

**"APPROVED"**

The Council of OJSCB "Kapitalbank"

January 9, 2014

(Minutes No.1)

Chairman of the Bank's Council

\_\_\_\_\_ F.Kh.Otakhonov

**"AGREED"**

The Executive Board of OJSCB "Kapitalbank"

January 9, 2014

Chairman of the Executive Board

\_\_\_\_\_ K.A.Olimov

**STRATEGIC DEVELOPMENT PLAN**

for 2014-2017

OPEN JOINT STOCK COMMERCIAL BANK "KAPITALBANK"

## **PREREQUISITES**

### **for elaboration of the Strategic Development Plan**

In 2011-2013, the activity of Open Joint Stock Commercial Bank "Kapitalbank" (hereinafter referred to as the "Bank") were carried out in accordance with the tasks defined in the Strategic Development Plan for the period up to 2015 and characterized with the achievement of the following results:

Positive dynamics of the key performance indicators and sustainability;

Stable competitive positions in the regions of presence, update of the product offer and development of the sales network;

Optimization of the organizational structure with a rational redistribution of the functional responsibilities between the responsibility centers, introduction of a system of motivation of the personnel at all levels.

The strategic development plan was revised on the basis of the Bank's potential for further expansion of the business and number of operations, development of the effective competition in the banking services market.

### **SECTION 1. MISSION OF THE BANK**

Each organization and each member of a team needs a goal that would determine the meaning and content of their activities. New stages of the Bank's development, new tasks the Bank facing place special demands on the employees and their understanding of the values and principles of the Bank's activities, which are reflected in its mission.

**The mission of the Bank** is to increase the availability of the entire spectrum of financial services, while promoting the culture of high-tech banking service.

The Bank builds a powerful financial supermarket that operates in the most profitable and promising segments of the financial market.

The Bank develops professional potential of its employees through the introduction of advanced banking technologies and the implementation of innovative approaches to the customer service.

**The Bank's success is based on the five main priorities:**

**Motivation.** The shareholders, management bodies and the Executive Board of the Bank commit themselves to constantly take care of the spiritual and material well-being of the staff, so that the staff take care of the Bank's customers. Every person coming to the Bank should see, hear and feel that the customer is the most valuable thing that the Bank has.

**Partnership.** The Bank develops partnership in all spheres of the activity, basing on the principles of morality, trust and respect. Each employee of the Bank, from the average employee to the Bank's management contributes to the growth of the customer's business and welfare. The Bank's values are transparency, clarity and predictability for the society and for each of its counterparties.

**Professionalism.** The Bank attracts best specialists of all branches of banking activity and provide them with unlimited growth opportunities. Stimulating of the professional development of its employees is the Bank's daily work. The factor that balances incentive is the responsibility of each employee of the Bank for words and actions.

**Leadership.** The Bank's priorities are dominance in the retail sector, development of the international transactions and investments. The Bank is interested in new territories and business sectors, as well as the most promising customers.

**Innovation.** The Bank progresses constantly. The Bank develops and implements the most advanced banking products. Every idea of its employee deserves attention and encouragement. The most part of the proceeds will be received by the Bank from the services that are only at the development stage. Every Bank's action forms its future.

Great goals are achieved by a team of like-minded people, united by a common system of values. The Bank's values determine the set of rules and requirements that the Bank place on every member of the Bank's team or those who want to become the Bank's member. The

relationships between employees, Bank customers, shareholders and investors are based and maintained on these values.

**The Bank's values:**

**Respect for the individual.** Respect for the rights and freedoms of any person, strict observance and protection of these rights and freedoms are the paramount principles of the Bank's daily activities. Respect for the person implies the willingness to accept a person as he/she is, the desire to see in a person's best, and attention and readiness to hear someone else's opinion.

**Customer-oriented approach.** Conscientious, timely performance of all customer service operations on the best conditions; pursuit of the continuous self-improvement and innovation; constant search for the best tools and opportunities for the most effective work of the Bank.

**Striving for the precedence.** This means the continuous development, the desire to be one step ahead of the competitors, to be the best, to keep leadership positions and to show consistently high results.

**Team-working.** Building relations with the colleagues solely on the basis of mutual understanding, trust, mutual help and solidarity; the constant exchange of professional knowledge and practical experience.

**Honesty and Integrity.** Understanding that dishonest people do not have a place at the Bank and any dishonest action can lead to colossal losses. Active countering the harm to the Bank's interests, open designation of the own opinion, honest discussion of all complexities and pitfalls with the team.

