

**“APPROVED BY”**  
Annual General Meeting  
of Shareholders  
June 28, 2018

# **BUSINESS PLAN**

**JSC “KDB Bank Uzbekistan”**

**For 2018**

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# 1. BUSINESS ENVIRONMENT AND OUTLOOK FOR FY 2018

## 1.1. Recent Development

### History

**1997**- Founded as "UzDaewoo Bank" as part of the international expansion of Daewoo Group;

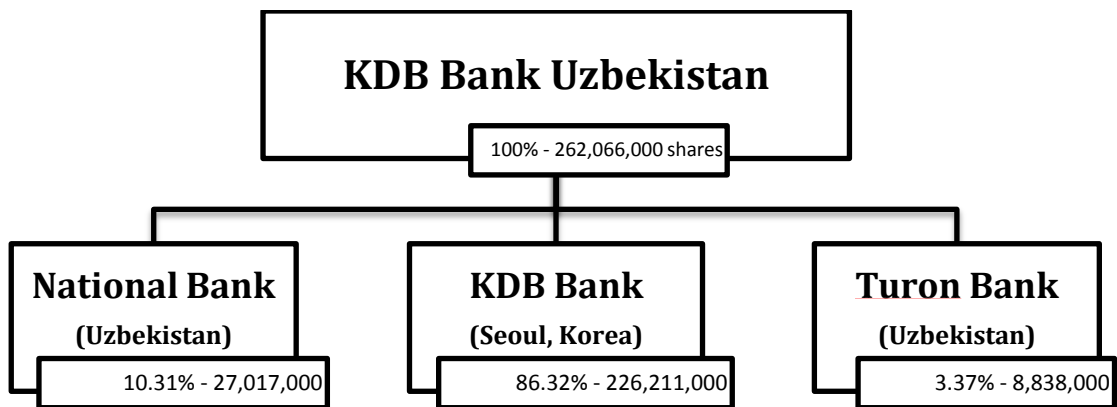
**2006** - Renamed to "UzKDB Bank" subsequent to the acquisition of KDB Bank;

**2010** - KDB Bank decided to acquire the majority stake in "RBS NB Uzbekistan" from RBS Group;

**2011** - KDB Bank completed the acquisition of the majority stake in 'RBS NB Uzbekistan' and the latter became the subsidiary of KDB Bank;

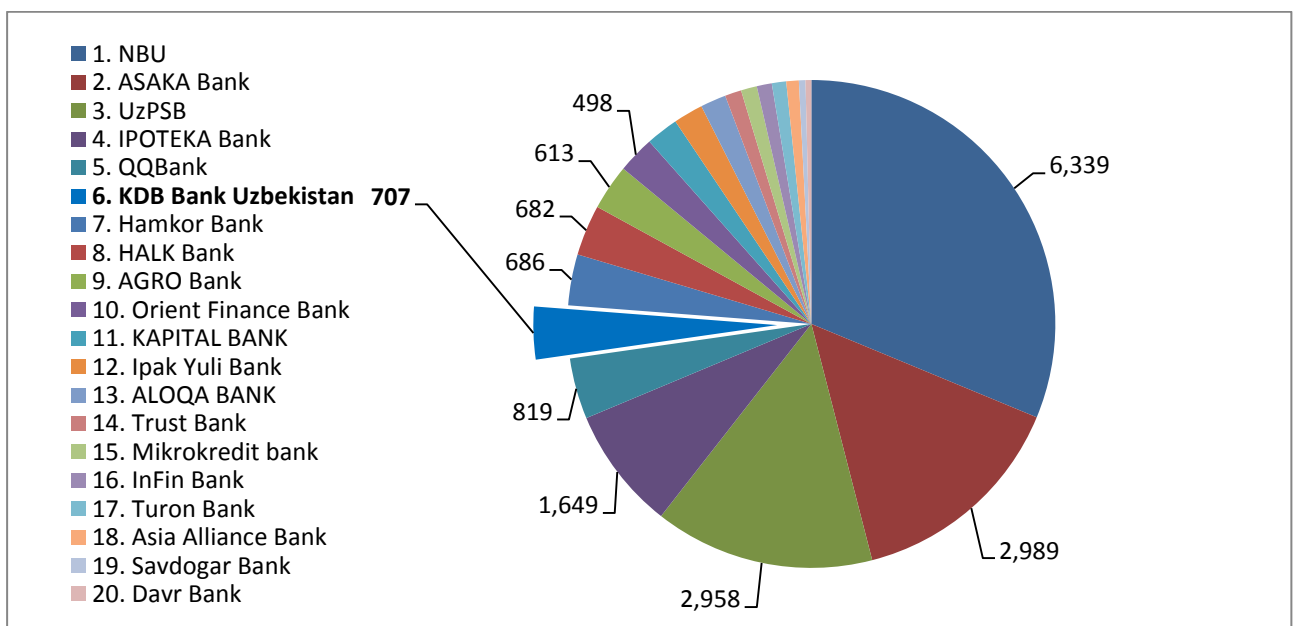
**2013** - KDB Bank completed joining of "RBS NB Uzbekistan" to "UzKDB Bank" and changing the name of "UzKDB Bank" to "KDB Bank Uzbekistan".

