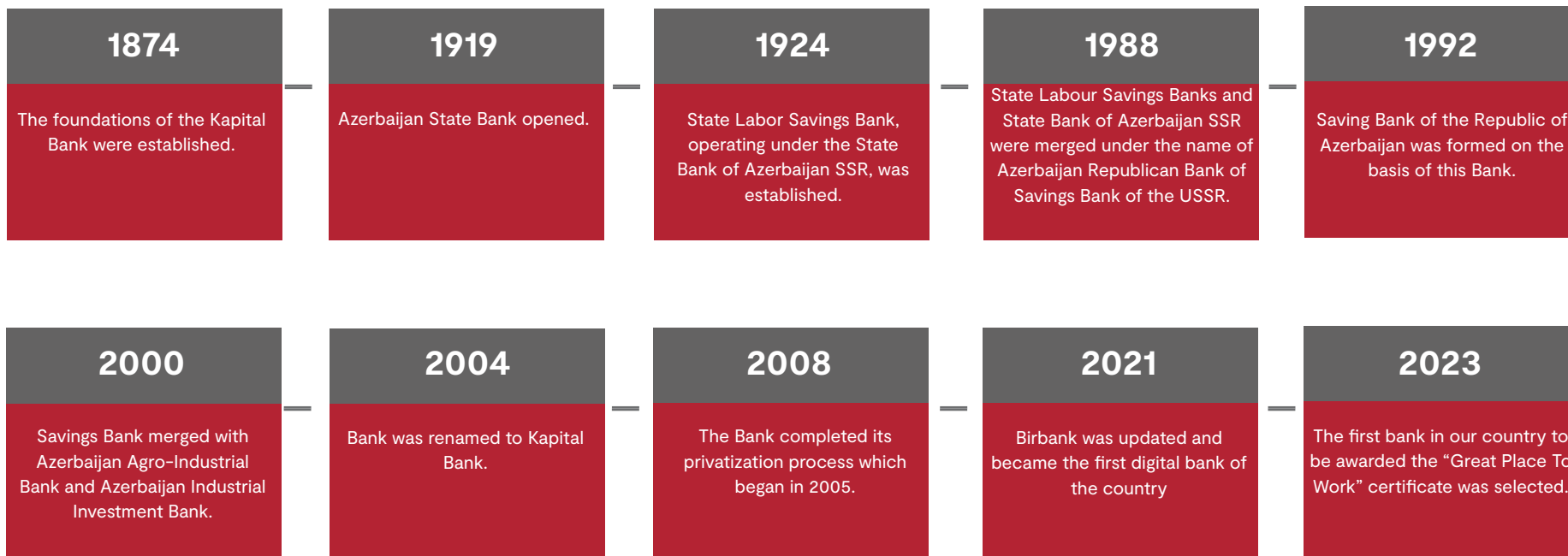
GRI 2-1, 2-6

Kapital Bank OJSC (hereinafter “Kapital Bank” or “the Bank”) commenced their operations under the name of Savings Bank of Azerbaijan, with the overarching goal of providing exceptional financial services to customers,

marking it the first bank founded in Azerbaijan. The Bank managed to prevail despite constant struggles catalyzed by economic uncertainties and political pressures which paved the way for the Bank’s current

success. The usual name “Kapital Bank” emerged on December 29, 2004, designated to showcasing rebranded image of the Bank in the light of newly adopted business strategy and objectives.

Figure 4. History of Kapital Bank



#2 by total assets and profitability in Azerbaijan

Throughout these years, we have witnessed the emergence of Digital Banking as one of the most lucrative investments for our business while proceeding to solidify our foothold in Retail and Corporate Banking. Currently, The Bank offers loans to individuals from a number of industries encompassing trade and services, agriculture, transportation, and manufacturing along with investing at various financial securities. The wealth of dedication allowed us to become the second most profitable as well as the second highest total asset count bank in Azerbaijan in 2023.

Mission, vision, values

Kapital Bank is one of the largest financial institutions in the country and poised to lead the sector in the forthcoming years. We are committed to creating a meaningful impact while upholding excellence in all our endeavors. To achieve this, we align all our operational activities with our clear and well-defined mission and vision statements, while fully endorsing the core principles of the Bank.

Our Mission is to increase the socio-economic welfare of our country through transparent financial partnership in every stage of your life.

Our Mission

Our Vision is becoming a financial partner of the first choice for our customers, providing a sustainable future and incorporating leading world trends.

Our Vision

Our Values

Profitability



We aim for mutual prosperity and long-term client loyalty while making contributions to society, generating returns for shareholders, and giving sustainability priority in our all decisions.

Entrepreneurial Spirit



Amidst change, we embrace uncertainty, prioritize customers, and diligently seek solutions to reflect care for our own business.

Collaboration



We exceed expectations through collaborative efforts among departments and partners, driving innovation, instilling trust and contributing to economic prosperity.

Quality



Our reputation rests on product quality. We prioritize dedication, adhere to standards, balance quality and efficiency, and foster customer satisfaction.

Integrity



We have commitment towards ensuring compliance with laws, prioritizing company interests, and fostering honesty and transparency in all interactions.

Strategic goals

In our quest to capture a leading position in a highly competitive banking sector, establishing strategic goals paves the way for Kapital Bank to penetrate the retail and corporate banking markets and enhance its market

share accordingly. Thus, well-formulated strategic goals align with the Bank's forward-looking vision through a sustainable business model. In line with Kapital Bank's vigorous attempts to bolster its market share

in the prevailing market circumstances, the solidly set objectives could be sorted into four core categories: innovation, governance, human resources, and business development.

Figure 5. Strategic goals



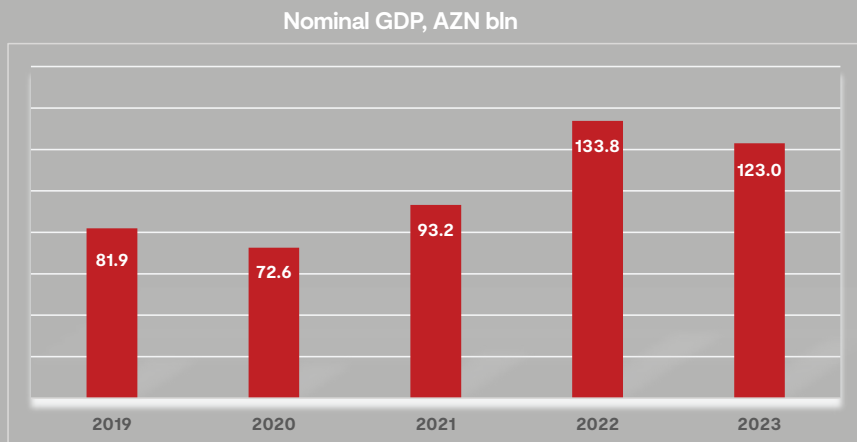
Economic and banking sector overview

It is essential to contextualize our strategic goals within the current economic and banking sector landscape to ensure their successful implementation and alignment with industry dynamics. Over the past five years, Azerbaijan has experienced historically high Gross Domestic Product (GDP) growth, reaching in a peak in 2022. To venture deep into economic prosperity of the Country, Azerbaijan experienced increasing GDP figures excluding 2020 which is associated with Covid-19 pandemic. Although the soaring inflation rate offset the growth during lockdown era, upcoming rebound in 2022

and 2023 reflects upwards trend. In addition, looking at the average crude oil price which is one of the main drivers of the economy, together with non-oil GDP proportion in the overall economy, we can witness that higher price for crude oil boosts the non-oil GDP rates. The reasoning behind is that with the increased profits from oil exports, there are more resources to invest in non-oil sector, which leads to its expansion and higher contribution to the GDP rates. The non-oil sector also saw moderate growth of 3.7%, driven by steady expansion in industries such as

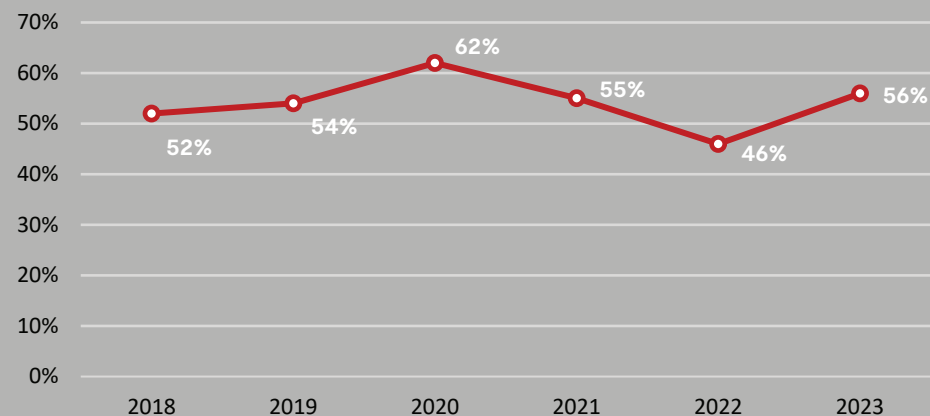
agriculture, forestry, and fishing, construction, net taxes on production and imports, as well as social and other sectors. Moreover, the non-oil sector's performance improves and strengthens over time totaling its contribution to GDP at 56% rate in 2023. For the banking sector it translates into the enabled access to a more extensive mix of customers. With the growth of the non-oil industries such as construction, services, and agriculture, banks have a chance to expand their lending and financial services as well as the demand for financial services for a wider span of customers.

Figure 6. GDP of Azerbaijan



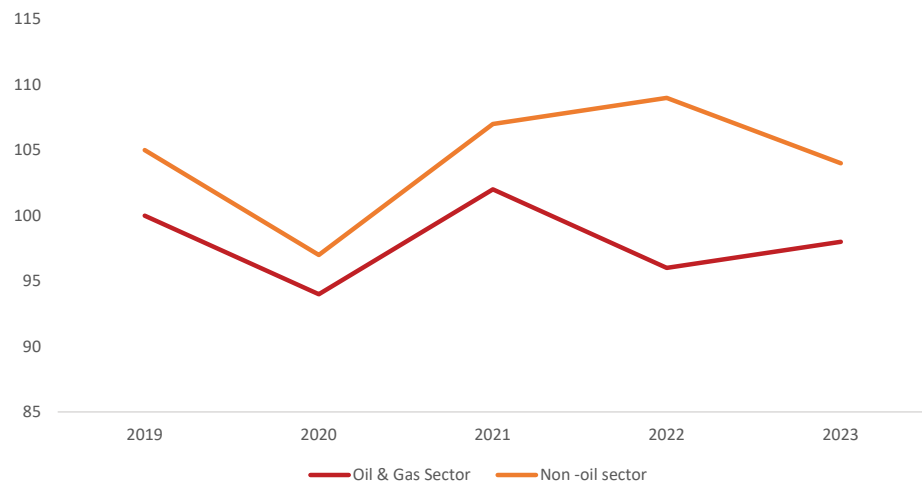
Source : Central Bank of Azerbaijan (CBAR)

Figure 7. Non-oil GDP percentage



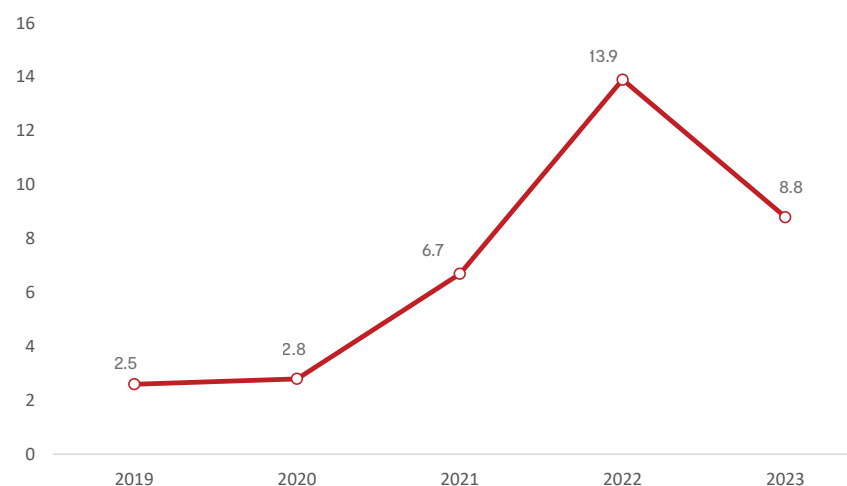
Source : Central Bank of Azerbaijan (CBAR)

Figure 8. GDP growth by sector, %



Source : Central Bank of Azerbaijan (CBAR)

Figure 9. Average consumer price index, %

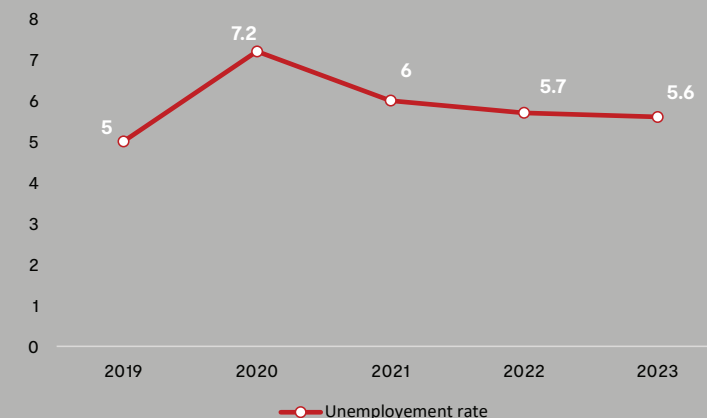


Source : Central Bank of Azerbaijan (CBAR)

Over the past five years, Azerbaijan witnessed quite steady fluctuations in the unemployment rate with only one exception in the rate of 2020 peaking at 7.2 percent which can be justified by global COVID-19 pandemic. Besides, it is visible that over the five years the trend deviated around only 2.2 percent. A solid unemployment rate indicates a stable economic environment, fostering workforce development and consumer confidence, which in turn leads to higher spending and investment. Consistently low unemployment rates stimulate a higher demand for loans and credit facilities while decreasing the bank's credit

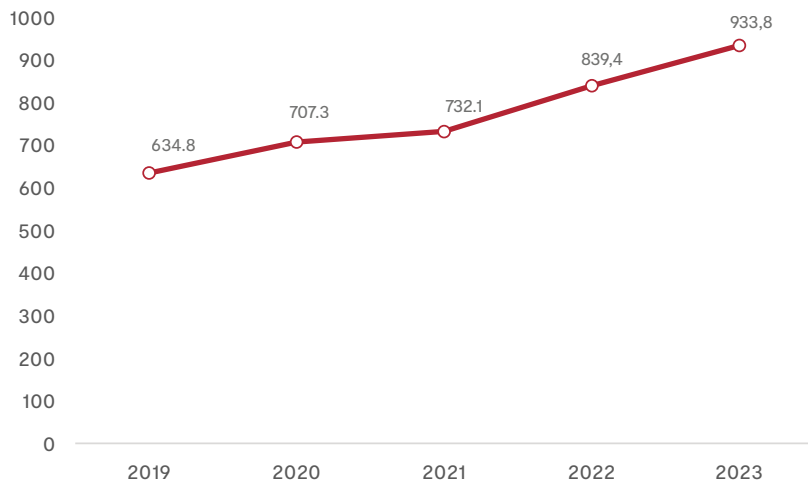
risk due to more reliable income streams from employed individuals, reducing loan default risks. When the unemployment rate decreases, it often signals a healthy labor market, thereby driving up average nominal wages and boosting consumer purchasing power. This increased spending stimulates economic growth and contributes to a rise in GDP. The interplay of these factors creates a virtuous cycle, promoting a sustainable market environment. As a result, rising employment, wages, population, and GDP drive significant growth in our retail business, effectively advancing our strategic goals.

Figure 10. Unemployment rate



Source : Central Bank of Azerbaijan (CBAR)

Figure 11. Average monthly nominal wages and salaries, AZN



Source : Central Bank of Azerbaijan (CBAR)

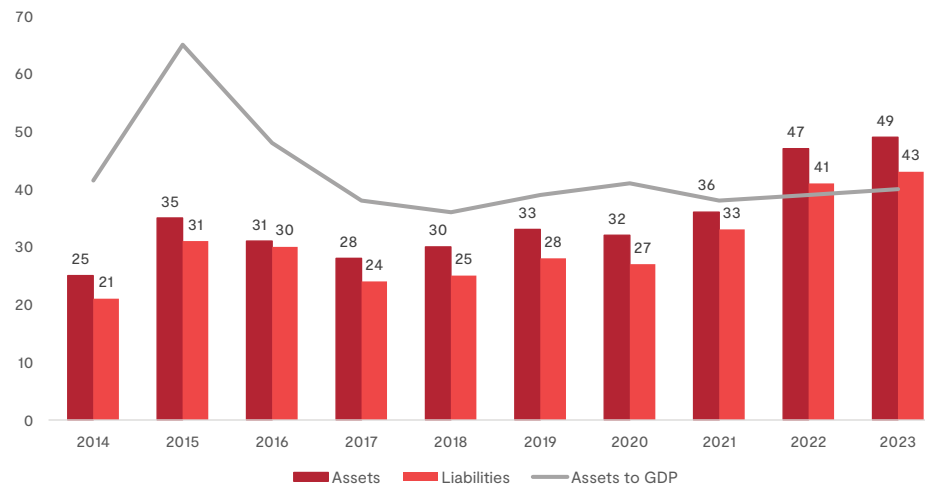
Banking sector

The banking system’s profitability has continued to improve, with net profit increasing by 17.7% year-over-year to almost 1.1 billion manats in 2023. The return on assets (ROA) reached a six-year high of 2.19%, reflecting the sector’s enhanced profitability. While most banks reported profits, profitability was concentrated among a few, with 12 out of 23 banks accounting for the majority of the sector’s earnings. On the other hand, the return on equity (ROE) also displayed a peak performance hitting 17.75% in 2023.

From 2019 to 2023, Azerbaijan’s banking sector demonstrated significant growth and resilience, reflecting broader economic trends. In 2023, the banking sector achieved remarkable growth, with assets expanding to 49 billion AZN and liabilities growing to 43 billion AZN, resulting in the highest assets-to-GDP ratio of around 40%. This impressive performance in 2023 highlights the sector’s robust expansion, driven by higher levels of investment, enhanced financial infrastructure, and increased lending

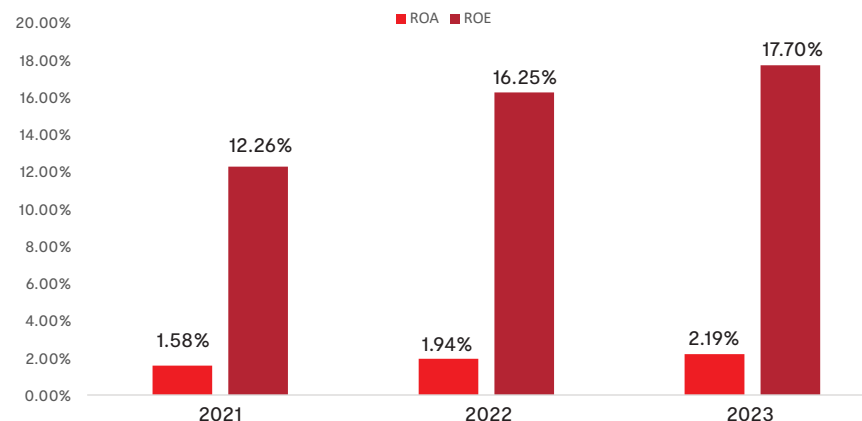
capacity. The consistent growth in assets and liabilities underscores the banking sector’s critical role in supporting Azerbaijan’s economic development, fostering a stable and prosperous economic environment, and driving both consumer and business confidence.

Figure 12. Dynamics of banking system assets and liabilities, billion AZN



Source : Central Bank of Azerbaijan (CBAR)

Figure 13. ROA and ROE over the years



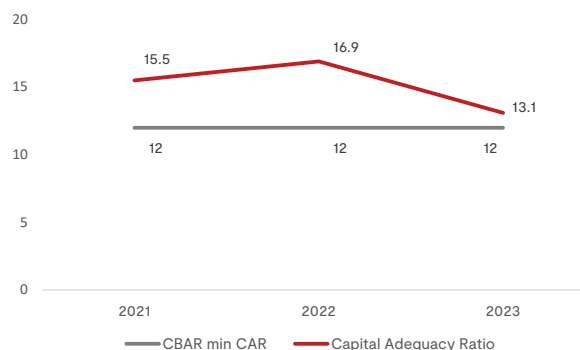
Source : Central Bank of Azerbaijan (CBAR)

To further support increased financial activity and the position of the financial sector, it is essential to observe Capital Adequacy Ratio (CAR). CAR is consistently more than Central Bank minimum requirements, even hitting 16.9 in 2022. A higher CAR indicates a bank's robustness in terms of capital to cover potential losses, with the bank's CAR consistently surpassing the minimum requirement, suggesting strong financial resilience.

