



KDB Bank Uzbekistan

BUSINESS PLAN 2021



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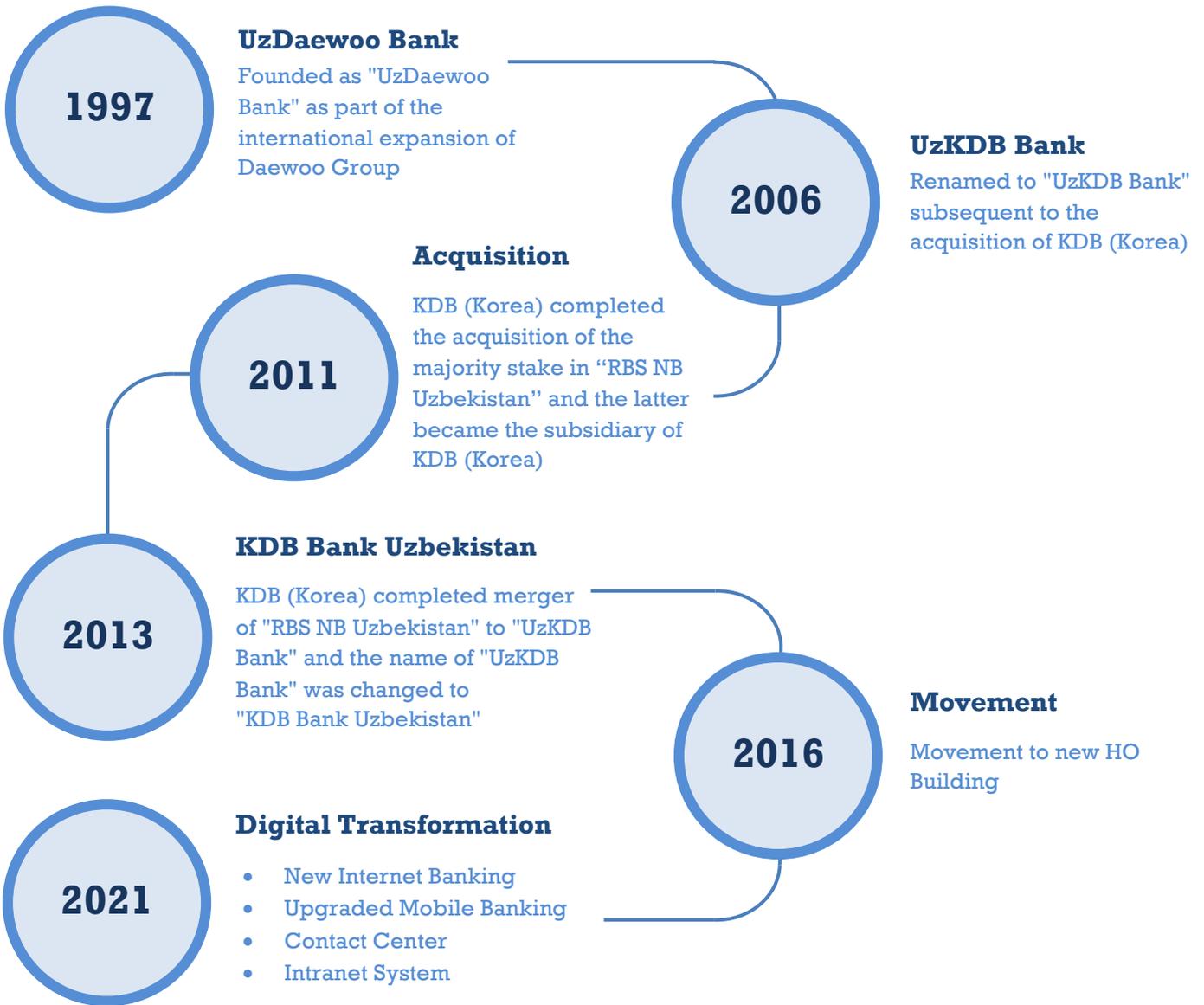


