



**KDB BANK UZBEKISTAN**  
LONG-TERM RELIABLE & STABLE BUSINESS PARTNER

# BUSINESS PLAN | 2019



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# REVIEWED BY THE MANAGEMENT BOARD OF THE BANK

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**Heung Jun Kim**  
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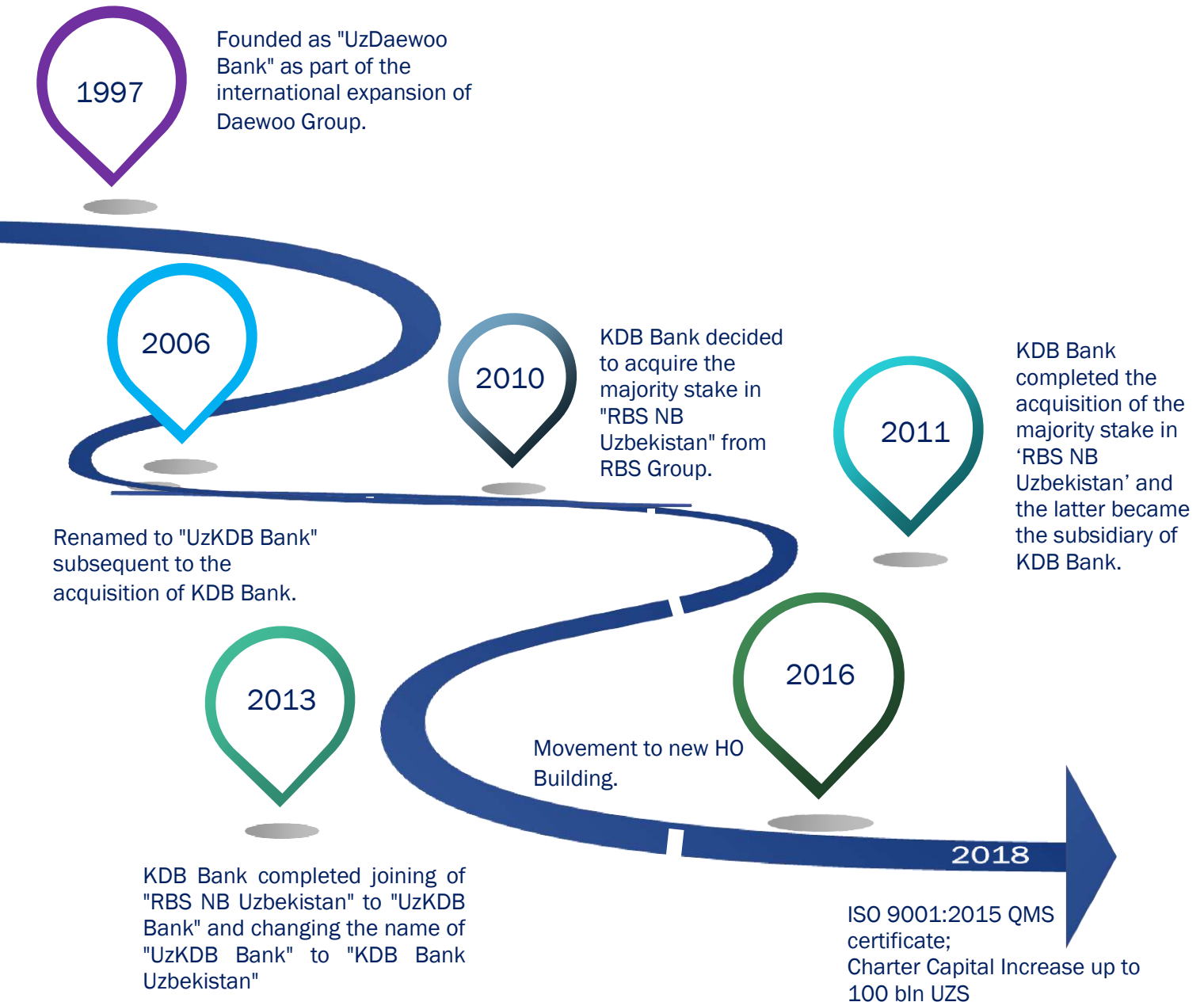
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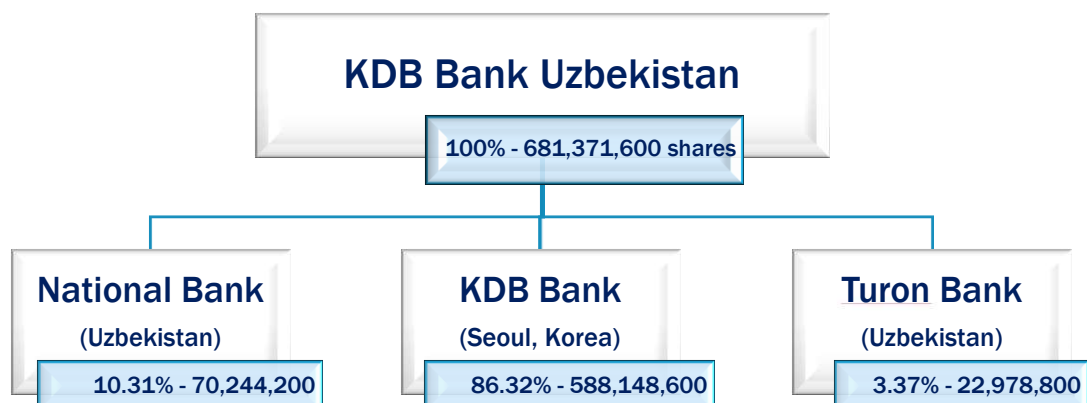
# 1. BUSINESS ENVIRONMENT AND OUTLOOK FOR FY 2019

