



STRATEGIC DEVELOPMENT PLAN

**Financial Years
2018-2022**

KDB Bank Uzbekistan

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Since its establishment, JSC “KDB bank Uzbekistan (hereinafter referred to as the Bank) has carried out its activities in accordance with strategic objectives and tasks approved by the Bank's Head Office (Seoul, Korea). The following key indicators can be listed as examples of recent achievements:

- successful merger of UzKDB and RBS Uz banks and further integration of the two systems;
- positive dynamics of the main indicators of financial performance and sustainability;
- strengthening of the Bank's position among the 10 largest banks of Uzbekistan in terms of total assets.

The ongoing large-scale economic reforms in Uzbekistan require a more critical approach to the assessment of the results of the Bank's earlier achievements and revision of its further development strategy based on available potential and current market conditions in the banking sector.

Chapter II.

Mission and Main Values

The long-term strategy of the Bank has been formed on the basis of its mission - to become a reliable partner for companies on high moral and ethical standards. The Bank fully understands its responsibilities to the shareholders and believes that by becoming economically successful and efficiently using its competitive advantages, it will be able to provide reliability and prosperity for its clients and employees.

The ongoing economic changes form new serious challenges for the Bank. This, in turn, requires that the staff fully understands the organization's fundamental values. In carrying out its mission, the Bank will continue to adhere to the following basic values and principles:

Honesty: Effective opposition to any damage to the Bank's interests by creating an environment for open communication and free expression of own opinion, honest discussion of all the complexities and pitfalls, the ability to accept and share responsibility for both successes and failures.

Client focus: The Bank values and places its clients into the basis of its organization and develops services in accordance with their needs. At the same time, in providing services, the Bank aims continuous improvement of the quality and constant seek for solutions that exceed client's expectations.

Steady productivity: In dealing with clients and solving the assigned tasks, the Bank aims at achieving long-term success. In this, common interests are placed above personal or narrow interests. The Bank encourages an entrepreneurial spirit in which risk and profitability are balanced and supports long-term development path by investing in the best projects.

Discipline: One of the fundamental principles of the Bank's activity is the creation of necessary conditions for attracting and retaining the best talents that share the basic values of the organization. The Bank thinks it can be maximum effective in its activities on condition of maximum rational use of its human resources. In addition to the above, the Bank carries out its activities in strict compliance with the requirements of the legislation of the Republic of Uzbekistan, regulatory acts of the Central Bank of the Republic of Uzbekistan (hereinafter, the Central Bank or CBU), as well as current licenses and the Charter.

During its 20-year activity in the Republic of Uzbekistan, JSC "KDB Bank Uzbekistan" (earlier Daewoobank, later UzKDB Bank) has established itself as a reliable and stable financial institution. Starting from zero in 1997, the Bank managed to gain the confidence of the market and other stakeholders, gained a strong foothold and prepared a foundation for further development. For a long period of time, the Bank demonstrated steady growth of its operations and managed to become one of the leading banks in the country by total assets and other financial indicators.

Today, the Bank represents a universal financial institution which offers a wide range of financial services and holds a reputation of responsible and stable organization.

Last year (2017) in Uzbekistan has become a year of reforms and structural changes in the economy, public administration and foreign policy. The country's leader undertook historical measures aimed at liberalizing the economy, in particular, devaluation of the official exchange rate of the national currency in September 2017.

Some other measures which are being taken in order to improve the overall investment climate are expected reduction of the tax burden, reduction in the number of taxes and overall optimization of the tax system.

Proceeding from the ongoing economic reforms, leading international rating agencies predict that in the future the banking sector of the Republic of Uzbekistan will demonstrate sustainable growth rates due to favorable operating environment which is ensured by stable prices for the country's main export items. Also expected are asset quality improvement, relatively high capitalization rates and improvement in the overall efficiency due to the growing economy.