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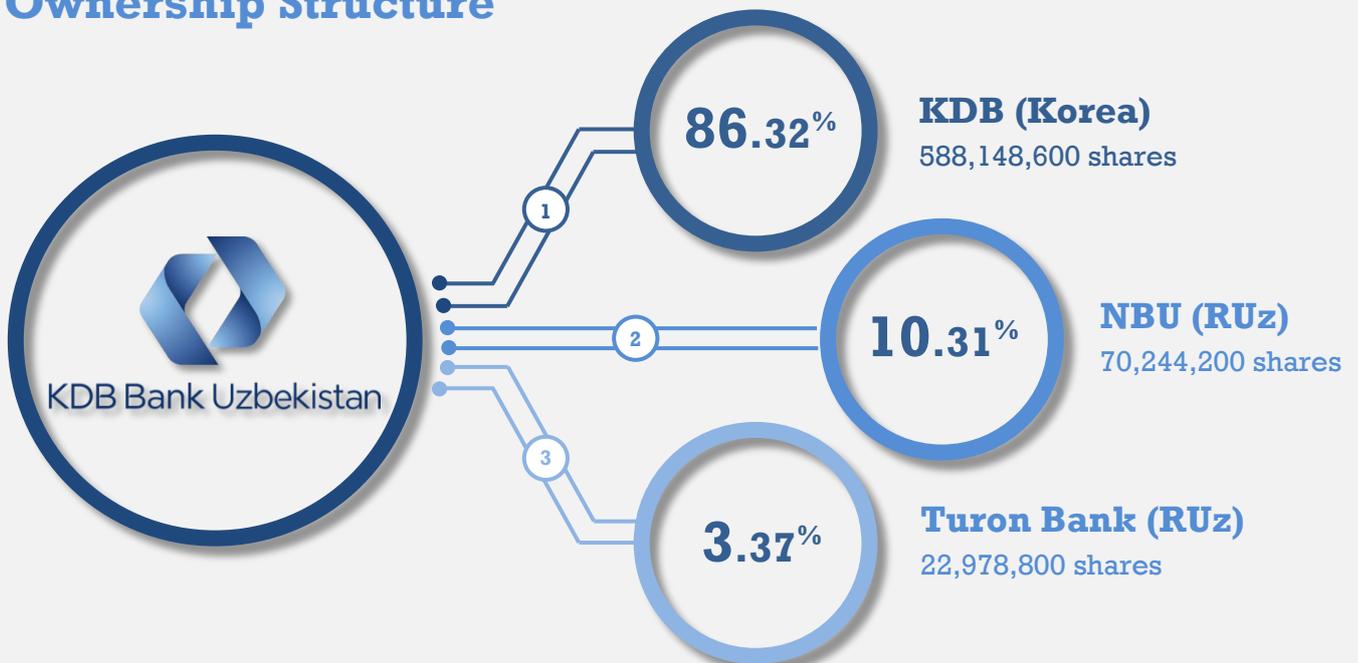
CONTENTS

1.	Business Environment & Outlook	
1.1	Historical Timeline	03
1.2	Ownership Structure	03
1.3	Economic Outlook of Uzbekistan	04
2.	Business Plan & Management Strategies	
2.1	Long-Term Vision & Management Plan	06
2.2	Financial Growth Plan	07
2.3	Improvement Plan	11
2.4.	Annual Budget & Details	13

Historical Timeline



Ownership Structure



Economic Outlook of Uzbekistan

The COVID-19 coronavirus spread throughout the world in 2020. Besides its impact on public health, this coronavirus outbreak has had significant economic consequences in all countries including Uzbekistan as well as its neighboring countries and trading partners. In 2020, the GDP of Russia, Kazakhstan and Kyrgyzstan decreased by 3.8%, 2.6% and 8.6% respectively. However, China, the largest trading partner of Uzbekistan, had a positive growth by 2.3%, but this was the lowest growth rate in the last 45 years¹.

The data from the State Statistics Committee of the Republic of Uzbekistan indicates that the country's economy maintained positive dynamics in 2020. The Gross Domestic Product (GDP) amounted to UZS 580.2trln and increased by 1.6% in 2020, while the growth rate was 5.6% in 2019.

According to the forecast of the International Monetary Fund, the GDP growth is projected to recover to 5.0% in 2021 and 5.3% in 2022. A gradual resumption of trade and investment flows, bountiful agricultural harvest, recovery in remittances, and widespread vaccination of the population should support the recovery and spur further reductions in poverty and unemployment.