## 1.1 Recent Developments

### History at a Glance



## Ownership Structure

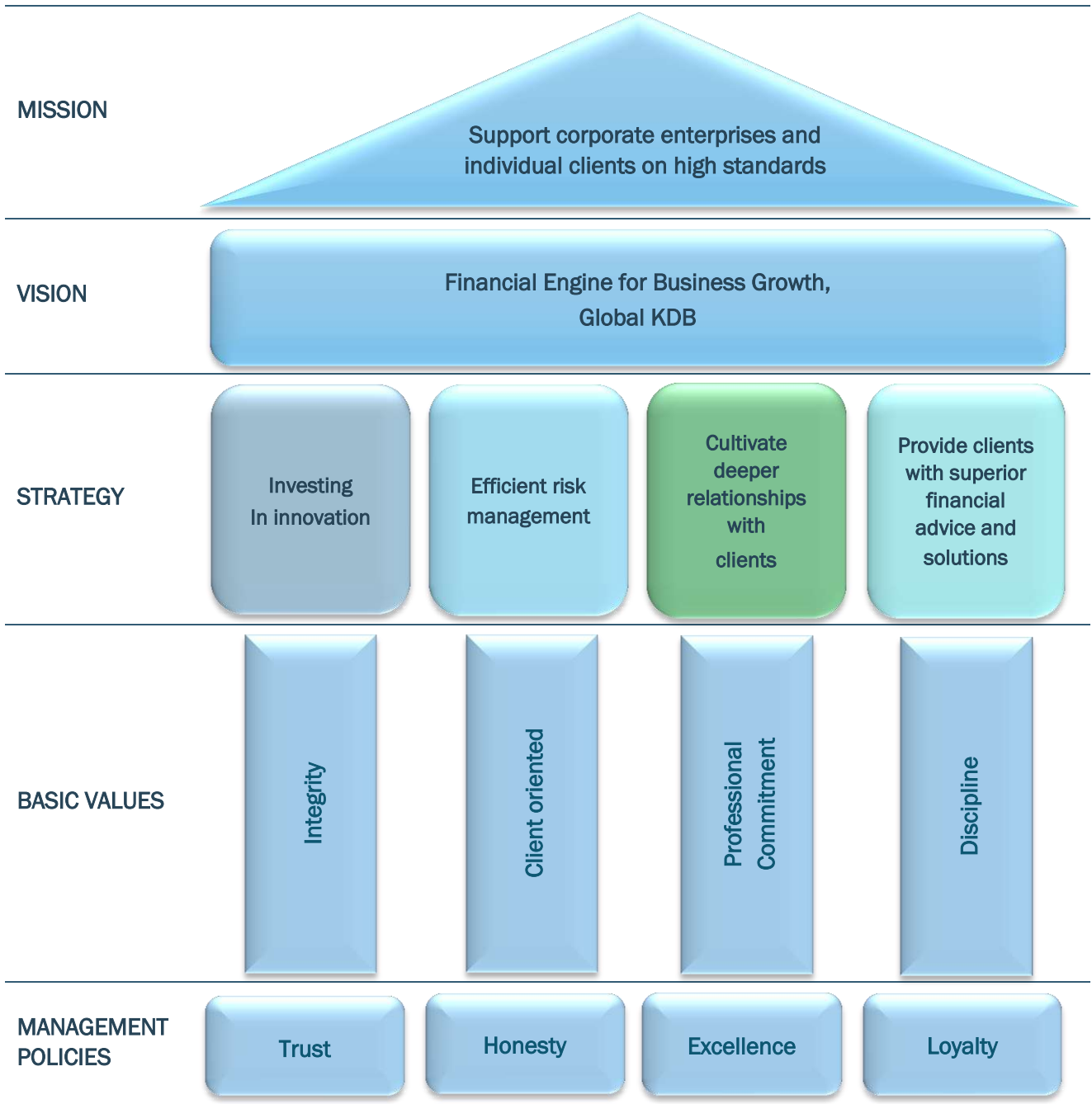


## Bank's Profile for the end of 2018

“KDB Bank Uzbekistan” holds a stable 10<sup>th</sup> position in terms of total assets with 585 million USD among 28 banks of Uzbekistan.

Rank 2018	Bank	Assets	Share	Equity	Net Income	ROA	ROE
1	NBU	6,778	26.4%	686	62.78	0.9%	9.1%
2	UzPSB	3,657	14.3%	342	29.36	0.8%	8.6%
3	ASAKA Bank	3,640	14.2%	380	106.23	2.9%	28.0%
4	IPOTEKA Bank	2,369	9.2%	193	31.00	1.3%	16.1%
5	AGRO Bank	1,243	4.8%	266	0.53	0.0%	0.2%
6	QQBank	1,120	4.4%	148	10.69	1.0%	7.2%
7	HALK Bank	1,050	4.1%	204	3.26	0.3%	1.6%
8	Hamkor Bank	824	3.2%	92	23.57	2.9%	25.8%
9	ALOQA BANK	701	2.7%	139	17.08	2.4%	12.3%
10	KDB Bank Uzbekistan	585	2.3%	61	8.52	1.5%	14.1%
11	KAPITAL BANK	578	2.3%	59	11.65	2.0%	19.9%
12	Ipak Yuli Bank	472	1.8%	61	19.88	4.2%	32.3%
13	OrientFinance Bank	465	1.8%	78	24.15	5.2%	31.0%
14	Turon Bank	378	1.5%	107	4.97	1.3%	4.6%
15	Mikrokreditbank	361	1.4%	80	0.31	0.1%	0.4%

## 1.2 Vision & Strategy



## 1.3 Uzbekistan Economy



Referring to the estimates of the State Committee on Statistics, at the end of 2018, GDP of Uzbekistan amounted to 407 514.5 billion UZS which is by 5.1% higher than in the same period of 2017. GDP per capita amounted to 12.3 million UZS, which is 3.3% more than in the corresponding period of the previous year.