In line with our strategic goal of building a profitable business through a sustainable model for the micro segment, SMEs hold significant importance for us. Therefore, we closely monitor trends in the SME sector. Over the past five years, Azerbaijan has witnessed substantial growth in SMEs, evidenced by a 54% increase in their numbers, an uptick in their contribution to non-oil GDP from 23.5% to 27.2%, and a 31% rise in SME employment, now exceeding 370,000 workers. This sector's growth is closely tied to the banking industry, as the increasing number and activity of SMEs drive greater demand for financial services, including loans, credit facilities, and business banking solutions. The banking sector's ability to offer tailored financial products and robust support to SMEs is essential for fostering economic expansion, emphasizing the critical and mutually beneficial relationship between SME growth and banking sector development.

Despite share of loans went down in 2020 stemming from shutdown of most facilities and working spaces due to COVID-19 pandemic, growth rate has been steadfast in the last 3 years around 18%. Despite this, Azerbaijan's overall loan portfolio expanded significantly from 2019 to 2023, with notable growth across corporate loans, consumer loans, and mortgages, reflecting the Country's

Figure 14. CBAR minimum vs Banks' performance



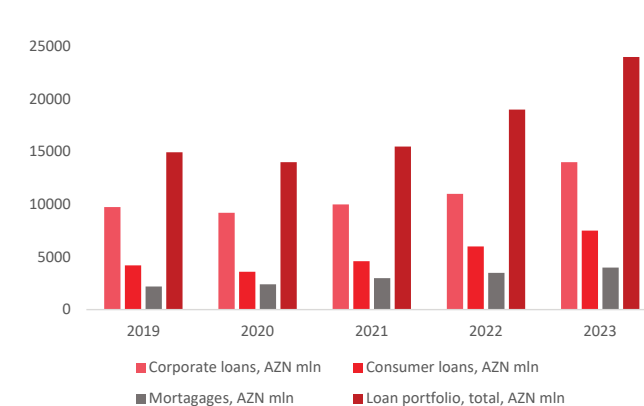
Source : Central Bank of Azerbaijan (CBAR)

positive economic trajectory. Corporate loans exhibited a steady increase, peaking in 2023, indicating robust business activities and investments. Consumer loans nearly doubled over the period, suggesting growing consumer confidence and spending power. On the other hand, mortgages, although experiencing some fluctuations, ultimately saw moderate but stable growth, reflecting an active real estate market and favorable lending conditions.

The total loan portfolio surged from around 15,000 million AZN in 2019 to 23,183 million AZN in 2023, underscoring the expansion of the banking sector and its crucial role in supporting Azerbaijan's economic growth. This upward trend in lending activities aligns with the Country's economic development, characterized by stable employment rates, rising incomes, and a growing population, all contributing to increased financial stability and prosperity.

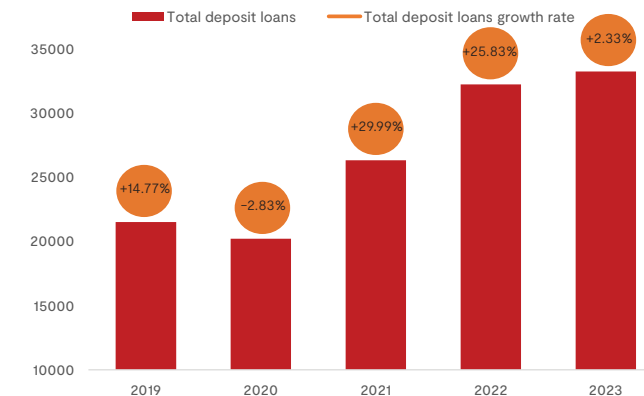
The surge in the volume of loans would not be possible without strong deposit growth over the years. In fact, the size of the deposits grows so high that yearly rate hit roughly 30% in 2021. The main driver of the boost in deposit growth rate numbers lies behind interest rate increases.

Figure 15. Banks' loan portfolio



Source : Central Bank of Azerbaijan (CBAR)

Figure 16. Total deposit amount in million AZN, and growth rate



Source : Central Bank of Azerbaijan (CBAR)

This represents higher savings from households and businesses, an increased funding pool for banks as well as a strengthened banking system.

Kapital Banks Business Model

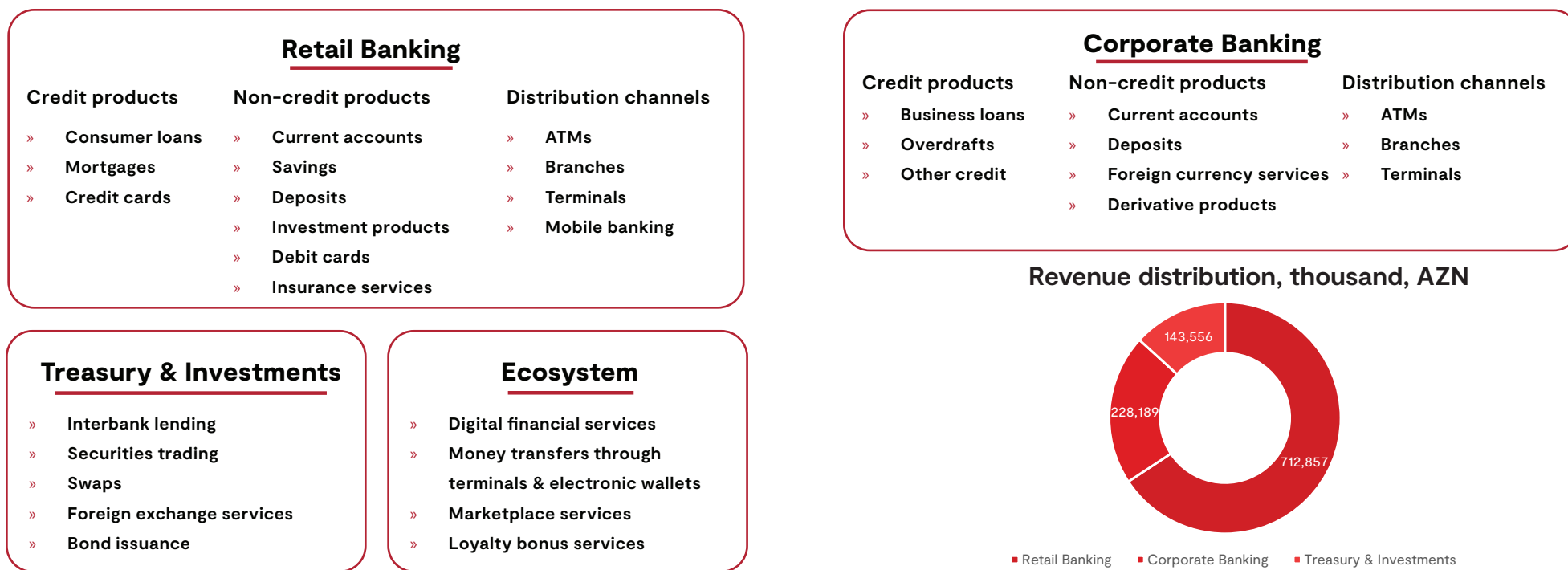
Kapital Bank’s business model

Our business model is structured around four core pillars including Retail Banking, Corporate Banking, Treasury & Investments, and Ecosystem. Each business stream has a designated customer segment to address their demands.

Retail Banking focuses on providing financial solutions for individual customers while Corporate Banking addresses the financial capital requirements of businesses. From the perspective of Treasury & Investments, it manages

our assets and liabilities to ensure financial stability. Eventually, Ecosystem stream provides digital financial services, electronic wallet-based monetary transfers, marketplace solutions, and loyalty bonus programs.

Figure 17. Business Model and revenue distribution ¹



The operating business model is backboned by the Kapital Bank’s strategic ambitions towards customer-centricity, new segments, ecosystem synergies and digital & tech breakthrough in the sector. To begin with, we are currently working on tilting the lending experience in a simple and customer-centric manner. To achieve this objective, we are planning to expand our lending practices to everyone

through behavioral scoring, which will further allow us to segment our customers and tailor our service offerings accordingly. In addition to the customer-centricity and segmentation, we are working on to migrate to digital by keeping quality is our utmost priority. In order to ease the customer’s experience in digital setting, Interactive Voice Response (IVR), AI chat bot, and other technological

solutions will be implemented to support customers in all matters. Eventually, establishment of a Single ID and cross-group data sharing is essential to boost ecosystem synergies. This initiative will significantly improve technical availability in terms of data quality within the ecosystem.

¹ The revenue distribution excludes ecosystem stream since we are only focusing on the financial performance of the Bank as a separate entity based on the scope of the Report.

Retail banking

48% credit card market share

The retail operations of Kapital Bank revolve around providing individual customers with a vast range of financial products and services. The financial products and services are divided into two broad categories credit products & non-credit products. Credit products include consumer loans, mortgages, and credit cards while non-credit products include the operations from current accounts, savings, deposits, investment

products, debit cards, and insurance services. In the context of mortgage loans, the overall amount in the portfolio is accounted for 571 million AZN. Furthermore, the positioning of the credit cards, especially BirKart credit cards, is remarkable which is approximately capturing 48 percent of the market share. Analogically, a significant portion of the revenue is associated with fee and commission income related to plastic card operations, settlement operations, and cash operations.

Table 1. Sector-specific indicators in Retail Banking stream between 2021-2023

Sector-specific indicators	2021	2022	2023
Number of debit cards	4,355,163	4,740,640	6,142,042
Number of credit cards	875,661	881,911	888,619
Number of active salary cards	1,128,992	1,194,424	1,342,132
Number of pension cards	598,251	614,608	708,432

In order to maintain our position and grow further, we are effortlessly working on ensuring convenience and accessibility through our extensive network of branches,

ATMs, and well-functioning online and mobile banking platforms. Through the distribution channels, we aim to address the dynamic requests of our clients abruptly.

Corporate banking

Within the framework of the corporate banking pillar of our operations, we are dedicated to delivering tailored financial solutions from micro-businesses to large corporations. The core of our corporate business offerings includes business loans, overdrafts, and other credit facilities as credit products. In the case of non-credit products, we offer current accounts, deposits, foreign currency services, and

derivative products to our clients. As a result, the composition of our corporate portfolio is well-diversified in terms of sectors including but not limited to manufacturing, construction, agriculture, transportation, and other industries. With the leverage of our deep industry expertise and a strong network, we empower businesses to grow and thrive in a competitive market.

Table 2. Loan Portfolio Breakdown between 2021-2023 (thousand, AZN)

Industries	2021	2022	2023
Individuals	1,876,042	2,238,546	2,893,592
Trade & Services	245,092	327,449	781,754
Manufacturing	332,750	303,700	205,566
Construction	112,532	133,942	134,315
Agriculture and food processing	22,619	48,250	90,259
Telecommunication	34,522	25,972	55,619
Transport	9,089	14,714	17,586
Other	9,089	59,440	69,317
Total	2,646,450	3,152,013	4,248,008

The underlying reason behind this financial growth in Corporate Banking is largely attributable to favorable macroeconomic conditions. With the expansion of Azerbaijani economy, there is a corresponding rise in corporate loan issuance due to the increase in number of corporations. As our

Corporate Banking operations are inclined to provide capital to corporations growing their business operations, we experience an exponential growth in the provided loans. Additionally, the reconstruction projects in the liberated Karabakh region have played a pivotal role in driving this growth.

Treasury & Investments

The financial stability and liquidity management of our bank lies in the excellence of our treasury and investment operations. The conducted operations aim to manage the bank’s assets and liabilities, ensure optimal capital allocation, and manage the securities portfolio which provides a constant source of interest income and liquidity. The interbank lending, securities trading, swaps, foreign exchange services, and bond issuance are the main activities. From the perspective of interbank lending and borrowings, it is attributable to effectively manage the Bank’s liquidity. Furthermore, the derived profits from securities trading, swaps, and foreign exchange services provide an opportunity to generate revenue, which facilitates the financial stability and liquidity of Kapital Bank

as well. Eventually, the issuance of bonds and promissory notes is highly preferred in order to support the capital adequacy of the Bank in case of any funding issue. Therefore, the investment strategy focuses on optimal allocation of investments into various securities. This balanced approach maintains profitability and mitigates risks through proper diversification, enabling us to hedge firm-specific risks in its invested assets. Thus, the overall investment portfolio is constructed in a bond-heavy allocation which allows capital preservation with a tilt towards income generation. The portfolio stability is prioritized over potentially higher returns by allocating minimal capital to corporate equities, which are riskier investment tools than bonds.

Table 3. Investment Portfolio Breakdown between 2021-2023 (thousand, AZN)

Investment tools	2021	2022	2023
Securities issued by the Ministry of Finance of the Republic of Azerbaijan	752,237	1,341,613	808,650
Securities issued by the Central Bank	16,559	399,613	224,124
US Treasury bills	-	167,224	-
Corporate bonds	222,344	392,481	379,368
Notes issued by the Azerbaijan Mortgage Fund	134,779	216,720	177,000
Corporate shares	11,464	11,108	13,055
Total	1,137,383	2,528,759	1,602,197

Ecosystem

#1 in Digital NPS for the retail segment

The ecosystem within Kapital Bank is designed to offer a wide range of innovative digital financial services aiming to improve the customer experience of financial inclusion through innovative solutions. The acquisition and integration practices allowed us to enhance our outreach in digital and ecosystem services. The intention of such investments is to provide simplified money transfers via electronic wallets, offer a diverse range of products

and services through the digital marketplace, and deliver value-added loyalty bonus programs. The integration of such services into a cohesive digital ecosystem enabled our customers to conduct their financial activities with ease and convenience. In 2023, Kapital Bank has met or overachieved a number of financial and efficiency objectives such as successfully implementing digitization goals. Additionally, we effortlessly worked on developing our presence in digital loan sales and customer service quality.

Figure 19. Ecosystem products






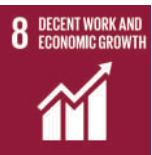


Sustainability in our actions

At Kapital Bank, we started to transform our business conduct by integrating Environmental, Social, and Governance (ESG) phenomena into our business model. In terms of ESG considerations, we aim to align and expand our product portfolio with international sustainability practices to address our stakeholders' diverse demands. Thus, we are dedicated to implementing a numerous initiatives reflecting our commitment towards the United Nations Sustainable Development Goals (UN SDGs). The presence of a strong willingness to carry out sustainability initiatives in our long-term strategic vision maintains a collaborative environment with our stakeholders to tackle ESG challenges. The expected outcome of our continuous efforts is to build a more sustainable future where all individuals have equal rights, decent living conditions, and environmental surroundings to live peacefully. Therefore, implementation of ESG initiatives such as applying 3R principles in waste management, implementing a discrimination-free workplace, and initiating inclusive education to the community is the cornerstone of our efforts. These targeted initiatives are aligned with our operating model which maintains our commitment level towards UN SDGs. From the perspective of the working methodology, the digitalization of the processes significantly minimizes

our carbon footprint. We prioritize our contribution aspects in accordance with our direct/indirect impact to UN SDGs.



Figure 19. Contribution to the UN Sustainable Development Goals

Relevant SDGs	Contribution to SDGs	Associated stakeholders
	<ul style="list-style-type: none"> » Organized a vast number of trainings on burnout, well-being and mental health. » Engagement and motivation department, consists of certified psychologists, carry out Provided perks to allow employees to achieve a better work-life balance. » Initiated an exclusive program focusing on employee well-being and coaching in Antalya, Türkiye. » Launched NAVEX platform to allow employees to feel included and heard by raising their concerns via the platform anonymously. 	Employees
	<ul style="list-style-type: none"> » Organized “Birbank Student Scholarship Program” to foster the development of education in Azerbaijan. The scholarship holders have an opportunity to practice at Kapital Bank and participate in enriching training events besides monthly stipends. » Provided learning platforms within the bank to promote lifelong learning opportunities for all employees. » Offered a student loan at a discounted interest payment to ensure equitable quality education for students who are in need. 	Employees and local communities
	<ul style="list-style-type: none"> » Maintaining gender equality at workplace in all possible layers such as recruitment, promotion, community events, and decision-making in addition to complying with the local labor code. » Preventing “gender pay gap” at workplace in all promotions, salary increases, and internal movements through applying merit-based system. » Monitoring demographic indicators (e.g. women-to-men ratio) internally and report it to Pasha Holding quarterly. 	Employees and local communities
	<ul style="list-style-type: none"> » Promoting numerous financial services to underserved local communities including such as microloans, mobile banking services, affordable banking products, and financing of trade operations. » Offering “Credit for professional activity” to entrepreneurs operating in mini market, handyman, beauty salon, barber shop, and other similar businesses. » Expanding the branch network accessibility across the Country to a greater access to financing opportunities. In past two years, 15+ branches were opened offering more job places for people in the regions. 	Customers and local communities
	<ul style="list-style-type: none"> » Supported the first and only women’s bankers’ club in Azerbaijan, Women Bankers Club (WBC), to bring together women working in the financial sector and raise awareness how much they can succeed in their careers. » Offering concessional loan campaign to women entrepreneurs to apply for micro-business loan at 8% discount in connection with International Women’s day. 	Local communities
	<ul style="list-style-type: none"> » Participated in sustainability-linked syndicated loan project of Türkiye İş Bankası along with 33 banks from 16 countries across 4 different geographical regions. » Supporting local and global projects to ensure the long-term sustainable growth of cooperation with international partner banks. 	Employees, Financial Institutions

Creating value through corporate governance

Creating value through corporate governance

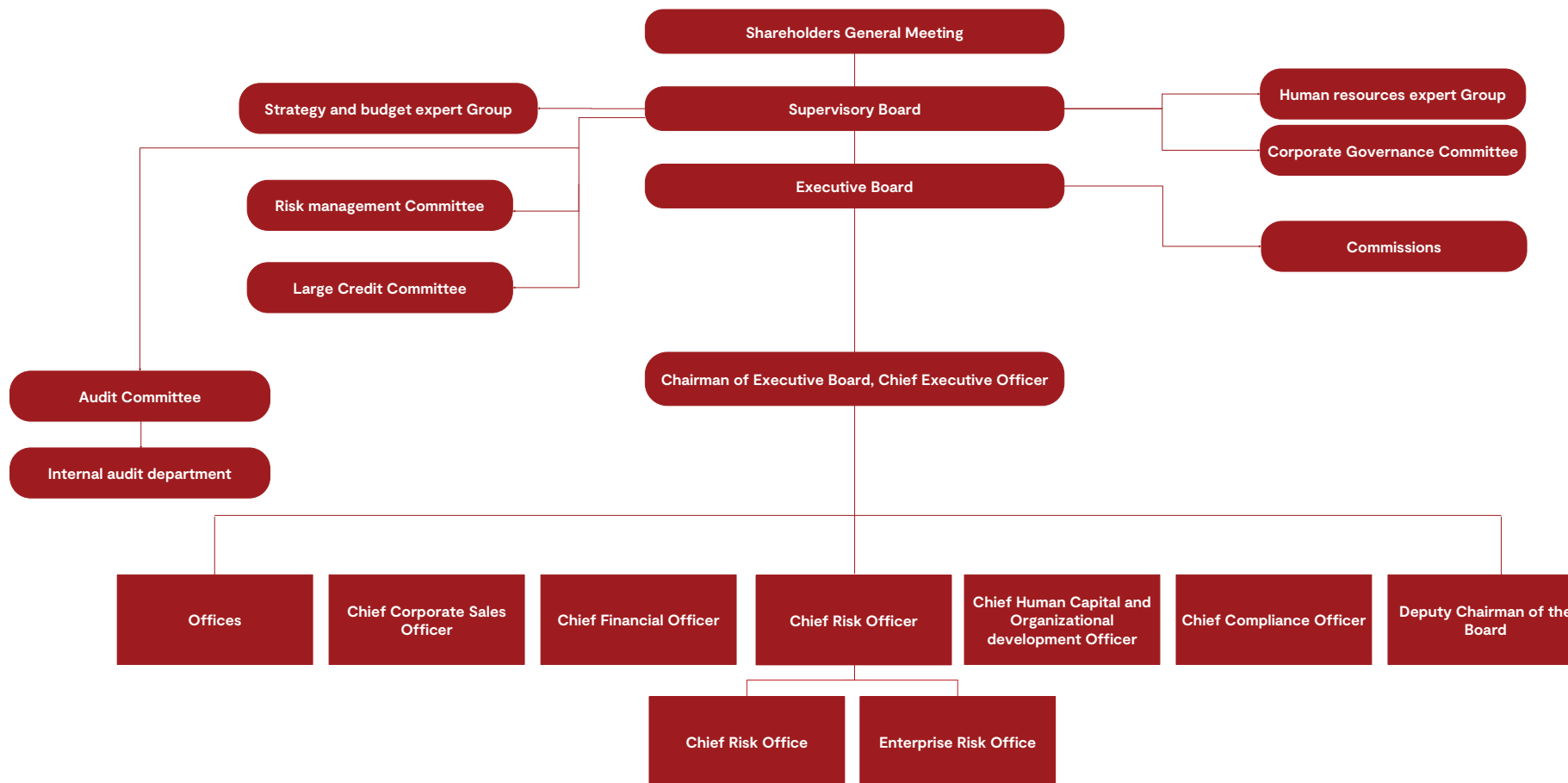
GRI 2-9, 2-11, 2-24, 207-1, 405-1

We believe that corporate governance has an irreplaceable role in terms of ensuring an efficient, objective, and transparent decision-making process. To maintain a smoothest decision-making process, the designed corporate governance system is aligned with the best practices. Consequently, we work effortlessly to fulfil our stakeholders' expectations through a mutual trust-

based relationship while attaining the Bank's objectives. Our corporate governance is mandated by both local legislation and international practices such as The Law of the Republic of Azerbaijan on Banks, international conventions, Basel Corporate Governance Principles for Banks, and other relevant normative documentation. The process of nominating and selecting candidates for the

highest governance body and its Committees is carried out in accordance with, the Law of the Republic of Azerbaijan on Banks, Corporate Management Standards in Banks of the Central Bank of the Republic of Azerbaijan, the Bank's Charter and the Regulations of the Governance bodies and its Committees.

