

“AGREED”

**by the Council of
“Kapitalbank” JSCB
dated June 15, 2017
(Minutes No. 25)**

“APPROVED”

**by the General Meeting of
Shareholders of
“Kapitalbank” JSCB dated June
30, 2017
(minutes No. 1/2017)**

The Chairman of the Meeting

_____ -F.Kh.Otakhonov

**MEDIUM-TERM STRATEGIC
PLAN FOR THE DEVELOPMENT OF
“KAPITALBANK” JOINT-STOCK
COMMERCIAL BANK for
2017-2020**

Tashkent – 2017

Currently, the Kapitalbank" JSCB " (hereinafter - the "bank") is a universal financial institution offering its clients the widest possible range of financial services with extensive branch network and a reputation as a responsible and stable company. Many years of experience enabled bank to build a significant client portfolio. Over the past years, a positive experience of participation in government programs to support small business and private entrepreneurship, craftsmanship, young families, and college graduates has been gained.

The bank exhibits a steady business growth; it has managed to join the largest banks in the country in terms of its assets and equity, financial performance and infrastructure scale.

The growth has taken place amidst the dynamic development of the banking sector of the Republic of Uzbekistan. At this stage of sector development, it is not easy to achieve success with only traditional banking products. In the modern banking sector, technologies and client preferences are changing rapidly, economy is subject to volatility and uncertainty, competition between banks is stronger than ever, regulation is tightening and the profitability of banking is declining.

In this regard, managers of the bank have developed this strategic plan for bank transformation into modern high-technological financial institution with which it is profitable, convenient and pleasant for the client to work.

CHAPTER 1. STRATEGIC ANALYSIS

Work that the bank has conducted while operating in the market has ensured building **major competitive advantages**, which are the following:

- **significant client base.** The bank provides services both to individuals and major companies across the country.

- **wide product range.** The bank provides the full range of financial services and is able to provide each client with comprehensive service.

- **business reputation of the bank.** Clients of all categories have a great confidence in the Bank. Marketing researches conducted show that the bank has a powerful and recognizable brand, which is associated with quality, reliability, innovation and success.

However, there are a number of **deficiencies** in the operation of the bank, without addressing which it will not be possible to utilize the full potential of the development. The main problem of the bank is obsolescent automated banking system, which does not have analytical capabilities, that, in turn, causes the following deficiencies and limitations:

- **limited and unorganized information on bank clients.**

Systems of client information collection and storage require improvement. The bank lacks modern tools for client data analysis and methods for this information utilization to develop a targeted supply to each client. Moreover, there is a huge potential for client work improvement and development of skills in sales, especially in cross sales.

- **IT-systems are insufficiently scaled.** Today, the bank exhibits a complex, insufficiently scaled IT-architecture, which is represented by a whole set of completely different software systems, including ABS. With such an imperfect architecture, client-servicing failures can occur, and there is a high level of human factor. This entails reputational risks and undermines client loyalty and confidence in the bank. In addition, due to the limitations of the ABS, it takes a long time between product development and market launch, which does not always allow the bank to meet client needs promptly.

insufficient automation of management processes, reporting and expenditure management system.

Managing a bank of this scale requires a modern automated system of management reporting building, resource planning and capital allocation. In addition, for the efficient operation of the bank, it is required to precisely determine the cost of each operation and products sold, in order to further reduce the costs of the most expensive sections and optimize business processes. Currently, such procedures are carried out by hand, and the results of the analysis carry a quiet high degree of an error.

Against the existing development potential, the bank also faces a **number of general challenges**, which, at the same time, offer ample opportunities:

change in technologies and client preferences. The development of digital technologies in the field of the Internet and mobile platforms has led to changes in client preferences and their decision model, i.e.:

- it becomes vital for clients, especially individuals, to have round-the-clock access to banking services from anywhere in the world using any technology convenient;
- client requirements to service efficiency and service personalization increased significantly;
- clients wish to integrate banking services with their business processes and daily operations;
- due to the rapid development of social networks and the Internet space in general, clients are becoming overloaded with information on banking offers.

Thus, the influence of emotional and reputation factors of decision-making increases.

Under these conditions, traditional banking no longer has the same meaning as before. The sector moves to remote servicing channels, where digital products and services are sold. Herewith, technologies development differently affects all clients, and the bank needs to have different client servicing models in place.

sharp competition Under the conditions of decline in profitability and change in client's needs, banks competition increases. Banks with traditional business models are in a tight situation, they will have to adapt to new trends in order to maintain market share. Banks with government participation will be more stable due to the support from the state, an extensive client base and branched sales network.

Also, non-banking organizations are entering the market, applying high technologies in retail banking. Compared to banks, they carry less regulatory burden and allocate strong investments in technologies and software development.

• **regulation.** Transfer of banking system to Basel III Standard, which tightens the requirements for capital adequacy, liquidity of assets and provision of the loan portfolio, is a factor binding the growth of banking. Moreover, additional information disclosure requirements are introduced and maximum interest rates are limited. Transition to digital space will entail the tightening of regulator requirements and growth of bank's expenditures for compliance control, personal data protection and the prevention of suspicious transactions and fraud.