The economic growth rate is due to positive dynamics in major sectors of the economy. Gross added value (hereinafter - GAV), created by all sectors of the economy, accounted for 88.8% of total GDP and increased by 5.1% (contribution GDP growth - 4.5%). Net taxes on products amounted to 11.2% in the structure of GDP and showed an increase at the level of 5.5% (contribution to GDP growth - 0.6%).

The largest contribution to GDP growth was made by industry (2.1%), which grew by 10.6% compared to the previous year. Out of them, trade services (including repair of motor vehicles) increased by 4.4%, accommodation and meals - by 4.5%, transportation and storage - by 3.7%, information and communication - by 15.3% and other service industries - by 5.4%.

The positive dynamics in the industry is based on the increase of the added value of the mining industry and quarrying - by 28.2%, manufacturing - by 6.4% and other industries - by 4.7%.

## 1.4 Economic Outlook of Uzbekistan

### Macroeconomic Indicators

Growth in % (annual percent change), unless otherwise indicated	2014 <sup>1</sup>	2015 <sup>1</sup>	2016 <sup>1</sup>	2017 <sup>1</sup>	2018 <sup>1</sup>
Real GDP growth	8.1	8.1	7.8	5.3	5.1
Nominal GDP (UZS bln)	144,868	171,369	199,325	249,136	407,514
<i>Industrial output</i>	8.3%	8.0%	6.0%	4.6%	10.6%
<i>Construction works</i>	18.3%	17.8%	12.5%	5.6%	9.9%
<i>Agricultural output</i>	6.9%	6.8%	6.6%	2.0%	0.3%
<i>Investments in fixed assets</i>	9.6%	9.6%	9.6%	7.1%	18.1%
<i>Services, total</i>	15.4%	14.0%	12.5%	6.9%	5.4%
Consumer Price Index	6.1%	5.6%	5.7%	14.4%	14.3%
Goods: exports fob (USD mln.)	14,108	12,871	12,568	13,893	14,254
Goods: imports fob (USD mln.)	13,959	12,416	12,114	13,013	19,555
Trade balance (USD mln.)	149.00	455.00	454.00	880.2	-5,301
Trade balance percent of GDP	0.10%	0.27%	0.23%	0.35%	10.0%
<b>Exchange rates</b>					
UZS : USD (avg.)	2,312	2,569	2,966	5,096	8,068
UZS : USD	2,422	2,808	3,231	8,120	8,339
UZS : EUR	2,987	2,795	3,419	9,390	9,479

National Development Strategy, to be implemented during 2017-2021, identifies five priority areas: 1) reform of public administration; 2) reform of the judiciary, strengthening the rule of law and parliamentary reform; 3) reforms in economic development and liberalization; 4) social reforms, based on higher incomes and better jobs, oriented on higher quality health care, education, housing etc. 5) reforms in the security area, focusing on improvements to ensure domestic stability and balanced and constructive foreign policy with the ultimate goal of strengthening the independence and sovereignty of state.

Country President, President Mirziyoyev signaled new directions in both foreign economic relations and domestic economic policy. A most significant reform came in September 2017, when the Central Bank of Uzbekistan reunified Uzbekistan's exchange rates, freely floating market-determined rates. Restrictions were lifted for legal entities and individuals to convert currency. The currency reform was followed by increased activity in foreign financial markets. This included substantial deals totaling over \$1 billion with, among other, Deutsche Bank, Commerzbank, and the EBRD.

The timing of reforms is also important because of the revival of continental trade linking Europe and Asia through Central Asia. Centrally, located in the heart of Asia, Uzbekistan could serve as a transit hub for cargos coming from China, India, Pakistan, Afghanistan, and even Southeast Asian countries. China's

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



Belt and Road Initiative is providing a The Economic Modernization of Uzbekistan major impetus to develop infrastructure in the region.