## **SECTION 2. VISION OF THE BANK**

**A modern, innovative and dynamically developing financial institution, a reliable partner for its customers.**

The Bank continuously evaluates and increases the level of the customer loyalty and satisfaction with its services, improves the product line and the quality of service in response to the changing customers' needs.

The Bank sees the core of its stable business growth in promoting business development and increasing the welfare of its customers by providing them with the integrated banking services on the basis of the product line that contains all modern banking services.

## **SECTION 3. STRATEGIC ANALYSIS**

Today the Bank is a universal financial institution offering its customers the widest possible range of financial services, having an extensive branch network and the reputation of the responsible and stable organization. With the many years of experience the Bank formed the considerable customer portfolio. For the recent years, the positive experience has been gained in participating in the government programs for supporting of the small business and private entrepreneurship, workmanship, young families and college graduates.

The Bank demonstrates steady business growth. It is among the country's large Banks in terms of its market positions, assets and capital, financial results and infrastructure scale. This growth is consistent with the dynamic development of the banking sector of the Republic of Uzbekistan.

According to the analysts of the leading rating agencies, in the future the banking sector of the Republic of Uzbekistan will be characterized by:

High stable growth due to the favorable operating environment, which is ensured by stable prices for the main Uzbekistan's export articles;

Improving of the assets' quality and relatively high capitalization indicators; stable level of liquidity, which is maintained by the funding of Banks by deposits of the local legal companies and individuals;

Stable profitability and efficiency due to the growing economy.

The Bank sticks to the high standards of corporate management and observes the following principles:

Protection of the shareholders' rights and increase of the efficiency of the activities for the benefit of all shareholders' groups;  
Control over the current strategy and assets of the Bank;  
Information transparency;  
Increase in the level of personal management.

The Bank is a democratic company which respects the personality and values the best human qualities and traits. The success of the Bank consists of the efforts of the employees of various divisions, which are aimed at achieving the common leadership goals in the banking sector.

To date, the Bank has made a substantial work which ensured the formation of the **main competitive advantages of the Bank**, namely:

substantial customer base (corporate and retail customers) and the extensive sales network;

business reputation of the bank, associated with the huge source of trust to the bank from all categories of customers;

openness to innovations and quick response to the changes in business methods and practices;

the Bank's staff which consists of many experienced skilled professionals.

Taking into account the tendencies of social and economic development of the country and the achieved level of development, **the Bank sees the following opportunities:**

development of industry, trade, agriculture, that provides the opportunity to serve additional groups of consumers; low saturation of the regional markets of banking services; dynamic development of remote banking services;

strengthening of the positions in servicing small businesses in the whole range of banking services due to the development of the product offer.

At the same time, **today the Bank's work is associated with some shortcomings, without overcoming which it is impossible to talk about realization of its development potential. These shortcomings include:**

low efficiency of use of the most important competitive advantages of the Bank: sales network and customer base, which is caused by the insufficient organization of the customer service and undeveloped sales skills;

insufficient unification of the business processes, which makes it difficult to implement modern information technologies;

lack of the established contacts and cooperation with international financial institutions;

complicating the quality control of the customer service, increase in operational risk and transaction costs associated with the further development of the branch network.

Taking into account the existing development potential, the Bank also has a number of the fundamental challenges. They include:

the risk of outstripping growth of the costs in relation to the Bank's revenue, that is caused by the forecasted growth of the business and likely increase in the cost of labor, which is the main item of the Bank's interest-free expenses;

strengthening of the competition in the banking products and services markets that are of strategic interest of the Bank;

rise in the regulatory requirements for capital adequacy, transition of the banking sector to the international financial reporting standards.

#### **SECTION 4. STRATEGIC TASKS AND OBJECTIVES**

**The Bank's strategic goal is to assert itself as a modern, innovative and dynamically developing financial institution, a reliable partner to its customers.**

The further development of the Bank will be focused **on the following main transformational areas:**

maximal customer orientation: the Bank will strive to meet the most part of financial services needs of each its customer and thereby maximize its revenue from each set of customer relationships;

diversification of business and introduction of new banking products, identification of the core business areas that have significant share in the Bank's profits;

increase in the share of corporate customers in the structure of the Bank's liabilities, and increase in the high-yield component, loans to the population and small businesses, in the assets structure;

increase in interest-free income through the development of the services provided on a commission basis, which implies expansion of the list of the provided services and simplification of access to the services through the use of remote-service channels;

increase in the efficiency of the branch network by delegating more powers and optimization of interaction with the Head Office;

optimization of the processes in the Bank, that will increase the level of manageability, reduce costs, improve the quality of customer service. Optimization of the processes implies review of the main business processes and a bigger formalization of the working methods;

access to the international financial market is considered as one of the priority directions of the Bank's activities. At the same time, the Bank understands that this process will be quite slow and gradual.

