



KDB Bank Uzbekistan

2022

BUSINESS PLAN

Together Towards
Sustainable Growth



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Economic Outlook of Uzbekistan

Highlights

- 2021 was a positive year for the economy of Uzbekistan. Large-scale economic reforms continued in the country, and the effect of the transformations of the past years became more noticeable in the sectors of the economy. Despite the ongoing risks associated with the pandemic, the economy of Uzbekistan in 2021 demonstrated resilience and returned to dynamic development. According to the results¹ of 2021 presented by the State Statistics Committee of the Republic of Uzbekistan, Uzbekistan's GDP grew by 7.4% in 2021 against 1.6% in 2020.
- Inflation in Uzbekistan continues to slow down from year to year. Over the past year, the consumer price index increased by 10.0% against 11.1% at the end of 2020.
- At the end of 2021, the foreign trade returned to the pre-crisis dynamics. The volume of foreign trade turnover increased by 16% and reached \$42.1 bln, surpassing the figures for 2019 (\$41.8 bln). Exports grew by 10% to \$16.6 bln, imports by 20% to \$25.5 bln. The trade balance was negative at \$8.9 bln.

Key priorities for 2022

- Uzbekistan's GDP to grow by 6.0% in 2022 according to the forecast² released on EBRD's latest Regional Economic Prospects report. The expectation is closely tied with the positive situation around the Covid-19, increased private consumption driven by remittances as well as increased foreign investment in infrastructure.
- The inflation rate is expected to be at 8-9% in 2022 and then drop to 5% in 2023-24 according to the Monetary Policy for 2022 and 2023-24³ presented by Central Bank of Uzbekistan.
- In line with the report on State Budget for 2022⁴, the foreign trade turnover in the republic is expected to increase by 13.4% and compose U\$ 46.3 bln in 2022 due to the favorable conditions created for foreign trade and measures taken to support exporters. Particularly, the volumes of export and import are going to constitute U\$ 20.2 bln (+19.0%) and U\$ 26.1 bln (+9.5%) respectively, with deficit trade balance of U\$ 5.9 bln.

Main Macroeconomic Indicators

Indicator	Unit	2019 ⁵	2020 ⁵	2021 ⁵	2022 (P)
Real GDP growth	%	5.6%	1.6%	7.4%	6.0% ²
Nominal GDP	U\$ bln	53.8	55.4	67.8	73.4 ⁴
Inflation rate	%	15.2%	11.1%	10.0%	9% ⁴
Foreign trade turnover	U\$ bln	42.2	36.3	42.1	46.6 ⁴
<i>Goods: exports fob</i>	<i>U\$ bln</i>	<i>17.9</i>	<i>15.1</i>	<i>16.6</i>	<i>20.5⁴</i>
<i>Goods: imports fob</i>	<i>U\$ bln</i>	<i>24.3</i>	<i>21.2</i>	<i>25.5</i>	<i>26.1⁴</i>
Trade balance	U\$ bln	-6.4	-6.1	-8.9	-5.6 ⁴
Foreign currency reserves	U\$ bln	29.2	34.9	35.1	35.1 ⁶
Exchange rates					
UZS / U\$ (avg.)		8,838.00	10,058.08	10,609.98	11,921.43
UZS / U\$		9,507.56	10,476.92	10,837.66	11,379.54

¹ Review.uz (2022) *Main macroeconomic indicators of the Republic of Uzbekistan for 2021*. Available at: <https://review.uz/ru>

² EBRD (2021) *Transition Report 2021-22*. Available at: <https://2021.tr-ebd.com/countries/#>

³ CBU (2021) *Monetary Policy Guidelines for 2022 and the period of 2023-2024*. Available at: https://cbu.uz/en/press_center/releases/563343/

⁴ Chamber of Accounts (2021) *State Budget for 2022*. Available at: <http://www.ach.gov.uz/uploads/0f201f4b-3b58-cd8d-3e4b-a5b3e6666368.pdf>

