



KDB Bank Uzbekistan



FINANCIAL YEAR

2023

BUSINESS PLAN



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SECTION 1: BUSINESS ENVIRONMENT & OUTLOOK

1. Economic Outlook of Uzbekistan

Highlights

- In 2022, the economy of Uzbekistan continued to demonstrate stability and steady growth against the background of unstable global market conditions, price shocks of the global market and unstable geopolitical situation. According to the State Statistics Committee of the Republic of Uzbekistan, the gross domestic product (GDP) of Uzbekistan increased by 5.7% last year.
- Inflation in Uzbekistan accelerated to 12.3% in 2022 against 10% in 2021.
- The country's foreign trade activity continued to show high growth rates last year. In 2022, foreign trade turnover reached U\$ 50 bln (increased by 18.5% compared to 2021). The volume of exports increased by 15.9% to U\$ 19.3 bln. Imports increased by 20.4% to U\$ 30.7 bln.

Economic Outlook 2023

- According to the forecast released on the latest reports of International Financial Institutions, Uzbekistan's GDP expected to grow by 5.1% (WB)¹, 5.0% (ADB)² and 6.5% (EBRD)³ in 2023. The expectation is closely tied with the exceptional resilience of Uzbekistan in the face of strong geopolitical obstacles, increased private consumption driven by a surge of remittances as well as increased flow of tourists.
- The inflation rate is expected to drop to 9.5% in 2023 according to the Monetary Policy Guideline of the Central Bank of Uzbekistan for 2023 & 2024-2025⁴.
- In line with the report on State Budget for 2023⁵, the foreign trade turnover in the republic is expected to compose U\$ 58.6 bln in 2023 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\$ 23.3 bln and U\$ 35.3 bln, respectively, with deficit trade balance of U\$ 12.1 bln.

Main Macroeconomic Indicators

Indicator	Unit	2020 ⁶	2021 ⁶	2022 ⁶	2023 (P)
Real GDP growth	%	1.6%	7.4%	5.7%	5.3% ⁵
<i>WB</i>		-	-	-	5.1%
<i>ADB</i>		-	-	-	5.0%
<i>EBRD</i>		-	-	-	6.5%
Nominal GDP	U\$ bln	57.7	69.2	80.4	89.8 ⁵
Inflation rate	%	11.1%	10.0%	12.3%	9.5% ⁴
Foreign trade turnover	U\$ bln	36.3	42.1	50	58.6 ⁵
<i>Goods: exports fob</i>	U\$ bln	15.1	16.6	19.3	23.3
<i>Goods: imports fob</i>	U\$ bln	21.2	25.5	30.7	35.3
Trade balance	U\$ bln	-6.1	-8.9	-11.4	-12.1
Foreign currency reserves	U\$ bln	34.9	35.1	35.7	38.0 ⁷
Exchange rates					
UZS / U\$		10,476.92	10,837.66	11,225.46	12,572.52
UZS / U\$ (avg.)		10,058.08	10,609.98	11,051.22	11,898.99

¹ WB (2023) *Europe and Central Asia Economic Update (Spring 2023)*. Available at: www.worldbank.org

² ADB (2022) *Economic indicators for Uzbekistan*. Available at: www.adb.org

³ EBRD (2022) *Uzbekistan Overview*. Available at: www.ebrd.com

⁴ CBU (2022) *Monetary Policy Guidelines for 2023 and the period 2024-2025*. Available at: www.cbu.uz

⁵ Ministry of Economy and Finance (2022) *State Budget for 2023*. Available at: <http://www.imv.uz/>

⁶ Statistics Agency (2020-22) *Macroeconomic indicators of the Republic of Uzbekistan*. Available at: www.stat.uz

⁷ IMF DATA (2022) *Regional economic outlook: Middle East and Central Asia* Available at: <https://data.imf.org>

2. Banking Sector of Uzbekistan

Highlights⁸

- According to the financial results of the commercial banks as of December 31, 2022, the aggregated total assets of the banking industry increased by 20.8% and reached U\$ 49.6 bln in U\$ equivalent. Also, the aggregated total capital of the commercial banks grew by 8.3% and composed U\$ 7.1 bln at the end of 2022.
- As of December 31, 2022, the number of commercial banks in Uzbekistan composed 31, 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, 78.2% of the aggregated total assets and 77.8% of the aggregated total capital of the entire banking system belong to those 12 banks.
- As of December 31, 2022, the aggregated total assets of the commercial banks are mainly comprised of loans (68.1%), cash & due from banks (19.9%), securities (5.7%), and other assets (6.3%). At the same time, the aggregated total liabilities & equity are comprised of deposits (38.9%), borrowings from financial institutions (33.5%), due to banks (7.6%), bonds (2.0%), other liabilities (3.7%), and equity (14.3%).