Figure 20. Corporate structure of Kapital Bank



Shareholders General Meeting

GRI 2-12

The Shareholders General Meeting is the supreme governing body making the key decisions on the Bank's activities. It has a pivotal role in terms of supervising the decisions of the Supervisory Board. This oversight is associated with monitoring whether the board is compliant with prevailing regulations, strategic directions, risk management policy and procedures, and the overall vision of the Bank.

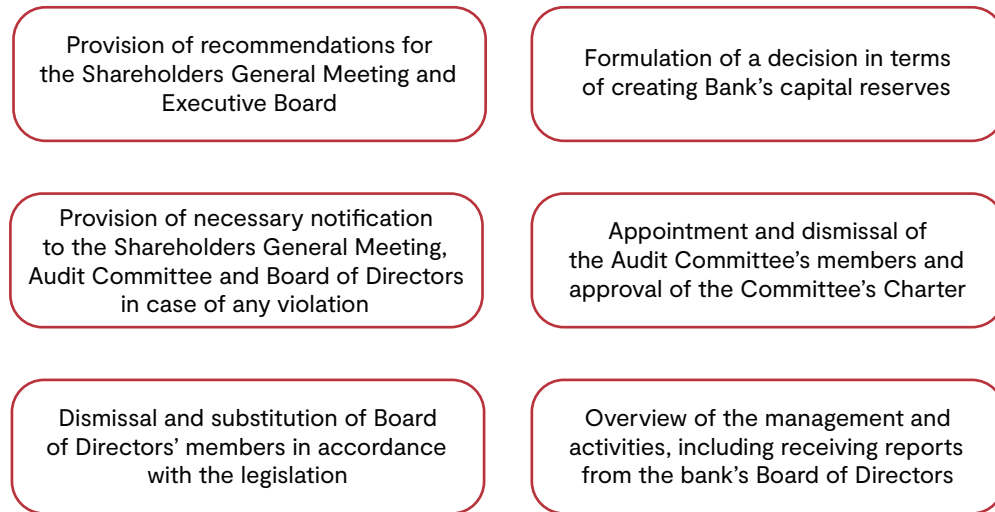
Figure 21. Roles and responsibilities of Shareholders General Meeting



Supervisory Board

Supervisory Board is entitled to establish a well-grounded risk management system, oversee the Executive Board, ensure the Bank’s overall compliance, and define the management and strategic direction of the Bank in accordance with both local regulations and international best practices.

Figure 22. Functions of the Supervisory Board



At Kapital Bank, we significantly value the presence of experienced and diverse members on our Supervisory Board to ensure a vigilant and holistic approach in order to address the concerns regarding risk mitigation, regulatory compliance, and protection of the Bank’s public image. In addition to risk management, the wealth of experience contributed by the Board members provides a meticulously crafted strategy that allows the Kapital Bank to capitalize on possible growth opportunities in the prevailing market circumstances.

Oversight entities at Kapital Bank

GRI 2-20

At Kapital Bank, we ensure the functionality of the decision-making and oversight through the establishment of Committees, commissions, and groups. These entities play a crucial role in terms of ensuring the inclusion of diverse perspectives, quality of decisions, and accountability across the value chain.

Figure 23. Committees under Supervisory Board at Kapital Bank



Corporate Governance Committee

The utmost responsibility of the Committee is to ensure organizational and management structure is fully aligned with corporate governance standards. In case of any non-compliance situations, it reports to the Supervisory Board regarding the identified issues and their causes. As a response to the non-compliance issues, the Committee provides a set of recommendations for remediation and improvement of corporate governance. It also provides proposals to the Supervisory Board on legal changes in corporate governance

and ensures timely, transparent public disclosure of the corporate governance information is in place. The Committee is also responsible for overseeing the remuneration process. It closely works with the Risk Management Committee to assess the effectiveness of the remuneration system annually. Accordingly, the Committee provides proposals on the remuneration amounts to the relevant management body. It also evaluates the necessary fulfillment of key performance indicators and revises the impact of internal and external occurrences on the Bank's remuneration policy. Besides ensuring the alignment of organizational structure with corporate governance standards, the Committee supervises the process of forming personnel for the Supervisory Board, its Committees, and the Board of Directors. It also determines the appointment, duties, and remuneration criteria for independent members of the Supervisory Board and its Committees.

Audit Committee

The Committee is authorized in order to exercise the powers stipulated by the Laws on Banks and Laws of the Republic of Azerbaijan on Banks and Internal Audit. It oversees the improvement of the accounting policy while ensuring the transparency, compliance, and integrity in

the financial statements. The Committee is also responsible for revising the recommendations of external auditors and other third parties on the matter of the effectiveness of internal control and risk management systems. After the careful consideration of the suggestions, the Committee submits approved internal audit plans to the Central Bank of the Republic of Azerbaijan as required by legal acts. Moreover, the Committee is obliged to provide the external auditor with timely and complete information about the bank's activities and its subsidiaries; thus, it provides an instant notification to the external auditor in terms of significant findings encountered during the audit process. Annually, the Committee submits a report on the conducted internal audits to the Central Bank of the Republic of Azerbaijan.

Large Credit Committee

The Committee is delegated with making company-wide decisions within the boundaries set by the Supervisory Board on the matter of loans and documentary transactions. The Committee is entitled to approve and modify the loan terms and be responsible for overseeing the restructuring within the predefined limits. The Committee provides recommendations

to the Supervisory Board on the adopted credit policy. At the end of the year, the Committee reports to the Supervisory Board in terms of its activities.

Risk Management Committee

The Committee is authorized to submit the risk appetite statement, risk management policy and procedures, risk limits, and any proposed changes to the Supervisory Board for the purpose of revision and approval. The Risk Management Committee makes appropriate recommendations towards the current and future risk appetites, both in aggregate and for individual risk types, and revises the risk management policy annually. Accordingly, the Bank conducts an analysis of a new product & services in terms of its strategic fit with the overall objectives and assesses its relevant risks to the existing portfolio in prior to its market launch. These evaluations are performed by structural units, especially by risk management and compliance functions. The assessment results are collected by the Risk Management Committee and further actions are taken. The Committee is also responsible for ensuring whether the procedures are aligned with the risk management policy in addition to monitoring the risk appetite statement and report to the Board of Directors. In terms of accountability, the Committee itself reports

to the Supervisory Board on the status of the Bank's risk culture, closely collaborating with the Chief Risk Officer, and monitoring the existing activities. The Committee also monitors the management of capital and liquidity, as well as all bank-specific risks, including credit, market, transaction, reputation, and other risks with the Bank's risk appetite. It also receives reports from the Chief Risk Officer and relevant structural units reports on the current risk profile, risk culture, risk appetite, usage of risk limits, instances of breaching risk limits, and measures taken to mitigate risks. In order to oversee the alignment of our operations with the highest governance standards, 18 commissions and 2 expert groups are established. The presence of such bodies facilitates the process of providing recommendations on a vast range of critical issues such as human resources, strategy, procurement, risk management and investments. The miscellaneous competency and experience area of these bodies facilitate the process of tackling complex challenges, capitalize on opportunities, and provide long-term growth and stability.

Executive Board

GRI 2-13, 2-17

In the governance structure of Kapital Bank, the Executive Board holds significant authority, being responsible for overseeing the management and daily business activities of the Bank. Appointed by the Shareholders General Meeting, the Executive Board is led by the Chairman of the Board, whose authorities are determined by the charter. According to the legislation of the Republic of Azerbaijan and the Bank's Charter, the Executive Board is assigned to address all operational matters not within the responsibility of the Shareholders general meeting, the Supervisory Board, or the Audit Committee.

The Executive Board consists of six members, and they are appointed by the Supervisory Board for three-year terms, with the possibility of reelection. The appointment of the Chairman of the Executive Board is carried by The Supervisory Board who selects the Chairman from the members of the Executive Board.

The Board of Kapital Bank is responsible for ensuring collective knowledge and oversight of the business operations. In light of transparency, we foster a culture of accountability and conformity to stakeholder expectations by means

of regular meetings and transparent communication channels. In the ever-evolving corporate landscape, the diverse expertise of the governing body serves as a compass for overcoming challenges and seizing potential opportunities.

The Chief Executive Officer (CEO) is accountable to maintain the seamless operation of the Bank's routine business activities including but not limited to evaluating the financial performance, making major business decisions, and assigning responsibilities among the members of Executive Board which are aligned with the Bank's strategic direction. Within the framework of the Bank's sustainability reporting, the CEO is responsible for reviewing and approving the Bank's sustainability report and ensures that all material topics are covered.



Figure 24. The members of Executive Board



Farid Huseynov
Chief Executive Officer,
Chairman of the Board

Career

He started his career at Bank of Baku JSC in 2001. On July, 2007 he was appointed as Deputy CEO, and from 2013 to 2015 served as bank's Chief Executive Officer. At the moment Mr. Huseynov serves as the Chief Executive Officer. Prior to this, they were the First Deputy CEO from February 2017 to May 2023 and the Chief Operating Officer from May 2015 to February 2017.

Education

Farid Huseynov pursued his academic career at the Azerbaijan State University of economics (UNEC), earning multiple degrees. He completed his Bachelor's degree in Finance, followed by a Master's degree in the same field. His dedication to finance led him to achieve a Doctor of Philosophy (Ph.D.) in Banking and Financial Support Services, a journey that spanned from 1999 to 2010.



Emin Mammadov
Chief Financial Officer

Career

Emin Mammadov has been working at Kapital Bank since December 2013. His career began in Bank of Baku JSC, where he served as an expert in Operations Department for more than 6 years, from January 2007 to October 2013, eventually becoming Head of Financial Department. By the end of 2013 he started his career at Kapital Bank OJSC as Head of Finance Department where he later was appointed as Chief Financial Officer, Board Member of the bank.

Education

Regarding his educational background, he studied at the Azerbaijan State University of Economics (UNEC), where he earned a Bachelor's Degree in International Economic Relations from 2003 to 2007. Building on this solid foundation, he pursued an MBA with a focus on Finance at Khazar University during 2007-2010. Emin Mammadov later attended the University of Chicago Booth School of Business, where he achieved an Executive MBA in 2017.



Javid Mirzayev
Chief Risk Officer

Career

He has been working at Kapital Bank since January 2014. Javid Mirzayev's career began at the Central Bank of Azerbaijan, where he served in the Banking Supervision Department for a decade, from April 2004 to April 2014, eventually becoming a Senior Specialist.

Education

In addition to his practical experience, Mr. Javid Mirzayev has an impressive academic background. He graduated from Azerbaijan State University of Economics with a bachelor's degree in Economics, earned a Master's degree in Economics from the Azerbaijan State University of Economics (UNEC), further solidifying his expertise in economic theory and practice. Javid Mirzayev holds an Executive MBA from the prestigious London Business School, a testament to his advanced understanding of global business dynamics and strategic management.



Kamal Abdullayev
Chief Compliance
Officer

Career

Beginning his professional career in 2001, Kamal Abdullayev gained valuable experience at companies such as BP and Pasha Bank. He joined "Kapital Bank" OJSC on July 29, 2013, initially as the Director of the Compliance Department. He advanced to Chief Compliance Administrator on April 1, 2019, and assumed the role of General Director of the Legal and Compliance Department on November 1, 2019. He was appointed Chief Compliance Officer on November 3, 2023.

Education

Mr. Abdullayev, who brings extensive experience in the banking sector, earned a bachelor's degree in international law from Western University. Between 2006 and 2010, he pursued studies at the National Aviation Academy, focusing on the economy and management of production and service fields. In 2019, he completed his master's degree at IE Business School.



Farid Hidayatzada
Chief Corporate Sales
Officer

Career

Mr. Hidayatzada's professional journey commenced in 2001 as a software engineer. Farid Hidayatzada joined Kapital Bank OJSC in March 2005, initially serving as a specialist. In 2008, Mr. Hidayatzada transitioned to "Pasha Bank" OJSC, where he spent five years, culminating in his role as Senior Client Manager in the Corporate and Commercial Banking department. In July 2013, he rejoined Kapital Bank as Head of the Corporate Banking department. His career progression at Kapital Bank saw him assume the role of Chief Corporate Sales Officer in May 2018, followed by General Director of Corporate and SME Sales in November 2019. On June 1, 2023, Mr. Hidayatzada was appointed a Board Member and Chief Corporate Sales Officer.

Education

Mr. Hidayatzada's extensive practical experience is complemented by a robust academic foundation. He holds both a Bachelor's and a Master's degree from Azerbaijan State Economic University, specializing in International Economic Relations and Financial Loans



Fargana Mammadova
Chief Human Capital
and Organizational
Development Officer

Career

Fargana Mammadova is an accomplished professional with a diverse career spanning over two decades. Her career started in 2000 at SOS Children's Villages-Azerbaijan Association, where she rose to the position of National Director. In the following years of her career, her expertise in human resources led her to the "Bank of Baku" OJSC as HR Director. In 2015, she joined "Kapital Bank" OJSC in the same capacity. Demonstrating exceptional leadership and strategic vision, Mrs. Mammadova was promoted to the position of Leader of the Organizational Development Office in January 2023 and ascended to the role of a Board Member, Chief Human Capital and Organizational Development Officer at "Kapital Bank" OJSC in July 2023.

Education

In addition to her practical experience, Fargana Mammadova has an impressive academic background. She graduated from Baku State University with a bachelor's and master's degrees in International Law and expanded her expertise with a second education in Practical psychology. At the same time, Fargana Mammadova is a professional ICF-certified coach and expert in NeuroLinguistic Programming (NLP) practices.

Evaluation of the highest governance body

GRI 2-10, 2-18

We are committed to creating an environment where transparency and accountability are at the heart of our business operations. We recognize the critical importance of effective corporate

governance in promoting sustainable practices and delivering long-term value to all stakeholders. To uphold the highest standards of governance, we regularly evaluate the performance of our top

governing bodies.

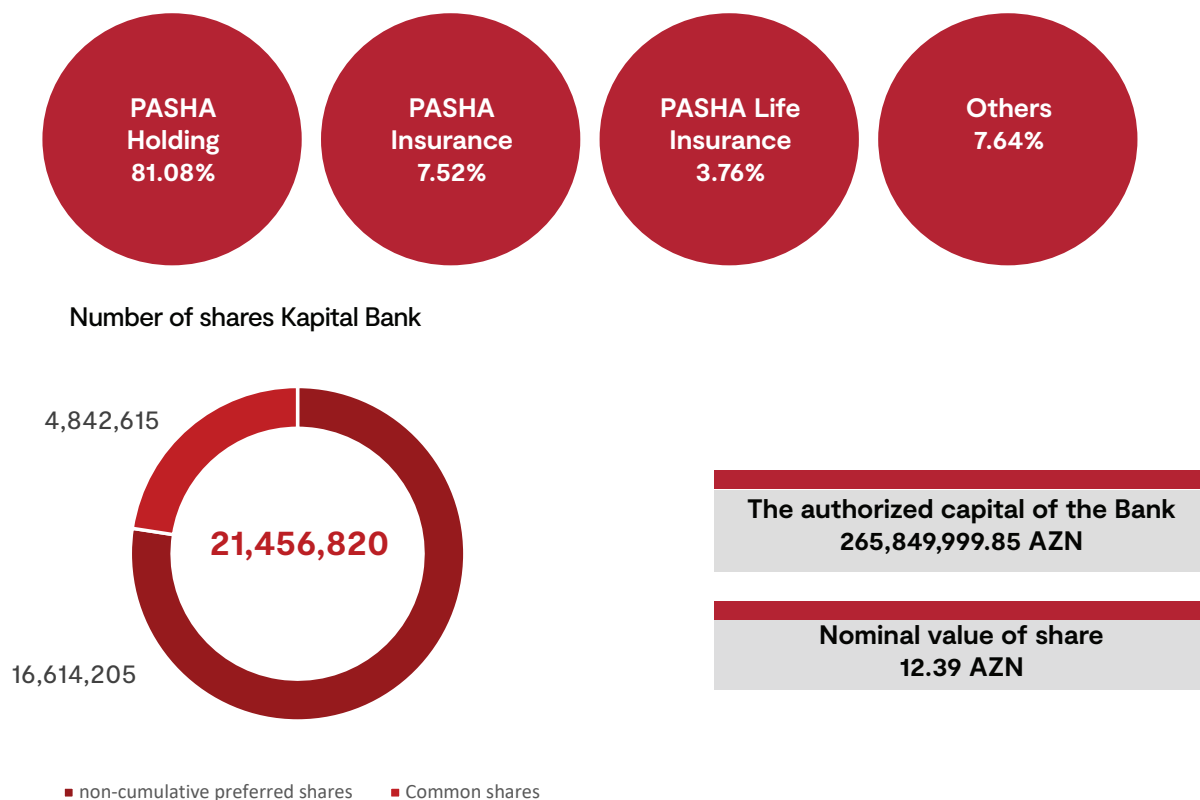
The Compliance department plays a key role in this process by collecting, updating, and analyzing self-assessment questionnaires from members of the

Bank's Executive Board and Supervisory Board at least once a year. The department then prepares and presents a report to management, summarizing the findings and results of these self-assessments.

Ownership structure

GRI 2-10

Figure 25. Composition of shareholders



Ethics and compliance at Kapital Bank

Ethics and compliance at Kapital Bank

GRI 2-23, 2-27, 206-1, 409-1

At Kapital Bank, our mission is to serve as a reliable partner to our customers by offering responsible financial services that drive development and economic progress. We operate in strict compliance with all relevant laws, regulations, codes, and standards, adhering to a “zero tolerance” policy for non-compliance. For us, responsible banking embodies fairness, security, and stability. We take our economic and social responsibilities seriously and maintain our values through modern and innovative management and compliance standards.

Kapital Bank, guided by both domestic and international compliance regulations, also works to enhance legal frameworks by thoroughly analyzing their intent and significance when needed. We have established an independent compliance function equipped with specialized human and technological resources. This function safeguards our bank from potential impacts, sanctions, financial losses, or reputational damage resulting from non-compliance with financial market regulations. By following internal, domestic, and international compliance regulations, recommendations, and best practices, our compliance function ensures the credibility of Kapital Bank.

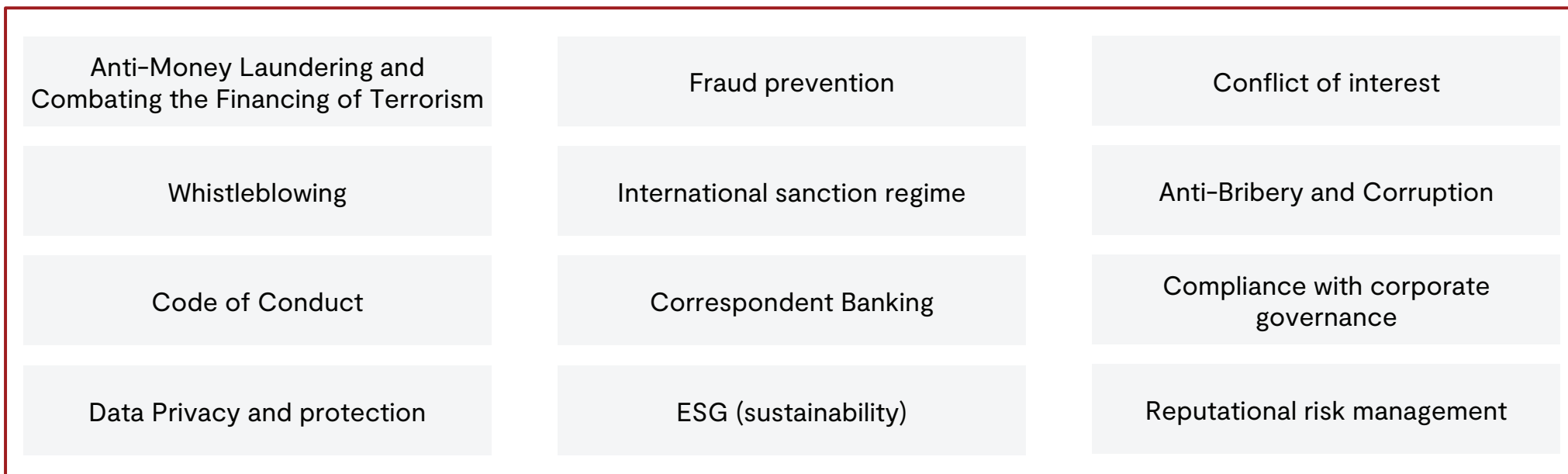
Data privacy and protection are crucial across all our operations. Our employees must maintain strict confidentiality regarding various types of information, including personal information related to the bank, guidelines on banking secrecy, information about our customers,

details about our personnel, and national security information accessible to our employees due to their roles.