⁵ State Statistics Committee (2019-22) *Macroeconomic indicators of the Republic of Uzbekistan*. Available at: www.stat.uz

⁶ IMF DATA (2021) *Regional economic outlook: Middle East and Central Asia*. Available at: <https://data.imf.org/?sk=4CC54C86-F659-4B16-ABF5-FAB77D52D2E6&sid=1390030109571>

Banking Sector of Uzbekistan

Financial highlights for 2021⁷

- According to the financial results of the commercial banks as of December 31, 2021, the aggregated total assets of the banking industry increased by 17.5% and reached U\$ 41.1 bln in U\$ equivalent. Also, the aggregated total capital of the commercial banks grew by 17.5% and composed U\$ 6.5 bln.
- At the end of 2021, the number of commercial banks in Uzbekistan reached 33, out of which 12 are the banks with state ownership. The role of the banks with state ownership in the country's banking system remains significant. Particularly, 81.5% of the aggregated total assets and 81.4% of the aggregated total capital of the entire banking system belong to those 12 banks.
- As of December 31, 2021, the aggregated total assets of the commercial banks are comprised of loans (71.1%), cash & due from banks (18.1%), securities (4.4%), and other assets (6.4%). At the same time, the aggregated total liabilities are comprised of borrowings from financial institutions (46.5%), deposits (41.8%), due to banks (5.0%), bonds (2.8%), and other liabilities (3.9%).

Key priorities for 2022⁸

- The Government and the Central Bank of Uzbekistan has strong objective of ensuring price and financial stability in the economy, reducing inflation to 8-9% in 2022 and 5% by the end of 2023.
- The Government continues the transformation and privatization process of state-owned banks in order to grow the share of private banks in the banking industry.

Top 20 Banks of Uzbekistan by Total Assets

Financial Summary for 2021 (U\$ mln, %)

Rank	Bank	Assets	Equity	Income before tax	ROA*	ROE*
1	National Bank of Uzbekistan	8,297	1,363	118	1.5%	8.8%
2	UzPromStroyBank	5,214	711	116	2.3%	17.1%
3	Asaka Bank	4,688	600	13	0.3%	2.1%
4	Ipoteka Bank	3,692	469	84	2.5%	17.1%
5	Agro Bank	3,688	862	39	1.1%	6.1%
6	Xalq Bank	2,484	506	-206	-8.2%	-42.5%
7	Qishloq Qurilish Bank	1,911	249	37	2.1%	15.3%
8	Kapital Bank	1,443	137	41	3.8%	37.5%
9	Mikrokredit Bank	1,244	214	5	0.4%	2.5%
10	Aloqa Bank	1,166	154	13	1.3%	9.8%
11	Hamkor Bank	1,146	178	53	4.9%	33.0%
12	Turon Bank	1,016	177	12	1.3%	7.1%
13	Ipak Yuli Bank	874	141	43	5.6%	33.9%
14	KDB Bank Uzbekistan	703	70	11	1.8%	17.3%
15	Trust Bank	639	109	50	9.1%	53.5%
16	Orient Finance Bank	542	124	36	6.9%	31.0%
17	Invest Finance Bank	532	71	17	3.5%	26.3%
18	Tenge Bank	309	113	7	3.0%	10.3%
19	Asia Alliance Bank	298	37	6	2.2%	18.3%
20	Davr Bank	246	38	15	7.3%	40.3%

* ROA & ROE are calculated based on Income before tax

⁷ CBU (2021) *Monetary Policy Guidelines for 2022 and the period of 2023-2024*. Available at: https://cbu.uz/en/press_center/releases/563343/

⁸ CBU (2022) *Indicators of Banking System as of January 1, 2022*. Available at: <https://cbu.uz/en/statistics>

Long-Term Vision & Management Plan

VISION

Leading Bank in CIS region

MANAGEMENT GOAL 2022

Leading the financial market by diversifying financial products

Maintaining a stable business by strengthening internal infrastructure & external networks

MAJOR TASKS 2022

01

Growth of Operating Assets

02

Management of Funding and Liquidity

03

Growth of Non-Interest Income

04

Improvement of Card Business

05

Digital Improvement
(Mobile banking, New reporting system, Client app for Unibanks)

Financial Growth Plan

Considering the current trend in the global financial market as well as the financial environment in Uzbekistan, the Bank's management has projected financial statements for FY2022 as follows.

