

Kapital Bank

Corporate Presentation

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



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Executive Summary



Bank Management



Farid Huseynov

Chairman of the Board,
Chief Executive Officer



Fargana Mammadova

Board member, Chief Human
Capital and Organizational
Development Officer



Javid Mirzayev

Board member,
Chief Risk Officer



Emin Mammadov

Board member,
Chief Financial Officer



Farid Hidayatzada

Board member,
Chief Corporate Sales Officer



Yashar Mammadov

Deputy Chairman of the Board



Kamal Abdullayev

Board member,
Chief Compliance Officer



Mikhail Gromov

Chief Information
Technology Officer



Mehti Aslanov

Chief Data Management
Officer

Kapital Bank operates successfully as heir of Savings Bank of Azerbaijan. Currently, Kapital Bank is the largest financial institution in Azerbaijan. Kapital Bank serves more than 5 million individuals and more than 22,000 legal entities. At the same time, Kapital Bank closely participates in a number of state-owned social projects and implements a number of development programs of real sector.

2023 net profit:
242,209 AZN

Assets:
8,659,618 AZN

Liabilities:
7,748,329 AZN

Capital adequacy ratio (Tier 1):
9.16%

Capital adequacy ratio (Total Capital):
13.08%

Credit Rating

Ba2 Stable

Moody's

- LT rating foreign deposits foreign currencies: **Ba3**
- LT Counterparty risk: **Ba2**

BB-/B Stable

S&P Global

- Long Term rating for loans
- Short Term rating for loans

Group objective: Improve customer centricity and product culture to boost healthy growth in Retail, Micro & SME and become the main bank of ecosystem customers.

Strategic objectives

Retail

- Maintain leader position in the retail market
- Go to next level of market penetration by targeting street customers
- Day-0 readiness for salary cardholder liberalization

Micro

- Build a sizable business in micro-segment while being profitable with a sustainable business model both on lending and transaction (e.g., Digital service model, the scoring model with new data sources)

SME

- Grow the SME segment by keeping the balance between transaction and lending

Functions

- Transform risk and finance function to serve the whole ecosystem (e.g., using ecosystem transaction data)
- Ensure Birbank's stability through technology transformation
- Integrate ecosystem and external data to extract consumer insights, drive additional value and increase data-driven decision-making across the organization

Talent management

- Attract and develop the best talent
- Increase organization health to the desired level

Started as
Azerbaijan
Savings Bank

1993

Division of
Sberbank
in Soviet
Azerbaijan

2005

Commercial
Savings
Bank JSC
Nationalized

2007

Rebranded to
Kapital Bank
JSC/Privatized

2008

Pasha Holding
became main
shareholder

2013

Diversified into
Retail Loan
market

2018

Become 100%
owner of BirKart
non-bank org.

2021

Launched
country's first
Digital Bank

2022

Birbank
Business

2023

Birbank
Invest

2024

Economic Snapshot

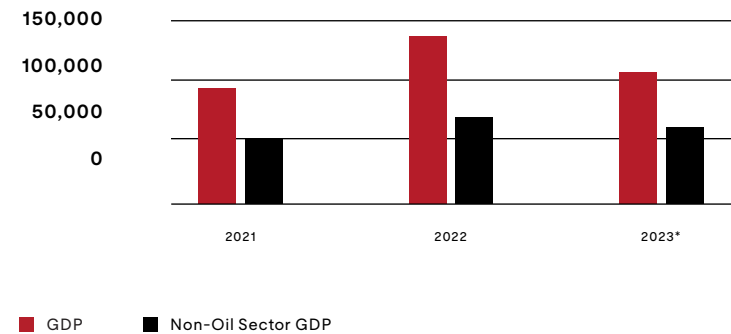


In 2023, the Central Bank adjust its monetary policy to return inflation rate to the target range and stabilize inflation expectations. Interest rate peaked **9%** in May, 2023 and decreased to the **8%** by the end of the year.