Ethics and Compliance are paramount, guiding our actions and shaping the corporate culture within our Bank. We designed a multifaceted policy to incentivize expected behaviors from our employees backed by our corporate values in the workplace. Also, we developed a Code of Conduct in order to ensure the highest standards of professional business conduct as per our Code of Ethics.

According to the implemented Code of Conduct, a series of regulations are in place in order to maintain the expected behavior of employees within the Bank. The establishment of moral, ethical, and legal values for employees is carried out by the Code of Conduct which contributes to the formation and enhancement of the Bank’s brand image and influence. The primary function of the Code of Conduct is to ensure the utmost control over the behavior of employees which allows an identical way of business conduct offering effective means for compliance with the described regulations. While the moral values cover the employee’s behavior both in and out of the work and social activities, ethical values encapsulate protecting the Bank’s reputation and overall behavior toward its property. Eventually, legal values cover attitude to laws, compliance with internal bank procedures, protection of data for confidentiality and so on.



Figure 26. Compliance system at Kapital Bank

In addition to the aforementioned components of the compliance system in the Kapital Bank's operational model, a thorough compliance assessment is conducted for all potential employees before onboarding. This includes comprehensive screening for any conflicts of interest, background checks for financial integrity, and a review of past employment history for any regulatory breaches. We further verify alignment with the Bank's ethical standards and core values to ensure that every hire upholds the institution's commitment to transparency and accountability.

Upon onboarding, Kapital Bank continues to provide training programs to ensure new hires are fully integrated into the organization's compliance culture. This initial training is

followed by ongoing education, delivered through both online and offline platforms, to keep employees abreast of evolving regulations and best practices. This continuous learning cycle enhances compliance adherence but also empowers employees to contribute effectively to the Bank's long-term success.

Conflict of interest

GRI 2-15, 2-16, 205-1

Kapital Bank strictly prohibits any employee from engaging in personal or professional relationships that could create an actual or potential conflict of interest with the Bank or limit their ability to act freely and make objective decisions.

A well-outlined Conflict of Interest policy was prepared to prevent corruption in the Bank's business conduct. The "Policy of Conflict of Interest and Declaration of Interest" is a regulatory document that sets the standards for managing all instances of conflicts of interest within the Bank. In 2023, the organization's anti-corruption policy and procedures have been communicated to 100 percent of all governance body members and employees.

The management of conflict-of-interest instances has been outlined in the document with the provision of essential protocols to deal with such situations.

In fact, Kapital Bank is dedicated to consistently handling conflict instances in a manner upholding transparency and fairness. In accordance with the policy, the Governance body members are required to disclose any conflicts of interest semi-annually, while other employees are obligated to do so annually in addition to the prompt disclosure of any familial relationships within the bank's workforce and involvement in external business activities.

In case of the communication of critical concerns, the Compliance department is responsible for providing comprehensive activity reports to the Curator, Executive Board, and Supervisory Board on a quarterly basis. Instances where significant compliance risks are present due to breaches, the reports are escalated promptly to the Management and Supervisory Board for immediate action. The existence of such a transparent reporting mechanism is essential to ensure that all relevant stakeholders are kept informed in terms of the Department's performance and any emergent risks, which allows to make a proactive decision and risk mitigation strategies to be implemented swiftly.

Anti-corruption management system

The implementation of a robust Anti-corruption policy at Kapital Bank is crucial to maintain trust, prevent unethical practices, foster a culture of integrity, and promote the transparency across the value chain. The underlying purpose of the policy is to build a mechanism of action in the field of combating corruption and bribery in accordance with the legislation of the Republic of Azerbaijan in addition

to the generally accepted principles of international law. The principles outlined in Figure 27 builds the essentials of the anti-corruption policy, and provide a guidance on combatting corruption within Kapital Bank. In order to ensure the timely and effective detection of corruption and bribery risks within the Bank, numerous measures are implemented. Initially, any appeal regarding corruption and bribery violations must be comprehensively investigated. The implementation of a responsive approach to appeals in prior to the occurrence of any violation is vital. In addition to our proactive approach, the giving and receiving of gifts, as well as business hospitality, should be monitored in order to maintain the integrity and regular anti-corruption-based assessments of internal normative documents, organizational-executive documents, and contracts must be conducted. We carry out our anti-corruption measures through the following dimensions:

- » Hotline
- » Anti-corruption and anti-bribery in relations with third parties
- » Conflict of Interest
- » Close relatives working together
- » Gifts and business hospitality
- » Human resource activities

The reporting is conducted twice a year on cases of corruption and bribery, as well as on the implementation of the anti-corruption and anti-bribery measures outlined in this Policy. The prepared report is presented to the Board of Directors on an annual basis and, if necessary, presented to the Supervisory Board as well.

Figure 27. The fundamental principles of Anti-corruption policy



Management & Responsibility



Monitoring



Due diligence



Business relations



Risk assessment and sustainable



Internal control & regulation



Training & communication



Disclosure

Risk management

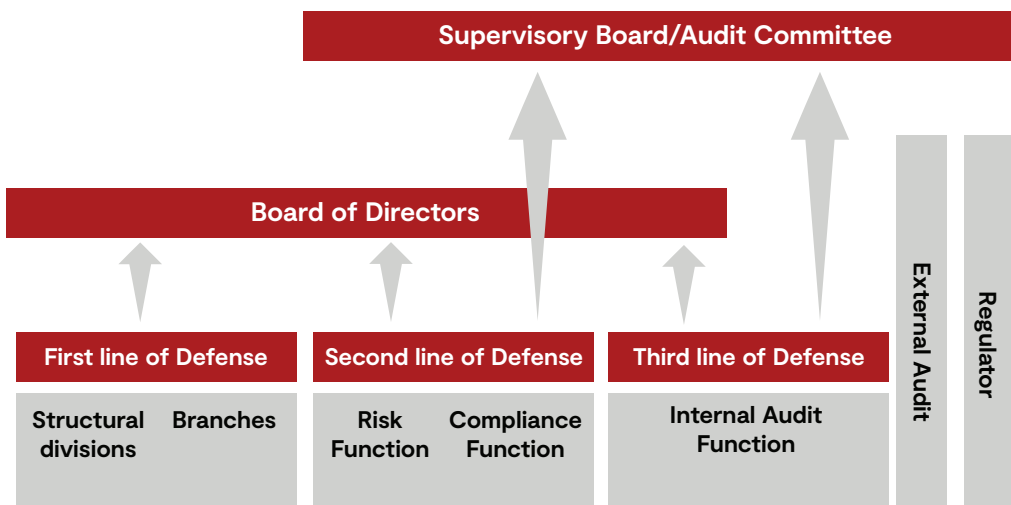
Risk management

GRI 207-2

The inherent complexity and volatility of financial markets necessitates the banking sector to equip comprehensive and robust risk management framework. The presence of sound risk management practices guarantees stability and security to financial operations, simultaneously, protecting Kapital Bank's assets and reputation. Thus, we place utmost emphasis on our risk management processes in order to proactively identify, assess, respond, monitor, and report risks. Our comprehensive range of risk management tools which include but are not limited to Risk Control Self-Assessment, Stress Testing, Incident Management System, Key Risk Indicators, Risk Heat Map, Risk Register and Risk Appetite Statement. These tools ensure that our operations are secure and can withstand any future uncertainties, therefore reinforcing our position within the changing banking landscape. Kapital Bank has a well-crafted approach to properly manage existing risks, making sure that every risk is fully addressed. In accordance with the Bank's risk management policy, we are fully aligned with the Three Lines of Defense Model. The First Line of Defense comprises the structural subdivisions and

departments that report directly to the Executive Board and are responsible for managing the risks in the areas under their supervision, which implies a leading role in risk identification and mitigation. The Risk Function and the Compliance Function represent the Second Line of Defense and report directly to both the Executive Board and the Supervisory Board/Audit Committee. These governance bodies design, monitor, and support the practice of risk management across the organization; therefore, supporting the first line in policy development, compliance monitoring, and risk assessments. The Third Line of Defense is an internal audit process directly accountable to the Executive Board and the Supervisory Board/Audit Committee. It delivers independent assurance over the effectiveness of risk management processes and control. The strengthened supervision by the Supervisory Board/Audit Committee is complemented through the work with external audit and regulatory bodies. By maintaining a strong system of risk management, we minimize hazards and maximize opportunities for the long-term stability and growth of Kapital Bank.

Figure 28. Three Lines of Defense framework



The risk management process is consistently implemented across all branches and divisions of the Bank, ensuring uniformity and coherence in managing risks. The mentioned procedure commences with the diligent implementation of our Enterprise Risk Management framework, entailing that risk considerations are integrated into all organizational decisions. The focal point of our approach is prioritizing material risks in a way that we can apply our resources efficiently and address the

most significant threats first. Subsequently, we thrive to foster a risk-aware culture among our stakeholders and continuously communicate material risks with them. In its turn, encourages learning within the organization and amplifies responsiveness to potential risks through upholding the identification and mitigation of risk in a timely manner to never allow threats to materialize.

Major elements of our Risk management framework

At Kapital Bank, the risk management principles are upheld and strictly followed by employees in their all-of-kind daily activities. The presence of such a risk-educated workforce fosters a risk-aware culture within the Bank which helps to proactive identify and manage existing risks. Analogically, the Risk management framework of Kapital Bank is designed to identify, measure, mitigate,

monitor, and protect our operations and stakeholders against any potential risk and achieve the settled objectives. Additionally, rigorous oversight is in place to ensure that all material risks are identified and managed within our Board-approved risk appetite statement. The responsible risk owners shall guide the process from risk identification to mitigation and communication.

Our Approach to Risk Management

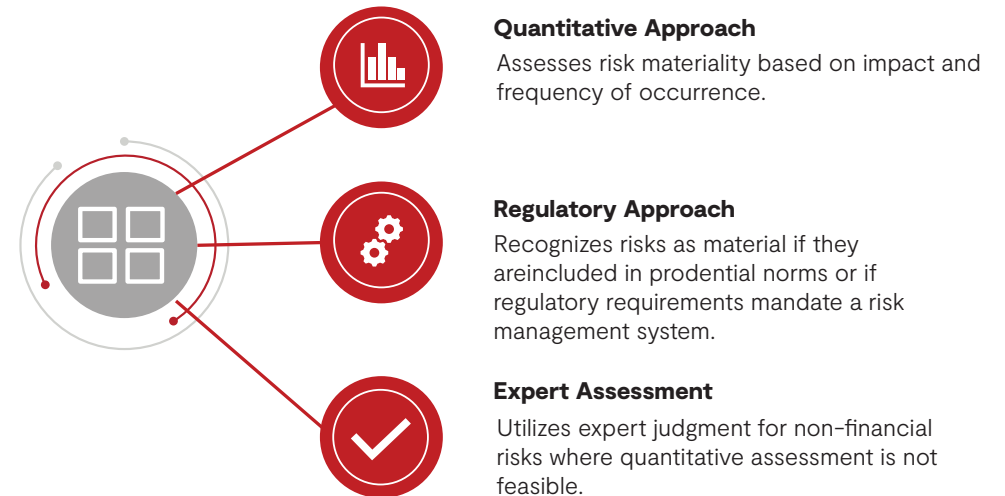


Risk identification

Kapital Bank employs a rigorous approach to identify and manage risks at both the enterprise and operational level to ensure a comprehensive oversight on risk management. At the management level, this begins with thorough risk factor analysis and assessment of the potential impact of each risk on the bank's performance. Defined control system strengthens risk management, including comprehensive programs that address key risks and provide clear mitigation guidelines and strategies. Further, Risk Appetite Statement is established in order to define thresholds for each risk type and align it with Bank's strategic goals and

risk management policies. Our detailed Risk Register organizes identified risks with their monitoring and control measures to ensure systematic oversight on each risk category is in place. Additionally, the Risk Heat Map, a visual tool, is utilized to represent severity and likelihood of various risks, enhancing decision-making process. This tool creates clarity in communication with stakeholders, sets common ground, and guides resources for the effective mitigation of risks. Only risks deemed unlikely to cause significant financial losses or harm to the bank's reputation or liquidity are considered insignificant. Kapital Bank employs three approaches for enterprise-level risk identification:

Figure 29. Enterprise-level risk identification approaches



Quantitative Approach

Assesses risk materiality based on impact and frequency of occurrence.

Regulatory Approach

Recognizes risks as material if they are included in prudential norms or if regulatory requirements mandate a risk management system.

Expert Assessment

Utilizes expert judgment for non-financial risks where quantitative assessment is not feasible.

At Kapital Bank, operational risk identification employs a blend of methodologies to address both qualitative and quantitative effects. This comprehensive process includes Risk Control Self-Assessment (RCSA), stress testing, audit findings, and monitoring by the first and second lines of defense, supplemented by an Incident Management System. Initially, RCSA works at the level of the process, individual business unit, or smaller area to ensure that there are detailed and appropriate risk assessments.

Moreover, stress testing is one of the most important aspects of our risk management policy which is conducted twice a year on scenarios of market, liquidity, credit risk, etc. The objective of the measurement is to identify and control risks, assess the mitigation methods, measure the capital stress and financial stability as well as manage the liquidity stress. Further, historical back-testing and forecasting enhance the accuracy and reliability of our predictions. In our approach, we gravitate towards low probability but high impact scenarios that test the financial security of the Banks and aid contingency planning.

Another crucial element of our operational risk management framework is the Incident Management System. It supports the collection, analysis, and reporting of incidents for ongoing

risk monitoring. Risk coordinators typically heads of branches, departmental heads, or product owners are responsible for identifying process-specific risks, implementing control measures, and communicating relevant information. If a coordinator is absent, a temporary replacement from the same division takes over.

Incident management process begins with an incident detection, implemented by employees who reports details through the system within two working days of discovery. The report form captures content, nature, reason, dates of the incident and discovery, risk holder, incident name, amounts of initial and recoverable loss, and employee details. This is then forwarded to the coordinator for approval. In turn, the coordinator scrutinizes and, if needed, sends back the form for any corrections. The approved events are then categorized and scored against Basel standards further probed by other employees. Collection of more information is then pursued to ensure a comprehensive analysis of the risk. Risks are analyzed with the risk owner to arrange appropriate response measures while placing a continuous focus on financial information and loss updates.

Further, we recognize and handle the following risk categories in accordance with the outcomes of its risk assessment procedures:



Figure 29. Enterprise-level risk identification approaches**Credit Risk**

Unveils when borrowers cease to fulfill obligations in a timely manner including but not limited to late payments, payment restructuring, etc. Preventative adjustments were carried out containing vintage analysis and stress test models.

Market Risk

Associates with potential loss due to adverse movements in financial markets such as foreign exchange rate or interest rate. Measurements such as investigation of probable changes in economic factors, pivoting volatility disruptions of the interest rate, and Repricing Gap analysis are conducted to alleviate prospective threats brought by unforeseen market movements.

Liquidity Risk

Inherent in the Bank business and boils down to the inability to meet payment obligations when they become due. Management of the risk encapsulates liquidity stress testing, calculation and analysis of Instant Liquidity, Net Stable Funding Ratio (NSFR), Liquidity Coverage Ratio (LCR), and other relevant indicators as well as assessment of liquidity gaps.

Cyber Risk

Referred to an impact on our stakeholders due to threats and vulnerabilities associated with the technological system in which we operate. The main drivers of the threat are incomplete data, lack of availability, and confidentiality requirements.

Transfer Risk

Describes the possibility that exchange restrictions or changes in nominal value would prevent local currency from being exchanged for another country's currency.

Business Risk

Related to the risk of a decline of operating income due to a change in the business and economic environment. The decline of operating income would result from a decline in revenue coupled with insufficient elasticity of operating expense.

Solvency Risk

Refers to the risk related to the inability of Bank to meet long-term debts and continue operating in the future.

IT Risk

Linked to the failures or disruption of the functioning of the information systems used by the Bank or non-compliance of their functional capabilities.

Operational Risk

Emerges when flawed processes, policies, or events disrupt the normal course of action in the operations chain. There are numerous subcategories encompassing operational risk such as human resources, IT/IS risk, external, model, and legal threats. The Bank is engaged in Risk and Control Self-Assessment (RCSA) questionnaires, incident analysis, and reporting of Key Risk Indicators (KRIs) to preclude and minimize defined risks from occurring.

**ESG Risk**

Involves environmental, social, and governance risks. The Bank integrates social and governance risks into its framework and plans to include environmental risks in investments and credits portfolio in 2024, ensuring a comprehensive risk management strategy.

Compliance Risk

Refers to the potential for the Bank to face as a result of non-compliance with local and international laws and regulations, codes of conduct and best practice standards applicable to financial activities or instructions issued by the executive body, especially the instructions issued by the supervisory authority, legal, risk of administrative or disciplinary action.

Strategic Risk

Refers to unanticipated changes in the Bank's internal and external environment that adversely impact growth and provide shareholder value. Controlling compliance with the Bank's roadmap, following current political and social trends, and well-devised assessment of alternative business directions are all part of the risk management strategy.

Reputational Risk

Refers to the current or prospective risk to the Bank's earnings, own funds or liquidity arising from damage to the institution's reputation in society.

Risk Assessment

At Kapital Bank, risk impact and likelihood are assessed through a combination of both qualitative and quantitative approaches, based on professional judgment. A five-scale risk matrix is used to score these risks and give insight on the result.

Risk Treatment

We have a number of different response strategies seeking to treat identified risks. This encompasses risk acceptance, risk avoidance, risk transfer, and risk reduction. The risk treatment process contributes the Bank to reduce or avoid adverse impacts and also to navigate effectively within the uncertainties.

Risk Monitoring

Risk monitoring at Kapital Bank is proactive and comprehensive principal accelerated by KRIs, the Incident Management System along with the first and second lines of defense activities that enable constant observation and control of risk conditions. The emphasis is put on constant monitoring of possible risks that might cause uncertainties in the near future if left unnoticed.

Risk Reporting

Accurate and timely risk reporting is a precondition for full and informed decision-making by senior management. Kapital Bank provides detailed reports on various aspects of risk management, including monthly reports on risk appetite, material risk profile, and stress testing; quarterly reports on the risk health index and risk indicators; semi-annual reports on the Enterprise Risk Management Framework; monthly Non-Financial Risk reports; and monthly and quarterly

Financial Risk reports covering liquidity, market, credit, and Model Risk. These reports pave the way for a continuous and effective risk management framework within the Bank.

Report Type	Frequency
Stress Testing reports	Semi-Annual
ERM reports	Semi-Annual
KRI reports	Quarterly
IT/IS Risk reports	Quarterly
RHI reports	Quarterly
Model Risk reports	Monthly/Quarterly
Risk Appetite Statement reports	Monthly
Non-financial Risk reports	Monthly
Financial Risk reports	Monthly
Operational Risk Management reports	Monthly

In addition to the established ERM system, risk culture has gone through a transformative path to enhance the overall risk management methodology of the Bank. As a part of our comprehensive risk assessment, a vast number of projects and initiatives have been done such as online & offline trainings, workshops, info sessions, risk-related communications, etc. At the end of 2023, the risk culture procedure has been thoroughly crafted by the Risk Management function. As a result, the establishment of targets is switched from annual-based to target-based assessments.

The Operational Risk Management function is working with the business and support functions of Bank in order to identify and disclose the associated risks. Afterwards, the assessment results are reported to the Risk management function which are inserted into the risk register.

Incident Management

The complexity of the process necessitates a proper handling of the risks in order to be aligned with the Bank's approach towards risk management. Therefore, an incident management system is in place to gather all existing incidents into a single risk register as well as inserting operational losses into the database. As a response mechanism, all relevant parties are informed in terms of identifying and assessing operational losses in addition to the guidance where it explains how the risks should be categorized in accordance with their types. These measures are supplemented by numerous mandatory online trainings as well as optional workshops to familiarize employees with risk culture procedures and escalate focus directed towards mitigation strategies.

Risk Health Index (RHI)

Risk Health Index (RHI) is another utilized tool for assessing the risks. It allows us to assess the existing risks and their influence area in order to formulate a proactive response. Fundamentally, it consists of qualitative and quantitative incident factors. Quantitative factors are more sensitive than qualitative factors since they can be influenced by various external factors such as political, economic, legal, and other variables. The assessment of such tools' output is essential to maintain full coverage of the incidents. PASHA Holding, the parent company, has also initiated an annual reassessment of the Risk Health Index in accordance with the incidents and reported circumstances.

