

# ANNUAL REPORT 2001

## ANNUAL REPORT OF THE NATION BANK OF UZBEKISTAN 2001 YEAR

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## BANK IN 2001

During a year the NBU's activity on the implementation of the set up tasks, wide complex of measures and purposeful strategy has allowed increasing the number of served customers from 191.2 thousand to 300.5 thousand, or by 57%; number of accounts from 264.6 thousand to 418.5 thousand, or by 58%. Almost 90% of the clientele growth and 80% of growth of the accounts fall on the retail clients.

Consolidated balance of the Bank has reduced and made up \$3.779 billion accounting for the implementation of the policy of unification of the foreign exchange rates.

### Asset/Liability Structure of the USD Balance Sheet

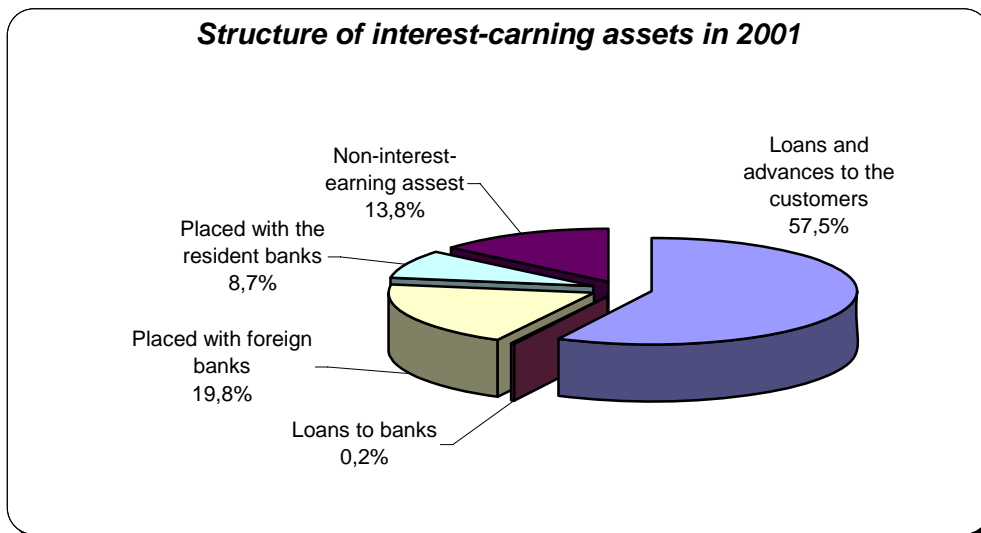
*(Consolidated in terms of USD equivalent, %)*

<b>Assets</b>	<b>1.01.01</b>	<b>1.01.02</b>	<b>Liabilities</b>	<b>1.01.01</b>	<b>1.01.02</b>
Cash	14	14	Amounts owed to Government and the Central Bank	22	21
Due from other banks	19	18	Amounts owed to customers	11	11
Loans and advances, net	57	57	Due to other banks	12	10
Fixed assets	6	6	Interstate credits	37	40
Other	4	5	Banks equity	17	17
			Other	1	1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>Total</b>	<b>100</b>	<b>100</b>

On the whole the asset/liability structure has not undergone any substantial changes. Credit portfolio makes up over a half of all assets, i.e. 57%, and share of interstate credits in the liability structure makes up 40%.

Bank's capital totaled \$639 million. It is 3.2% less than the indicator at the beginning of the year as \$25.0 million dividends have been paid to the Ministry of Finance of Uzbekistan, and the capital in terms of national currency was affected by the depreciation of the exchange rate caused by the processes of liberalization of the foreign currency policy.

During 2001 the Bank was servicing 142 international credits totaling \$2.4 billion. Share of interest-earning assets remained high and made up 86.2% of the balance volume.



In 2001 Bank's profitability was relatively low because of the low-risk character of its investments. The decrease of the profitability of the Bank is also accounted for the influence of depreciation of the exchange rate caused by the processes of liberalization of the foreign currency policy, increased loan loss reserves and costs of restructuring of the operational activity of the Bank and procurement of information technologies. Interest income is at a high level and makes up 78.2% of the operational profit.

Capital adequacy ratio (BIS) for 2001 has made up 72%. Bank's policy concerning its high level is justified and is caused by high level of capitalization of the Bank. It ensures sustainable development of the Bank and creates the reserve for attraction of clients and increase of the balance.

#### **DEVELOPMENT OF THE CLIENTELE BASE**

Year 2001 became the year of active expansion of corporate and retail clientele for the NBU. Excellent reputation based on the exact and duly performance of all obligations served the primary factor of dynamic development of the Bank. Share of the NBU's assets in the cumulative assets of the banking system made up 76.1% (70.4% in 2000), Share of the NBU's capital in the cumulative capital of the banking system comprised 59.1% (56.7% in 2000).

NBU's clients are represented by the leading companies of various patterns of ownership in all branches of the economy: extraction and processing of precious metals, metallurgy, fuel and energy complex, chemical industry, mechanical engineering, light and local industries, transport and communications, processing of agricultural produce and trade.

In 2001 the NBU attracted over 5400 corporate clients. The greatest share in their structure falls on small enterprises, farms and entrepreneurs. Accounts were opened for 1373 farms making up 25% of all attracted entities.