In Uzbekistan, the consumer price index (CPI) at the end of 2020 compared with December 2019 was equal to 111.1%, while the CPI indicator was 115.2% a year ago. The Central Bank of the Republic of Uzbekistan has set an inflation target of not more than 10.0% for 2021 in order to ensure price stability in the country.

The pandemic affected the country's foreign economic activity quite seriously. In 2020, the foreign trade turnover decreased by 13.1% compared with 2019. Particularly, the exports and imports in 2020 amounted to USD 15.1bln and USD 21.2bln, respectively, which are 13.4% and 12.8% lower than those in the previous year. The foreign trade balance was negative for USD 6.1bln.

According to approved the forecast of the Ministry of Finance of the Republic of Uzbekistan, the foreign trade turnover is expected to reach USD 41.9bln (up 15.4%). Particularly, the exports of goods and services are predicted to increase by 27.1% (USD 19.2bln) as well as the imports are forecasted to grow by 7.1% (USD 22.7bln). As a result, the negative foreign trade balance is going to shrink from USD 6.1bln in 2020 to USD 3.5bln in 2021.

Macroeconomic Indicators²

Indicator	Unit	2017	2018	2019	2020	2021(£)
Real GDP growth	%	4.5%	5.4%	5.6%	1.6%	5.0% ³
Nominal GDP	UZS trln	302.5	406.6	511.8	580.2	669.0 ³
Inflation rate	%	14.4%	14.3%	15.2%	11.1%	10.0% ⁴
Foreign trade turnover	USD bln	26.5	33.4	41.8	36.3	41.9 ⁵
<i>Goods: exports fob</i>	USD bln	12.5	14.0	17.5	15.1	19.2
<i>Goods: imports fob</i>	USD bln	14.0	19.4	24.3	21.2	22.7
Trade balance	USD bln	-1.5	-5.4	-6.8	-6.1	-3.5
Foreign currency reserves ⁶	USD bln	28.1	27.1	29.2	34.9	34.5 ³

Exchange Rates

UZS / USD (avg.)	UZS	5,121.18	8,068.87	8,838.00	10,058.08	-
UZS / USD	UZS	8,120.07	8,339.55	9,507.56	10,476.92	-
UZS / EUR	UZS	9,624.72	9,479.57	10,624.70	12,786.03	-

¹ Abaturov R. (2021) *Results of 2020: Uzbek economy demonstrates resilience to shocks*. Available at: <https://review.uz/en>

² State Statistics Committee (2017-2020) *Macroeconomic indicators of the Republic of Uzbekistan*. Available at: www.stat.uz

³ IMF (2021) *The Republic of Uzbekistan: 2021. Article IV Consultation*. Available at: www.imf.org

⁴ CBU (2020) *Monetary Policy of the Republic of Uzbekistan for 2021-2023*. Available at: www.cbu.uz/ru/press_center/news

⁵ Ministry of Finance (2020) *Citizens Budget 2021*. Available at: https://www.mf.uz/media/file/state-budget/2021/fuk_uchun/Budjet_21_ru.pdf

⁶ CBU (2017-2020) *Foreign currency reserve of RUZ*. Available at: <https://cbu.uz/en/statistics/intreserves/>

Top 20 Banks of Uzbekistan by Total Assets

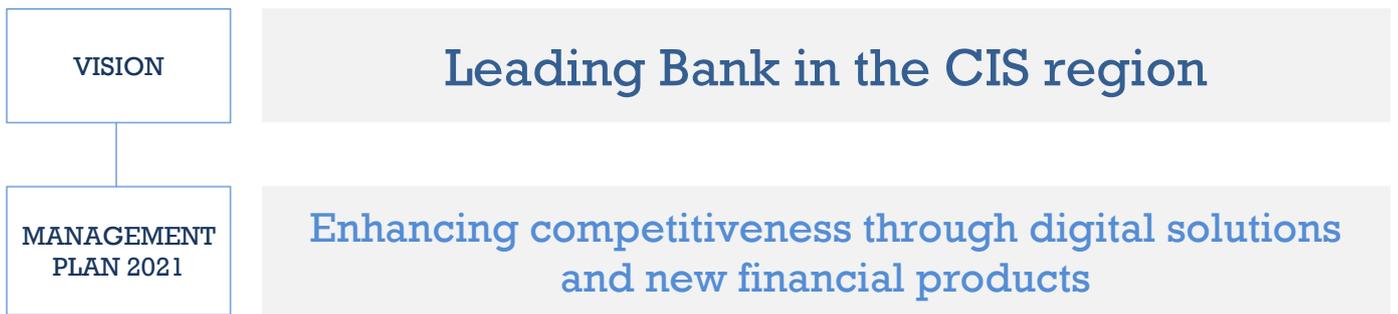
Financial Summary for 2020 (USD mln, %)