Key priorities for 2023

- The Government and the Central Bank of Uzbekistan have strong objective of ensuring price and financial stability in the economy, reducing inflation from 12.3% in 2022 to 8.5%-9.5% in 2023⁹.
- 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. Particularly, UzPromStroyBank and Asaka Bank will be privatized with the involvement of IFC, EBRD and ADB in 2023.
- Ipoteka bank and Uzagroexportbank already have the agreements on the sale of state shares to OTP Bank of Hungary and "Support Level" LLC located in Uzbekistan, respectively.
- Xalq Bank, Mikrokredit Bank, Aloqa Bank and National Bank of Uzbekistan should be placed for the IPO on the stock exchange until July 1, 2023.

Top 20 Banks of Uzbekistan by Assets' Size

Financial Summary for FY2022 (U\$ mln, %)

Rank	Bank	Assets	Equity	EBIT	ROA	ROE
1	National Bank of Uzbekistan	10 683	1 459	289	3,0%	20,5%
2	UzPromStroyBank	5 725	697	74	1,4%	10,6%
3	Agro Bank	4 727	847	56	1,3%	6,6%
4	Asaka Bank	4 559	581	7	0,1%	1,1%
5	Ipoteka Bank	3 936	527	130	3,4%	26,0%
6	Xalq Bank	2 821	474	1	0,0%	0,1%
7	Kapital Bank	2 575	232	120	6,0%	64,7%
8	Qishloq Qurilish Bank	2 211	262	48	2,3%	18,8%
9	Mikrokredit Bank	1 495	325	5	0,3%	1,7%
10	Hamkor Bank	1 490	229	82	6,2%	40,2%
11	Aloqa Bank	1 433	160	27	2,1%	17,4%
12	Ipak Yuli Bank	1 156	183	54	5,3%	33,2%
13	Turon Bank	1 147	167	8	0,7%	4,6%
14	Orient Finance Bank	1 005	152	52	6,7%	37,6%
15	KDB Bank Uzbekistan	789	80	24	3,2%	31,9%
16	Trust Bank	733	146	65	9,4%	50,6%
17	Invest Finance Bank	658	83	24	4,0%	30,8%
18	Asia Alliance Bank	544	51	21	5,1%	48,8%
19	Tenge Bank	388	109	1	0,2%	0,5%
20	Davr Bank	348	57	24	8,2%	51,7%

⁸ CBU (2022) *Indicators of Banking System of Uzbekistan*. Available at: https://cbu.uz/en/press_center/releases/563343/

⁹ CBU (2022) *Monetary Policy Guidelines for 2023 and the period 2024-2025*. Available at: www.cbu.uz

Section 2: Business Plan & Management Strategies

3. Vision & Management Plan

VISION

Leading Bank in CIS region

MANAGEMENT PLAN 2023

Business
expansion

Business
optimization

MAJOR TASKS 2023



Increase of
Charter Capital

- Increase of Charter Capital



Liquidation of
Yunusabad Branch

- Closure of Yunusabad Branch



Improvements in IT

- Reorganization of IT departments
- Upgrade of ABS of the Bank in line with the introduction of new banking products



Disaster Management

- Relocation of Business Continuity & Disaster Recovery Centers



New Products,
Liquidity & Funding

- Introduction of new products (FX derivatives, export L/C discounting, etc.)
- Improvement of UZS liquidity as well as diversification of funding sources
- Attraction of new customers with 'big' foreign investments



Optimization of
Business Practice

- Termination of Master Card business
- Upgrade of HR Policy
- Effective management of NPL

4. Financial Growth Plan

Considering the current trend in the global financial market as well as the financial environment in Uzbekistan, the financial statements for FY2023 have been projected as follows.