### Ownership Structure



### The Bank's Profile for the End of 2017

"KDB Bank Uzbekistan" took a leading position in terms of total assets with 707 million USD and held 6<sup>th</sup> place among 27 banks of Uzbekistan.



## 1.2. Vision & Strategy

<b>Mission</b>	Support corporate enterprises and individual clients on high standards
<b>Vision</b>	Financial Engine for Business Growth, Global KDB
<b>Strategy</b>	<ul style="list-style-type: none"><li>- Investing in innovation</li><li>- Efficient risk management</li><li>- Cultivate deeper relationships with clients</li><li>- Provide clients with superior financial advice and solutions</li></ul>
<b>Basic Values</b>	<ul style="list-style-type: none"><li>- Integrity</li><li>- Client Centricity</li><li>- Professional Commitment</li><li>- Discipline</li></ul>
<b>Management Policies</b>	<ul style="list-style-type: none"><li>- Teamwork</li><li>- Honesty</li><li>- Excellence</li><li>- Loyalty</li></ul>

## 1.3. Update on Uzbekistan's economic development

According to the official sources\*, Uzbekistan's GDP increased by 5.3% and constituted 249,136.4 billion UZS in 2017, less than the 7.8% recorded in the same period of 2016. By the end of 2017, GDP per capita made up 7.7 million UZS and this indicator has been increased by 3.6% comparing with last year. The main drivers of GDP were general services with 42.5%, industry with 23.9%, agriculture, forestry and fishing output with 17.3%, construction works with 6.1% and net taxes with 10.2%.

The greatest contribution to the growth of GDP was made by services sector, which grew by 6.9% compared to the previous year. In particular, trade, living and catering services rose by 3.9%, transportation and storage, information and communication - by 8.9%, and other services - by 7.3%.

In 2017, industry field grew by 4.6%. Growth in the industrial sector was largely due to the increase in mining (114.6%) and manufacturing (102.8%).

As a result of the large-scale work on the construction of apartment buildings, individual housing on standard designs, engineering and transport communications, social infrastructure objects and other constructions, growth in construction sector was 5.6%.

According to the results of 2017, the positive growth rate in agriculture, forestry and fishery was observed at the level of 2.0%.

\*Reports of the State Committee of the Republic of Uzbekistan on Statistics (2018)

## 1.4. Economic outlook of Uzbekistan

### Major Economic Indicators

Growth in % (annual percent change), unless otherwise indicated	2014 <sup>1</sup>	2015 <sup>1</sup>	2016 <sup>1</sup>	2017 <sup>2</sup>	2018 (e)
Real GDP growth	8.1	8.1	7.8	5.3	5.9 <sup>2</sup>
Nominal GDP (UZS bln)	144,868	171,369	199,325	249,136	290,600 <sup>2</sup>
Industrial output incl.	8.3%	8.0%	6.0%	4.6%	6.4% <sup>3</sup>
- Consumer goods	9.4%	9.7%	5.4%	5.0%	5.6% <sup>2</sup>
Construction works	18.3%	17.8%	12.5%	5.6%	10.0% <sup>2</sup>
Agricultural output	6.9%	6.8%	6.6%	2.0%	4.0% <sup>2</sup>
Investments in fixed assets	9.6%	9.6%	9.6%	1.0%	6.5% <sup>2</sup>
Services, total	15.4%	14.0%	12.5%	6.9%	9.0% <sup>2</sup>
Consumer Price Index	6.1%	5.6%	5.7%	7.8%	12-13% <sup>2</sup>
Goods: exports fob (USD mln.)	14,108	12,871	12,568	10,360	11,119 <sup>4</sup>
Goods: imports fob (USD mln.)	13,959	12,416	12,114	9,592	11,113
Trade balance (USD mln.)	149.00	455.00	454.00	768.00	6.09 <sup>2</sup>
Trade balance percent of GDP	0.10%	0.27%	0.23%	0.45%	0.02% <sup>2</sup>
<b>Exchange rates</b>					
UZS : USD (avg.)	2,312	2,569	2,966	5,121	8,836
UZS : USD	2,422	2,808	3,231	8,120	9,543
UZS : EUR	2,987	2,795	3,419	9,626	10,379

Continuing on its declared reforms path, the government aims to achieve full currency convertibility by 2019 after lifting remaining currency exchange controls in September 2017.