Rank	Bank	Assets	Equity	Net Income	ROA*	ROE*
1	National Bank of Uzbekistan	7,622.6	1,324.2	90.0	1.6%	8.7%
2	PromStroyBank	4,681.2	639.9	79.4	2.4%	15.5%
3	AsakaBank	4,344.6	613.3	33.9	1.1%	6.8%
4	IpotekaBank	3,093.4	407.9	48.0	2.0%	14.3%
5	AgroBank	2,979.0	512.7	25.3	1.1%	5.5%
6	XalqBank	2,520.8	464.7	50.2	2.3%	10.9%
7	Qishloq Qurilish Bank	1,519.9	230.4	22.2	2.0%	14.7%
8	HamkorBank	998.6	141.0	33.7	4.4%	32.9%
9	MicrocreditBank	981.5	165.9	9.9	1.5%	7.3%
10	TuronBank	831.7	115.5	11.5	2.0%	12.8%
11	AloqaBank	773.9	149.7	16.9	2.7%	14.3%
12	KapitalBank	695.9	82.7	13.5	2.9%	24.2%
13	Ipak Yuli Bank	664.0	113.7	25.0	5.1%	32.9%
14	KDB Bank Uzbekistan	600.5	63.1	6.8	1.7%	13.9%
15	Orient Finance Bank	489.5	107.4	24.4	6.6%	31.4%
16	Trust Bank	452.0	78.4	31.2	9.3%	56.0%
17	Invest Finance Bank	440.6	59.9	10.3	2.8%	22.3%
18	Asia Alliance Bank	280.1	32.2	4.7	2.3%	18.9%
19	Davr Bank	172.3	28.9	10.2	8.1%	51.5%
20	Tenge Bank	152.1	34.5	2.2	2.9%	11.8%

* ROA & ROE are calculated based on Income before Tax



Long-Term Vision & Management Plan



MAJOR TASKS 2021

GROWTH



Expansion of
Operating Assets



Growth of Stable
Funding & Risk
Management



Strengthening of
Digital Banking



Boost of Work
Efficiency through
Human & Material
Infrastructure

DETAILS OF MAJOR TASKS

- Growth of Loan Activity
- Investments in Debt Securities
- Active Marketing to Expand Non-Interest Income
- Promotion of Card Business

- Attraction of Prospective Clients
- Improvement of Risk Management System

- Development of New Internet Banking
- Upgrade of Mobile Banking
- Establishment of Contact Center

- Development of Intranet
- Creation of 'Product Coordinator' function
- Management of Employment System
- Reinforcement of Research Activity
- Relocation of Branches

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 FY2021.

Key Points of Projected Financial Statements

Unit: USD ths, %

Items	2021 Projection		2020 Performance		
	Plan (A)	Growth (A-C)/C	Plan (B)	Actual (C)	Performance (C/B)
FINANCIAL POSITION					
Total Assets	650,069	8.3%	500,072	600,492	120%
Cash, Bank Deposits & M/M Placements	498,069	(0.1%)	397,627	498,384	125%
Operating Assets	145,000	52.6%	90,457	94,975	105%
Total Liabilities	585,272	8.9%	440,071	537,365	122%
Customer Deposits	584,072	8.9%	438,881	536,122	122%
Total Equity	64,797	2.6%	60,001	63,126	105%
INCOME STATEMENT					
Net Interest Income	15,039	10.8%	13,573	13,569	100%
Net Non-Interest Income	5,690	27.5%	4,857	4,462	92%
Provision against credit & other loss (Creation - / Return +)	237	-	-	(266)	-
Net Operating Revenue	20,966	18.0%	18,430	17,765	96%
Operating Expenses	(9,977)	10.2%	(10,609)	(9,057)	85%
Net Income before Tax	10,989	27.2%	7,816	8,637	111%
Net Income after Tax	8,626	27.1%	6,195	6,789	110%
Ex. Rate: UZS/USD	11,681.77	11.5%	10,933.69	10,476.92	96%
Average Ex. Rate: UZS/USD	11,079.34	10.2%	10,233.95	10,058.08	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 USD using the forecasted exchange rates (USD 1 = UZS 11,681.77 as of December 31, 2021 and USD 1 = 11,079.34 – average exchange rate for 2021) for presentation purposes only.