Responsible procurement and supply chain

GRI 2-6, 2-24, 308-2, 414-1, 414-2

The procurement function at Kapital Bank plays a key role in driving growth and enhancing profitability by improving process efficiency, optimizing asset use, and maintaining ethical standards across all areas. To achieve this, it is essential to align our procurement strategies, policies, and processes to measure and reach the desired performance levels. Our aim is to secure goods and services at the best prices, ensuring transparent, objective, timely, and cost-effective decision-making, and risk management.

At Kapital Bank, procurement operations are centered on the efficient supply of goods and services to meet our objectives, which requires the adoption and application of well-defined strategies and policies across all procurement activities. Our procurement function is dedicated to ensuring compliance with internationally recognized best practices and adherence to established standards, enabling us to effectively achieve our targets while upholding the highest quality standards in our operations. The main aim of the purchasing function at Kapital Bank is to minimize costs while achieving our goals and managing various risks. This involves working closely with suppliers to ensure professional and disciplined behavior, resulting in a consistent, transparent, and fair approach to the market.

The shift towards acquiring an environmentally friendly approach to our services and products has recently become a significant focus at Kapital Bank during the formulation of new processes. This year, plastic cards have replaced paper-based transactions such as checks, helping to conserve paper and reduce the carbon emissions from paper production. However, we must also consider the environmental impact of producing and disposing of plastic cards, as they contribute to carbon

emissions and waste. Reducing paper use is one of our top priorities, underscoring our commitment to sustainability. To further this commitment, we have integrated electronic signature capabilities into our new Enterprise Resource Planning (ERP) system. With the help of this function, contracts may be signed electronically without needing to be printed, which helps the business reduce its use of paper products and encourage environmental responsibility. Through the implementation of these measures, we aim to optimize our operations while simultaneously reaffirming our commitment to environmental preservation.

The use of the ERP system has greatly improved the transparency of our procurement procedures by guaranteeing efficiency and accountability. The ongoing implementation of the ERP system at Kapital Bank is under constant supervision by the Bank's regulatory bodies, ensuring rigorous monitoring of all processes. To uphold transparency, the bank mandates that all purchases exceeding AZN 5,000 be conducted exclusively through the E-Procure platform. This platform supports due diligence by carefully verifying transaction details, conducting regular audits, and following compliance standards, ensuring that all processes are transparent and accountable.

We have a strict procedure for supplier assessment designed to ensure consistency with business values and compliance standards. Before engaging with prospective partners, an extensive screening process evaluates several aspects of vendor integrity, including financial stability, legal compliance, ethical practices, and environmental impact. The suitability of a vendor is determined by carefully reviewing their data across these dimensions.



Suppliers who fail to meet Kapital Bank's requirements are excluded from our list of verified and approved vendors, preserving the integrity of our procurement process. This systematic approach highlights our dedication to maintaining ethical business practices throughout our supply chain and fostering relationships with reliable partners. Robust measures are in place in Kapital Bank's procurement processes to prevent bribery and guarantee adherence to moral principles. Purchase agreements include anti-bribery provisions that are monitored by appropriate authorities to guarantee adherence. In accordance with internal policies, before starting business relationships, all partners are screened by Compliance, and an opinion on the establishment of collaboration is given. According to the Bank's internal regulations, before establishing business relationships with all third parties (both service recipients and providers), identification measures are implemented by the Compliance function based on necessary information and documents, and an assessment is conducted. Compliance and fraud teams analyze the inclusion of new suppliers, and compliance checks are completed, conflict of interest evaluations are carried out. Screening involves cross-referencing suppliers with sanction lists and media checks to verify beneficiary information through identification procedures and compliance with laws. Additionally, we conduct thorough environmental and social assessments to ensure suppliers meet our sustainability standards, considering factors such as environmental impact, labor practices, and community engagement.

Key financial metrics

GRI 201-1

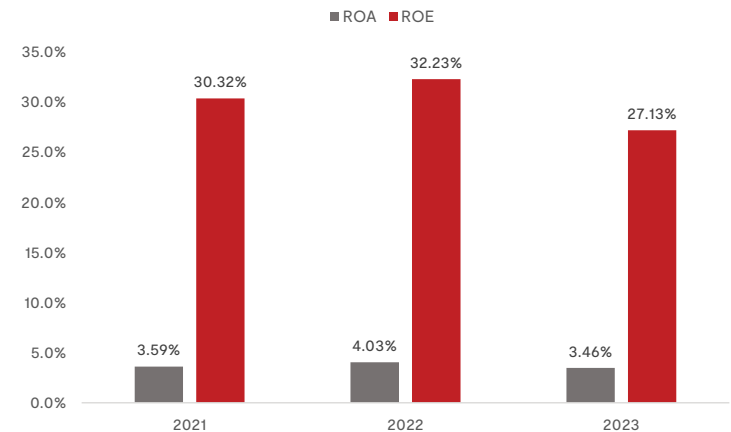
Kapital Bank's 2023 financial statements reflect a year of solid financial performance and strategic growth, underpinned by our commitment to sustainability and prudent risk management. Our profit for the year stood at 304,164 thousand AZN, highlighting our ability to capitalize on core business activities and maintain profitability in a competitive banking landscape.

Interest income from loans, a primary revenue source weighing 80% of total interest income, stood at 583,915 thousand AZN, demonstrating our effectiveness in credit risk management and our role as a key lender in the economy. On top of that, our total interest income, which includes earnings from various interest-bearing assets, reached 721,281 thousand AZN, showcasing a 15% jump from the previous year, and underscoring our financial intermediation capacity. On the other side of the ledger, interest expenses due to customers were recorded at 81,698 thousand AZN, reflecting the costs associated with managing customer deposits and other liabilities.

Non-interest income also contributed significantly to the Bank's revenue streams. Net realized gains from foreign currency operations were reported at 65,862 thousand AZN, highlighting the Bank's ability to navigate and profit from currency risk. Fees and commissions received, which represent income from various service charges and transaction fees, increased by 18% and amounted to 306,222 thousand AZN, illustrating the Bank's diversified revenue streams beyond traditional interest income.

Kapital Bank's compliance with regulatory requirements is evident in its capital adequacy. The Bank has maintained

compliance with the Central Bank of the Republic of Azerbaijan's ratios, ensuring a strong and stable financial position. The Instant Liquidity Ratio, which measures the Bank's ability to cover short-term obligations, was reported at 41.22%, well above the regulatory requirements and indicative of a robust liquidity management framework. Also, ROA as well as ROE are consistently higher than average banking system figures, displaying the Bank is performing well against its peers.



In conclusion, Kapital Bank's key financial metrics from the 2023 financial statements reflect a financially sound and sustainable institution. The bank's profitability, comprehensive income, and revenue streams are indicative of its successful operations and strategic initiatives. With strong regulatory compliance and an extensive operational network, Kapital Bank is well-positioned to continue its growth trajectory and support Azerbaijan's economic development.

Our people and culture

Talent management

GRI 2-7, 2-8, 2-19, 2-20, 401-1, 401-2

We are deeply committed to fostering a dynamic and supportive work environment that empowers our employees to thrive. At Kapital Bank, we view our people as our greatest asset, driving innovation, growth, and success. With a team dedicated to employee well-being, development, and career progression, we ensure that all 5,313 professionals at Kapital Bank thrive in a supportive and dynamic environment. We believe that investing in our employees' growth directly contributes to the overall success of the Bank. By offering various training programs and development opportunities, we ensure that our team remains at the forefront of industry advancements.

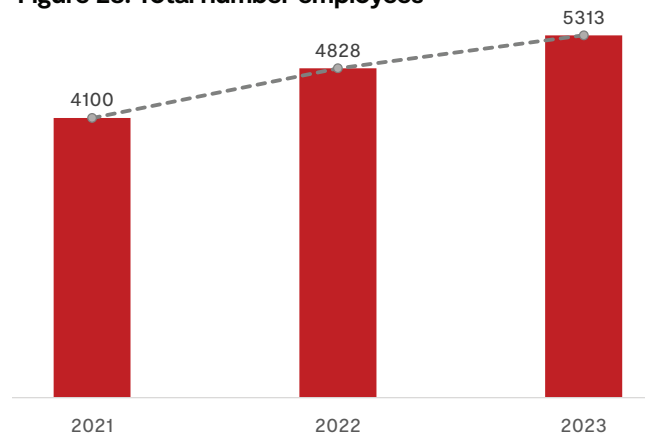
Our organizational and talent management strategies are guided by specific bylaws, ensuring structured and consistent processes across all departments. These bylaws include detailed guidelines on remuneration, employee placement, adherence to our code of ethics, and conflict of interest management, ensuring cohesive and ethical operations throughout the bank.

Recognizing the critical role our employees play, we invest heavily in their recruitment, development, and retention. Our recruitment process starts with the HR portal, which serves as the primary source for applications. This process is further enhanced by leveraging LinkedIn for talent acquisition, significantly broadening our candidate pool. In this year, we have hired over 1000 new employees, focusing on expanding our sales channels and contact center, showcasing our efforts to attract top talent. Once recruited, these new employees benefit from our robust internal mobility program within the Pasha Group, which facilitates smooth transitions across different roles and departments. To support continuous learning and skill development, Kapital Bank offers training courses for new graduates, such

as those provided by 1 Code Data Camp. These courses are designed to enhance the skills of new hires and prepare them for their roles within the Bank. We place a strong emphasis on reskilling current employees in key areas such as the call center, sales, and data analysis. This reskilling initiative ensures that employees can adapt to new roles as needed, promoting flexibility and growth within the organization. In 2023, we also supported workers who are not employees, including 240 interns and 72 volunteers, by providing them with valuable experience and potential future job opportunities.

Together, these initiatives create a comprehensive talent management system that supports the recruitment, development, and mobility of our employees, ensuring that Kapital Bank can effectively meet its strategic goals while cultivating a skilled and adaptable workforce. As a result of these efforts, the total number of employees at Kapital Bank has shown a consistent increase over the past three years. This upward trend reflects our focus on growing our talent pool and enhancing our capabilities.

Figure 28. Total number employees



Following the illustration of our positive employment trend, it is important to address our turnover rates and the efforts we are making to retain our talent.

Table 4. Employee turnover rate, by gender

Year	Male	Female
2021	0.14	0.11
2022	0.13	0.10
2023	0.12	0.10

To address and reduce turnover, we have implemented stay interviews, which allow us to proactively engage with employees, understand their concerns, and take steps to address any issues they may face. We also recognize and nurture exceptional performance and potential through our special talent pool. This initiative plays a critical role in the

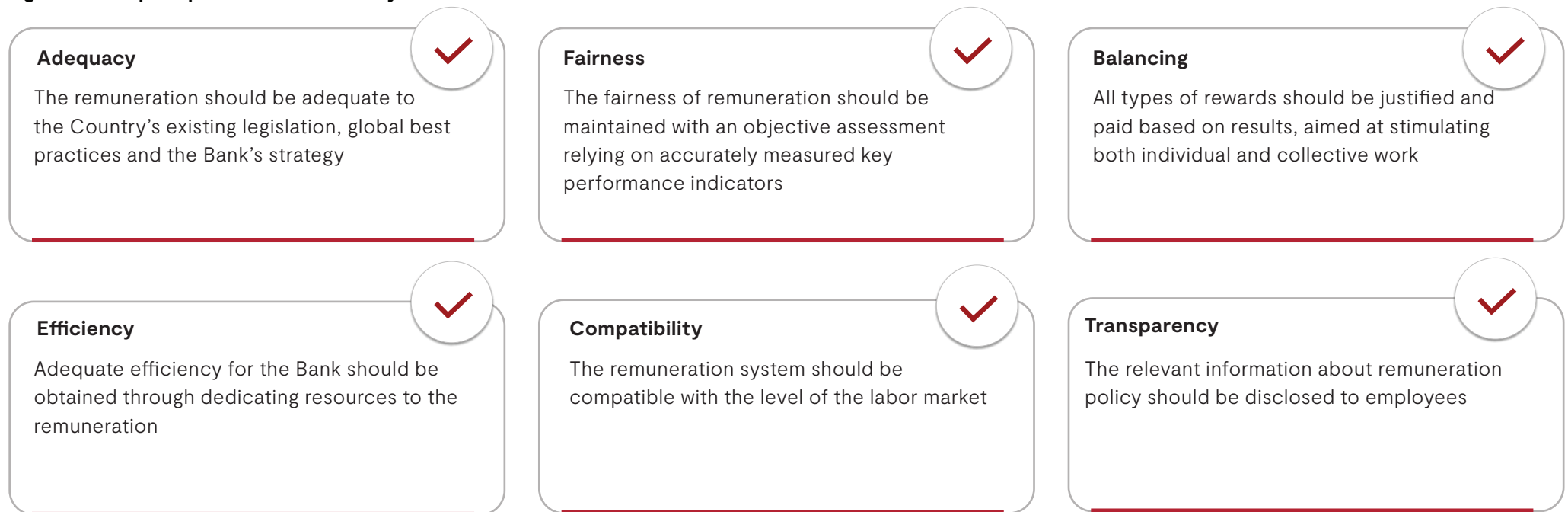


Bank's business sustainability and achievement of strategic goals. It outlines management and career development pathways for high-potential employees, including the preparation of personalized development plans and retention strategies.

Effective remuneration practices are a key part of our retention strategies, as competitive compensation packages are designed to attract and retain top talent. We value the efforts of our employees based on their performance throughout the year based on our remuneration policy. In

accordance with the policy, the remuneration takes place on a monthly, quarterly, annual, and fixed basis. The existing remuneration system should be built on legal acts of the Republic of Azerbaijan and determined principles.

Figure 33. The principles of remuneration system



Human Resources (HR) department regularly conducts a thorough assessment on the competitiveness of the remuneration system based on the dynamic market landscape and financial capabilities of the Bank and submits to Financial Incentive Commission in order make relevant decisions. Analogically, the Commission carries out its own assessment taking into account the amounts of wages and

incentives in order to validate the competitiveness of the payment. The HR department thoroughly conveys essential details about the core principles of the remuneration policy to employees, including the methods and criteria used for calculations. The presence of such a transparent communication is essential to enhance the objectivity of remuneration evaluations and maintain transparency within

the Bank.

Looking ahead, the Bank's strategic goals emphasize building a robust talent management pipeline, developing a succession plan, and focusing on critical roles. This forward-thinking approach ensures that Kapital Bank is well-prepared to meet future challenges and opportunities in the banking sector, reinforcing its position as a leader in the industry.

Learning & development

GRI 404-1, 404-2

The development of Kapital Bank employees is managed by the Bank's Human Capital Academy, established in 2018. The Academy oversees a range of development programs designed for both employees and external stakeholders. These programs are delivered by over 30 internal trainers, ensuring comprehensive training and development across the organization. Recognizing the diverse needs, schedules, and locations of employees, the Academy has also implemented distance learning. A special portal serves as the online section of the Human Capital Academy, providing each employee with a personal learning page. This platform ensures that all employees have convenient access to training and development resources tailored to their individual requirements.

The professional development system at Kapital Bank is integral to our operations, with distinct career models tailored for agile teams and head office personnel. Employees follow a well-defined career path, with promotions based on these models, ensuring clarity and progression. To enhance transparency, career maps are shared across the organization. Additionally, the bank is actively working on improving its interface to boost user experience, with more digital enhancements planned for 2024.

Training at Kapital Bank is highly targeted and aligned with individual and organizational needs. The Bank systematically collects training needs from employees and incorporates these into Key Performance Indicators (KPIs), achieving a 99% success rate in 2023. As part of this effort, Kapital Bank conducted 281 training sessions last year, focusing on the continuous learning and development of our employees. These training programs have helped improve the skills and knowledge of our team, keeping them updated with the latest industry standards. As a customer-centric bank, we also run specific programs to enhance service quality,



such as the "Customer Satisfaction Atolye," which aims to develop internal trainers on customer centricity and service quality within the Bank. Additionally, "The Service Quality Improvement Program" targeted branch employees with the aim of improving service quality. This program, held by internal trainers prepared within the Customer Satisfaction Atolye project, took place from September to December 2023. Evaluations and customer satisfaction metrics further inform the training requirements, ensuring they are comprehensive and relevant. Any training mandated by Azerbaijani legislation is conducted as required, and professional development needs are also addressed through appropriate programs. At the end of each year, the Organizational Learning and Talent Development Department, along with the Human Resources Business Partner, initiates the process of identifying development needs within structural units, excluding the Internal Audit Department. These needs, aligned with business goals,

are presented by the structural division or functional leaders, considering employees' development directions and performance results. Subsequently, the presented needs are subject to approval by either the Organizational Learning and Talent Development Department or the Human Resources Business Partner, forwarded to the CEO/Office Leader, or, in their absence, to the Board member overseeing the respective structural unit. Once approved, the Organizational Learning and Talent Development Department drafts the development plan, which becomes effective upon approval by the Chief Human Capital and Organizational Development Administrator. Throughout the year, implementation of these development needs is overseen by either the Organizational Learning and Talent Development Department or the Human Resources Business Partner.

We believe in the power of cooperation and learning from diverse experiences. Therefore, our employees regularly participate in various international conferences and engage in experience exchanges with foreign banks and financial organizations. This exposure helps them gain valuable insights and apply best practices from around the world to their work at Kapital Bank.

For the first time in our Country, Kapital Bank has implemented Mini-MBA programs for executives in cooperation with Boğaziçi University. Additionally, a new MBA project is currently being held at our bank to support education abroad. These initiatives aim to enhance the skills and knowledge of our leaders, ensuring they are well-equipped to drive the bank's success. In 2023, Kapital Bank implemented a rigorous 3-stage selection process for its MBA program, offering education loans to support winners, highlighting its focus on professional development.

Employee care

GRI 2-26

Employee satisfaction

Professional fulfillment and employee well-being are essential components of the Kapital Bank culture. We have always understood that by supporting an environment that is encouraging and welcoming, we can assist each member of our team reach their full potential and, consequently, ensuring overall job success. Kapital Bank adopts a dual approach to human rights concerning both external and internal stakeholders. This includes implementing policies and initiatives that safeguard the rights of employees within the organization and fostering relationships with external stakeholders that uphold human rights principles.

Internally, our strong focus on employees is evident through initiatives like the employee voice platform and the NAVEX Platform, which enable anonymous filing and resolution of complaints. Furthermore, stay interviews emphasize the Bank's developing an innovative culture by highlighting current advancements in the market and outside of it, such as optimization, agile performance systems, and worldwide benchmarking. This indicates our proactive approach to adjusting to shifting market conditions.

We place a high priority on employee innovation and well-being while maintaining a customer-centric culture through talent management. Our focus on monitoring and enhancing employee well-being is demonstrated by the addition of the Organizational Health Index (OHI) score as a key performance indicator (KPI). Recent efforts, as indicated by two surveys conducted within the year, have been concentrated on enhancing employee well-being, with an

impressive employee engagement score 90% for 2023. Our proactive approach to addressing topics like motivation and well-being is evidenced in the board-confirmed action plan, which was informed by engagement and PULSE surveys. This action plan includes specific directives for improvement, such as changing bonus criteria to enhance staff happiness and retention, demonstrating the Bank's responsiveness to employee feedback and its focus on continuous enhancement.

We offer various health and wellness plans, along with continual education and training opportunities, to help our employees thrive both inside and outside the office. By cultivating a culture of transparency, equality, open communication, collaboration, inclusivity, and respect for differences, we support each employee's professional and personal growth, enabling them to succeed.

To ensure our staff members are not only engaged with their work but also professionally qualified, we create opportunities for growth and development. Our focus on innovation and continuous improvement has been recognized globally, earning us numerous international awards for process optimization, cultural development, and creating a stimulating work environment.

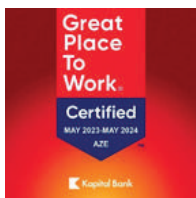
Building on our ongoing achievements, Visa International honored us in multiple categories in 2023. Visa granted Kapital Bank special recognition for 'Best Salary Project,' 'Highest Volume of Incremental Growth,' 'Strong Support of the World of Privileges,' and 'First Tap2Phone' (Mobile POS).

Organizational Health Index, 2023

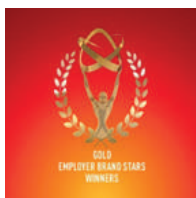
87%

Engagement survey, 2023

90%



Kapital Bank is honored to have received the first-ever "Great Place to Work" award in the banking industry of Azerbaijan. This distinction is a reflection to our goal to creating a remarkable work environment and offering our staff members many chances for professional growth.



"The Employer Brand Institute's Employer Brand Stars" award for our bank emphasizes our commitment to preserving and boosting our employer brand via excellent practices and activities.



Our bank has been granted the esteemed "Approved Employer" status by the ACCA international organization in recognition of our commitment to fostering the training and development of finance and accounting professionals.