Key Points of Projected Financial Statements

Unit: U\$ ths, %

Items	2023		2022		
	Plan (A)	Growth (A-C)/C	Plan (B)	Execution (C)	Performance (C/B)
FINANCIAL POSITION					
Total Assets	777,671	-1.5%	714,750	789,151	110%
Cash in Vault, Bank Deposits & M/M Placements	558,890	-6.1%	541,600	595,496	110%
Loans	205,000	13.5%	162,000	180,678	112%
Securities	10,000	25.4%	9,000	7,976	89%
Other Assets	3,781	-24.4%	2,150	5,001	233%
Total Liabilities	691,431	-2.4%	647,001	708,789	110%
Customer Deposits	638,700	-5.2%	633,954	673,874	106%
Interbank Borrowings	50,000	66.7%	10,000	30,000	300%
Other Liabilities	2,731	-44.4%	3,046	4,915	161%
Total Equity	86,240	7.3%	67,749	80,362	119%
INCOME STATEMENT					
Net Interest Income	28,679	15.8%	17,682	24,774	140%
Net Non-Interest Income	9,080	-8.1%	7,500	9,879	132%
Provision against credit & other loss (Creation - / Return +)	(2,652)		(390)	(201)	-
Net Operating Revenue	35,107	1.9%	24,792	34,452	139%
Operating Expenses	(12,638)	22.2%	(11,057)	(10,344)	94%
Provision for on- and off-balance standard assets	(915)		(883)	(206)	-
Net Income before Tax	21,553	-9.8%	12,851	23,902	186%
Net Income after Tax	17,100	-10.5%	10,127	19,108	189%
<i>Ex. Rate: UZS/U\$</i>	<i>12,572.52</i>	<i>12.0%</i>	<i>11,921.43</i>	<i>11,225.46</i>	
<i>Average Ex. Rate: UZS/U\$</i>	<i>11,898.99</i>	<i>7.7%</i>	<i>11,379.54</i>	<i>11,051.22</i>	

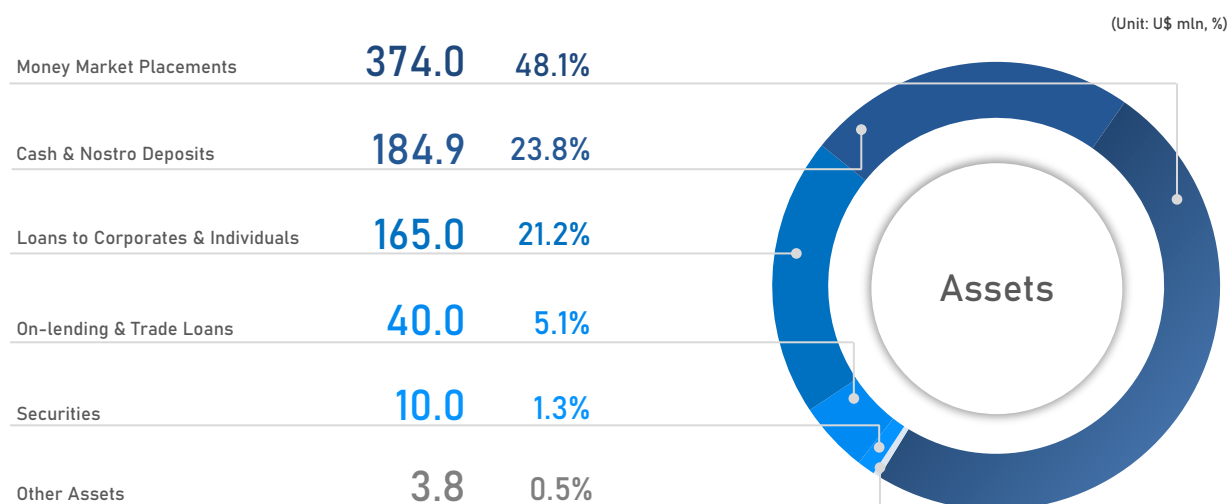
Note: The Business Plan is prepared in accordance with the local accounting standards. As the Uzbek Soum is the functional currency of Uzbekistan, all the above figures are initially calculated in UZS and converted into U\$ using the forecasted exchange rates (U\$ 1 = UZS 12,572.52 as of December 31, 2023 and U\$ 1 = 11,898.99 – average exchange rate for 2023) for presentation purposes only.