Key Points of Projected Financial Statements

Unit: US\$ ths, %

Items	2022 Projection		2021 Performance		
	Plan (A)	Growth (A-C)/C	Plan (B)	Actual (C)	Performance (C/B)
FINANCIAL POSITION					
Total Assets	714,750	1.6%	650,069	703,450	108.2%
Cash in Vault, Bank Deposits & M/M Placements	541,600	(1.4%)	498,069	549,178	110.3%
Operating Assets	171,000	16.9%	145,000	146,336	100.9%
Provision on Standard Assets (On-Balance Assets)	-5,780	-	-	-	-
Total Liabilities	647,001	2.1%	585,272	633,524	108.2%
Customer Deposits	633,954	0.6%	584,072	630,077	107.9%
Interbank Borrowings	10,000	-	-	-	-
Provision on Standard Assets (Off-Balance Commitments)	550	-	-	-	-
Total Equity	67,749	(-3.1%)	64,797	69,926	107.9%
INCOME STATEMENT					
Net Interest Income	17,682	21.8%	15,039	14,516	96.5%
Net Non-Interest Income	7,500	11.5%	5,690	6,728	118.2%
Provision against credit loss (Creation - / Return +)	(390)	-	237	120	50.9%
Net Operating Revenue	24,792	16.0%	20,966	21,365	101.9%
Operating Expenses	(11,057)	12.0%	(9,977)	(9,871)	98.9%
Provision (standard assets, etc.)	(883)	-	-	0	-
Net Income before Tax	12,851	11.8%	10,989	11,494	104.6%
Net Income after Tax	10,127	11.4%	8,626	9,092	105.4%
Ex. Rate: UZS/US\$	11,921.43	10.0%	11,681.77	10,837.66	
Average Ex. Rate: UZS/US\$	11,379.54	7.3%	11,079.34	10,609.98	

Note: The Business Plan is prepared in accordance with the local accounting standards. As the Uzbek Soum is the functional currency of Uzbekistan, all the above figures are initially calculated in UZS and converted into US\$ using the forecasted exchange rates (US\$ 1 = UZS 11,921.43 as of December 31, 2022 and US\$ 1 = 11,379.54 – average exchange rate for 2022) for presentation purposes only.

Notes to Key Points of Projected Financial Statements

According to the Business Plan, Total Assets are planned to grow by U\$ 11.3 mln and reach U\$ 714.7 mln at the end of 2022. In the structure of Total Assets, the following main changes are forecasted.

- Growth of Operating Assets by U\$ 24.7 mln
- Decline of Cash in Vault, Bank Deposits & M/M Placements by U\$ 7.6 mln
- Creation of Provision on Standard Assets (On-Balance Assets) by U\$ 5.8 mln (contra account)

On the other hand, Total Liabilities are forecasted to grow by U\$ 13.5 mln and reach U\$ 647 mln at the end of 2022. In the structure of Total Liabilities, the following main changes are expected.

- Growth of Customer Deposits by U\$ 3.9 mln
- Attraction of Interbank Borrowings by U\$ 10 mln
- Creation of Provision on Standard Assets (Off-Balance Commitments) by U\$ 0.6 mln

Finally, Total Equity is forecasted to decrease by U\$ 2.2 mln despite the projected net income for U\$ 10.1 mln (equivalent of UZS 115.2 bln) mainly due to the following reasons.