Country leader paid special attention to improvement of relationship with leaders of neighboring states and great economic powers. Country leader outreach to Uzbekistan's neighbors signaled positive shift in policies and priorities, by meetings with Turkmen, Kazakh and Tajik leaders in particular highlighted connectivity, and hence Uzbekistan's reintegration into a regional economic circle.

Currently, country negotiating for accession to the World Trade Organization (WTO), on March 13, 2018, the Government of Uzbekistan hosted representatives of the World Bank, Asian Development Bank, USAID and other donor organizations and discussed accession plan "Road Map" for Uzbekistan's entry into WTO, thus demonstrating a clear determination to join the rules-based international trade system.

In December 2016, the President issued a decree, "On Measures for Ensuring Accelerated Development of the Tourism Industry of the Republic of Uzbekistan," the ongoing process of simplifying the visa regime for foreign citizens is among the proactive steps Uzbekistan has taken to open the country to trade. On February 5, 2018, President Mirziyoyev signed a decree "On Additional Organizational Measures to Create Favorable Conditions for the Development of the Potential for Tourism of the Republic of Uzbekistan". The decree allow citizens of Israel, Indonesia, South Korea, Malaysia, Singapore, Turkey, Japan and some more to visit Uzbekistan without visas for a period of 30 days. It also simplified the procedure for issuing tourist visas for citizens of 39 additional states. Tourism, which can attract foreign investment, create jobs, and generate income, has been designated a strategic priority in Uzbekistan's economic development.

There are already positive signs in various sectors for instance: exports of agriculture goods increased and the country export deals have significantly improved; the country has moved up to 74th place in the World Bank's "Doing Business" ranking, from 87th in 2015; social and economic reforms positively assessed by many international institutions, including the IMF and other International Financial Institutions; positive progress on the lives of ordinary citizens and makes it easier for businesses to operate.

Uzbekistan plans to improve its position in Doing Business report. The President of Uzbekistan, Shavkat Mirziyoyev signed a resolution "On measures to further improve the rating of the Republic of Uzbekistan in the annual report of the World Bank and the International Finance Corporation (IFC) Doing Business" on July 13, 2018.

## 1.5 KDB Bank Uzbekistan Strategic Focus for 2019

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 2019 the Bank plans fully utilize Center for Coordination of Investment Activities and Project Management located in the old HO building. Center 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. Center 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.

In 2019, 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.

## Opportunities

In view of the latest ongoing changes in the banking sector, the Bank is to objectively evaluate the market conditions and review its competitive advantages:

- International Reputation, KDB Brand associated with a strong trust of the clients, regulators and other stakeholders. In 2018, S&P, international rating agency upgraded the Bank rating to "BB -" stable, one of the highest ratings in Uzbekistan.
- Solid client base which includes some of the largest local and international companies operating in the country.
- Existence of Client Relationship Manager Unit, the long-term presence of this function coupled with accumulated experience of client service would timely and effectively facilities resolving client needs and inquiries, support attraction of middle and large sized corporate clients.
- Modern Technology, the Bank has systematically paid special attention to its available technologies and has taken steps to automate its core operational processes and optimize information systems.
- Bank's Professional Staff - 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.

## Shortcomings

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;
- Low retail business presence - excessive concentration of the Bank's resources in the corporate segment;
- Relatively low level of the Bank's activity in the area of cooperation with international financial institutions, especially with regards to external credit lines.

## 2. BUSINESS PLAN AND MANAGEMENT STRATEGIES

### 2.1 Business Development Strategies

Considering new challenges rising from rival banks, it is vital for the Bank to consolidate its effort to retain its competitiveness and market position. Bank understands that it can be achieved by effective utilization of its advantages and taking effective measures to address the existing shortcomings.