Notes to Key Points of Projected Financial Statements

According to the Bank's Business Plan, Total Assets are planned to increase by 8.3% (or USD 49.6mln) and reach USD 650.1mln as of December 31, 2021. Particularly, the Bank is going to grow Operating Assets by USD 50.0mln.

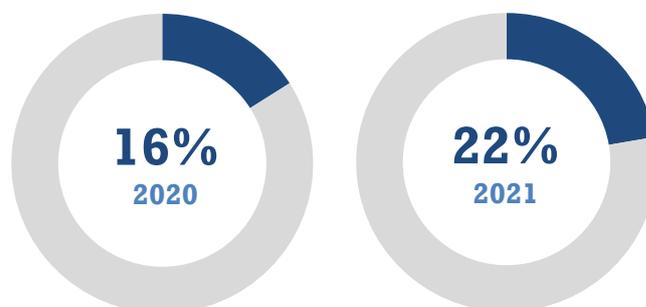
(i) EXPANSION OF OPERATING ASSETS

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.

Operating Assets are projected to increase by USD 50mln (52.7%) and its share in Total Assets is going to reach 22% in 2021 (vs. 16% in 2020).

Particularly, loans to corporates & individuals are planned to grow by USD 13.5mln, on-lending and trade loans to local banks – by USD 27mln, and investments in debt securities – by USD 9.5mln.

SHARE OF OPERATING ASSETS IN TOTAL ASSETS



STRUCTURE OF OPERATING ASSETS

Unit: USD mln

	Actual FY2020	Net growth FY2021	TOTAL FY2021
Loans to Corporates & Individuals	89.5	13.5	103.0
On-Lending Loans	5.0	20.0	25.0
Trade Loans	7.0		7.0
Investments in Debt Securities	0.5	9.5	10.0

Growth of Loan Activity

Loans to corporates & individuals (USD 13.5mln)

In 2021, 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 the loans to the top manufacturing companies of mining, beverages, food processing, cable products, construction materials, pharmaceuticals, plastic goods and paper & hygienic products industries with financially sound performance.

The Bank's experienced credit team will continuously focus on developments in the banking sector and regularly conduct analytical research on growing industries with the aim to attract the target clients through efficient marketing and cross-selling measures.

At the end of 2021, the amount of the loans to corporates & individuals is projected to reach USD 103mln in comparison with USD 89.5mln at the end of 2020.

On-lending and trade loans (USD 27mln)

In addition to the loans to corporates & individuals, in 2020 the Bank launched an on-lending loan to local banks for the first time and provided an on-lending loan for the amount of USD 5mln.

In 2021, the Bank is going to accelerate lending to local banks by providing on-lending and trade loans with the purpose to support investment and trade activities of SMEs through local banks. At the end of 2021, the amount of the on-lending and trade loans is projected to equal to USD 32mln.

Investments in Debt Securities

In 2021, the Bank is going to expand its investments in debt securities by purchasing the US Treasury bills, the Eurobonds issued by the Uzbek Government and the state-owned local banks, and other debt securities in order to earn additional interest income as well as to diversify Operating Assets of the Bank.

(ii) GROWTH OF STABLE FUNDING & RISK MANAGEMENT

Attraction of Prospective Clients

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.

According to the Bank's Business Plan, Customer Deposits in the USD equivalent terms are planned to reach USD 584.1mln at the end of 2021 in comparison with USD 536.1mln at the end of 2020. The projected growth amount is equal to USD 48mln (8.9%).