- Change of Capital Reserve for U\$ 6 mln (accumulated until December 31, 2021) to Provision on Standard Assets in line with the CBU Regulation which is effective from January 10, 2022
- Devaluation of Equity in U\$ terms for U\$ 6.3 mln (in line with the projected depreciation of UZS against U\$ by 10% in 2022).

(i) GROWTH OF OPERATING ASSETS

Operating Assets of the Bank are constituted by loans and investments in debt securities (bonds, Eurobonds, treasury bills, certificates of deposit, etc.) of financial institutions and governments both local and foreign.

In 2022, the Bank has a plan to increase Operating Assets by U\$ 24.7 mln (or 16.9% in U\$ terms) in the following way.

- Growth of loans to corporates and individuals by U\$ 7.6 mln
- Growth of on-lending and trade loans to local banks by U\$ 10.8 mln
- Growth of investments into debt securities by U\$ 6.3 mln

STRUCTURE OF OPERATING ASSETS



Growth of Loans to Corporates and Individuals (▲ U\$ 7.6 mln)

In 2022, the Bank will strengthen its activities aimed at attracting corporate borrowers with strong positions in their industries. As usual, the Bank will continue a conservative approach when reviewing the financial activity and business plan of the borrowers before financing their projects with loan funds. Particularly, the Bank will mainly grant loans to the top manufacturing companies of mining, oil & gas, beverages & food processing, cable products, construction materials, pharmaceuticals, textile, plastic goods, and paper & hygienic products industries with financially sound performance. Additionally, the Bank has a plan to accelerate syndicated loan deals in cooperation with other foreign and local banks.

At the end of 2022, the net amount of the loans to corporates & individuals is projected to reach U\$ 115 mln in comparison with U\$ 107.4 mln at the end of 2021.

Growth of On-lending & Trade Loans (▲ U\$ 10.8 mln)

In 2020, the Bank first introduced the on-lending loan to local banks in order to support small business enterprises in Uzbekistan. At the end of 2021, 3 local banks (UzPromStroyBank, Qishloq Qurilish Bank, and Mikro kredit Bank) are granted with on-lending loans for the total outstanding amount of U\$ 28.2 mln.

In 2022, the Bank has a plan to grow the on-lending loans up to U\$ 35 mln by increasing the number of counterparty borrower banks up to 5.

In 2021, another new product – trade loan was introduced by the Bank to support trade finance activities of the local banks. The first trade loan was granted to Aloqa Bank and its outstanding amount was equal to U\$ 8 mln at the end of 2021.

In 2022, the Bank has a plan to grow the trade loans up to U\$ 12 mln by increasing the number of counterparty borrower banks up to 3.

Investment in Securities (▲ U\$ 6.3 mln)

In 2021, the Bank mainly purchased the securities issued by the Central Bank and Ministry of Finance of the Republic of Uzbekistan as well as the certificates of deposit issued by Agro Bank, the total outstanding amount of which was equal to U\$ 2.7 mln (or UZS 29.7 bln) as of December 31, 2021.

In 2022, the Bank is going to boost its investment activity in debt securities in order to diversify Operating Assets. The Bank will mainly target to purchase debt securities (bonds, bills, etc.) of the foreign governments (particularly, US Treasury for U\$ 8mln) to maximize earnings from foreign currency assets.

For this, the Bank will cooperate with KDB Network to get access to the knowledge and data accumulated on the global securities market.

(ii) FUNDING & LIQUIDITY

Management of Customer Deposits

For the recent several years, Customer Deposits have constituted the major portion of Total Liabilities and, in addition to Shareholders' Equity, served as a stable funding source to support Operating Assets of the Bank. The Bank's management sets a plan to increase the outstanding amount of Customer Deposits in U\$ equivalent from U\$ 630.1 mln to U\$ 634.0 mln (up 0.6%).

The above plan to keep Customer Deposits at practically the same level will help the Bank to overcome the burden of liquidity in local currency due to the obligatory reserve requirement (18% in FCY) of the CBU.