The move will likely encourage private business and foreign investment, which has been lagging significantly compared to the some regional peers. As additional measure aimed at further improving the business environment, the government started preparations to obtain a sovereign credit rating that would enable Uzbekistan's banks and companies to raise funds in global financial markets. The liberalization of exports adds to the prospect of foreign currency flowing into the country. Along the same reformist lines, the Central Bank has been instructed to develop an inflation targeting framework to be approved by 1<sup>st</sup> of March 2018 (Focus economics, 2017).

A special focus for future analytical work will be areas where the Government has made strong statements of principle but where specific actions, sequencing, and the pace of reform remain to be determined. These include:

- (i) Reducing the role of the state in the economy;
- (ii) Improving access to and the quality of economic, labor and household data;

<sup>1</sup> The State Committee on Statistics, 2017

<sup>2</sup> Finansist.uz, 2018

<sup>3</sup> PD-3454 dd. 29.12.2017

<sup>4</sup> Trading economics, 2018

- (iii) Expanding private sector participation in the economy and improving Doing Business rankings;
- (iv) Transforming and modernizing agriculture, including the cotton subsector (The World Bank, 2017)

## **1.5. KDB Bank Uzbekistan outlook and strategy for 2018**

In line with its parent company's (KDB Seoul) strategy, KDB Bank Uzbekistan will continue to focus primarily on corporate banking with some portion of retail banking as a supplementary function. At the same time, significant efforts are to be made in order to diversify the Bank's client base and reduce dependency on few large companies.

As the Bank continues to follow the strategy aimed at attraction of large corporate clients, its primary client base includes various joint ventures, enterprises with foreign direct investment and state-owned industrial enterprises coming from diverse industries such as oil and gas, chemical, textile and machine building.

The bank's short-term goal is to remain among the Top-10 commercial banks in Uzbekistan and to strengthen the status of number 1 foreign bank in the country. Following reconsideration of its previous expansion plans, the Bank has established Branch Management function with responsibility for coordination and further development of the activities of the existing branches.

In addition, in 2018 the Bank plans to launch Foreign Investors Support Center (FISC). To be located in the old HO building, FISC will be used to provide assistance and advice to potential foreign investors on tax, legal and other issues during early stages of establishment of their business activities in Uzbekistan. FISC will serve as an intermediary that will connect potential foreign investors with available network of business partners, regional organizations and government institutions to facilitate the business establishment in Uzbekistan.

In general, the Bank's corporate development strategy is aimed at gradual (versus aggressive) expansion of its business and assets. The strategy is rather focused on well-balancing of risks and return tradeoffs.

The Bank's risk management procedures allow for timely identification of the various types of risks and application of appropriate risk management tools.

Based on this, no dramatic changes in the Bank's risk appetite are expected in the short-term view. The Bank will continue to target higher rated companies in its efforts to expand and diversify the credit portfolio.

The Bank has not experienced any non-performing loans (NPL) during the last 5 years. Nonetheless, among some measures aimed at ensuring sound credit portfolio in 2018 is the expected revision and update of the Bank's credit procedures in regards to NPL management.

One of the most important changes that all commercial banks including KDB Bank Uzbekistan faced was the liberalization of the FX market in Uzbekistan in September 2017. While the above change may have taken place earlier than initially forecasted, in general it

was anticipated and the Bank has taken certain measures aimed at mitigating the possible negative consequences, including conducting of stress tests with different scenarios.

According to one of the requirements of the Decree of the President of the Republic of Uzbekistan (#PP-3270 dated September 12, 2017 on “Measures on Further Sustainable Development of the Banking System in the Republic of Uzbekistan”), all banks including KDB Bank Uzbekistan, will be required to increase their Charter Capital up to 100 billion UZS by 1 January 2019. The implementation of this task will be among the major goals of the bank for 2018.