Discounts and privileges

Beyond the standard benefits package, we aim to enhance our employees' experience by providing a variety of discounts and advantages. Our offerings include enlightening training programs, inspiring entertainment events and comprehensive insurance packages. These carefully selected solutions are designed to meet our team members' diverse requirements and interests. By prioritizing both well-being and professional development, these benefits cultivate a friendly and fulfilling workplace environment.

Figure 34. Employee benefits



Corporate discounts

Kapital Bank employees have the opportunity to join the "Dəyərlisən" application, which offers discounts between 5% to 25% across various establishments. Additionally, they can access further discounts through partnerships with companies affiliated with our bank.



Health insurance for employees

Pasha Insurance offers numerous packages that guarantee our employees up to 25,000 AZN. This insurance protects their well-being and financial stability, highlighting our focus on their welfare.



Corporate events

We organize a variety of activities centered on learning, growth, and enjoyment which are totally funded by our bank. These activities promote our workers' professional development and well-being also cultivating a positive and engaging work environment.



Team Building Events

We hold a fun team-building event for our staff once a year.



Premium salary card

This card provides a variety of advantages to our workers, including 2-30% cashback, a "Extra cashback" category, 2X VAT, and 6% annual income on the amount. It also includes Visa Concierge service, free lounge key service, free withdrawals from any local bank ATMs, and commission-free access to the card balance.



Free style of clothing

The employees of our company prioritize clothing choices that encourage comfort in the workplace. This emphasis on comfort reflects their desire to be productive and well-balanced throughout the day.



Additional leave

Besides the vacation days mandated by Azerbaijani legislation, Kapital Bank employees are entitled to additional leave days. Furthermore, our bank offers compassionate leave for situations such as a loss of loved one and paternity leave, ensuring that staff are supported throughout difficult life events.

Human rights practices

GRI 406-1, 410-1

Our approach to human rights encompasses ensuring fair treatment, equal opportunities, and support for every individual, regardless of their gender, background, and abilities. We strive to offer equitable opportunities for career advancement and success to all employees. This includes offering the same monetary and non-monetary benefits, such as equal pay, career advancement opportunities, performance-based compensations, and annual total compensation for performing the same job. By adhering strictly to legal and regulatory standards, we ensure the protection of women's rights, fostering their confidence and empowerment through regular coaching sessions and professional development programs. Notably, we have conducted focused development sessions in Antalya, which have received positive feedback from participants.

Transparency and accountability are fundamental principles at Kapital Bank. We consistently publish HR reports that provide detailed insights into employee demographics, including the representation of women across various roles. Our approach to salary raises is merit-based, ensuring that compensation decisions are driven by individual performance. This reinforces our commitment to fairness and equality in the workplace.

We understand that true success in human rights is not solely about metrics but about fostering a culture of inclusivity and respect. We are dedicated to ensuring that all employees feel respected and safe at work, with robust policies in place to prevent harassment and unfair treatment. Our commitment to inclusivity extends to supporting employees with disabilities, providing

them with the same opportunities to succeed. To support employees with disabilities, we offer specialized onboarding and buddy programs. Our onboarding platform is designed to meet the specific needs of employees, offering the necessary tools and guidance for a smooth transition into their roles. Through our buddy programs, employees are paired with experienced colleagues who provide ongoing support, guidance, and encouragement, ensuring they feel welcomed, supported, and empowered to excel in their careers at Kapital Bank.

Safety at work

GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7, 403-8

At Kapital Bank, ensuring safety at work is an ongoing process that has evolved over time. We initiated the establishment of safety protocols, which are continually refined to meet evolving standards. By recognizing and addressing new risks, we have adapted our processes to ensure that safety measures are not merely guidelines but mandatory obligations, fully aligned with the legislation of the Republic of Azerbaijan. While there may not be a specific individual responsible for safety, we treat labor protection as a collective responsibility, with everyone playing a role in its implementation. Our adherence to safety standards has been bolstered by the recognition of labor protection as a significant issue by internal audit teams. In the event of an incident, we document it as a risk, ensuring that necessary precautions are taken to prevent similar occurrences in the future.

We have developed a comprehensive labor protection manual, approved by our supervisory board, which references the labor code and emphasizes the importance

of structural adherence to safety guidelines. While specific responsibility for safety was previously unclear, we have now taken steps to address this more effectively. Instructions align closely with the labor code, and in the event of an incident, relevant parties are promptly informed.

Kapital Bank implements control measures to mitigate health and safety risks in its facilities and activities by assigning responsible individuals in each region. These individuals oversee the implementation of safety protocols, ensuring compliance with regulations and guidelines. Additionally, every branch maintains informative journals to keep employees informed about safety procedures and protocols. This approach helps to create a safe and secure environment for both employees and customers across our operations.

We prioritize the implementation of ongoing programs aimed at raising awareness among our staff regarding health and safety issues in the workplace at the Bank. Every three months, we distribute video clips through our internal communication channels in a systematic manner. These video resources serve as informative tools to keep our workers well-informed about essential health and safety protocols. Utilizing our meeting platform, we ensure that employees across all our offices have access to these educational materials. By embracing this approach, we cultivate a culture of awareness and proactive engagement, empowering our workforce to prioritize their a culture of awareness and proactive engagement, empowering our workforce to prioritize their well-being and safety in the workplace.

At Kapital Bank, we utilize iSpring Learn software to distribute information effectively. Within the first year of employment,

new hires receive daily face-to-face meetings, facilitated in a training room within our premises. This approach was implemented throughout January, February, and March of 2023. In compliance with legislation, upon the conclusion of their contracts, an employee list is promptly generated, and training dates are promptly scheduled. Our aim is to complete the training within a week, ensuring that our employees are equipped with the necessary knowledge and skills to excel in their roles.

To ensure our employees' well-being, we prioritize emotional health alongside physical safety, recognizing the unique challenges of the banking industry. We conduct regular workshops and counseling sessions to help manage stress and foster a healthy work-life balance. Additionally, we promote open communication and provide resources for employees to seek support as needed, fostering a positive and supportive workplace environment throughout our branches.



Corporate Social Responsibilities

Corporate Social Responsibilities

GRI 413-1

Kapital Bank actively contributes to society through ongoing projects across various directions. These initiatives aim to enhance community and environmental well-being, integrating corporate social responsibility (CSR) principles into our everyday business operations. The Bank's CSR programs include a wide variety of topics, such as community involvement, environmental sustainability, and ethical corporate conduct. Kapital Bank also actively participates in the community through a range of charitable projects, educational initiatives, and programs that support social inclusion and economic growth.

“Red Hearts” fund

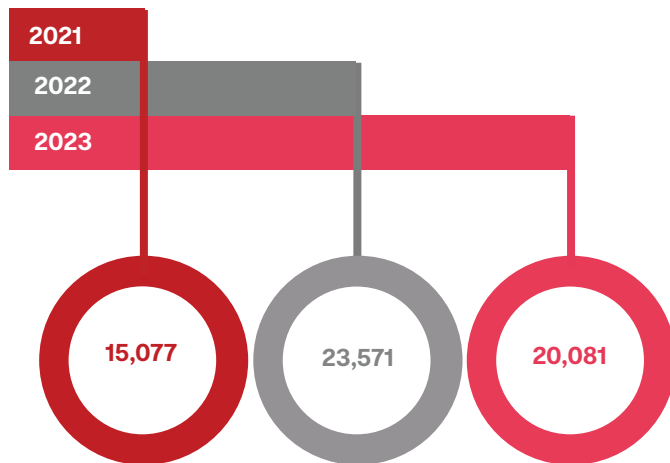
The “Red Hearts” fund, initiated by Kapital Bank employees in 2020, exemplifies our proactive stance in promoting social responsibility and fostering positive community impact. In a short time, the group, starting with 49 people, caught the interest of supportive individuals, and the number of participants grew to 200. Committed to confronting a diverse range of social issues, including but not limited to animal welfare, environmental preservation, and community welfare, the fund has emerged as a significant agent of good transformation very rapidly. As one of the fund's principal contributors, Kapital Bank has made a substantial gift that demonstrates our support for programs that advance the preservation of the environment and social welfare. The Red Hearts Foundation promotes joint actions aimed at building a better future for both communities and ecosystems. The fund encourages it by forming strategic collaborations with contributors both locally and globally.

The Red Hearts Foundation focuses on community engagement, animal welfare, and environmental protection. In the area of community engagement, it organizes educational workshops, training sessions, and awareness campaigns, while also supporting vulnerable children with social initiatives and holiday presents. Building on these efforts, Kapital Bank and the Red Hearts Foundation participated in a cleaning action organized by the Ministry of Ecology and Natural Resources. Volunteers from the Bank and the Red Hearts Fund helped clean a 4-hectare forested area in Shabran. The event, which took place along the Baku-Guba highway, also saw the participation of Minister of Ecology and Natural Resources Mukhtar

Babayev, ministry employees, local executive bodies, and other volunteers. Together, they collected and properly disposed of plastic and other waste. The aim of the cleaning action was to prevent forest pollution and engage the public in environmental conservation. Red Hearts Foundation organized similar clean-up activities on riverbanks, seashore, and forest areas throughout the year.

In line with these activities, an extensive cleaning campaign, held under the slogan “Let's Protect the Caspian!” on International Coastal Cleanup Day, was organized in collaboration with the Ministry of Ecology and Natural Resources. The Red Hearts Fund, supported by Kapital Bank, joined the action with volunteers cleaning the Bilgah coastal area of the Caspian Sea. About 1,000 volunteers participated in this event, which has been held for over 10 years. The campaign aims to improve the ecological situation, educate the public, and promote responsible environmental practices. Information about the collected waste is sent to Ocean Conservancy and included in global reports.

Figure 35. Community investments, in thousand AZN



Education

Through a variety of significant assistance projects, Kapital Bank is consistently focused to enhancing education at the secondary and higher education levels. Our commitment to supporting academic success is seen by our long-standing sponsorship of Science Olympiads, which we do in collaboration with the Ministry of Science and Education. Our first priority is to form alliances with prestigious

individuals. With an emphasis on easing their transition into the working environment, we provide students and recent graduates with practical experience in various sectors within our bank through our internship programs.

Our support is further demonstrated by the introduction of the Birbank student scholarship program, which offers 15 worthy students financial assistance and training opportunities each month. By doing this, we are investing

who score over 600 points in their entrance exams. About 30 students have applied to the Red Hearts Fund to benefit from this campaign. In addition to supporting students, the foundation also focuses on promoting literacy.

With the support of Kapital Bank and the Red Hearts Foundation, a “Kitab Gazar” library was established in 29 cities and districts and 55 village schools across the Country. Between May 25 and June 14, 2023, volunteers, children’s literature leaders, and book authors visited these schools and spent meaningful time with the students. The project donated a total of 2,750 books to the village schools. “Kitab Gazar” libraries, featuring a variety of fiction books, are set up in rural schools, children’s homes, shelters, correctional facilities, and community centers. Since 2019, the project has aimed to encourage reading among schoolchildren in remote areas by providing books and enhancing their reading skills, collecting donations from Baku to support young people in the regions.



institutions like ADA University, the Azerbaijan State University of Economics, Baku Higher Oil School, Azerbaijan Technical University, and Ganja State University in order to offer all-encompassing assistance for the growth of gifted

in the future generation of professionals in Azerbaijan. For the 2023/2024 academic year, Kapital Bank donated 15,000 AZN to provide educational scholarships to 10 students.

The “Build a Better World Through Education!” campaign aims to support students from socially vulnerable families

Innovations and entrepreneurship

At Kapital Bank, our goal is to promote entrepreneurship and turn ideas into success stories. We provide business owners with the tools and guidance they need by supporting their startups and partnering with incubation and acceleration facilities. Our support for women entrepreneurs and programs for small and medium-sized businesses shows our effort to create a fair economy for everyone. Through training opportunities, we help individuals and communities realize their economic potential and contribute to long-term growth. Small and medium businesses are important for the Country's economic stability and growth. To support this sector, accessible banking services and favorable financing opportunities are essential. Additionally, creating a supportive environment for entrepreneurs, enhancing their skills, and providing the necessary tools and equipment are key to their growth. As part of our corporate social responsibility efforts, Kapital Bank works with SMBDA, the State Employment Agency, and other governmental institutions to implement various projects. Seeing the limited number of women entrepreneurs, Kapital Bank started the "Women of Azerbaijan" platform to empower women by showcasing their abilities, sharing experiences, and gaining new skills. This project has successfully brought together many women entrepreneurs from different sectors, who share insights, success tips,

and valuable advice based on their experiences. Building on this commitment to entrepreneurship, Kapital Bank contributed to organizing an exhibition focused on entrepreneurial development. Held on June 8-10, 2023, at Baku Crystal Hall, the event was themed "Heydar Aliyev and Azerbaijani Entrepreneurship" and was supported by the Ministry of Economy, SMBDA, and Marsol Group. The exhibition, which showcased products and services from over 150 local companies across multiple sectors, aimed to honor Heydar Aliyev's legacy and foster business partnerships.



Elderly people

Retirees make up a large section of Kapital Bank's clients, and we have actively assisted our partners in the establishment of the "Yasha" retirement center as a way of recognizing their vital contributions. By providing chances for seniors to better manage their time and enrich their lives, this program intends to improve their well-being. The center offers elderly people opportunities for lifelong learning, personal development, and social interaction through a wide range of programs in the areas of education, creativity, health, and social entrepreneurship. Kapital Bank underlines its continued commitment to promoting

the well-being and vitality of seniors in our community by working with the "Yasha" facility. At "Yasha" centers, around 150-200 elderly individuals benefit from a range of services each week, spanning education, health, creativity, and social entrepreneurship domains. In the education realm, they receive training in financial literacy, guidelines for pension card usage, and encouragement to adopt modern banking technologies like cashless transactions and mobile banking. Additionally, they engage in computer literacy classes, language proficiency sessions, and emotional intelligence development. Concerning health, emphasis is placed on preserving physical and mental well-being

through informative sessions with healthcare professionals, psychological assistance, and participation in sports and yoga sessions. Creativity is fostered through various avenues, including artistic expression, literary creativity evenings, and participation in choirs and theater ensembles. Moreover, the centers promote social entrepreneurship by offering guidance on budget management, establishing small enterprises, and enhancing sales skills. Over 10,000 elderly individuals have participated in these activities, supported by numerous events and training sessions conducted throughout the year with the backing of Kapital Bank.

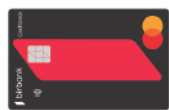


Customer experience

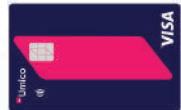
GRI 2-25, 417-1

As a customer-centric bank, we prioritize the needs of our customers through a diverse range of card products. Our portfolio includes debit cards, credit cards, and prepaid cards, each offering distinct benefits such as cashback rewards, travel perks, and enhanced security features. With user-friendly online banking tools, customers can easily manage their accounts, track spending, and access exclusive offers. Currently, Kapital Bank holds a 35% share of the Country's bank cards in the digital banking sector. It is worthy to mention that Kapital Bank has a growing number of active Birbank users, totaling 2,682,790 in 2023, while our customers benefited from cashback offers amounting to AZN 63,035,821.

Birbank Cards



Birbank Cashback



Birbank Umico



Birbank Miles



Birbank Umico Premium

Premium Cards



Mastercard Platinum



Visa Infinite Miles



Mastercard World Elite Miles



Birbank Premium Cashback

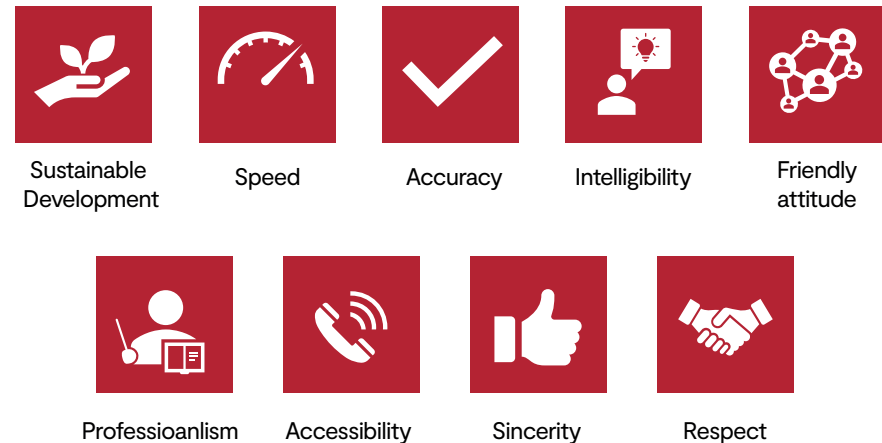
Gift Card



Customer satisfaction lies at the heart of our operations, driving our sustainable growth and profitability by maintaining loyalty. At every stage of our customers' journey, the presence of enduring relationships allows us to retain current customers while attracting prospective customers. Based on extensive communication with countless customers over the years, we understand that the mutual trust distinguishes Kapital Bank as a leading financial institution which is earned and maintained through personalized care. Aligned with the laws

of the Republic of Azerbaijan concerning banking and consumer rights, our focus remains on ensuring customer satisfaction and addressing their needs promptly and effectively. Thus, we consistently deliver products and services that meet our customers' expectations, forming the cornerstone of our customer satisfaction strategy.

Figure 36. Customer satisfaction strategy



At Kapital Bank, our customer experience strategy is tightly integrated with our broader strategic goals, forming a crucial foundation for our business success. We believe that prioritizing excellent customer experiences is not only essential for retaining customer loyalty but also for driving sustainable growth and achieving our overall objectives. This strategy revolves around ensuring that every interaction, whether it is in-person or digital, leaves a positive impression on our customers. Understanding and meeting our customers' needs and preferences is central to our approach, and we consistently tailor our products and services accordingly.

Strategic goals

We focus on making our approach more customer-friendly and improving our product offerings. We work on these areas continuously to better match what our customers want, helping us become a bank on which they can rely.

We make sure our mobile apps work well all the time. This ensures our customers can use them effortlessly, making banking with us smooth and hassle-free.

We work on creating solutions based on data that benefit both our customers and the Bank. These solutions aim to add extra value to our services, improving the overall experience for everyone involved.

As we work towards achieving our strategic goals and enhancing customer satisfaction, the impact of our branches at Kapital Bank must be highlighted. Branches play a crucial role in building strong bonds and trust with clients by doing everything from showcasing product features to offering prompt support with orders and delivery. Each branch plays an important role in delivering excellent customer service and ensuring the effective fulfillment of our customers' needs. In fact, we have **the largest service network in Azerbaijan** with 119 branches including two digital offices and 53 departments all over the Country. In addition, our branches prioritize delivering fast and high-quality customer service, showcasing Kapital Bank's commitment to excellence. Customers can use the Bank's solutions and manage complex issues confidently with help from our branch staff.

As we examine the impact of our branches on customer satisfaction, it is clear that the quality of services provided is fundamental to the overall banking experience at Kapital Bank. With our primary focus on ensuring customer satisfaction, we continually analyze the customers' ever-changing behavior to modify our products accordingly. Therefore, we leverage digital technologies to simplify financial transactions which is approximately 80% and offer tools to facilitate financial management. Through online channels, our customers enjoy access to banking services at their convenience through digital channels which reach 79.6% of digital loan sales. By simplifying core banking operations such as account management, fund transfers, bill payments, and credit applications, we enable

#1

Service network

our customers to save both time and resources, thereby enhancing the efficiency of their financial processes. With this strategic approach, Kapital Bank reinforces its position as a trusted and secure financial partner for SMEs and corporate entities, actively supporting their growth and success.

Our key strength lies in our fully online service, catering to both business owners and regular users, offering the convenience and cost-effectiveness of digital banking. For instance, our "Maestro" package allows customers to personalize their banking experience to suit their needs including transfers in national currency within the country, transfers abroad, filling up salary cards, currency exchange, cash withdrawals from ATMs using business and entrepreneur cards, and ordering and delivery of salary, business cards, and entrepreneur cards. Our basic banking services encompass a wide range of operations, including internal payments, tax payments, account transfers, urgent transfers, international payments, and currency exchange. In terms of credit products, Birbank Business provides various options such as digital loans, leasing, fund credits, and emergency loans, all accessible without the need to visit our branches. Customers can also request mobile POS or POS terminals. Moreover, our call centers, exemplified by the dedicated line 896, are in place to enhance service quality and accessibility, providing business owners with easier access to assistance. The focus on enhancing accessibility and support directly contributes to our Net Promoter Score (NPS), which Kapital Bank began measuring in 2022 as an essential metric for evaluating customer loyalty and satisfaction. As we continuously strive to improve our NPS, we carefully analyze customer feedback and refine our services to better cater to the

needs of our valued clients. To ensure continuous improvement in customer satisfaction, we send Net Promoter Score surveys via SMS to clients who have lodged complaints, while also implementing advanced features in our customer service systems. The IVR system is equipped to detect and inform clients about the reasons for their card blocks and provide comprehensive information on AVANS, branch working hours, account statements, and credit debt without the need for operator assistance. Specific IVR services have been developed for Bakcell Co-brand cards, and a system has been introduced that allows for immediate refunds within established limits in case of payment-related technical issues.