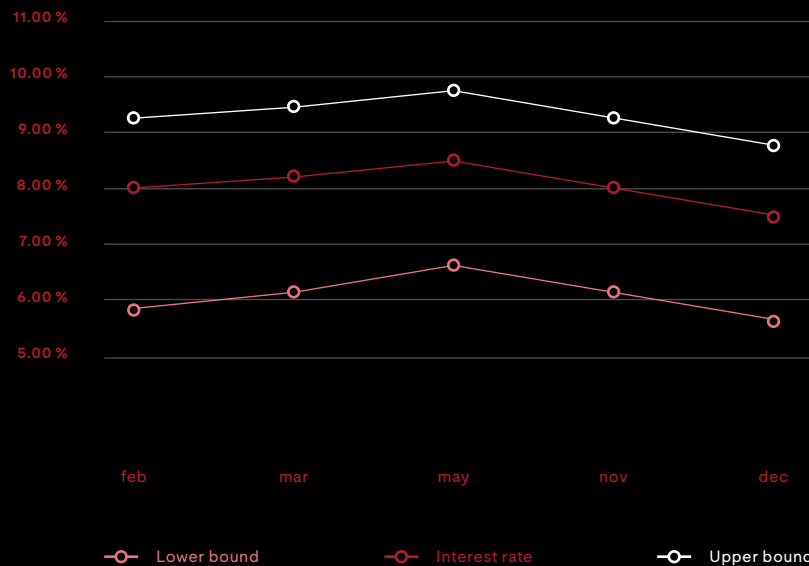
Central Bank achieved to decrease YoY inflation rate from **13.6%** to the **8.8%**. According to the latest forecasts of the Central Bank, annual inflation is expected to be around **5-5.5%** in 2024, taking into account the ongoing monetary policy.

Azerbaijan GDP is expected to be **118.4 billion** manats in 2024, with growth of **2.4%** according to the Azerbaijan Ministry of Finance.