In coming years, Bank will focus on the following main areas:

- Increase and diversify the client base by attracting new corporate clients;
- Systematically review the main business areas for timely introduction of new banking products and services;
- Strengthen measures aimed at maximizing satisfaction of all categories of clients. Despite the priority of the top tier client's satisfaction (the most profitable segment), 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 to improve efficiency of branches by creating more favorable conditions for their operation. By giving branches more independency on their daily activities and optimizing their interactions with the Head Office for attracting and servicing clients;
- 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;
- Development of strategy for participation in growing local capital market instruments, Treasury Bills and Corporate Bonds;
- Expand range of services and simplify access to the services through development of remote-based functions, Internet Banking for corporate clients and Mobile Banking for individual clients;
- Apply effective measures on optimizing the Bank's core business processes aimed at the improvement of the service quality, process management and control and balanced reduction of operating costs;
- 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 attractiveness of the Bank's General Tariffs and expand practice of offering flexible discount tariffs based on needs of each client;

## | Client Oriented Policy |

**i** The Bank will continue to apply its core business strategy aimed at attracting and retaining corporate client segment. Due to rise in competition, the Bank understands that it is extremely important to improve its client policy, create a more flexible & effective interaction system with clients in order to meet clients' rising demand for a wider range of the banking services: Key points in successful implementation of the client oriented policy include:

- Extension of core client range through continuous in-depth study of the market and the clients' expectations for attracting clients and developing appropriate products under cost-benefit approach;
- Supporting a close relationship with existing clients;
- Measures aimed at developing the best and most positive client service culture through introducing quality self-assessment techniques and self-improvement practice in all product lines of the Bank. Clients feedback on service quality must be a pillar in the evaluation and motivation system of the service staff;
- Develop 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 employee;
- Apply flexible cost-benefit service conditions for corporate clients with high potential. In particular, an individual approach to client service, including individual tariff package per a target client or client group, client oriented procedural and technical capabilities, etc.;
- Further enhance of the internal processes and technical capabilities related to client service 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.

## | Total Assets, Liquidity Management and Deposit Base Increase |

**i** Liquidity management of the bank is conducted in accordance with local regulations in the field of liquidity management of commercial banks, liquidity management committee and asset & liability management committee meeting decisions, results of periodical review of counterparty banks, daily, weekly and monthly liquidity management reports as well as gap analysis reports in each functional currency. Main principles of liquidity management are; maintaining the optimum ratio of short and long-term portfolios, ensuring systematic analysis of the financial status of partner banks taking into account their international credit ratings; making a deal and their administration according to market lending and investment practices; compliance with evolving regulatory liquidity and funding requirements; compliance with the guidelines set forth in the foreign currency asset management and liquidity management policies as well as Credit Committee limits

The bank's liquidity mandate is to ensure that financial obligations are met at all times, as and when they fall due in normal and stressed scenarios. The bank should regularly execute stress-testing in order to be prepared to make decisions in response to changing market conditions. The bank's primary responsibility for liquidity stress testing is to monitor and manage its liquidity risks in main functional currencies. Liquidity stress testing is conducted at least on monthly basis and the results discussed during monthly ALCO meetings, as well as at the quarterly meetings of Risk Management Committee of Supervisory board.

Rising regulatory requirements for liquidity position of banks and growing competition among commercial banks require real measures aimed at the expansion and diversification of the Bank's asset 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 corporate and individual client base for up to 10-15% annually.
- Ensuring gradual transition from short-term to long-term resources;
- Increase attraction of customer deposits in the national currency: all types of deposits (demand deposits, savings deposits, etc.) will be attracted with a focus on longer-term deposits;
- Take measures aimed at attracting deposits in foreign currency for long term periods, for over 2 years and transfer currently available FCY fund placed in demand deposits accounts into long term saving accounts;

## | Retail Business Development |

**i** In general, the Bank will continue to adhere to its core business model focused on attracting and servicing corporate market segment. Nevertheless, the Bank would need to ensure development of its retail segment in accordance with the requirements and modern standards of the banking sector of Uzbekistan. In this regards, measures taken by the Bank will be directed on priority basis to meet the needs of the staff 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 will expand activities in providing overdraft and consumer loan and increase mortgage lending portfolio.