As a result, today, the bank is a significant participant in the financial market of the republic, which is entering a new stage of its development, where digital technologies, 24/7 operation mode, multichannel quality, supply personalization, large data sets and analytics will be a priority.

CHAPTER 2. BUSINESS STRATEGY

One of the main steps of strategy implementation is investments into the information technologies, i.e., acquisition and deployment of a new automated banking system, and the necessary server equipment for its operation. In addition, business processes and functions in the bank shall be revised accordingly. The following is our vision of how the bank shall be changed in the process of technological re-equipment.

Client Policy

For the most of clients, financial services, especially those related to payments and transfers, are a burden, they take time and may cause inconveniences. The task of the bank is to ensure that such services do not burden clients and are an imperceptible part of their lives.

Essentially, financial services are not that interesting and are means of achieving other goals and objectives that are more important for clients, and we want to help our clients to realize these objectives. It is necessary to put in place all the necessary arrangements for our clients to resolve all their financial issues at "Kapitalbank" JSCB.

The more often they do this, the more clients' information we will accumulate and analyze in order to provide better and more profitable service. In order to reach this level of service, it is necessary to work in the following areas:

listen the client. We shall establish a system of objective service quality assessment to receive feedback from our clients promptly; based on these feedbacks we will see all problem areas. This system shall become a part of bank employees labor assessment and incentive system.

• **multichannel quality, 24/7 operation mode.** Clients shall be able to use our services, when, where and how it is convenient for them. Therefore, we will invest in digital technologies development. We

4 I Long-term Strategic Plan for the Development of "Kapitalbank" JSCB for 2017-2020

expect that up to 90% of daily transactions will be made remotely. The major function of bank's branches will be advising of bank's clients in special situations, requiring direct presence of a client.

product range expansion. We will develop product range, combine products and customize them for specific clients and client groups. Our products shall become convenient and user-friendly. Products will be offered as comprehensive so-called service packages to satisfy any financial needs of clients.

data arrays and analytics. We will create a data storage where all information about clients, their behavior and interaction with us will be stored. This will improve our understanding of clients and allow to foresee their behavior and make offers they need at the right time. In addition, we shall establish an efficient system of cross sales and offer our services anticipating clients needs.

loyalty programs. We will assist our clients in solving not only bank related issues, becoming even closer to them. In order to accomplish this, we will arrange work with a large number of our existing and prospect clients.

Financial result

We shall increase the performance of our business through more efficient cost management and take a full control over the risk-return ratio. For this, work will be delivered in the following areas:

• **economically sound decision-making.** We will measure bank income and expenditures more thoroughly. We shall be able to see the financial result in the context of each transaction, product, client, department and business area. This will be possible due to the implementation of the functional and cost analysis model. Also, we will be able to adjust the system of material incentives for bank managers of all levels based on the actual financial result of the units entrusted to them.

risk-return ratio optimization. We shall set up a pricing system using return on equity index with allowance for risk. Based on this index, a system for efficient distribution of economic and regulatory capital among divisions, products and clients will be established.

optimization of expenditures. After transactions transition to remote servicing, we will be able to optimize operating expenditures for physical points of service. We will introduce budgeting system and improve the

procurement system. Using this system, we will be able to directly control each purchase of goods and services for our own needs of the bank in automatic mode, keep a detailed account of expenditures and analyze the points of occurrence of the highest expenditures. Some functions supporting the business will be outsourced if it is economically feasible.

Technologies

Subject to the successful implementation of the strategy, the bank will become a leader among the banks of the republic in information technologies application in the banking.

Clients will receive custom and convenient service offers, the possibility of round-the-clock and prompt interaction with the bank. IT-systems will be applied for the development, quick implementation and sale of innovative banking products;

Employees will note a sharp increase in labor productivity, stop performing boring routine operations and will be able to serve clients more efficiently and with pleasure.

Managers will be able to effectively manage the bank and subordinates based on management reporting generated in real time, and create new competitive advantages based on client information.

To maintain a constant competitive advantage, the bank will attract and develop promising IT-specialists.

CHAPTER 3. KEY BUSINESS AREAS DEVELOPMENT

Retail Banking

Retail clients will continue to feel the need in basic financial services, however, due to modern technologies, access to 24/7 services, high speed of interaction with the bank and an individual approach become crucial. General public becomes more accustomed with financial literacy and prefers using remote channels without direct contact with bank employees.

The Internet helps clients to easily compare the services and offers of various banks and make their choice.

At the same time, due to the information overload, emotional and reputational factors dominate when making a decision on choosing a bank.