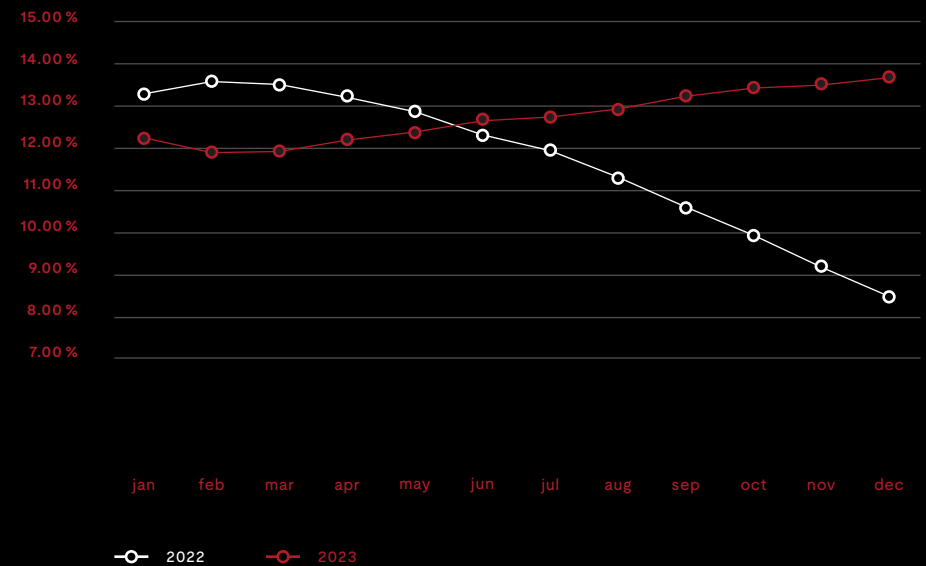
GDP of Azerbaijan per year



Interest Rate Corridor 2023



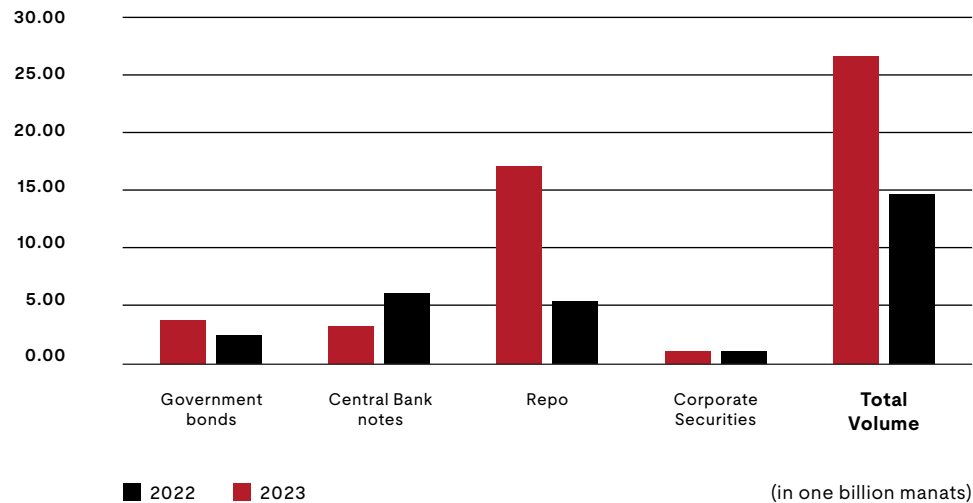
YoY inflation rate



Financial Landscape



Total Volume of the Capital Markets



In 2023 Total Capital Market volume surged nearly **83%** in comparison to the volume in 2022. Total volume of operations of Kapital Bank in capital markets reached to **8.24 billion** manats which is the nearly **30%** of the total market volume.

The reason of this increase is mainly high bank activity in **repo market** due to monetary stabilization policy of Central Bank. Kapital Bank took **38.5%** of the repo market volume in 2023.

Ministry of Finance is planning to issue bonds in total **7 billions** volume during 2024.

Central Bank opened secondary market of Central Bank notes to all type of the investors. From 2024, in addition to the local banks institutional and retail investors will be able to invest in CB notes.

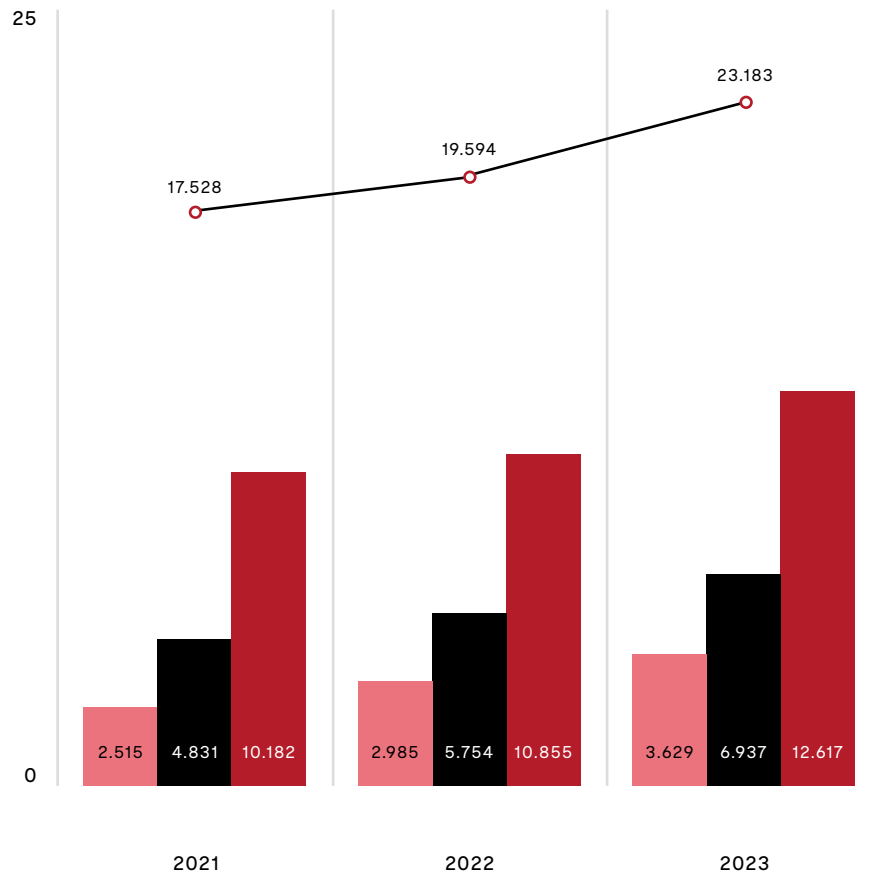
In the first quarter of the 2024, it is expected that Central Bank will approve legislation to give investment services licenses to the banks.