Competitive advantages and disadvantages

In view of the latest ongoing changes, the Bank is to objectively evaluate the results of its long dated activities including the **achieved competitive advantages:**

- **International reputation (including Brand)** associated with a strong trust of the clients, regulators and other stakeholders. In 2017, S&P international rating agency assigned the Bank with "B +" credit rating, one of the highest ratings in Uzbekistan.
- **Solid client base**, which includes some largest local and international companies operating in the country. The Bank ranked No. 6 in the 10 largest banks of Uzbekistan in terms of total assets as of December 31, 2017.
- **Presence of Client Relationship Manager** operating function in the Bank's structure. The long-term presence of this function coupled with accumulated experience of client management strongly distinguishes the Bank in its activities related to client servicing and attraction especially for large corporate clients.
- **Integrated approach to the client service.** The bank offers a wide range of financial products and services and is capable of providing high quality and comprehensive services to every client.
- **Modern technologies.** The Bank has systematically paid special attention to its available technologies and has taken particularly active steps to automate its core operational processes and optimize information systems.
- **Bank's human resources.** We offer a complex diverse working environment where ability to accept challenges, personal initiatives and professionalism to work are rewarded. Trust and mutual understanding are our core values in relation to the Bank's personnel.

At the same time, to ensure its business development, the Bank needs to take effective measures to neutralize the following shortcomings, in particular:

- Weak diversification of the existing client base with large concentration of the resource base among a small group of clients;
- Relatively low volume of the total loan portfolio in relation to the total assets of the Bank;
- Limited branch network creates certain difficulties in retaining and attracting new clients;

- Necessity of further unification of the business processes among existing branches and strong dependence of branches on the Head Office in decision making process;
- Relatively inflexible organizational structure which may delay the decision-making process;
- Absence of clear retail business development strategy - excessive concentration of the Bank's resources in the corporate segment;
- Lack of Bank's own basic technological developments and products - there is a need to develop own technological solutions and certain basic types of services (mobile banking application, full-functioning ATMs, Internet banking for individuals, etc.);
- Relatively low level of the Bank's activity in the area of cooperation with international financial institutions, especially with regards to trade finance and external credit lines.

Possible Threats and Opportunities

Considering the ongoing large-scale changes and market trends, the Bank considers the following potential threats to its future development. In view of the existing potential, the Bank also considers these threats as additional opportunities for improvement of the service quality and expansion of its client base.

- Rapidly changing market conditions require closer contact with clients and special approach to resolving their needs. In competitive environment, the long experienced function of the Client Relationship Manager function can provide additional support to the Bank in servicing and attracting new clients;
- Active introduction of new digital technologies in the banking sector and increasing client demands. The growth of the digital banking services may inevitably lead to the stricter regulatory requirements and higher costs for protecting personal data and preventing fraudulent operations. In this connection, the Bank's ability to provide round-the-clock remote access to their services by any available technology becomes a critical element in the servicing process as per client's needs.
- Higher importance of timely integration of the banking services with daily business processes.

- Liberalization of the banking sector creates opportunities for the creation of new products and services. The Bank needs to utilize its existing potential for development and introduction of timely and modern solutions for clients.
- Stronger competition requires improvement in the internal processes. The Bank needs to take advantage of these external pressure factors to reorganize and optimize its structure and internal processes.

Considering the ongoing radical changes and new challenges, it is vital for the Bank to consolidate the achieved market positions (including its gained position in the top largest 10 banks' list) by most effective utilization of its competitive advantages and taking effective measures to address the existing shortcomings.