Also, the Bank will focus on attraction of primary accounts of corporate clients and on-shore accounts of companies with foreign investments in order to have more stable funding in local currency.

Cooperation with International & Local Financial Institutions

In order to mitigate the risks related to the shortage of local currency, the Bank has a plan to establish cooperation with the international and local financial institutions. Particularly, the Bank is expecting to establish cooperation with the local (Hedging Company to-be established under Ministry of Finance of the Republic of Uzbekistan) and international financial institutions (JPMC, EBRD, TCX, KDB London, etc.) to improve the funding & liquidity in local currency.

(iii) IMPROVEMENT OF RISK MANAGEMENT SYSTEM

The Bank will continuously review and analyze the internal process and formulate the simulations of various cases that can answer the questions such as “what kind of events can damage the banking activity and what kind of actions must be taken to manage the destructive events?”

In 2022, Risk Management Department will tightly control the risks associated with the growth of the operating assets. Credit and liquidity are two main risks that will be in the focus of the Bank.

In this regard, the Bank’s management is going to develop and implement an automated limit management and ratio calculation system to manage regulatory ratios set by the CBU and to improve reliability of forecasts in 2022.

Moreover, the operational risk is another concern of the Bank, as the COVID-19 showed the importance of digitalization of banking business in order to stay competitive by introducing digital solutions for the clients and to uninterruptedly operate through optimization of the workforce. Accordingly, it is essential for the Bank to have a roadmap to improve the cyber security in line with the digitalization of its business.

(iv) GROWTH OF NET INCOME BEFORE TAX

According to the Business Plan, the Bank is going to increase Net Income before Tax up to U\$ 12,851 ths in 2022 in comparison with U\$ 11,494 ths in 2021. The projected growth amount of U\$ 1,357 ths is planned to achieve mainly through growth of Net Interest Income by U\$ 3,166 ths and Net Non-Interest Income by U\$ 771 ths to cover the expected increased amounts of Provision (provision against probable loan loss and provision on standard assets) by U\$ 1,394ths and Operating Expenses by U\$ 1,186 ths.

Net Interest Income

In 2022, Net Interest Income is expected to increase by U\$ 3,166 ths in comparison with 2021 due to the following main changes in interest income and expenses:

- Growth of interest income (▲U\$ 4,216 ths) from Operating Assets in line with expansion by U\$ 24.7 mln
- Growth of interest expenses (▲U\$ 1,026 ths) for attraction of UZS funds in the form of customer term deposits and interbank borrowings.

Net Non-Interest Income

In 2022, the Bank plans to increase income from the fee business. Due to the high market competition among the commercial banks and the significant changes in the financial environment in Uzbekistan after the Foreign Exchange Liberalization, the Bank has experienced a downward trend of Net Non-Interest Income in 2017-2020 years. Particularly, Net Non-Interest Income of the Bank amounted to U\$ 4,462 ths in 2020.

However, the situation with the fee business of the bank began to change in a positive direction in 2021 and the Bank closed the financial year with surpassing the business plan by 18% and an increase of 51% compared to 2020.

KDB Bank Uzbekistan is intending to keep upward trend in net non-interest income in 2022 and to increase it by U\$ 772 ths (or 11%) comparing with 2021 due to the increase in net gain from FX operations (▲U\$ 275 ths), fee income from transaction banking & card business (▲U\$ 508 ths) and trade finance & guarantee business (▲U\$ 177 ths) as well as the decline in other net non-interest income (▼U\$ 188 ths).