In total, it is expected that bank activity in capital markets will increase in 2024 and Kapital Bank aims to take at least **30-40%** of the capital market volume.



Loan Portfolio Trend and Structure

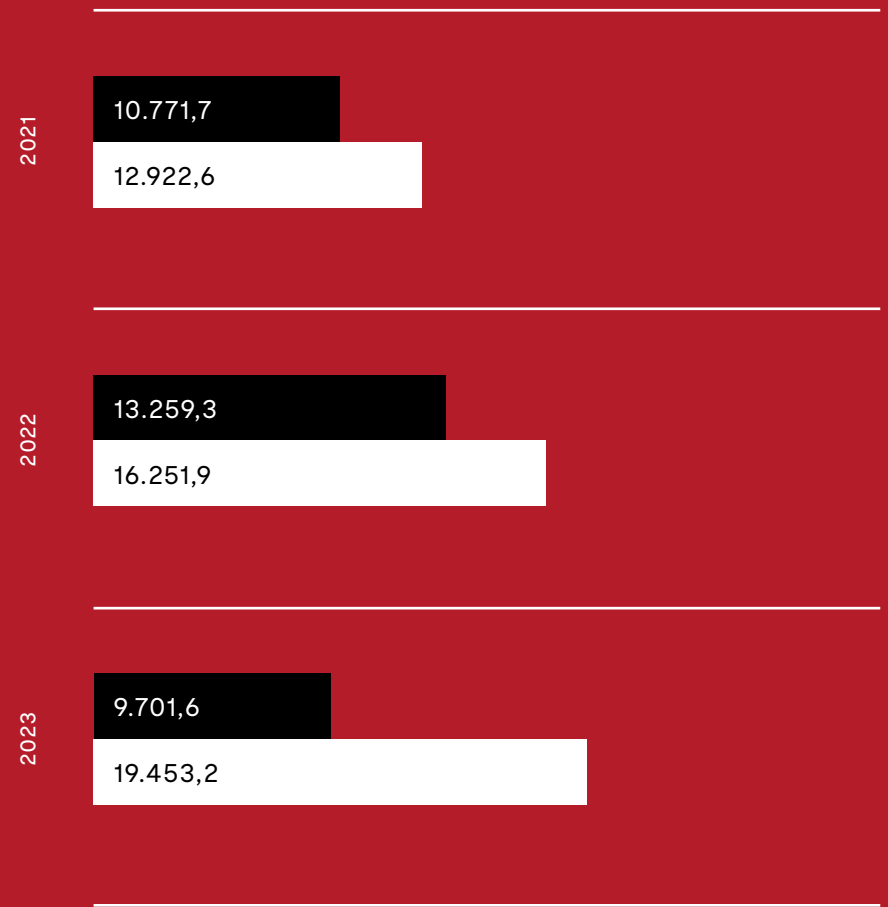
■ Mortgage loans
 ■ Consumer loans
 ■ Business loans
 ○ Interest rate



(in one thousand manats)

End of Year Balance of Commercial Banks

■ Deposits in manat
 ■ Deposits in foreign currency



(in one billion manats)