The Bank's further development will be focused on the following main areas requiring transformation:

- Increase and diversification of the resource base by attracting new large corporate clients.
- Systematic analysis and determination of the Bank's main business areas with significant weight in the Bank's profitability and timely introduction of necessary new banking products and services.
- Strengthen measures aimed at maximum satisfaction of all categories of clients. Despite the priority of the top tier clients (the most profitable segment) in client satisfaction, the Bank will strive to satisfy the needs of all its clients on the basis of available opportunities and risk assessment and profitability.
- Necessity to increase the share of higher-yielding products in the Bank's profitability structure. In particular, this includes credit-related products including overdrafts.
- Further improvements in the efficiency of branches by creating more favorable conditions for their activities. In specific, this includes daily activities of branches on attracting and servicing clients and optimizing their interactions with the Head Office.
- Revision of the Bank's strategy on generation of fee-based commission income (non-interest fees). Considering the external changes and sharp decrease in the share of fee-based commission income, it is necessary to develop new strategy in this direction.
- Development of cooperation with international financial institutions, especially in the areas of trade finance and credit lines.
- Expand range of services and simplify access to the services through development of remote-based functions (Internet banking for individuals, own mobile banking).

Chapter IV. Strategic Objectives of the Bank

- Effective measures on optimizing the Bank's core business processes aimed at the improvement of the service quality, process management and control and balance reduction in operating costs (considering the quality).
- Timely fulfillment of the requirements of banking legislation (including introduction of necessary changes into internal processes, compliance with the minimum requirements such as statutory capital, etc.).

Increase and diversification of the resource base

The ongoing fundamental economic changes and growing competition require real measures aimed at the expansion and diversification of the Bank's resource base. In this regard, execution of the following goals will be critical for the Bank:

- Attraction of new corporate clients with resource base. The evaluation of the achieved results in this direction will be based on actual statistical data. For example, an increase in the total resource base with a simultaneous decrease in the share of the top 10 clients compared to the previous period can be viewed as a positive trend.
- Achievement of annual growth of the Bank's resource base, including growth of deposits of both legal entities and individuals.
- Ensuring gradual transition from short-term to long-term resources.

Bank's policy of client attraction

The Bank will continue to apply its core business strategy aimed at attracting and retaining corporate market segment. At the same time, it is necessary to adapt this model so that the Bank can meet clients' demands for a wider range of the banking services and maintain the profitability of its operations at sufficient level.

Due to increasing competition, the Bank considers that it is extremely important to improve its client policy, to create a more flexible and effective interaction system on the basis of the clients' needs.

Some of the conditions for the successful implementation of the Bank's client policy include:

- Active formation of stable client base with constant tendency for its expansion and continuous research and analysis of the clients' needs for elaboration of appropriate proposals.
- Increase of the intensity of client relationships with existing clients.
- Measures aimed at developing the best client service system by continuously improving the service quality and promoting the most positive client service culture

(CRM culture) in all areas of the Bank for all categories of clients and rewarding for the achieved results.

- Development of new and objective client service quality assessment system which will allow receiving timely client feedbacks and help define most problematic areas. This system must become an integral part of the evaluation and motivation of the Bank's employees.
- Application of flexible conditions for attracting and servicing corporate clients with high potential. In particular this can be individualized approach in client service, attractive tariffs, maximum adaptation of the Bank's technological capabilities to the client's requirements and etc.
- Optimization of the internal processes related to the client servicing activities targeting simplification, standardization and automation.

The further development of long-term relationship with clients and broader coverage of the offered services should help reduce the risk of fluctuations in aggregate client resources and facilitate in forecasting and planning of the Bank's day-to-day activities.

Credit business

One of the main goals of the Bank related to the increase and diversification of the overall profitability will be expansion of high-quality and highly profitable loan portfolio. The Bank's activities in this direction will be carried out in accordance with the following principles:

- Pricing policy which will be based on the effectiveness of credit operations and maintaining required interest margin;
- Increase efficiency and flexibility in making final decisions on deal terms;
- Process loan applications considering the possibility of providing broader service range (cross-selling) including transfer of the client's main turnover to the Bank. Subject to meeting client's individual requirements and correctly chosen marketing strategy, the above measures should help expand offered product range and increase the competitiveness of the Bank's credit products;

- Review the internal operating environment and create most favorable conditions for personnel of the Bank's Credit business in order to achieve the set tasks on volumes and profitability weighted against possible risks.