The implementation of the development strategy will help to the Bank to strengthen its position in the banking services market. **As a part of the strategy, the Bank sets the goals in three main areas:**

**Financial results:** growth of the profit not less than twice by the end of 2017.

**Position in the market:** strengthening of the competitive positions in the banking services market and taking the leading position in the second ten Banks of the Republic of Uzbekistan.

**Qualitative indicators of development:** the best skills in the field of customer work, leadership in the quality of service, modern risk management system, corporate culture shared by all employees of the Bank, highly qualified personnel, recognizable "positive" brand, high level of customer confidence.

## **SECTION 5. BUSINESS STRATEGY**

### **Customer policy.**

The Bank will continue to implement the customer-oriented business model that fully meets the customer's needs for banking services while maintaining the profitability of operations at the adequate level.

The main condition for increasing the investment attractiveness and maintaining positions in the banking services market is the improvement of the customer policy, creation of a flexible and effective system of interaction with the customers on the basis of their needs.

The main task of the Bank in the customer policy is to actively form the stable customer base with its constant expansion, and study the needs of the customers for the subsequent formation of the offers aimed at maximizing the customer satisfaction.

### **Retail business.**

The main tasks for the development of the Bank's retail business is increase in the volume of consumer lending, attraction of private customers' funds to form the funding base for active operations and development of a range of services and infrastructure for servicing the Bank's plastic cards.

The Bank's strategy for retail business will be focused on the following key areas:

1. Intensive development of all sales and service channels - formation of a multifunctional customer service system and changing of the transactions structure by transferring most of the transactions into the automated sales and service channels. In particular, this line of work provides:

forming of a wide network of ATMs, payment terminals and self-service devices (infokiosks), development of the functionality of access tools to the Bank's services through remote channels, including the Internet and mobile communications;

active development of partner and corporate sales channels (salary projects, etc.) as the priority areas for additional expansion of the customer base and deepen of relationships with the customer.

2. The priority direction of individuals' crediting is the consumer crediting. The key target audience in this segment are salary projects' participants and employees of the corporate customers, employees of the large enterprises and budget organizations, depositors of the Bank, as well as the current customers with positive credit history. In forming of the retail loan portfolio, the Bank proceeds from the need to maintain balance of its profitability and quality.

3. The main source of financing of active operations and the stability factor of the resource base for the Bank is attraction of individuals' funds is. The Bank intends to ensure the annual increase in deposits not lower than the average market level.

### **Corporate business.**

The Bank plans to significantly strengthen its competitive positions in the market of work with legal entities. Both increase in the customer base and in the intensity of the customer relationships with existing customers are the main points of the supposed strengthening of the Bank's market positions.

In corporate business, the Bank is concentrated, first of all, in servicing of small businesses. Small businesses crediting, which is the principal part of the Bank's active operations, is the strategic direction in the corporate segment. At the same time, the Bank is interested both in the growth of quantitative crediting indicators and improvement of the existing products and development of new solutions pursuant to the changes in the customers' needs.

The Bank's strategy in corporate business will be focused on the following key areas:

1. Forming of a better system of corporate customer service. Due to the maximal concentration on the customer's needs, the Bank will provide the complex service and high quality of the services provided, increase the efficiency of work with the customer by improving the quality of operations planning with the customer and their economic effectiveness.

2. Development of the product line will be aimed at selling of the entire range of banking products to the customers. The existing products will be modified in order to improve the quality of customer service, introduce pricing for credit products taking into account the risk of a particular loan.

New products will be launched based on their market potential and technological capabilities of the Bank.

3. Optimization of the banking services provision processes will be aimed at their simplification, standardization and automation. This will improve the efficiency of the process of making credit decisions, facilitate document circulation, formalize analytical evaluation system for a number of credit products, and improve the quality of credit risk analysis.