Financial Highlights



for year










| | 2020 | 2021 | 2022 | 2023 |
|---|-----------|-----------|-----------|-----------|
| Interest income | 462,642 | 511,844 | 626,823 | 721,512 |
| Interest expense | -67,787 | -105,682 | -142,598 | -127,642 |
| Non-interest income | 136,211 | 170,963 | 275,451 | 228,944 |
| Non-interest expenses | -206,977 | -270,470 | -369,246 | -458,906 |
| Profit before income tax expense | 324,089 | 306,655 | 390,430 | 363,908 |
| Profit for the period | 253,836 | 240,459 | 304,663 | 282,103 |
| Total comprehensive income for period | 254,672 | 240,828 | 304,803 | 284,112 |
| Assets | 5,264,933 | 6,761,343 | 7,942,693 | 8,810,254 |
| Liabilities | 4,549,343 | 5,964,270 | 6,974,081 | 7,728,630 |
| Capital adequacy ratio (Tier 1) | 11.4% | 9.5% | 9.50% | 9.2% |
| Capital adequacy ratio (Total Capital) | 22.4% | 15.5% | 16.9% | 13.1% |
| CBAR min. CAR (Total Capital) | 11% | 12% | 12% | 12% |
| ROE | 35.6% | 37.2% | 46% | 35.8% |
| ROA | 4.8% | 3.6% | 3.8% | 4.1% |

(AZN, thousands)

Business Portfolio Snapshot



Loan Portfolio Breakdown

| | for year | | | |
|---|-----------|-----------|-----------|-----------|
| | 2020 | 2021 | 2022 | 2023 |
|  Individuals | 1,568,620 | 1,876,042 | 2,238,546 | 2,893,592 |
|  Trade and services | 98,399 | 245,092 | 327,449 | 781,754 |
|  Manufacturing | 324,467 | 332,750 | 303,700 | 205,566 |
|  Construction | 63,239 | 112,532 | 133,942 | 134,315 |
|  Agriculture and food processing | 29,708 | 22,619 | 48,250 | 90,259 |
|  Telecommunication | 43,942 | 34,522 | 25,972 | 55,619 |
|  Transport | 15,573 | 9,089 | 14,714 | 17,586 |
|  Other | 18,098 | 9,089 | 59,440 | 69,317 |
|  Total | 2,162,046 | 2,646,450 | 3,152,013 | 4,248,008 |

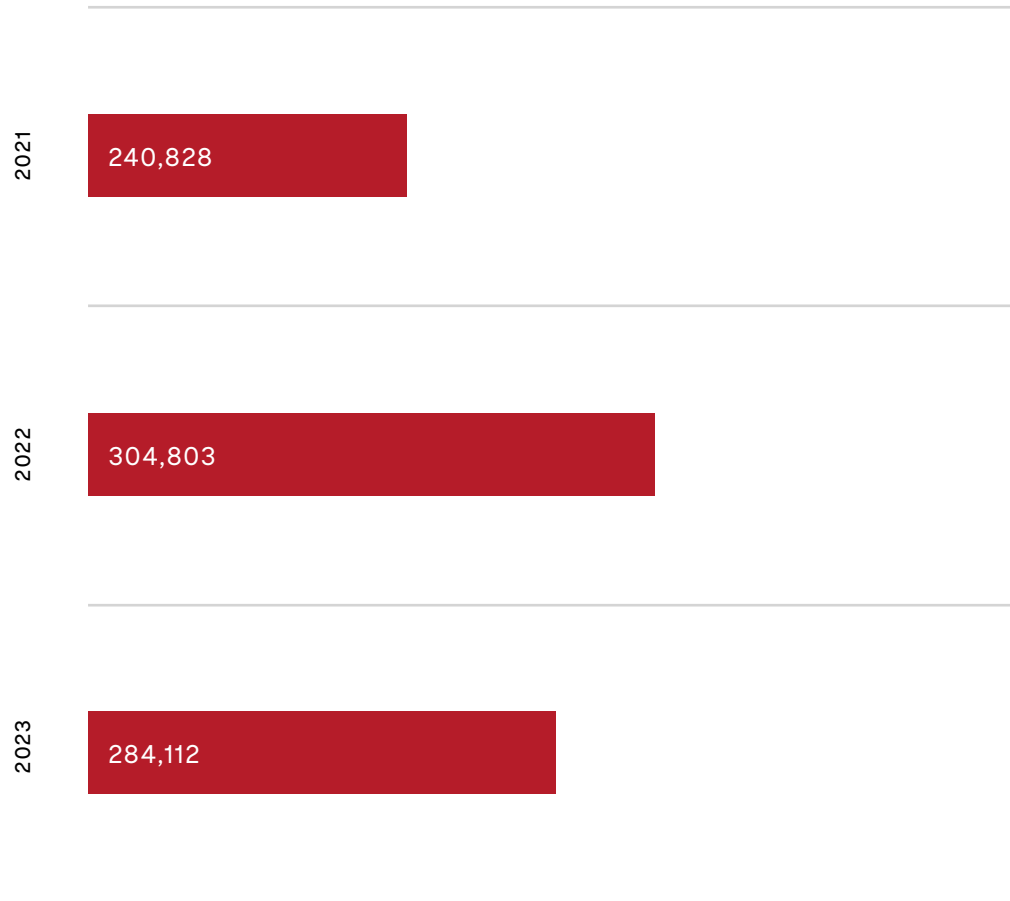
(AZN, thousands)