The Bank's credit policy will continue to focus on developing relationships with large corporate business. At the same time, applications of small and medium-size enterprises with the acceptable indicators of efficiency, profitability and risk will also be considered on priority basis.

In addition, in order to better meet client needs, the Bank plans to introduce overdraft product for personnel of large-size companies using flexible risk minimizing instruments adjusted to the characteristics and conditions of the borrower company's business.

Overall, the increasing competition in the banking sector and need for:

- Attraction of longer-term resources;
- Optimization of the resource base structure and
- Reduction of the corresponding risks

require the Bank to apply effective measures aimed at systematic and long-term increase in the loan portfolio volume.

Retail business

In general, the Bank will continue to adhere to its core business model focused on attracting and servicing corporate market segment. Nevertheless, the Bank will need to ensure development of its retail segment in accordance with the requirements and modern standards of the banking sector of Uzbekistan. In this direction, measures taken by the Bank will be directed on priority basis to meet the needs of the personnel of corporate clients.

At the same time, the Bank will also implement adequate measures to cover a certain market share outside the existing corporate client base. These measures will be taken to ensure appropriate profitability of the retail business and improve the reputation of

the Bank as an international financial institution that provides the necessary range of the banking services in accordance with the time demands.

In order to further improve the range of the offered retail services, the Bank plans such activities as the introduction of overdraft and further development of mortgage lending. Also, appropriate measures will be taken to develop the following areas:

- Infrastructure for servicing plastic cards (launching and expanding ATM network and POS terminals)
- Easier access to the bank's services through various remote channels, including Internet (Internet banking for individual clients) and mobile communications (own mobile banking).

Information Technology

One of the main conditions for the implementation of the Bank's overall strategy is the development of information technologies - a qualitatively new level of automation, the improvement of the telecommunications infrastructure and technical facilities.

It should be noted that the Bank's organizational structure includes its own IT development team on long-term basis. Among the main tasks of this unit is the maintenance of the core banking system as well as development of additional technical capabilities in accordance with external and internal requirements. Due to the rapidly changing conditions in the banking sector, on need basis, the Bank will also use outsource services of software developers considering the availability of the solution, its quality and cost ratio and expected implementation deadlines.

The Bank also plans to carry out continuous modernization of its information technologies targeting unification of the software and data storage and processing systems as well as principles of ensuring the reliability, stability and security of all systems and applications.

The international cooperation

Among main conditions for the development of international cooperation are:

- Diversification of the sources of business growth;
- Strengthening of the resource base and
- Availability of financing (including trade finance) of the Bank's clients through foreign credit lines.

The above measures can strengthen the Bank's reputation as an active participant in international cooperation, assist in providing additional services to clients and also help gain access to new technologies and skills in the international market.

Developing closer business relations with international financial institutions such as the European Bank for Reconstruction and Development (EBRD), Export-Import Bank of Korea and some others may support the Bank in its efforts for expansion of international cooperation activities.

Corporate Governance

The Bank believes that one of the main conditions for the successful implementation of the strategic development plan is the need for continuous improvement of its corporate governance system in accordance with world standards and shareholders' interests.

Among the main tasks in improvement of corporate governance are:

- Elaboration and development of mechanisms for decision-making by the management bodies of the Bank;
- Efforts aimed at increase of its investment attractiveness and
- Increase of the work quality and culture and reduction of the associated risks.

Some of the measures taken by the Bank to improve its corporate governance system include:

- Bringing the existing local regulatory acts in compliance with the requirements of the Head Office (KDB Bank, Seoul), as well as with the recognized global practice of corporate governance.
- Improvements of the internal control systems by enhancing efficiency of the Bank's management systems and its structural subdivisions, risk minimization activities, ensuring compliance with legislation, banking standards and professional ethics as well as the Bank's internal regulations by the Bank's personnel.

The Bank will continue to take efforts aimed at the improvement of the efficiency of all internal management systems which will also include efforts targeting optimization of the interaction processes.