**Net promoter
Score in retail**

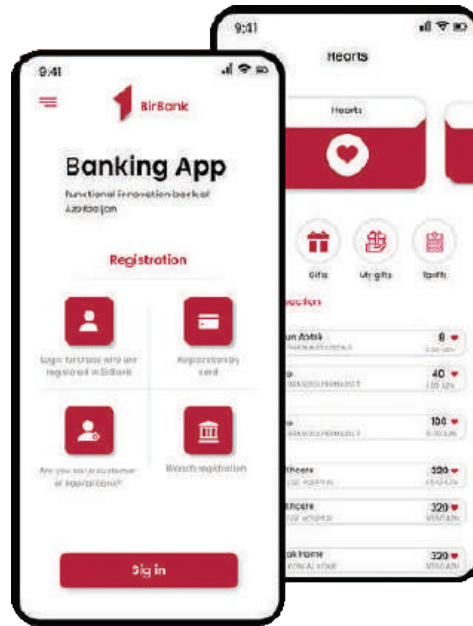
41%

**Net promoter
Score in SME**

45%

Digital transformation at Kapital Bank

In 2023, Kapital Bank embarked on a comprehensive digitalization journey, aiming to enhance our services and maintain our competitive edge. In the short term, we are focused on rebuilding current products using micro-services. For the long term, we plan to centralize our IT platform and streamline decision-making for IT development across our ecosystem.



One of our major initiatives was the launch of the “Alla Chatbot and Virtual Assistant” This artificial intelligence-driven solution, available in Azerbaijani, supports customers via chatbots and IVR assistants, reducing support costs and improving accessibility. To introduce new technologies to the local industry, we implemented the “Open Banking APIs Project.” These APIs were developed for integration with third-party applications and were specifically integrated into the Bakcell mobile app, expanding our service channels, and enhancing customer access to banking services.

We also focused on operational efficiency with the Customer Lifetime Value (CLV) Project. Over nine months, we analyzed CLV data from over 3 million retail customers, allowing us to refine marketing strategies and increase

profitability. Initially a banking project, the CLV initiative has now evolved into a larger ecosystem project, reflecting our innovative approach. Additionally, we rolled out several initiatives aimed at reducing costs and increasing revenues. These included the “Ninja taksit” feature in Birbank, preapproved offers in Telesales, Ghost product offers in Birbank, and individual pricing for credit products. To further enhance the customer experience, we implemented CLV-based cashback pricing, a benefits page, gamification features, promo retention offers based on churn prediction models, and personalized cashback categories.

Moreover, our strategy in the microbusiness segment over the next three years focuses on making digital products more accessible. Since 2022, we have been developing digital lending channels, and by 2023, we optimized these processes to issue microloans through Birbank Business Internet Bank without employee involvement. After the introduction of lending through the digital channels of TTC, loans in the Telesales channel were reduced from 2 days to 22 minutes, and in the Birbank Business channel to 6 minutes. The same year, we launched a fully digital process for account registration and opening, reducing the time to just 5 minutes.

In 2023, 99.13% of our transactions were conducted via online channels, a significant increase from the previous year. This shift was driven by the enhancement of our digital services through the Birbank Business app, automating most services for micro and SME customers. We also introduced an individual tariff package, allowing clients to select services tailored to their business needs, reducing costs, and improving service quality and client relationships.



Innovative banking

Innovative banking

Digital platforms, mobile banking apps, and new financial products are leading technological changes, helping the Bank meet the diverse needs of today's customers. By using technology, the Bank can offer smooth, efficient, and personalized services that boost customer satisfaction and loyalty. Kapital Bank has been striving to be more innovative, aiming to improve customer experience and streamline services. This drive led

2 digital offices

to a memorandum of cooperation signed between Kapital Bank and the Innovations Center of the State Agency for Public Service and Social Innovations under the President of the Republic of Azerbaijan. This agreement aims to integrate digital services, allowing citizens to take an online queue at ASAN service and pay fees directly through the Birbank mobile app. Furthermore, Kapital Bank has significantly advanced its digital transformation efforts, introducing innovative products that set new standards in the banking sector. One notable development is the "Digital Deposit" product, which allows customers to open and manage deposit accounts entirely online through the Birbank mobile application.

The Birbank OEX squad has streamlined the sign-in and sign-up processes, greatly improving the user experience. This initiative makes accessing our services faster and more intuitive, leading to higher user satisfaction and potentially better conversion rates. By simplifying these steps, we maintain a competitive edge in a market resulting in customer loyalty and retention. Furthermore, allowing users to customize their card designs within Google and

Apple Pay enhances the overall digital wallet experience. This personalization makes digital transactions more engaging and visually appealing, likely increasing usage and customer satisfaction. Since customizable card designs are not commonly offered by all banks, this feature positions us as innovators in the digital banking space, keeping us ahead of competitors and appealing to technologically knowledgeable consumers.

Since 2020, the Bank has been undergoing an agile transformation, with the Board setting KPIs such as time to market, employee engagement, and the assessment of agile coaches for all agile teams. To support this transformation, a strong emphasis is placed on training and education. To facilitate this transition, internal trainings are conducted on the iSpring platform to observe and enhance the maturity level of the tribes. Agile coaches play a pivotal role in aligning the team with Scrum values, decomposing ideas into sprints, and monitoring Agile metrics. For example, the "Microproduct Tribe" consists of one Agile coach, four product owners, 38 working groups (including developers, designers, and analysts), and one tribe leader.

We introduced several other innovative features to enhance the customer experience and accelerate operations. To achieve this, Wolt Delivery for cards allows customers to receive their card orders at their desired address, reducing the need for branch visits and positioning the bank ahead of its competitors. In a similar effort to enhance convenience and value, the credit limit increase for debit cards enables customers to obtain a loan limit on their existing debit cards, lowering the costs associated with issuing additional cards and boosting revenue through upselling opportunities.

Another key feature is the multi-functional agent, which empowers branch employees to switch roles between Telesales and direct sales, increasing revenues by generating more leads and sales calls while reducing hiring costs. The introduction of digital cards for Telesales and direct sales channels provide an instantly usable digital version of physical cards, enhancing customer experience and saving on delivery and printing costs. Lastly, the digitalization of physical coupons handed out by direct sales employees improves the customer journey and coupon creation process while cutting down on printing costs. These innovations collectively position Kapital Bank as a leader in the local banking sector, continually improving efficiency and customer satisfaction.

Kapital Bank enhances customer service through innovative technological solutions. The implementation of AI in IVR and chat systems allows clients to receive prompt answers without needing to connect to an operator, reducing wait times and improving service quality. The verification process in outbound IVR has been improved by eliminating the need for customers to enter the last four digits of their PAN card, making interactions faster and more convenient. Advanced speech-to-text (STT) and text-to-speech (TTS) models have been adopted to enhance the accuracy and speed of processing customer requests, thereby improving their overall experience. The integration of outbound IVR and the Serenjam process into the 896 IVR flow, along with the introduction of PIN reset functionality in IVR 196, further improves customer convenience.

Advanced cybersecurity and data integrity

GRI 418-1

Cybersecurity

At Kapital Bank, our approach to information security has evolved over time. Prior to 2022, information security was managed within the IT risk management department. However, in 2023, recognizing the growing importance of information security, we transformed our IT department into an information security department, initiating the development of a comprehensive strategy. This strategic shift was driven by our internal team's initiative, who developed a customized maturity model that was presented to both a commission and the Board for approval. Subsequently, decisions made by the observation Board, based on current scores, set clear targets, determined key directions, and laid out a detailed model for implementation. As part of our strategy, we have adopted ISO 27002 controls, focusing on IT control measures considered suitable for our operations. We have carefully selected and integrated controls relevant to our needs, setting clear targets for their implementation to ensure a minimum standard of security across our systems and operations. Compliance to the industry-wide known standards such as, NIST CSF, ISO 27001 is considered in almost every decision made by the Information Security team. The activities related to increasement of the maturity score of the organization based on the ISO 27001:2022 standard had been conducted in 2023.

In 2023, Kapital Bank established a Security Operations Center (SOC) team, extending its operational hours to 24/7. This expansion was driven by the need to address various security concerns, including customer data protection and cyberattacks, which often occurred outside of regular business hours. Equipped with specialized tools,

the SOC team ensures timely detection and response to potential security threats, including phishing attempts and unauthorized data sharing. The team employs configuration management tools and conducts log analysis to identify anomalies and potential security breaches. Preventive measures, such as phishing simulations and password-sharing awareness initiatives, have been implemented to mitigate risks. In cases of identified security incidents, tickets are generated, and appropriate actions are taken, including data protection measures and engagement with internal and external stakeholders.

The IT Security team acts as a bridge between IT and IS Operations and Risk management activities by reporting latest activities about current upgrades, changes and other improvements that are in the interest of Information Security team and keeping the Information Security team in the loop of the daily IT operations. The IT security team, partly embedded within IT operations, collaborates closely with the Information Security GRC team to implement security measures, and address regulatory requirements. This collaboration, through the Information Security GRC team, extends to risk management, assessment, and the development of the Information Risk Management (IRM) framework. Annually, Kapital Bank conducts capability and risk management assessments, identifying gaps and updating the security strategy accordingly. Governance practices ensure compliance with regulatory requirements, including documentation, access control, and change verification. Regular reports on security incidents, risk management activities, and compliance status are prepared and presented to the Board of Directors and the Risk Management committee for review and approval.



With the growing emphasis on information security, the Information Security GRC team have expanded our training initiatives on iSpring Learn platform. This includes the creation of various learning resources such as videos, quizzes, pop-ups, and journals, addressing important security topics. To assess the effectiveness of our training efforts, we conduct phishing simulations to assess employees' awareness levels and absorption of training materials. Based on the results of these simulations, we continuously refine and update our training programs to better address evolving security challenges and ensure that our employees are equipped with the knowledge and skills to mitigate potential risks effectively.

At Kapital Bank, we have implemented a security champion program to promote a culture of security awareness and rapid innovation across our teams. Security champions are chosen from within the organization and undergo training to equip them with the necessary skills and mindset to test and address security issues efficiently. They serve as ambassadors for security within their respective teams, proactively identifying and solving problems before they escalate to the information security department. Through structured training sessions and exams, security champions are evaluated and held accountable for their performance. Key performance indicators (KPIs) have been established to measure their effectiveness, with an emphasis on minimizing errors detected by information security.

Data management

Comprehensive data governance practices have been established at Kapital Bank to ensure data quality and integrity, strengthening our approach to effective data management. Our data governance framework outlines

clear roles, responsibilities, processes, and policies related to data management, providing a structured approach to managing data assets and ensuring accountability throughout the organization. Data stewards are assigned to oversee the quality and integrity of specific datasets, maintaining data quality standards, resolving issues, and implementing necessary improvements. We have also implemented a Data Governance tool and documented metadata to help users understand the data's context, origin, and usage, facilitating better decision-making and ensuring transparency. Regular profiling and monitoring of data allow us to identify anomalies, inconsistencies, and quality issues, with automation aiding in detecting discrepancies. Additionally, we offer training and awareness programs to educate employees about the importance of data governance, their roles and responsibilities, and best practices for maintaining data quality and integrity.

Our digital transformation initiatives, led by our digital offices, are enhancing both business operations and customer service through advanced data-driven approaches. The digital offices serve as the hub for our innovation efforts, driving the adoption of cutting-edge technologies and strategies. We leverage reporting and dashboards to enable faster and better decision-making. By conducting feasibility and financial analyses on various processes and products, we ensure informed and strategic choices. Automation of these analyses saves valuable resources, while automatic document processing improves efficiency. In customer service, we employ advanced analytics, including AI and machine learning, to transform interactions and optimize operations. Speech-to-text technology and call sentiment analysis help measure customer satisfaction and improve service quality. Predictive analytics enhance

call agent utilization and ATM cash flow management, while propensity-to-buy models and customer lifetime value assessments enable us to identify and offer tailored products and conditions to our most valuable customers.

Environmental impact

Environmental impact

GRI 301-1, 302-1, 302-4, 303-3, 303-5, 305-1, 305-2, 305-4, 305-5, 306-1, 306-3

As we proceed deeper into the era of technological advancements, the nexus between environmental sustainability and economic prosperity becomes blurred. Recognizing the robust intersection, Kapital Bank strives to proactively advocate for integrating sustainable

operations into core business activity as well as allocating considerable investment into technologies pertinent to eco-friendly practices. Our holistic approach to reduce environmental footprint conveys a bank-wide shift towards digitization and automation of key processes. In addition,

environmental management principles set forth by the Bank prioritize alignment with global sustainability objectives encompassing UN SDGs and the Paris Climate Agreement.

Figure 37. Environmental Management Strategy



Energy

Energy management of the Bank has been closely examined over the years, and commendable initiatives conducted to minimize the consumption of it. Generally, Kapital Bank does not generate their own electricity but rather opts for gridlines as a major energy source. In addition, the increase in the figures was characterized by a rise in the establishment of new branches all over the Country.

Table 5. Energy indicators

Indicator	2021	2022	2023
Total Energy consumption, kWh	8,696,165.56	9,138,421	9,292,633.33
Total natural gas consumption, thousand cubic meters	441	450	454
Total fuel consumption, ton	639	604	577

Emissions

Direct and indirect GHG emission reduction is our utmost priority when it comes to climate protection. To do so, the Bank is leveraging digital transformation to reduce emissions, implementing paperless processes and digital banking services to minimize its environmental footprint

Table 6. Emission indicators

Indicator	2021	2022	2023
Total Scope 1 emission, metric tons	1982	1874	1825
Total Scope 2 emission, metric tons	5359	5606	5696
GHG emission intensity, metric tons	1.79	1.54	1.41

Water

We also monitor the dynamics of our water discharge which is retrieved from the general sewage system. To improve the state of water usage, the implementation of efficient sanitary fixtures is carried out contributing to optimization of water utilization in routine activities.

Table 7. Water indicators

Indicator	2021	2022	2023
Total water withdrawal, cubic meters	58.591	70.105	79.963

Waste

Kapital Bank pursues rigid waste management practices to decrease the environmental footprint associated with business operations. Apart from large-scale digitalization and automation projects to replace traditional banking operations, The Bank's Archive department is engaged in paper recycling while Marketing and HR departments work closely with external stakeholders to provide corporate social responsibility initiatives outlining waste management practices.

Table 8. Waste indicators

Indicator	2021	2022	2023
Total weight of waste generated, tons	4,128.81	4,338.82	4,968.81
Total weight of waste recycled, tons	27.68	34.43	26.33

Future outlook

In conclusion, Kapital Bank is dedicated to building a sustainable future through robust governance, and a deep commitment to our employees, customers, and the environment. All is reflected in our 2024-2026 strategic plan where the emphasis on client-centricity and increasing ecosystem synergy is under a big spotlight to increase net income in the forthcoming years. In line with our strategic objectives, our goal is to expand digital financial services, making them more accessible and efficient for all customer segments. This includes

enhancing mobile and online banking platforms, offering tailored digital products for individuals and businesses, and leveraging AI to provide personalized financial advice. By reducing our environmental footprint through energy-efficient operations, we aim to contribute to global sustainability goals. By prioritizing these areas, we aim to foster long-term growth and resilience in a rapidly evolving financial landscape, ensuring that Kapital Bank remains at the forefront of innovation and sustainability.



Performance tables

Governance

Economic Indicators, thousand AZN	2021	2022	2023
Capital investment ²	1,268,422	2,693,995	1,804,474
Total assets	6,765,998	7,884,039	8,794,319
Total capitalization	801,397	986,007	1,121,080
Total revenues	757,211	966,887	1,096,759
Retail loan portfolio amount	1,583,502	1,817,533	2,322,391
Corporate loan portfolio amount ³	710,175	745,198	983,695
Mortgage portfolio amount	292,540	418,325	571,201
Loan to Individual entrepreneurs	60,233	168,269	370,721
Total deposit portfolio amount	5,416,478	6,270,680	6,578,783
Economic value distributed	288,650	385,111	456,449
Operating expenses	112,256	139,894	173,707
Payments to the state budget, including	93,057	139,736	147,652
Profit tax	47,361	92,867	92,568
Property tax	758	804	1,049
Withholding tax	27,744	25,116	27,401
Land tax	0	28	30
SSPF charges	17,194	20,922	26,604
Interest payments	68,259	81,910	115,009
Community investments, including ⁴	15,077	23,571	20,081
Contributions to charities, NGOs, and research institutes (unrelated to the organization's commercial research and development)	9,903	15,764	14,436
Funds to support community infrastructure, such as recreational facilities	645	1,577	317
Direct costs of social programs, including arts and educational events	4,529	6,230	5,328
Economic value retained	468,561	581,776	640,310

² The significant increase in Kapital Bank's capital investment from 2021 to 2022 is primarily due to a rise in investment securities, which grew from 1,137,283 kAZN to 2,528,759 kAZN.

³ The increase in corporate loans in 2023 is due to a rise in customer numbers and growth in the Country's economy, with Kapital Bank financing numerous state and regional infrastructure projects, totaling approximately 1 billion manats.

⁴ In 2022, Kapital Bank donated to 4,500 kAZN to a local foundation and began sponsoring to one of the sports federations with 1,500 k AZN.

Anti-Corruption Indicators	2021	2022	2023
Total number of employees that the organization's anti-corruption policies and procedures have been communicated to, by category	4,100	4,828	5313
Executive	18	17	17
Management	359	424	461
Professional	3535	4183	4619
Support staff	188	204	216
Percentage of employees that the organization's anti-corruption policies and procedures have been communicated to, by category	100%	100%	100%
Executive	100%	100%	100%
Management	100%	100%	100%
Professional	100%	100%	100%
Support staff	100%	100%	100%
Total number of business partners (e.g., suppliers) that the organization's anti-corruption policies and procedures have been communicated to	100%	100%	100%
Total number of employees that have received training on anti-corruption, by category	-	-	4288

Supply Chain Indicators	2021	2022	2023
Total number of suppliers	596	581	864
Total number of local suppliers	514	532	763
Total number of foreign suppliers	82	49	101
Proportion of suppliers by location, % from total:			
Local suppliers, %	86%	92%	88%
Foreign suppliers, %	14%	8%	12%
Total procurement budget, thsd AZN	106,873,385	180,925,708	184,968,710
Procurement budget that is spent on local suppliers/contractors, thsd AZN	96,280,173	159,401,808	158,932,868
Share of the procurement budget that is spent on local suppliers/contractors, % from total budget	90%	88%	86%

Operational

Sector- specific Indicators	2021	2022	2023
Number of active customers, by category	2,804,777	3,267,806	3,836,309
Active Individual customers	2,638,506	3,084,334	3,638,261
Active Corporate customers	21,850	27,070	34,369
Active Individual entrepreneurs	144,421	156,402	163,679
Amount of cashbacks returned to customers, AZN	6,331,403	21,092,497	63,035,821
Number of active internet banking users	-	-	11,733
Number of active Birbank users (mobile users)	-	2,014,304	2,682,790
Number of newly registered Birbank users (mobile users)	-	135,710	133,392
Net Promoter Score (NPS) indicator, %			
Retail	N/A	41	41
SME	N/A	43	45
Number of lending customers	750,001	860,957	1,121,515
Amount of customer deposits (including Current accounts)	5,328,530,000	6,139,948,000	6,344,489,000

Sector-specific indicators	2021	2022	2023
Number of debit cards	4,355,163	4,740,640	6,142,042
Number of credit cards	875,661	881,911	888,619
Number of active salary cards	1,128,992	1,194,424	1,342,132
Number of pension cards	598,251	614,608	708,432
Total amount of money transfers in AZN (Domestic & Transfers abroad)	20,305,207,145	29,502,441,435	39,650,856,740
Number of branches, by categories	104	114	117
Baku	33	39	41
Region	71	75	76
Number of ATMs, by categories	956	986	1,030
Baku	453	475	501
Regions	503	511	529
Number of digital offices	3	2	2

Social

Health and Safety training Indicators	2021	2022	2023
Number of conducted OHS trainings	-	96	40
Number of employees who received OHS training	-	822	1642
Percentage of employees who received OHS training	75.72%	99.50%	99.50%
OHS training hours	-	192	80

Health and Safety investment	2021	2022	2023
Total investments into improving working conditions, AZN	31,592	35,132	82,000

Employee Indicators, by gender	2021		2022		2023	
	Male	Female	Male	Female	Male	Female
Total number of employees, by gender and category	2,638	1,462	3,021	1,807	3,271	2,042
Executive	18	0	16	1	13	4
Management	310	49	357	67	389	72
Professional	2,277	1,258	2,615	1,568	2,832	1,787
Support staff	33	155	33	171	37	179
Total number of employees by employment type	2,638	1,462	3,021	1,807	3,271	2,042
Total number of permanent employees	2,619	1,436	3,003	1,767	3,247	1,982
Total number of temporary employees	19	26	18	40	24	60
Total number of employees by employment contract	2,638	1,462	3,021	1,807	3,271	2,042
Total number of full-time employees	2,622	1,455	2,979	1,764	3,255	2,022
Total number of part-time employees	16	7	42	43	16	20