Investment Portfolio Breakdown

| | for year | | | |
|--|----------------|------------------|------------------|------------------|
| | 2020 | 2021 | 2022 | 2023 |
| Securities issued by the Ministry of Finance of the Republic of Azerbaijan | 495,774 | 752,237 | 1,341,613 | 808,650 |
| Securities issued by the Central Bank | 135,743 | 16,559 | 399,613 | 127,938 |
| Corporate bonds | 135,532 | 222,344 | 371,662 | 379,368 |
| Notes issued by the Azerbaijan Mortgage Fund | 37,663 | 134,779 | 216,720 | 177,000 |
| Corporate shares | 9,217 | 11,464 | 11,108 | 13,055 |
| Total | 813,929 | 1,137,383 | 2,340,716 | 1,506,011 |

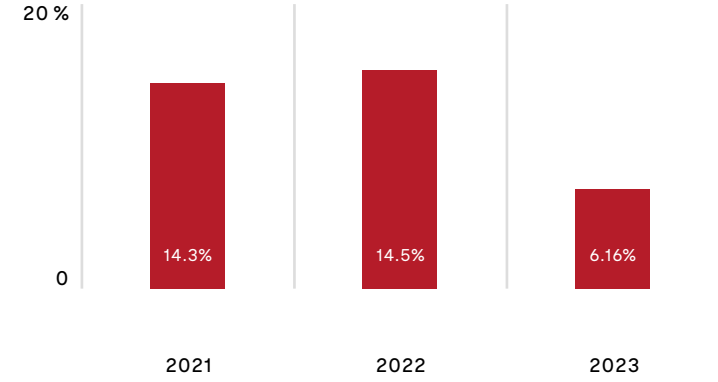
(AZN, thousands)

Net Profit

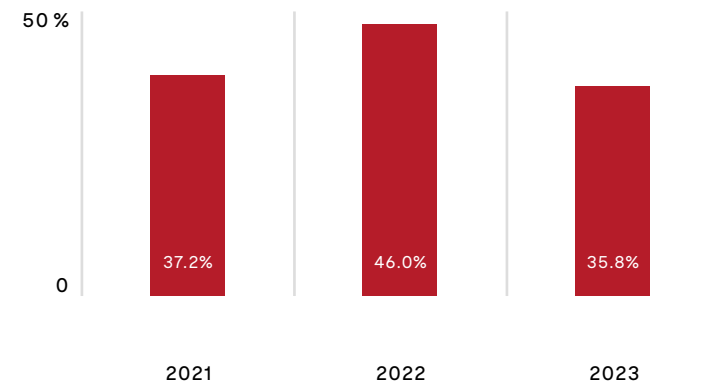


(in one million manats)