Notes to Key Points of Projected Financial Statements

According to the Business Plan, Total Assets are expected to amount to U\$ 777.7 mln at the end of 2023, which has been forecasted based on a conservative approach due to the uncertainties in the global geopolitical situation.

In the structure of Total Assets, the following main changes are forecasted.

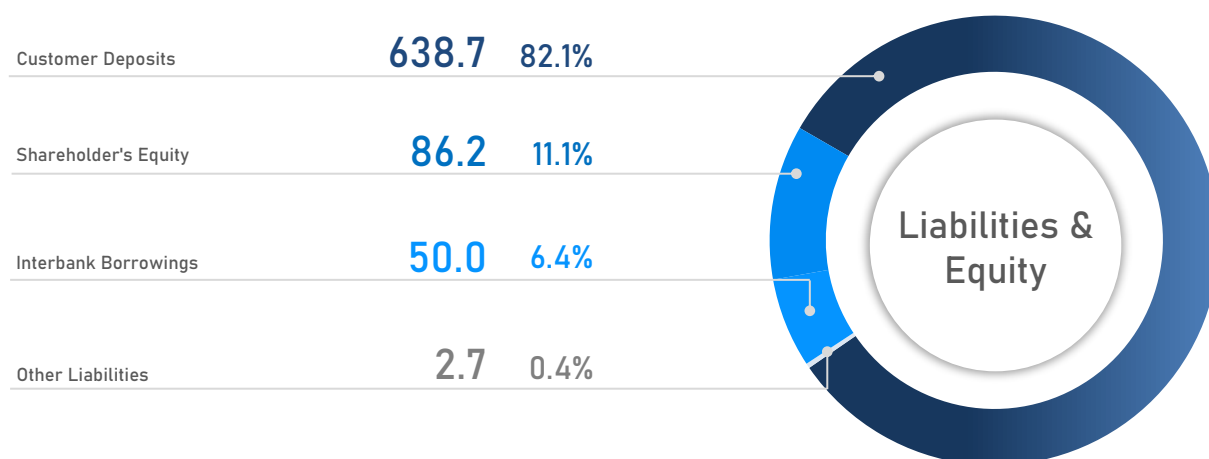
- Growth of Operating Assets (loans and debt securities) by U\$ 26.3 mln
- Decrease of Cash in Vault, Bank Deposits & M/M Placements by U\$ 36.6 mln



On the other hand, Total Liabilities are forecasted to amount to U\$ 691.4 mln at the end of 2023. In the structure of Total Liabilities, the following main changes are expected.

- Decrease of Customer Deposits by U\$ 35.2 mln (*conservative approach*)
- Additional Attraction of Interbank Borrowings by U\$ 20 mln

Finally, Total Equity is forecasted to grow by U\$ 5.9 mln despite the projected net income for U\$ 17.1 mln (equivalent of UZS 203.5 bln) mainly due to the expected devaluation of UZS against USD in 2023.



Operating Assets

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

In 2023, the Bank has a plan to increase Operating Assets by U\$ 26.3 mln (or 14% in U\$ terms) in the following way.

- Growth of loans to corporates and individuals by U\$ 18.3 mln
- Growth of on-lending and trade loans to local banks by U\$ 6 mln
- Growth of investments into debt securities by U\$ 2 mln

Growth of Loans to Corporates and Individuals (▲ U\$ 18.3 mln)

In 2023, 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 & metallurgy, 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 2023, the net amount of the loans to corporates & individuals is projected to reach U\$ 165 mln in comparison with U\$ 146.7 mln at the end of 2022.

Growth of On-lending & Trade Loans (▲ U\$ 6 mln)

In 2020-2021, the Bank first introduced the on-lending & trade loans to local banks in order to support small business enterprises and trade finance activity in Uzbekistan. At the end of 2022, several local banks are granted with on-lending and trade loans for the total outstanding amount of U\$ 34 mln.

In 2023, the Bank has a plan to grow the on-lending & trade loans up to U\$ 40 mln by increasing the number of counterparty borrower banks.

Investment in Debt Securities (▲ U\$ 2 mln)

In 2022, the Bank purchased the securities issued by the Central Bank and Ministry of Finance of the Republic of Uzbekistan as well as by the Treasury of the United States. The total outstanding amount of the debt securities was equal to U\$ 8 mln as of December 31, 2022, which fully consisted of the investments into the treasury bills of the United States.