## | Credit Portfolio Expansion |

**i** Mid-Long term goal of the Bank is to increase and diversify its loan portfolio, maintain high-quality loan investments with low rate of defaults. The Bank's activities in this direction will be carried out in accordance with primary requirements highlighted by CBU normative acts and long term strategy of Head Office, Seoul, South Korea. In addition, the Bank's credit policy will continue to focus on development of relationship 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.

For expansion of loan portfolio, the Bank shall continue to focus on the following important aspects; offer attractive interest rates and terms; lower various requirements to borrowers; shorten period of loan review approval process; look for chance to cross-selling broader banking products & services; offer option to transfer main turnover to Bank for effective and mutually beneficial cooperation between bank and borrower.

During last year, the Bank was very active on implementing of new loan related products and services, for instance:

- In accordance with execution of the President Decree of the Republic of Uzbekistan #3620 from March 23, 2018 and CBU letter 19-31/727 dated May 29, 2018 "On additional measures to increase banking services" for the staff of corporate clients with primary accounts, the Bank developed a procedure for the allocation of overdraft loans (micro-loans) through the bank plastic card for payments of goods and services;
- In accordance with CBU letter #26-20/515, the Bank abolished conditions requiring unilateral change of the terms related to interest rates on loans and deposits.
- Changes have been also introduced to loan registration process. Loan (micro-loan) applications submitted by legal entities and individuals are registered in KAMI and KATM systems in the prescribed manner and recorded in the loan registration book of the Bank. When decision on rejection of a loan application is issued by the Credit Committee, applicants are notified within 3 working days and 1 working day for micro-loan applications with the reasoning for refusal;
- SMS-Informing service has been set up. Applicants who registered credit (micro-credit) applications will be able to receive SMS Informing message on their loan application status. When an applicant (legal or individual person) files an application for a loan, the Bank employee obtains mobile phone number from a client (legal entity: general director, financial director or chief accountant) and upon of changes of status of loan application, the status of the application will be announced via SMS message;

The Bank will continue measures aimed at further expansion of credit operations in the following directions: financing of large and small business enterprises; providing mortgage loans with a focus on corporate clients; expansion of consumer lending (including overdrafts) for staff of corporate clients; in order to create additional customer convenience and more efficient process management, the Bank will try to maximize usage of technological solutions such as its own mobile banking application.

## | Charter Capital Increase |

**i** Based on certain restrictions (size of own capital) and necessity to follow established ratios (leverage, etc.), the Bank will be more active in introducing the system of a more strict planning and resource management. The Bank expects that the above measures will help in more effective resource management and will minimize the risk of violation of established ratios. In connection with above, in 2019 the Bank plans to carry out the needed increase of the charter capital from its internal resources (retained earnings, etc.). Later in 2020, based on achieved results, the issue of increasing the charter capital from external resources may be raised to the shareholders of the Bank (KDB Financial Group Seoul, NBU, Turon Bank).

## | Attraction of Foreign Investments |

**i** KDB strives to support and attract foreign investors, as well as to further improve the country's investment climate. Over 2019-2021 fiscal years, Bank expects that its credit portfolio to increase significantly. To accomplish this goal, it is of great importance for our Bank to attract long-term sources of financing. The Bank in process of attracting credit lines of well-established foreign banks, such as EBRD and parent company, KDB Financial Group, Korea, on affordable and mutually beneficial terms and conditions and utilizing these lines enable us to increase the loan portfolio further. Meantime, European Bank for Reconstruction and Development (EBRD) is carefully evaluating the financial position of our Bank, and we expect to conclude an agreement on TFP deals soon.