In compliance with another requirement of the same Decree, all banks will be required to obtain ISO 9001:2015 certificate on Quality Management System (QMS). The Bank will use the certification process as an opportunity to objectively review its internal processes and identify areas for improvement. Once received, the ISO certificate will serve as assessment and evidence of the Bank’s Quality Management, best practices applied in the organization, the company’s focus on quality, customer service, transparency and efficiency of the bank’s internal processes including risk management.

In 2018, the Bank will continue its efforts aimed at attracting and retaining companies with high expected turnover. Moreover, Bank’s strategic plan will encompass development and implementation of medium and long-term strategy on card business, expansion of FX products with a view of balanced growth and higher profitability as well as to support our corporate clients via provision of expert consultations and advisory services to clients including those on the further expected changes in banking sector.

## 2. MANAGEMENT STRATEGIES

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### MAJOR OPERATION STRATEGIES

#### Client Oriented Policy

- Continuous non-stop improvement of the Client service quality;
- Importance of the Client’s voice in performance evaluation and motivation of the Bank’s staff;
- Multiple and efficient communication channels between Client and Bank;
- Create more value for clients through investments into IT platforms;
- Flexible internal processes aimed at more efficient client service;
- Enhance Relationship Management culture across the whole Bank.

#### Fee and Service Based Business

- Uniform, clear and understandable tariffs;
- Higher flexibility in tariff tailoring for top tier clients;
- Target for broader product and service range;
- On track with the market through constant watch and quick internal adjustments.

#### Lending Activity

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- Risk-weighted balanced growth of the loan portfolio;
  - Expert analytical research of the key industries;
  - Target large corporates with export and manufacturing focus;
  - Research and utilize the growth potential of the SME sector;
  - Review existing connections and search for new opportunities for co-financing with local and foreign financial institutions;
  - Closer interaction among Credit Officers and Relationship Managers to take advantage of cross-selling opportunities in attracting new and enhancing relations with existing clients.

### **Retail Business (including Card Business)**

- Multi-channel and automated types of services (mobile banking, internet banking for individuals);
- Introduction of the modern and multi-functional equipment;
- POS serving both Visa and Mastercard products;
- ATMs capable to process multi-currency, multi-product and service operations;
- Identify and utilize potential opportunities of the e-commerce for merchant clients of the Card Business;
- Reasonable expansion in line with the Bank's overall corporate strategy;
- Develop and customize retail-based products for top corporate clients (overdrafts, premium cards, etc.);
- Investments into IT security for card products;
- Overall optimization of the retail business by enabling all branches to provide same level and range of service.

### **Treasury Operations**

- Proactive and balanced FX position management via efficient market analysis and considering the whole Bank's performance (including branches);
- Aim at maximizing FX volume and revenue via closer interaction with Relationship Managers and high FCY volume clients;
- Target for more intensive UZS and FCY money market activities and revenues in line with liquidity constraints and risks;
- Non-stop active market research for new income generating sources.

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## **RISK MANAGEMENT**

### **Systematic risk management**

The Risk Management Policy of the Bank aims at supporting the stability of operations and systems, preserving assets and minimizing the risk of potential losses. The Policy supports the Bank in timely identifying and specifying risks, estimating size and possible impact on the operations and setting effective risk management tools.

In addition, preemptive utilization of the internal control and modern IT system tools support the Bank in more efficient risk management.

In 2018, the Bank plans to revise and update its Risk Management Policy and Regulations to align them better with

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new Risk Management Guidelines for KDB Foreign Networks.

Considering the quickly changing market conditions, Bank will continue to target for constant review and update of its risk management system in activities.

### **Basic risk management points**

- Risk identification and analysis aimed at estimation of possible exposure;
- Decision on response to risks (accept, mitigate, transfer, avoid);
- Limit setting for counterparties, products, facilities, countries, industries;
- Approval and execution of risk management actions;
- Monitoring of the risk exposure and concentration of risks.

### **Credit risk management**

- Corporate clients applying for a credit facility are to be assigned with internal credit rating;
- Credit rating determines the maximum general limit for all credit clients;
- Risk Management recommends setting general limit for approval by Credit Committee;
- For trade finance products where the credit risk lies with foreign counterparties, external credit ratings of international rating agencies are used along with country risk and financial ratio analysis to assess creditworthiness of foreign counterparties and recommend limits;
- For money market products, initial limits are set by KDB HQ followed by quarterly reviews conducted by Risk Management locally;

In 2018, the Bank intends to:

- Revise and update its Credit Policy to match its plans for expansion of the credit portfolio with possible risks;
- Upgrade the credit rating software for corporate client to better align with requirements of the KDB HQ.