### **International cooperation.**

The development of the Bank's international cooperation is conditioned by the need to diversify the sources of business growth, strengthen the resource base and arrangement of financing for the Bank's customers through the credit lines of foreign financial institutions.

Entering the international markets will strengthen the reputation of the Bank as an active participant of international cooperation, help protect the financial interests of customers and promote the brand abroad, and open up opportunities to access to new skills and technologies.

The main directions of international cooperation expansion in the midterm will be the CIS countries (Russia), Europe (Italy, France), Southeast Asia (China), and the United States. The growing interest of the Bank's corporate customers in developing of business relations with companies and enterprises in these countries creates favorable prerequisites for the Bank's access to these markets. The Bank will work actively to establish cooperation with financial institutions of these countries in order to find potential partners and study the prospects for subsidiaries establishment.

### **Information technologies.**

A prerequisite for solving the problems facing the Bank is the development of information technologies - reaching a qualitatively new level of automation, improving of the telecommunication infrastructure and hardware complexes.

The Bank plans to change the status of information technologies and transform them into a stable source of forming unique competitive advantages.

The Bank will modernize the information technologies based on the principles of unifying of software, data storage and processing systems, as well as the principles of ensuring the reliability, stability and security of all systems and applications.

The Bank will strive for step-by-step unification of the software and information storage systems, formation of the single information space provided that the reliability, stability and smooth operation of all systems and applications are ensured.

### **Sales and service channels.**

The purpose of developing of the sales and service network of the Bank is long-term and balanced growth of all business areas. The Bank uses balanced approach to the development of the sales infrastructure based on the offices and self-service devices in combination with remote service methods, while constantly monitors the economic feasibility of each point of sale.

The Bank plans to improve the quality of customer service at branches and Mini Banks by optimizing the staff functions and more efficient operation of the front office, as well as by increasing the number of self-service devices.

The Bank adheres to the stage-by-stage regional expansion strategy and focuses on those regions, where the Bank's branches already operate. The growth of the number of points of sale is consistent with the needs of the market in each specific region.

### **Capital and financial result.**

The Bank sets the following financial goals for the period of implementation of the Strategic Development Plan:

Financial indicators	<u>(mln UZS)</u>				
	as of January 01, 2014	2014	2015	2016	2017
Assets	963.105,00	1.155.672,00	1.273.452,00	1.395.396,00	1.522.004,00
Liabilities	890.377,00	1.067.300,00	1.165.834,00	1.264.368,00	1.362.903,00
Capital	72.727,00	88.373,00	107.618,00	131.027,00	159.101,00
Profit	14.016,00	15.080,00	19.245,00	23.409,00	28.074,00
Relative indicators (%)					
Return on Assets	1.5%	1.3%	1.5%	1.7%	1.8%
Return on Equity	19.3%	17.1%	17.9%	17.9%	17.6%

## **SECTION 6. MANAGEMENT SYSTEMS DEVELOPMENT**

### **Corporate management.**

Continuous development and improvement of the corporate management system in accordance with the best world practices and interests of the shareholders remains one of the key guarantees for the successful implementation of the Bank's Strategic Development Plan.

The main objectives of improvement of the corporate management is upgrade, create and develop the mechanisms for decision-making by the management bodies of the Bank as a joint

stock company, growth of the Bank's investment attractiveness, improve the quality of work and culture of the Bank's operations and reduce the risks associated with it.

The main directions of improving the corporate management system are:

bringing the existing local Bank's acts in accordance with the recognized practice of corporate management;

improving the practice of disclosure. Transparency is one of the basic principles of the appropriate corporate management implementation tools;

improving the internal control system by improving the management of the Bank and its structural subdivisions, limiting the risks of banking activities, observing the requirements of the legislation and regulations, banking and professional ethics standards, local Bank's acts that determine its policies and regulate its activities.

The Bank tends to increase the efficiency of all its management bodies through not limited to the optimization of interaction processes.

### **Human Resources Management.**

The Bank's personnel have always been its main asset and competitive advantage. The Bank's personnel policy is aimed at reveal the potential of each employee. The planned changes in the processes and organization of work will have a significant impact on the requirements that the Bank will impose on its employees, and will lead to an increase in the demand of the units for highly skilled personnel and deepen the specialization of the employees.

The key task is the creation of a modern human resources management system that will including training, career development, skills development and self-improvement. To this end, the Bank will build the transparent and effective systems for career planning and professional growth, staff rotation and human resources management.