In addition, based on the recommendation of the Central Bank of the Republic of Uzbekistan dated January 31, 2019, the "Road Map" has been designed to fulfill the order of the Presidential Administration of the Republic of Uzbekistan dated January 29, 2019, #2029, on launching the Center for Coordination of Investment Activities and Project Management to attract potential investors. In this connection, launched in November by KDB Bank, Foreign Investors Support Center was renamed to the Center for Coordination of Investment Activities and Project Management and additional functions mentioned in the "Road Map" have been assigned to this business unit.

Even though, the Center has been opened recently, it has already managed to attract and provide services to number of international investors. Among the clients using services of the Center are "Bomi Uzbekistan" LLC (involved in development of real estate in Tashkent City complex), "Sejin Uz" LLC, "Korea Plast" LLC, "Nurobod Sement" LLC. Center remains attractive to foreign investor, due to fact that in-depth information and consultation on various interested areas such as running business, general information on state legislation, taxation and other services to support investors provided at free of charge.

## | Local Interbank Market Operations |

**i** The Bank will continue to play its active role in the local interbank market in the following area of interbank placements (deposits):

- In foreign currency: The Bank will place short-term foreign currency interbank deposits in the local market based on the need for income generation and local market demand, as well as in compliance with liquidity requirements.
- In national currency: The Bank will maximize utilization of the local market's potential based on available liquidity and risk and return ratio.

## | Development of National Payment System, HUMO |

#	Tasks for execution	Implementation deadlines
1	Development of standardized and universal payment system for QR codes. Connection to "QR-Online" system.	till August 1, 2019
2	Ensuring the full integration of the automated banking system (Unibanks) with the system of the National Interbank Processing Center.	till October 1, 2019
3	Creating a unified system for remote identification of customers.	till January 1, 2020
4	Start issuing bank cards with a contactless (dual) interface.	till January 1, 2020
5	Introduction of new service of opening virtual cards tied to the main card in mobile applications of banks and payment systems.	till February 1, 2020
6	Acquisition and installation of banking POS terminals with the ability to make contactless payments (NFC).	till March 1, 2020
7	Software update of devices (terminals, ATMs) for mutual servicing of cards by processing centers through a single gateway of the National Interbank Processing Center.	till April 1, 2020

## | Development of Digital Banking Solutions |

**i** Another important aspect of business development lies within development of technological infrastructure of the Bank, a new level of automation, the improvement of the telecommunications channels, technical facilities, development of modern digital applications and solutions for convinces of clients. Continually, the Bank carries out modernization of Fintech by modern software, data storage and processing systems to ensuring the reliability, stability and security of all systems and applications.

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 uses and will continue to outsource services to software developers, considering the availability of the solution, quality and cost ratio and expected implementation deadlines.

Recently launched mobile banking application, MultiPay obtained popularity among individual clients. Further upgrades will be undertaken by IT Development team on mobile banking application, by adding new functions, such as payment through QR-Code and view detail information on overdrafts. In addition, IT team involved in development of second generation of internet banking application for corporate clients, it is expected to be more client friendly, with broader functions and will allow processing clients' foreign currency transfer applications. During 2019, "Surdo-Online" service expected to be launched for clients with limited speaking and hearing abilities. Thus, the management understands that profitability, efficiency, retaining clients and client's satisfaction directly correlated with development digital banking solution.



## 2.3 Management System Strategies

### | Corporate Governance |

**i** 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' requirements.

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;
- Increase of the work quality 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 internal acts in compliance with the requirements of the Head Office, Seoul, South Korea, as well as with the recognized global practice of corporate governance;
- Improvements in the Internal Control systems by enhancing efficiency of the Bank's management systems and 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;
- Implementing Front-Middle-Back structure, proven international bank management structure for effective operation of bank and minimizing operational risks;

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 |

**i** 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 modern 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 maximizing use of the personnel's potential.

Due to 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.

## | Risk Management and Internal Control |

**i** 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 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, South 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;
- Increased responsibility of all units for operational risk management.

## | Budget Management |

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

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

## REFERENCES

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