### **Operational risk management**

- In 2018, the Bank plans to develop and implement bank-wide **Risk Control Self-Assessment Reporting System** to record and monitor operational risk events;
- Risk Management Department will consolidate data of each respective department into one aggregate Risk Control Self-Assessment report on monthly basis.

### **Liquidity risk management**

Bank adheres to the following liquidity risk management strategy:

- Identifying stable balance of demand deposit base on weekly basis and optimizing operations (i.e. credit, interbank, investments) in line with the above;
  - Monitoring of instant, current and 3 months liquidity as well as cumulative maturity gap;
  - Keeping reasonable portion of assets in NOSTRO accounts and
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short-term interbank placements to meet unexpected client withdrawals;

- Conducting liquidity stress testing under BASEL III (LCR/NSFR), instant liquidity ratio and other scenario analysis;
- Effective monitoring which identifies minimum and maximum liquidity needs;
- Risk Management Department regularly monitors the Bank's liquidity position and takes appropriate actions to follow regulatory requirement on liquidity management;
- Risk Management Department prepares monthly report for Assets & Liability Committee (ALCO) as well as Risk Management Committee (RMC) of the Supervisory Board.

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## ENHANCING INTERNAL CONTROL PROCEDURES

The ongoing changes and increasing competition require the Bank to take additional efforts aimed at preserving own advantages, identifying new market opportunities and implementing effective actions for development.

At the same time, in 2018 the Bank will also pay attention on maintaining adequate control procedures, optimization of its organizational structure and some of its controlling functions.

- While certain optimization measures will be taken, the Bank will continue to apply general approach whereby there is always a strict segregation of functions among separate units independent from each other.
- In addition, there is a planned revision and update of the Bank's current credit procedures aimed at further reduction of various risks including NPLs. The above should enable the Bank to preserve available control tools and at the same time ensure provision of timely and high-quality services to clients.
- **Improve the efficiency of the Final control system.** The main objective is to ensure control at the end of each operational day and not later than next day with reviewing all transactions initiated and verified in the front-office and back-office personnel. For making sure that all daily transactions done in the bank are correctly recorded and supplied by evidence, daily final control reconciliation is done by the Departments.
- **Segregated back office's functions per business units, which allows having improved daily control over transactions.** To make sure that balances and transactions on the Bank's accounts match with those in the system an authorization and reconciliation of daily transactions on all accounts is done by back offices. Any mismatches or breaks revealed require attention and monitoring from Management. For monitoring and control purposes Daily Reconciliation Monitoring report is prepared by back offices. Back Office is responsible for safekeeping of all original documents related to department's activities.

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## IT SYSTEMS

- Adaptation of the IT infrastructure servers and services to the building remains to be one of the key tasks for 2018. The
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priority goal is to achieve maximum smooth workflow of the computer network of the bank through establishment of a network with modernized server equipment that uses best global practices. Once properly constructed, the network should reduce overall time spent on troubleshooting and various maintenance issues which will further result in the improvement in service quality.

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**STAFF  
QUALIFICATION  
IMPROVEMENT**

**Recruiting professionals**

To cope with the increasing market challenges, ensuring achievement of the set goals and continue playing major role in the local banking sector, the Bank has no choice but to devote substantial energy at recruiting the best human resources with professional skills and academic background matching the Bank's requirements.

Considering the position, knowledge, skills, ability and experience required, the Bank recruits qualified candidates through a variety of sources such as:

- Utilize CV database from reserve candidates;
- Place classified advertisements in various newspapers and journals;
- Use internet recruiting sites and professional agencies;
- Participates in public job fairs and seminars.

**Investing in staff**

In line with Bank's strategic goal to be a leading foreign bank in the country and continue providing high quality professional services to clients, the Bank continues to make substantial efforts aimed at improving staff knowledge and skills.

Some of the measures include regular professional training courses focused on key banking areas, such as credit, risk management, internal control, asset and liability management, etc.

In addition, the Bank plans to take the following measures to improve the overall quality of its:

- Encouraging the staff to participate in seminars and trainings organized by CBU, Uzbekistan Banking Association and other training centers in order to keep the employees acquainted with up-to-date economic and financial news and changes in legislation;
  - Supporting the employees to get special job related certificates in accounting, audit and other areas;
  - Organizing trainings and seminars in the Bank on specific job related issues such as client satisfaction, anti-money laundering, etc.;
  - Host team building activities;
  - Utilize performance evaluation system aimed at creating additional incentives and motivation of the best staff.
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