The Bank determines for itself the following principal approaches to the development of the personnel selection and training system:

to attract qualified personnel, the use of direct personnel and outsourcing channels selection.

the creation of the managerial personnel and key employees training system that provides general professional and special training on a permanent basis.

in order to ensure the smooth functioning of current business processes, the arrangement of specialists training system on the principles of rapid training, which provides training and retraining of a large number of different specialists in the shortest possible time.

The Bank needs modernization and development of the personnel training system. The training programs will include courses that ensure development of not only technical but behavioral skills also (for example, sales and service). In addition to the mass education system, the system of various-level managers training and professional development will be significantly developed.

The system of motivation is the most important lever for solving the problems facing the Bank. Its changes will be aimed at increasing the transparency and objectivity of the wage system, strengthening the dependence of remuneration on the performance of a particular employee, unifying the principles of financial incentives throughout the Bank's system.

The result of optimization of the Bank's business processes shall be a significant increase in the effectiveness of the management systems, which will create opportunities for the release of labor. These resources will be used to ensure the processing of a larger amount of the Bank operations without increasing the number of personnel, as well as to improve the qualitative indicators, in particular, the quality of services and growth of sales.

### **Assets and liabilities management policy.**

The population's deposits will remain the basic source of the Bank's resource base, which forms the basis for the development of long-term crediting operations. The attracted funds will be balanced by the sources.



In order to reduce the corporate unit's dependence on attracting deposits from the population, the Bank sets the task to gradually increase the share of the legal entities' funds. The Bank will tend to the equal ratio of the private and corporate funds shares in the liabilities side of the balance-sheet.

Crediting operations will remain one of the main sources of the Bank's interest income. The Bank takes into account the possibility of increasing the expenses for forming a reserve for possible credit losses associated both with the rapid growth of the credit portfolio and possible increase of credit risk.

The Bank will spend the resources for internal needs taking into account its current financial means and subject to the control performance indicators in each reporting period. The Bank will monitor the volume and share of operating expenses in order to ensure reduction in the costs to net operating income ratio.

### **Risk management system and internal control.**

The risk management strategy is aimed at maintaining the stability of the Bank's business, preserving its assets, ensuring the stability of all systems and reducing possible losses. The Bank always focused on the development and improvement of the risk management system, which is adequate to the business objectives of the Bank, the scale and size of the risks accepted in the course of current activities.

In risk management, the Bank will be guided by the recommendations of the Basel Committee on Banking Supervision and regulatory requirements of the Central Bank of the Republic of Uzbekistan. In its activities, the Bank will continue to apply the risk-based approach based on the analysis of processes. Particular attention will be paid to the timely identification of risks and assessment of their affect and the likelihood of occurrence.

The Bank will continue to improve the risk management system with particular attention to the development of operational risk and credit risk management. Improving the risk management system is an important task that is necessary to the implementation of the business development strategy.

The numerical estimate of expected losses has to be the minimum "risk price" included in the cost of credit resources for the customer. The main task in the area of credit risks is the earliest possible identification of potential bad debt and professional work with it at those stages when measures for its restructuring and collection shall be most effective.

The main task in the area of operational risks will be the liquidation of gaps and simultaneous elimination of the excessive control mechanisms. The basis of this work will be a complete inventory of possible operational risks, assessment of their possible economic effects, analysis of the prevention and control systems cost-effectiveness, as well as increase the responsibility of all "line" departments for operational risks management.

## **SECTION 8. ORGANIZATION OF THE STRATEGY IMPLEMENTATION MONITORING AND CONTROL**

To successful implementation of the proposed changes, the Bank will set the target indicators on the base of which monitoring of changes in the Bank's share in the banking services market will be made:

- market positions on major banking products (market share);
- service quality (service time, period of making a decision to grant a credit, etc.);
- sales channels development (share of the transactions made through remote service channels, etc.);
- employees' productivity (indicators per employee - number of transactions, credit agreements, etc.).

Current operational plans, which shall fully comply with the main provisions of this document, will be developed in order to fulfill the goals and objectives of the strategic development plan of the Bank. The current operational plans being developed are approved by the Bank's Council or the Bank's Executive Board, depending on their authorities.

The Executive Board reports to the Council on the progress of the business plan quarterly, on the implementation of the strategic development plan of the Bank annually, and the Council of the Bank, in its turn, reports to the General Shareholders Meeting of the Bank annually.