Risk Cost



ROAE



Risk Management



Main Risk Types:



Main Focus Areas:



Risks are mitigated through the processes below:

Risk acceptance 

although the risk level is acceptable as it is low (or very low), keeping it under control by the risk holder

Risk reduction 

drafting an action plan to reduce the probability of occurrence and consequences of a risk

Risk avoidance 

taking action until the risk is reduced, for example, stopping a risky product (service)

Risk transfer 

insurance against a risk or transfer of a risk to a contractor/partner

Compliance Management



Kapital Bank is actively enforcing local regulations, international standards, and best practices through the development of internal normative documents. The bank has implemented a robust Compliance Program, centered around its global Compliance Policy, to safeguard customers from money laundering, terrorist financing, and other financial crimes by consistently identifying and mitigating compliance risks in accordance with applicable laws and regulations.

2023 Summary / Overview:

- In 2023, significant changes were introduced, including amendments to preventive laws, along with the approval of documents like **"Corporate Governance Standards in Banks"** and **"Measures for compliance and verification of clients when introducing new technologies, identifying risk factors, and assigning Client Profile to Risk Groups."** These legislative adjustments and innovations presented new challenges, prompting the bank to swiftly incorporate them into its internal regulatory framework and effectively manage its activities.
- "Kapital Bank" OJSC, in addition to being guided by domestic and international compliance regulations in its activities, also actively **contributes to the improvement of legal regulations**, if necessary, by deeply analyzing the meaning and purpose of these laws and regulations.
- Compliance process are supported by: leading firms as **Fico Tonbeller, Refinitiv (World check), Deloitte, Dow Jones FACTIVA, Bankers Almanac (Accuity), KYC registry.**

Focus Areas:



Fraud
Prevention



AML/ TF
Prevention



Compliance
Risk Monitoring



Protection of
Consumer Rights

Strategic Goals



Strategic goals



Establish broader cooperation within the framework of major government projects.



To be recognized as the best employer in the country by recruiting professionals.



Maintain leadership in the field of digital banking and payments in the face of the country's first digital bank – Birbank, as well as develop its existing large financial ecosystem.



Become the main bank for clients in the market of banking products and services for SMEs and micro businesses.



Maintain a leading position in the retail banking products and services market

New business building initiatives

- Micro business scale up
- Lending to non-salary
- Ecosystem initiatives: Loyalty and BNPL

Step change improvements in current business model

- Simplified loan journeys & better pricing
- Segmented & personalized offers
- New funding strategy & saving products
- SME digital business model
- Service operation migration from branches & CC to digital
- Customer support excellence & quality of service

Enablers

- Bank wide CX & product culture
- Tech transformation & Birbank stability improvement
- Cross-group data sharing & single ID
- Risk & Collection excellence
- CLV & AA decision making
- Attracting best talent

| Overall ambitions | Net profit before taxes and PSB | | | |
|---------------------|---------------------------------------|--|---|--|
| Customer experience | NPS 50%+ | Simple & friendly | Customer-centriculture | |
| Retail | Active retail clients 3.5+ mn | Lending to everyone through behavioral scoring | Segments based on CLV | More diversified funding strategy: saving products for retail, micro & SME |
| SME & Micro | Micro clients 100+ k | Focus on digital micro lending | Transaction and non-banking products | |
| | SME clients 20+ k | | | |
| Ecosystem | Ecosystem overlap 40% | BNPL on Umico & beyond | Cross-group loyalty | |
| Channels | Birbank MAU & MTU ~3.0 mn / 2.5 mn | Digital first, but not digital only: simple operation migration to digital | Smart IVR, AI chat bot, segmented customer support approach & SLAs | |
| Enablers | Technical availability 99.99% | Single ID and cross-group data sharing | Modular omni-channel cloud-native architecture | Best employer in Azerbaijan |



Kapital Bank