In 2023, the Bank is going to boost its investment activity in debt securities in order to grow and diversify Operating Assets. At the end of 2023, the Bank's investments in debt securities are expected to reach U\$ 10 mln.

Profitability

Net Interest Income

In 2023, Net Interest Income is expected to increase by U\$ 3,905 ths in comparison with 2022 due to the following main changes in interest income and expenses:

- Growth of interest income (▲ U\$ 2,584 ths) from Loans and Investments in Debt Securities in line with the expansion of Operating Assets
- Growth of interest income (▲ U\$ 3,637 ths) from Money Market Placements mainly due to the increase of interest rates in global money markets
- Growth of interest expenses (▲ U\$ 2,316 ths) for attraction of customer deposits and additional interbank borrowings.

Net Non-Interest Income

Due to the high market competition among the commercial banks and the pandemic situation, 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 U\$ 4,462 ths (historical minimum) in 2020.

However, the situation with the fee business of the Bank began to change in a positive direction starting from 2021 and the Bank's Non-Interest Income grew in 2021-2022 amounting to U\$ 6,728 ths in 2021 and U\$ 9,879 ths in 2022.

Considering the unstable geopolitical situation, the Bank conservatively plans to earn Net Non-Interest Income of U\$ 9,080 ths in 2023 in comparison with U\$ 9,879 ths in 2022. Particularly, the Bank is expecting the decline in Foreign Exchange Gain by U\$ 567 ths and in Income from Transaction Banking by U\$ 269 ths.

Provision, Operating Expenses and Net Income before Tax

The Bank is conservatively forecasting the Provisions for credit losses (U\$ 2,652 ths in 2023 vs. U\$ 201 ths in 2022) and standard assets (U\$ 915 ths in 2023 vs. U\$ 206 ths in 2022). Moreover, Operating Expenses of the Bank is expected to grow by U\$ 2,294 ths and reach U\$ 12,638 ths in 2023.

Although Net Interest and Non-Interest Income is expected to grow by U\$ 3,106 ths in 2023, the Bank's Net Income Before Tax is forecasted to be less in 2023 by U\$ 2,348 ths than that in 2022 due to the conservatively forecasted figures of the Provisions and Operating Expenses as shown above.

5. Business Expansion

(i) Increase of Charter Capital

In order to ensure the implementation of article 8 of the Roadmap for the reform of the banking system of the Republic of Uzbekistan for 2020-2025, approved by the Decree of the President of the Republic of Uzbekistan #PF-5992 dd. 12.05.2020, commercial banks must gradually increase their charter capital to UZS 500 billion until January 1, 2025.

According to the abovementioned Decree, the Central Bank of Uzbekistan has proposed to make respective amendments and supplements to the article 13 of the Law of the Republic of Uzbekistan "On banks and banking activities".

In this regard, the Bank will take necessary measures to increase the charter capital at the expense of its retained earnings, from current UZS 101.3 billion to UZS 506.4 billion in 2023.

(ii) Improvements in IT

Competition in the financial market of Uzbekistan in terms of digitalization is getting tougher year by year. New fintech companies like "UZUM" as well as the digital banks such as "TBC" and "ANOR" have entered into the market and are challenging traditional financial institutions. In return, the traditional financial institutions have begun to digitalize their traditional service processes. Many traditional banks have developed and updated their mobile banking as well as Internet banking infrastructure to improve customer experience and maximize customer satisfaction. JSC "KDB Bank Uzbekistan" is also constantly improving its digital products such as KDBUz Mobile and "iDBA" internet banking systems to provide the best practices to the clients.

In 2023, the Bank will focus on the digitalization of the internal business processes for efficient IT project management and to make prompt decisions. Accordingly, the Bank has a plan to:

- reorganize IT Departments through the rotation of employees and redistribution of the roles & responsibilities among them;
- involve Digital Banking Department as an intermediary between the business units and IT teams to sort and control IT requests;
- upgrade the ABS (Unibanks) of the Bank in line with the introduction of new banking products

(iii) New Products, Liquidity & Funding

JSC "KDB Bank Uzbekistan" has a plan to expand the range of products and services in 2023 to satisfy the clients' needs in order to help them run their businesses in a stable manner. Particularly, the Bank is going to introduce FX derivative instruments with the purpose to improve the Bank's liquidity in local currency and an export L/C discounting in order to support the export-oriented companies.