Personnel Management

The Bank considers the availability of highly qualified, professional and positive-minded team as one of its strategically important advantages.

One of the main conditions for achieving the Bank's long-term strategy is the development of an up-to-date personnel management system which includes training, career development, skills development and continuous self-improvement. It is necessary to ensure a transparent and effective system for career planning and professional growth, staff rotation and personnel management. At the same time, the policy should target maximum use of the personnel's potential.

In connection with increasing competition and ongoing changes in the banking sector, the Bank will continuously increase its requirements for its personnel with regard to qualification and specialization.

At the same time, there will be simultaneous improvement of the staff training and skills development system. Training programs should target not only the development of certain technical qualifications but also improvement in basic behavior skills with a primary purpose of improving service quality. It will also be necessary to strengthen the importance of continuous upgrade of skills and professional development of managers at various levels.

The motivation system is also a prerequisite for achieving strategic objectives. Among the main goals in this direction are:

- Increase of the transparency and objectivity of the reimbursement system;
- Strengthen the dependence of remuneration on concrete work results and achievement of assigned tasks by staff;
- Other improvements in the incentive system throughout the Bank.

As a result of the above measures, the Bank expects higher efficiency of its management systems, opportunities for a more efficient use of the labor resources. As a consequence, overall measures should allow achieve the assigned tasks without sharp increase in staff size as well as improve the service quality and the level of the client satisfaction.

Budget management

The bank will utilize resources considering its current financial capabilities and subject to meeting set performance benchmarks in each reporting period. The Bank will continue to strengthen measures aimed at controlling the ratio of the operating expenses to operating revenues.

In general, the Bank will continue to conduct long-term and dedicated measures to introduce and improve the overall culture of systematic compliance with budgeted parameters including expense ones.

Risk management and internal control

The risk management strategy is aimed at maintaining the stability of the Bank's business, safety of its assets, ensuring the stability of all systems and minimization of possible losses.

Among the main tasks of the Bank in this direction is the development and improvement of the risk management system in accordance with business plans, scale and size of the risks involved in current activities.

In its risk management activities, the Bank will be guided by the recommendations of the Basel Committee on Banking Supervision, regulatory requirements of the CBU and relevant instructions of the Head Office (Seoul, Korea).

The Bank will continue to apply a risk-oriented approach based on continuous review and analysis of its internal processes. Particular attention will be paid to the timely identification of risks, assessment of the impact size and the likelihood of realization.

Particular attention will be paid to the control and management of operational and credit risks.

The main task in the field of credit risks is the earliest possible identification of potentially bad debts and application of the most effective measures for its timely restructuring and collection.

Among the tasks in the field of operational risks are measures aimed at elimination of possible gaps and unnecessary control mechanisms. The Bank's efforts in this direction will be based on the following activities:

- Full inventory of possible operational risks;
- Assessment of their potential economic consequences;
- Analysis of the economic efficiency of prevention and control systems and
- Increased responsibility of all units for operational risk management.

To ensure successful implementation of the proposed changes, the Bank will establish appropriate targets which will help objectively evaluate the performance of specific units and the Bank's place in the banking sector:

- Quality of service (service time duration, decision-making time period, etc.);
- Concrete achievement of the assigned tasks (number of new attracted clients with the corresponding profitability and resources);
- Employee productivity/efficiency (certain indicators per employee - number of transactions performed or clients serviced, etc.);
- Development and introduction of new sales channels (share of transactions through remote service channels, etc.);
- Market positions of the Bank in terms of key indicators (total assets, etc.).

To ensure the implementation of the goals and objectives of the Bank's strategic development plan, relevant units will develop current operational plans (action plans) which must comply with the main provisions of this document.

The developed action plans will be approved by the Bank's Management Board or Supervisory Board depending on applicable authority. On systematic basis, the Management Board reports to the Supervisory Board on the implementation of the business plan and strategic development plan. In turn, the Supervisory Board will report to the General Meeting of Shareholders of the Bank.