In order to reach the targeted amount and to expand Non-Interest Income, the Bank is going to conduct active marketing by using its competitive advantages. The active marketing activity is planned to conduct in the following directions:

- to utilize cross-selling opportunity (conversion & FX operations, transfers, finance lease, syndicated loan, etc.) by attracting primary accounts of the leading and growing companies in the country and the existing clients that currently hold a secondary account with the Bank;
- to boost trade finance & guarantee business by utilizing the confirmation services of KDB Global Network & other financial institutions which is globally recognized with high credit rating;
- to expand volumes of transaction banking and FX operations through newly developed digital banking applications (New Internet Banking and Upgraded Mobile Banking) with competitive tariffs;
- to promote card business by optimizing expenses & costs associated with maintenance of international cards and increasing service quality for the current and potential cardholders (pls. refer to the next section for more information).

Improvement Plan

Improvement of Card Business

During recent several years, the local and international card businesses of the Bank have been functioning in order to satisfy the corporate clients' needs on opening mainly salary cards in national currency for their employees and the international cards for the business trips. Currently, the popularity of the non-cash payment in Uzbekistan is rising year-by-year. According to the statistics released by CBU, the number of plastic cards in circulation increased by 32% during 2019-2021.

The Bank's management is well aware about the weaknesses in the operating process of the card business and has a plan to improve the existing process efficiency and effectiveness by restructuring the business that eliminates the deficiencies and enhance the service quality.

Improvement plan of Card Business:

- **Restructuring.** To revise radically the process of the card departments by separating the technical part from business in order to focus more on business promotion;
- **Self-sustainable.** To increase the volume of transactions and consequently the revenue from card business by enriching the card business with new products and services (e.g. VISA Direct, Co-badged cards, mobile banking, 3D security, NFC, QR-online, integrated POS-terminals, etc.).

Automation of Daily Operations

Development of Reporting System

The Bank is going to develop new reporting solution (together with existing reporting system) with several modern properties (e.g. data visualization, simulation of potential scenarios, real-time based reporting, etc.) in order to fast and accurately make standard and non-standard reports as per the request of the Management, KDB HQ as well as the government authorities.

Development of New Client App for Unibanks

Unibanks is the unique automated banking system of the Bank that has been operating for almost 10 years. During the recent years, it has been updated partially upon the request of the departments on adding or changing the functions.

In order to improve the situation, the Bank's management has decided to modify the Unibanks using one of the modern programming languages (C#, Java, Python, etc.) to make it user-friendly with some new functionalities and easily readable/updatable by programmers.

Upgrade of Mobile Banking

The Mobile Banking Application called "MultiPay" was released by the Bank at the end of 2018. Since then, the application has been accompanying the individual clients in their daily lives, simplifying the process of conversion, payment and transfer operations.

Over the past 4 years, MultiPay has been gradually updated with new features and functionalities to make it more user friendly. However, the Bank's management believes that time has come to profoundly change the application by researching and obtaining the best features and experience from the mobile banking applications of the international & local financial institutions.

In the 2nd half of 2022, it is expected to launch the new version of the Mobile Banking Application with modern design and enriched features.

Further Development of Intranet System

Document circulation application of the Bank named Intranet launched in 2021 and brought the document approval and circulation process to the new level.

In 2022, the Bank is going to enrich the system with the new functions and one of them is to automate monitoring of the employees' activity (monitoring of daily attendance, management of vacation calendar, organization of video trainings, preparation of internal orders, etc.) in order to optimize data management in HR.

Boost Employees Productivity

The main focus of the management of the Bank in 2022 will be increasing the productivity and performance of the employees. In order to get the desired results, the HR department is going to conduct a survey among the Bank's employees and facilitate their participation in essential training programs (using the external and internal sources).

Additionally, it is essential to upgrade the job manuals by gradually transferring to the video materials in order to speed up the adaptation of the new employees in their job responsibilities.

Annual Budget & Details

(i) OPERATING EXPENSES

In 2022, the Bank's operating expenses are projected to grow by 12.0% in U\$ terms compared with 2021. The projected growth amount is equal to U\$ 1,186 ths.

(ii) CAPITAL EXPENDITURES

- Improvement of IT
- Card Business
- General Affairs (Vehicles, Furniture, Equipment)