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 and international financial institutions (JPMC, EBRD, TCX, KDB, etc.) to improve the funding & liquidity in local currency.

With the intention to diversify the funding source and to support the growth of the loan portfolio, the Bank attracted U\$ 30 mln long-term borrowing from KDB HQ in the middle of 2022. The Bank intends to keep the current practice and attract additional funds from KDB HQ in the amount of U\$ 20 mln in 2023.

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 has been generating Customer Deposits mainly from attraction of primary accounts of corporate clients and on-shore accounts of companies with big foreign investments in order to have more stable funding both in local and foreign currencies.

6. Business Optimization

(i) Liquidation of Branch

In order to achieve business efficiency and cost optimization, the Bank has a plan to close Yunusabad branch in the first half of 2023.

The facts that the branch mainly focuses on providing corporate clients with traditional banking services (opening and maintenance of demand deposit accounts, transfers in national and foreign currencies, cash withdrawal & replenishment as well as services related with foreign trade contracts and conversion), which is the duplication of the activity of the Head Office located in a close distance (less than 4 km), and high rental costs of the branch's building, are considered to be the main reasons for closure of Yunusabad branch.

Particularly, closure of the branch will allow saving more than U\$ 300 thousand annually from rental and maintenance of the branch's building. In addition, it will help effectively allocate human resources by distributing employees to departments in the Head office and Oybek branch.

(ii) Disaster Management

With the purpose to have a structured plan to recover business operations in the event of a disaster or cyber-attack, the Bank has planned to relocate and modernize Disaster Recovery and Business Continuity centers.

The Bank prioritizes and plans for efficient and rapid disaster recovery to meet compliance requirements, minimize downtime and most importantly meet the expectations of clients during and after a disaster or disruptive event. In this regard, the Bank is going to establish Disaster Recovery Center in the building of Oybek Branch. Moreover, Business Continuity Center is also going to be relocated from Yunusabad branch to Oybek branch due to the closure of the Yunusabad branch.

(iii) Optimization of Business Practice

JSC "KDB Bank Uzbekistan" always strives to improve and bring its business to a new level. In 2023, the Bank will concentrate on the following issues in order to optimize business practices:

Termination of MasterCard business

Considering the performance of MasterCard business for the recent years and the existence of an alternative product – Visa Card, it was decided to terminate the MasterCard business and focus on further development of the Visa Card Business.

Implementation of the new Labor Code of RUz into practice

The new edition of the labor code of Uzbekistan was signed by the President of RUz Shavkat Mirziyoyev on October 28, 2022. The document will come into force after six months, on April 30, 2023.

The document in the new edition includes 34 chapters and 581 articles. For the first time, the new edition defines labor regulation for a certain category of workers, such as those working at home, remotely, part-time, employed by individuals, and private entrepreneurs.

There are many innovations in the new Labor Code - both the inclusion of new articles and additions regulating provisions that were not in the previous version of the code. The document determines that the purpose of labor legislation is to regulate individual labor and public relations directly related to them on the basis of ensuring a balance and harmonizing the interests of employees, employers and the state.

In this regard, in 2023, the Bank is going to review the new Labor code and implement it by upgrading the policy and regulations of the Bank related to human resources.

Effective management of NPL

Considering the growth of NPL ratio in the banking industry of Uzbekistan for the recent years as well as the negative impacts of the COVID-19 pandemic and unstable geopolitical situation, the Bank has been continuing a conservative approach when reviewing the financial activity and business plan of the borrowers before financing their projects with loan funds. Particularly, the Bank has been mainly granting the loans to the top manufacturing companies with financially sound performance.

As of December 31, 2022, all the loans granted by the Bank are classified as 'standard asset' (USD 178.1 mln) and 'substandard asset' (USD 2.9 mln) without any non-performing loan (NPL = 0). The lending activity has been carried out by the Bank in compliance with the regulative norms of the CBU and Credit Policy approved by Supervisory Board.

Despite the above performance with no NPL, the Bank is going to further enhance credit review, credit rating & follow-up facility management measures to prevent and properly manage NPL in the future.

7. Annual Budget & Details

(i) Operating Expenses

In 2023, the Bank's operating expenses are projected to grow by 22.2% in U\$ terms compared with 2022. The projected growth amount is equal to U\$ 2,294 ths.

(ii) Capital Expenditures

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