The projected growth amount is planned to be reached through increase of the deposits of the existing customers, particularly of the companies in oil & gas, power & energy, airlines, mining, telecommunications, beverages, trade and other industries, as well as attraction of new customers.

The relationship managers of the Bank will continue their efforts aimed at growth of stable funding by attracting:

- corporate clients with foreign investments, which are planned to have Debt Service Reserve Account (DSRA) under the loan agreements;
- primary accounts of the leading and growing companies in the country and the existing clients that currently hold a secondary account with the Bank;
- SMEs and private individuals through newly developed digital banking applications (New Internet Banking and Upgraded Mobile Banking) with competitive tariffs, particularly to grow funding in UZS.

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?"

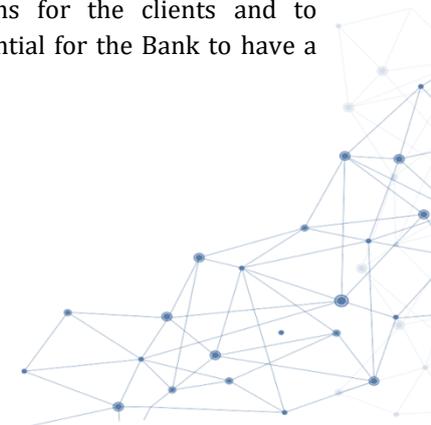
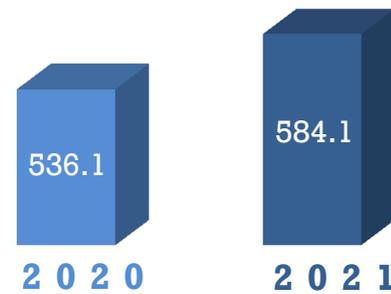
In 2021, Risk Management Department will tightly control the risks associated with the growth of the operating assets. Credit and liquidity are two main risks that will be in the focus of the Bank. Moreover, adoption and compliance with the new CBU Regulation "The maximum amount of risk to a single borrower or related borrowers and to the parties related to the bank" will be the most priority task 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 the future.

Moreover, 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.

CUSTOMER DEPOSITS

Unit: USD mln



(iii) GROWTH OF NET OPERATING REVENUE

According to the Business Plan, the Bank is going to increase Net Operating Revenue up to USD 20,966ths in 2021 in comparison with USD 17,765ths in 2020. The projected growth amount of USD 3,201ths is planned to achieve mainly through increase of Net Interest Income by USD 1,470ths and Net Non-Interest Income by USD 1,229ths.

Net Interest Income

In 2021, Net Interest Income is expected to increase by USD 1,470ths in comparison with 2020 due to the following main changes in interest income and expenses:

- Growth in interest income (▲USD 2,383ths) from Operating Assets in line with the expansion of Loan Activity by USD 40.5mln and Investments in Debt Securities by USD 9.5mln;
- Decline in interest income (▼USD 568ths) from M/M & Nostro placements as a result of the collapse of interest rates in the global financial market
Fed Funds Rate: 2.50% (19.12.18) ► 2.25% (31.07.19) ► 2.00% (18.09.19) ► 1.75% (30.10.19) ► 1.25% (03.03.20) ► 0.25% (15.03.20);
- Growth in interest expenses (▲USD 345ths) for attraction of term deposits of customers.

Net Non-Interest Income

In 2021, one of the primary goals of the Bank is to boost 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 experienced a downward trend of Net Non-Interest Income in 2017-2020 years. Particularly, Net Non-Interest Income of the Bank amounted to USD 4,462ths in 2020.

Net Non-Interest Income is projected to grow by USD 1,229ths in 2021 comparing with 2020 due to the increase in net gain from FX operations (▲USD 822ths), fee income from transaction banking & card business (▲USD 397ths) and trade finance & guarantee business (▲USD 209ths) as well as the decline in other net non-interest income (▼USD 199ths).

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 improve cross-selling opportunity in transaction banking and FX operations 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 which is globally recognized with high credit rating;
- to act as a leading bank in syndicated loan projects and earn fee income for arranging the syndicated loan deal;
- 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 (e.g. Master Card) and increasing service quality for the current and potential cardholders.