For the development of retail business, we need to address the following objectives:

to become a part of the daily life of our clients. We shall make simple, convenient, fast and profitable such operations as regular payments, transfer of funds, payments for goods and services, funds savings and microloans. To accomplish it, we pay particular attention to payroll projects, money transfers between individuals accounts, overdrafts and loan facilities secured by existing assets. We shall also develop products for savings and popularize the use of cards by introducing new client identification methods. At the same time, these services need to be completed in profitable packages.

to build long-term and close relations with clients. To resolve this issue, we shall understand the needs of clients and find an individual approach to each client segment (youth, retirees, employees and wealthy people) The essence of the method is that we shall offer our products in packages, which are much more profitable for the clients than if these products are purchased separately. To compile such packages, we will expand the possibilities for collecting, storing and analyzing client information.

to develop multichannel service. Regardless of the service channel (branch, ATM, self-service terminal, mini-office, mobile bank or call center), the client shall receive the same information and access to most services everywhere. We expect that by the end of this strategic plan implementation period, in most cases, the client will not need to contact the bank in person. At the same time, it is important not to neglect the issue of cyber security. After transferring sales to remote channels, the branch network will serve only for advising and selling complex products, while routine operations will be performed via the Internet.

It is assumed that for the full implementation of this part of the strategy, we will have to separate the retail unit as an independent part of the bank, where the efforts of all staff from management to simple employee will be focused on meeting the needs for banking services of exclusively individuals. This step is necessary because there are fundamental differences in the services provided to individuals and large enterprises, and it is extremely difficult to combine these two processes without losing the quality of service.

Corporate Banking: Small Businesses and Private Entrepreneurs

We wish to become a reliable and major partner of small business in the country. This segment is of interest for the bank, as it combines a sufficient level of profitability and client base diversification (compared to large entities). Moreover, the country actively supports small businesses, and the number of potential clients increases arithmetically. Distinctive feature of small business enterprises is a high speed of development, and our products shall be clear and convenient for clients at every stage of their business development.

To achieve these goals, the bank will have to solve the following objectives:

to develop supply for each subsegment depending on the degree of business maturity and, accordingly, to establish an effective service model.

Supply shall differ for developing clients and those who just want to work stably. We shall supply comprehensive solutions for any tasks of our client. Thus, we may supply startups with simple account opening, loans for business startup, advising on the registration of an entity, tax and accounting, and assist in finding future partners among bank clients. A special offer in acquiring and loan for working capital will be set forth for retailers.

Services in remote and digital channels will be offered to small businesses, which will supply clients with a convenient solution for controlling and managing the finances of their business. Transition into digital channels will take the load of client managers and open up the possibility to additionally implement service packages, taking into account industry specifics, and will allocate specially trained employees for more individual service.

The bank can supply products to projects that have proven their worth, to increase the scale of business with the further withdrawal of the company from the small business segment.

to arrange additional events, such as: collection, storage and analysis of information on clients, development of client relations management skills, development of the ability to view client not only as an entrepreneur, but also as an individual; development of remote channels and establishment of reliable system for payments. As retail banking products, our products for small businesses shall be available around the clock, seven days a week and without a need to visit a branch.

Corporate Banking: Large Business and National Entities

This sector is represented by the most demanding clients who prefer to be served in several banks, have large funds, use a whole range of financial services and which are hunted by large banks, including systemically important ones. Such clients have the following requirements for banks:

efficiency in making payments and liquidity management tools;

- high lending rate at favorable interest rates; highly qualified employees of the bank who know the specifics of the industry in which the client works and speak foreign languages (for joint ventures);

complex products that include complex financial instruments.

To attract such clients, we shall train client managers, who will be perceived as trusted advisors to the client, and will understand the specifics of their business. The bank shall be able to supply customized financial solutions, in addition to standard products. It is necessary to develop in the following directions to achieve such goals:

clients of this segment use automated systems for enterprise management and accounting. The possibility of integration with automated banking systems to optimize payments is extremely important for them, and our bank shall provide them with such an opportunity;

product range development in the field of short-term lending, trade finance, foreign exchange transactions and liquidity management products.

Herewith, it is important to increase the speed of service provision, especially in terms of lending without loss of quality.

the establishment of mechanisms for the operational interaction of client managers with client representatives;

studying the economy of each client, and based on the analysis, creating effective mechanisms for custom offers packaged sales;

CHAPTER 4. ARRANGEMENT OF MONITORING AND CONTROL OVER STRATEGY IMPLEMENTATION

In pursuance of goals and objectives of this Strategic Plan for the development of the bank, ongoing short-time plans will be made, they shall comply with general provisions of this publication in full. Ongoing short-time plans shall be approved by the Council of the bank and by the Board of the Bank depending on their authorities.

Quarterly, the Board of the bank shall report to the Council of the bank regarding the progress on business plan implementation, annually, - on the implementation of the strategic plan for the bank's development, in turn, the Council of the bank shall annually report to the General Meeting of Shareholders of the bank.

Prepared by:

Director of Risk Management Department

Acting Director of Economic Analysis and Financial Management Department

A.V.Berezhnoy

Read and Understood:

Chairman of the Board
Chief accountant

E.Y. Skuybida

Deputy Chairman of the Board

K.A. Olimov

B.T. Yuldashev

Deputy Chairman of the Board
Director of Legal Service Department

Sh.K. Karimbaev

Deputy Chairman of the Board

K.A. Voistinov

M.D.Samandarov