Employee Indicators, by age	2021			2022			2023		
	Under 30	30-50	Over 50	Under 30	30-50	Over 50	Under 30	30-50	Over 50
Total number of employees, by age and by category	1,544	2,219	337	2,232	2,266	330	2,732	2,290	291
Executive	0	13	5	0	11	6	0	14	3
Management	10	310	39	14	372	38	20	410	31
Professional	1,531	1,826	178	2,214	1,799	170	2,708	1,759	152
Support staff	3	70	115	4	84	116	4	107	105

Ratio of salaries, by gender	2021		2022		2023	
	Male	Female	Male	Female	Male	Female
Ratio of standard entry-level wage compared to local minimum wage, by gender	1.71	1.61	1.50	1.34	1.93	1.72
Ratio of the basic salary of women to men, including	94%		89%		89%	
Average basic salary	1,438	1,002	1,624	1,071	1,940	1,236

Senior management hired from local community	2021	2022	2023
Percentage of senior management hired from the local community, %	-	-	1
Senior management hired, total	-	-	2

Employee hires and turnover Indicators, by age	2021			2022			2023		
	Under 30	30-50	Over 50	Under 30	30-50	Over 50	Under 30	30-50	Over 50
Total number of new employee hires	726	277	7	1,043	255	7	850	223	8
Total number of employee turnover	205	271	40	343	216	14	349	200	47
Rate of employee turnover, %	13%	12%	12%	15%	10%	4%	13%	9%	16%

Employee hires and turnover Indicators, by gender	2021		2022		2023	
	Male	Female	Male	Female	Male	Female
Total number of new employee hires	692	318	787	518	652	429
Total number of employee turnover	361	155	401	172	402	194
Rate of employee turnover, %	0.14	0.11	0.13	0.10	0.12	0.10

Employee hires and turnover Indicators, by gender	2021		2022		2023	
	Male	Female	Male	Female	Male	Female
Total number of employees that were entitled to parental leave, by gender	2,638	1,462	3,021	1,807	3,271	2,042
Total number of employees that took parental leave, by gender	6	114	54	203	50	218
Total number of employees that returned to work in the reporting period after parental leave ended	6	75	54	108	50	136
Total number of employees due to return to work after taking parental leave, by gender	6	75	54	108	50	136
Total number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work, by gender	6	71	47	102	44	134
Return to work rate of employees that took parental leave, by gender, %	100	100	100	100	100	100
Retention rate of employees that took parental leave, by gender, %	100	94.66	87.03	94.44	88	98.53

Talent Development	2021		2022		2023	
	Male	Female	Male	Female	Male	Female
Total number of training hours	30,807	12,460	18,851	8,788	38,208	19,167
Average number of training hours provided to employees, by category	41	30	33	25	42	37
Executive	13.5	0	10	0	14.07	14.4
Management	11.2	17.2	8	8	11.62	10.81
Professional	8.3	10.5	9	11	10.67	8.82
Support Staff	7.8	2	6	6	5.85	2.97
Percentage of total employees who received a regular performance and career development review, by category:	2,638	1,462	3,021	1,807	3,271	2,042
Executive, %	18	0	16	1	13	4
Management, %	253	34	294	44	323	53
Professional, %	2,334	1,273	2,678	1,591	2,898	1,806
Support Staff, %	33	155	33	171	37	179

Diversity of governance bodies, by gender	2021		2022		2023	
	Male	Female	Male	Female	Male	Female
Total number of individuals within the governance bodies, by gender	10	-	9	-	9	1

Employee hires and turnover Indicators, by age	2021			2022			2023		
	Under 30	30-50	Over 50	Under 30	30-50	Over 50	Under 30	30-50	Over 50
Number of individuals within the governance bodies, by age	-	8	2	-	7	2	-	9	1

Diversity of employees, by gender	2021	2022	2023
Number of employees with disabilities	96	351	228

Non-Discrimination	2021	2022	2023
Total number of incidents of discrimination	0	0	0

Sector-specific indicators, %	2021	2022	2023
Organizational health indicator (OHI) score	85	84	87

Environment

Energy consumption	2021	2022	2023
Total energy consumption, kwh	8,696,165.56	9,138,421.80	9,292,633.33
Total natural gas consumption, thousand cubic meters	441	450	454
Total fuel consumption, ton, including	639	604	577
Diesel, ton	224	192	230
Petroleum, ton	415	412	347

Water	2021	2022	2023
Total water withdrawal, (cubic meters)	58,591	70,105	79,963
Total freshwater withdrawal, (cubic meters)	76.4	206.2	299

CO2 emissions and Energy indicators	2021	2022	2023
Total direct GHG emissions in metric tons	7341	7480	7521
Scope 1, tCO2e	1982	1874	1825
Scope 2, tCO2e	5359	5606	5696
GHG emissions intensity in metrics tons including, i. CO2 emissions per employee, tons	1.79	1.54	1.41

Waste	2021	2022	2023
Total weight of waste generated in metric tons, and a breakdown by composition of waste, tons	4,128.81	4,338.82	4,968.81
Total weight of non-hazardous waste generated tons	4,128.81	4,338.82	4,968.81
Total weight of non-hazardous waste recycled, tons	27.68	34.43	26.33
Total weight of waste directed to disposal in tons, and a breakdown by composition of the waste, tons	-	38.34	41.90
Total weight of non-hazardous waste directed to disposal to landfill in, tons	-	38.34	41.90

GRI Index

Statement of use		Kapital Bank has reported in accordance with GRI Standards for the period 01.01.2023–31.12.2023	
GRI 1 used		GRI 1: Foundation 2021	
GRI standard / Other source	Disclosure	Disclosure Status	Section
General disclosures			
GRI 2: General Disclosures 2021	2-1 Organizational details	Disclosed	About us
	2-2 Entities included in the organization's sustainability reporting	Disclosed	Scope and Boundaries
	2-3 Reporting period, frequency, and contact point	Disclosed	Scope and Boundaries Contact Point
	2-4 Restatements of information	Not applicable	This is the Kapital Bank's first Sustainability Report
	2-5 External assurance	Disclosed	External Assurance
	2-6 Activities, value chain and other business relationships	Disclosed	About Us Responsible Procurement and Supply Chain
	2-7 Employees	Disclosed	Talent Management Performance Tables
	2-8 Workers who are not employees	Disclosed	Talent Management
	2-9 Governance structure and composition	Disclosed	Creating Value through Corporate Governance
	2-10 Nomination and selection of the highest governance body	Disclosed	Evaluation of the highest governance body
	Ownership structure		
	2-11 Chair of the highest governance body	Disclosed	Creating Value through Corporate Governance
	2-12 Role of the highest governance body in overseeing the management of impacts	Disclosed	Shareholders General Meeting
	2-13 Delegation of responsibility for managing impacts	Disclosed	Senior executives with specific responsibilities for managing impacts are appointed to ensure focused attention on critical areas.
	2-14 Role of the highest governance body in sustainability reporting	Disclosed	CEO Message
	2-15 Conflicts of interest	Disclosed	Conflicts of interest
2-16 Communication of critical concerns	Disclosed	Conflicts of Interest	

GRI 2: General Disclosures 2021

2-17 Collective knowledge of the highest governance body	Disclosed	Executive Board
2-18 Evaluation of the performance of the highest governance body	Disclosed	Evaluation of the highest governance body
2-19 Remuneration policies	Disclosed	Talent Management
2-20 Process to determine remuneration	Disclosed	Oversight entities at Kapital Bank
Talent Management	Disclosed	External Assurance
2-21 Annual total compensation ratio	Disclosed	During the reporting period annual compensation ratio was 556 percent
2-22 Statement on sustainable development strategy	Disclosed	CEO Message
2-23 Policy commitments	Disclosed	Ethics and Compliance at Kapital Bank
2-24 Embedding policy commitments	Disclosed	Responsible Procurement and Supply Chain Creating value through corporate governance
2-25 Processes to remediate negative impacts	Disclosed	Customer Experience
2-26 Mechanisms for seeking advice and raising concerns	Disclosed	Employee care
2-27 Compliance with laws and regulations	Disclosed	Ethics and Compliance at Kapital Bank
2-28 Membership associations	Not disclosed	
2-29 Approach to stakeholder engagement	Disclosed	Stakeholder Engagement
2-30 Collective bargaining agreements	Not disclosed	No such case occurred during the reporting period

Material Topics

GRI 3: Material Topics 2021

3-1 Process to determine material topics	Disclosed	Materiality assessment
3-2 List of material topics	Disclosed	Materiality assessment
3-3 Management of material topics	Disclosed	Materiality assessment

Economic performance

GRI 3: Material Topics 2021

3-3 Management of material topics	Disclosed	Key Financial Metrics
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GRI 201: Economic Performance 2016

201-1 Direct economic value generated and distributed	Disclosed	Performance tables Key Financial Metrics
201-2 Financial implications and other risks and opportunities due to climate change	Not disclosed	The Kapital Bank plans to consider the risks that may arise as a result of climate change and the available opportunities
201-3 Defined benefit plan obligations and other retirement plans	Disclosed	This is regulated by the Labor Code of the Republic of Azerbaijan
201-4 Financial assistance received from government	Not disclosed	

Market Presence

GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	Disclosed	Performance tables
	202-2 Proportion of senior management hired from the local community	Disclosed	Performance tables

Indirect economic impacts

GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	Disclosed	Performance tables
	203-2 Significant indirect economic impacts	Not disclosed	

Procurement practices

GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Responsible Procurement and Supply Chain
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	Disclosed	Performance tables

Anti -corruption

GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Anti-corruption management system
	205-1 Operations assessed for risks related to corruption	Disclosed	Conflict of interest
GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	Partially Disclosed	
	205-3 Confirmed incidents of corruption and actions taken	Not applicable	There were no corruption incidents during the reporting year.

Anti-competitive behavior

GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Ethics and Compliance at Kapital Bank
GRI 206: Anti-competitive Behavior 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Disclosed	Ethics and Compliance at Kapital Bank

Tax

GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Creating value through corporate governance
GRI 207: Tax 2019	207-1 Approach to tax	Partially disclosed	Creating value through corporate governance
	207-2 Tax governance, control, and risk management	Partially disclosed	Risk management
	207-3 Stakeholder engagement and management of concerns related to tax	Partially disclosed	Stakeholder engagement
	207-4 Country-by-Country reporting	Not disclosed	

Materials

GRI 3: Material Topics 2021	301-1 Materials used by weight or volume	Partially disclosed	Environmental impact
	301-2 Recycled input materials used	Not disclosed	
	301-3 Reclaimed products and their packaging materials	Not disclosed	

Energy

GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Environmental impact
GRI 302: Energy 2016	302-1 Energy consumption within the organization	Disclosed	Environmental impact
	302-2 Energy consumption outside of the organization	Not disclosed	
	302-3 Energy intensity	Not disclosed	
	302-4 Reduction of energy consumption	Disclosed	Environmental impact
GRI 302: Energy 2016	302-5 Reductions in energy requirements of products and services	Not disclosed	

Water and effluents

GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Environmental impact
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	Not disclosed	
	303-2 Management of water discharge related impacts	Not disclosed	
	303-3 Water withdrawal	Disclosed	Environmental impact
	303-4 Water discharge	Disclosed	Performance tables
	303-5 Water consumption	Disclosed	Environmental impact

Biodiversity

GRI 304: Biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Not disclosed	Kapital Bank intends to disclose this information in the coming years
	304-2 Significant impacts of activities, products, and services on biodiversity	Not disclosed	
	304-3 Habitats protected or restored	Not disclosed	
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	Not disclosed	

Emissions

GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Environmental impact
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	Disclosed	Environmental impact
	305-2 Energy indirect (Scope 2) GHG emissions	Disclosed	Environmental impact
	305-3 Other indirect (Scope 3) GHG emissions	Not disclosed	
	305-4 GHG emissions intensity	Disclosed	Environmental impact
	305-5 Reduction of GHG emissions	Disclosed	Environmental impact
	305-6 Emissions of ozone-depleting substances (ODS)	Not disclosed	
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	Not disclosed	

Waste			
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impact	Partially disclosed	Environmental impact
	306-2 Management of significant waste-related impacts	Not disclosed	
	306-3 Waste generated	Disclosed	Environmental impact Performance tables
	306-4 Waste diverted from disposal	Not disclosed	
	306-5 Waste directed to disposal	Not disclosed	
	306-5 Waste directed to disposal	Not disclosed	

Supplier environmental assessment			
GRI 3: Material Topics 2021	3-3 Management of material topics	Partially disclosed	Responsible Procurement and Supply Chain
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	Not disclosed	
	308-2 Negative environmental impacts in the supply chain and actions taken	Partially disclosed	Responsible Procurement and Supply Chain

Employment			
GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Talent Management
GRI 302: Energy 2016	401-1 New employee hires and employee turnover	Disclosed	Talent Management
	Performance tables	Not disclosed	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Disclosed	Talent Management
	401-3 Parental leave	Disclosed	Performance tables

Labor/management relations			
GRI 402: Labor/Management Relations 2016	402-1 Minimum notice periods regarding operational changes	Not Disclosed	Regulated by Law and Internal Rules

Occupational health and safety

GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	Disclosed	Safety at work
	403-2 Hazard identification, risk assessment, and incident investigation	Disclosed	Safety at work
	403-3 Occupational health services	Partially disclosed	Safety at work
	403-4 Worker participation, consultation, and communication on occupational health and safety	Disclosed	Safety at work Performance tables
	403-5 Worker training on occupational health and safety	Disclosed	Safety at work Performance tables
	403-6 Promotion of worker health	Disclosed	Safety at work
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Not disclosed	
	403-8 Workers covered by an occupational health and safety management system	Disclosed	Safety at work
	403-9 Work-related injuries	Not Disclosed	There were no such incidents during the reporting year.
	403-10 Work-related ill health	Not Disclosed	There were no such incidents during the reporting year.

Training and education

GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Learning & Development
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	Disclosed	Learning & Development Performance tables
	404-2 Programs for upgrading employee skills and transition assistance programs	Disclosed	Learning & Development
	404-3 Percentage of employees receiving regular performance and career development reviews	Disclosed	Performance tables

Diversity and equal opportunity

GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Creating value through corporate governance
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	Disclosed	Creating value through corporate governance
	405-2 Ratio of basic salary and remuneration of women to men	Disclosed	Performance tables

Non-discrimination			
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	Disclosed	Human rights practices
Freedom of association and collective bargaining			
GRI 407: Freedom of Association and Collective Bargaining 2016	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Disclosed	There were no such incidents during the reporting period.
Child labor			
GRI 408: Child Labor 2016	408-1 Operations and suppliers at significant risk for incidents of child labor	Not applicable	Kapital Bank is firmly opposed to child labor and adheres to both legal requirements and internal regulations to prevent its occurrence.
Forced or compulsory labor			
GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Ethics and Compliance at Kapital Bank
GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	Disclosed	Ethics and Compliance at Kapital Bank
Security practices			
GRI 410: Security Practices 2016	410-1 Security personnel trained in human rights policies or procedures	Disclosed	Human Rights practices All employees regardless of their position received the training on human rights
Rights of Indigenous peoples			
GRI 411: Rights of Indigenous Peoples 2016	411-1 Incidents of violations involving rights of Indigenous peoples	Not disclosed	
Local communities			
GRI 3: Material Topics 2021	3-3 Management of material topics	Partially disclosed	Corporate Social Responsibilities
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	Partially disclosed	Corporate Social Responsibilities
	413-2 Operations with significant actual and potential negative impacts on local communities	Not disclosed	

Supplier social assessment			
GRI 3: Material Topics 2021	3-3 Management of material topics	Disclosed	Responsible Procurement and Supply Chain
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	Partially disclosed	Responsible Procurement and Supply Chain
	414-2 Negative social impacts in the supply chain and actions taken	Not disclosed	
Public policy			
GRI 415: Public Policy 2016	415-1 Political contributions	Not disclosed	
Customer health and safety			
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	Not disclosed	
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	Not disclosed	
Marketing and labeling			
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	Partially disclosed	Customer experience
	417-2 Incidents of non-compliance concerning product and service information and labeling	Not disclosed	There were no such incidents during the reporting year.
	417-3 Incidents of non-compliance concerning marketing communications	Not disclosed	There were no such incidents during the reporting year.
Customer privacy			
GRI 3: Material Topics 2021	3-3 Management of material topics	Partially disclosed	Advanced cybersecurity and data integrity
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Partially disclosed	Advanced cybersecurity and data integrity

We value recommendations and comments from our stakeholders. We are open to any suggestions and appreciate significant input that would help improve our report and performance.

Contact person for suggestions:

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INDEPENDENT ASSURANCE REPORT

Independent practitioner's limited assurance report by Deloitte & Touche LLAC ("Deloitte") to the Board of Directors of Kapital Bank OJSC ("the Company") on the 2023 Annual Sustainability Report ("the Report") for the period from 1 January 2023 to 31 December 2023:

Scope of assurance

We have been engaged by the Company to perform an assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) ("the Standard") to provide independent limited assurance on accuracy of selected data presented in the Report prepared in accordance with the requirements of Global Reporting Initiative ("GRI") Sustainability Reporting Standards for the period from 1 January 2023 to 31 December 2023.

Assurance procedures and roles

We carried out limited assurance on the accuracy of the following data related to 2023 years and included in the Report:

- (1) Selected key performance indicators specified below in the section "Selected non-financial performance data for limited assurance", and
- (2) The Company's self-declaration in preparing the Report in accordance with the requirements of GRI Sustainability Reporting Standards as stated on "About the Report" subsection of the Report.

Our key assurance procedures

To achieve limited assurance, the Standard requires that we review the processes, systems, and competencies used to compile the areas on which we provide our assurance. Considering the risk of material error, we planned and performed our work to obtain all of the information and explanations we considered necessary to provide sufficient evidence to support our assurance conclusion.

To form our conclusion, we undertook the following procedures:

- Analyzed on a sample basis the key systems, processes, policies, and controls relating to the collation, aggregation, validation, and reporting processes of the selected sustainability performance indicators;
- Conducted interviews with employees of the Company responsible for sustainability performance, policies, and corresponding reporting;
- Conducted selective substantive testing to confirm the accuracy of received data to the selected key performance indicators;
- Made inquiries of management and senior executives to obtain an understanding of the overall governance and internal control environment, risk management, materiality assessment, and stakeholder engagement processes relevant to the identification, management, and reporting of sustainability issues; and
- Performed selective review of disclosures in the Report on compliance with GRI Sustainability Reporting Standards.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Inherent limitations

Inherent limitations exist in all assurance engagements due to the selective testing of the information being examined. Therefore fraud, error, or non-compliance may occur and not be detected. Additionally, non-financial information such as that included in reporting documents is subject to more inherent limitations than financial information, given the nature and methods used for determining, calculating, and sampling or estimating such information.

Our work has been undertaken so that we might state to the Company those matters we are required to state to them in this Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our work, for this Report, or for the conclusion we have formed.

Our engagement provides limited assurance as defined in the Standard. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and, consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Roles and responsibilities

The Directors of the Company are responsible for the preparation, accuracy, and completeness of the sustainability information and statements contained within the Report. They are responsible for determining the Company's sustainability objectives and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.

Our responsibility is to independently express a conclusion on the selected data based on our procedures. We conducted our engagement in accordance with the ISAE 3000 (Revised) Assurance Engagements other than Audit or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board.

Independence and quality control

We have complied with the independence and other ethical requirements established by the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which are based on fundamental principles of integrity, objectivity, professional competence, due care, confidentiality, and professional behavior.

Deloitte applies the International Standard on Quality Control Management 1 (ISQM 1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Selected non-financial performance data for limited assurance

We have been engaged by the Company to perform limited assurance procedures on the accuracy of the following key performance data of the 2023 reporting year included in the Report:

Employees	<ul style="list-style-type: none">• Total number of employees• Total number of employees by gender, male• Total number of employees by gender, female• Number of employees hired• Number of employee turnover• Employee turnover rate
Operational	<ul style="list-style-type: none">• Total number of active customers• Number of active corporate customers• Number of active individual customers• Number of active individual entrepreneurs

Greenhouse gas emissions	<ul style="list-style-type: none">• Scope 1 emissions• Scope 2 emissions
Water consumption	<ul style="list-style-type: none">• Total water withdrawal
Energy	<ul style="list-style-type: none">• Electrical energy consumption• Total natural gas consumption

Limited assurance conclusion

Based on the scope of our work and the assurance procedures performed, we conclude that nothing has come to our attention that causes us to believe that the aforementioned selected non-financial performance data, which we were engaged to provide limited assurance on, as specified in the "Roles and responsibilities" section above, are materially misstated.

Deloitte + Touche LLC

10 February 2025