Improvement Plan

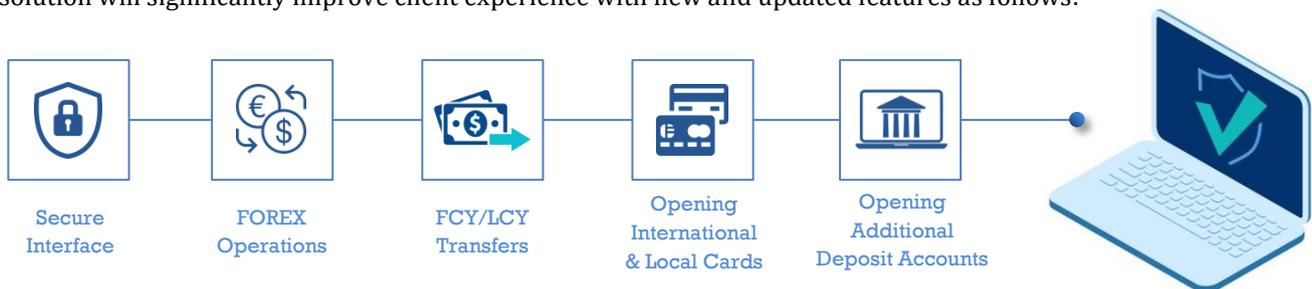
(i) STRENGTHENING OF DIGITAL BANKING

The COVID-19 crisis has forced the banks and their clients to use digital tools and processes. In this regard, the Bank has started the integration of the digital banking solutions into the Bank's system in 2020 by implementing the modern version of internet banking to support clients remotely as well as simultaneously started to develop the new internal intranet platform to circulate documents electronically among the Bank's staff.

Additionally, the Bank has a plan to upgrade the existing mobile banking application by adding new functions for individuals as well as to integrate CRM solutions like a contact center into current banking practice in 2021.

New Internet Banking

Considering the fact that the current internet banking solution was built in 2012 and it has limited functions as well as it is far behind when comparing with the solutions offered by other leading local banks, new internet banking solution will significantly improve client experience with new and updated features as follows:



The works on development of the new internet banking solution started in 2020 and expected to be completed & fully launched in the first half of 2021.

Upgraded Mobile Banking

MultiPay, a mobile banking application which launched in 2018, obtained popularity among the individual clients with its functionality and user-friendly interface. In 2021, further upgrades will be undertaken to create more advanced features for the convenience of the clients.

The following new functions are planned to be additionally integrated into MultiPay in 2021:



Contact Center

In order to improve customer service quality and efficiency, to stay competitive as well as to get prepared for increase of customer complaints due to the growth of digital banking services, the management of the Bank has decided to implement the contact center service in 2021. The contact center will be responsible to handle all customer requests through phone calls, chats, e-mails, social media, etc.

(ii) BOOST OF WORK EFFICIENCY THROUGH HUMAN & MATERIAL INFRASTRUCTURE

The Bank's Management considers the availability of high-qualified, professional and positive-minded team as one of its strategically key advantages. On the other hand, it is important to have modern material infrastructure to enhance the work efficiency.

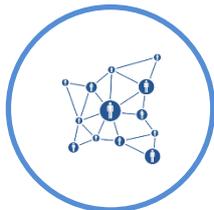
Considering the above things, the following tasks are the planned to execute in 2021 to improve human & material infrastructure with the ultimate goal to boost the work efficiency:



Development of Intranet in order to enhance communication between the Bank's staff and increase efficiency through digitalization of the business practice



Creation of 'Product Coordinator' function with the intention of more efficient management of the Bank's business teams, especially to coordinate the disputable and complicated situations among the product/client owners and immediately respond to the changes in the market environment and customer demand



Management of Employment System by creating the database of potential skillful candidates for the major positions at the Bank



Reinforcement of Research Activity on Uzbekistan's and Central Asian economies in order to stay aware of the current economic reforms and trends in financial sectors and to benefit from the current changes in Central Asian region and review the potential for future expansion



Relocation of Branches (Yunusabad and Yakkasaray) to achieve business efficiency and optimization of expenses



Annual Budget & Details

(i) OPERATING EXPENSES

In 2021, the Bank's operating expenses are projected to grow by 10.2% in USD terms compared with 2020. The projected growth amount is equal to USD 920ths.

(ii) CAPITAL EXPENDITURES

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