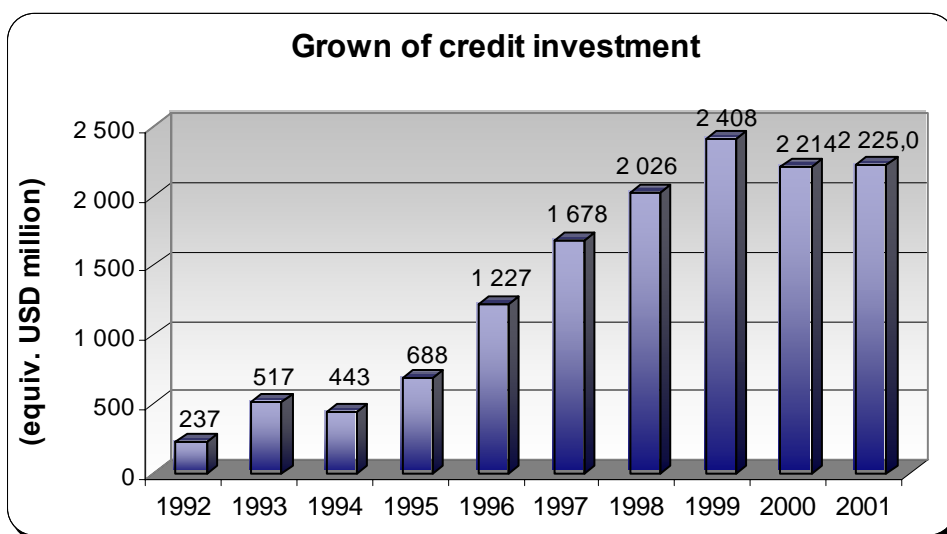
Wide network of branches and affiliates of the Bank throughout all regions of the country promotes growth of the NBU's resource base and its active operation in all segments of banking services. Ninety nine branches and affiliates of the Bank provide clients with the whole complex of

services, ensure availability and accessibility to modern banking services through the system of electronic banking, ATMs, terminals in trade and service outlets and the 'Bank-Client' system, i.e. distant servicing of the clients, providing full-fledged banking service at the client's office in the real time mode.

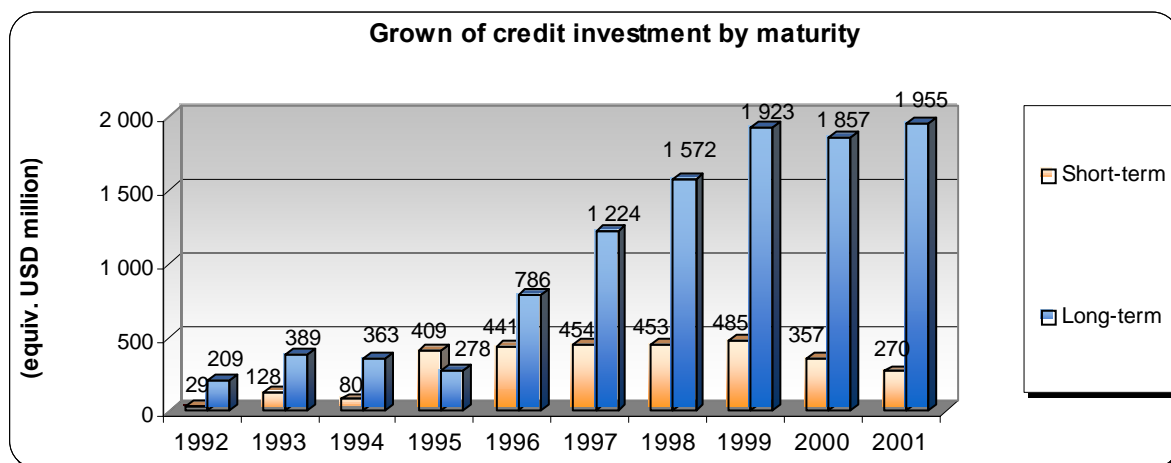
## LENDING ACTIVITY

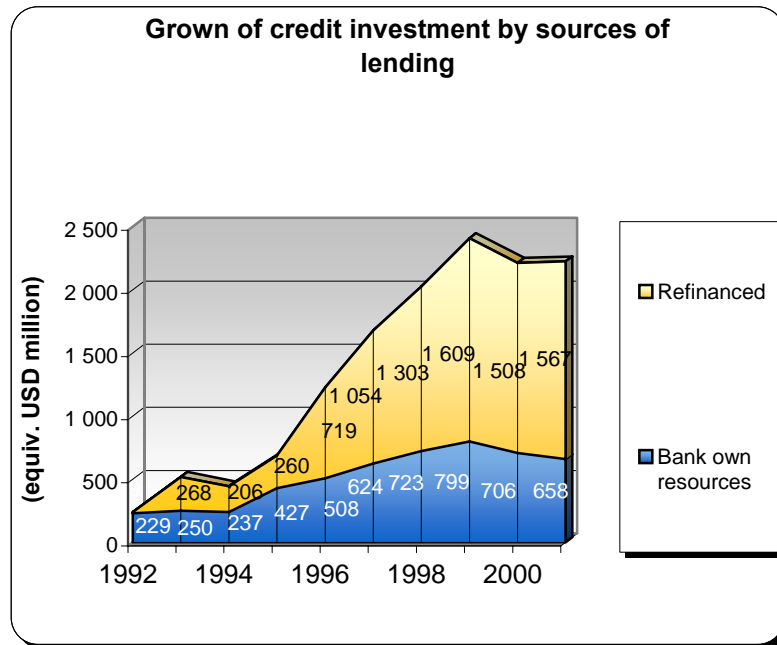
The NBU builds up its credit policy according to the program of deepening market reforms in Uzbekistan. The Bank extends credits to base industries, export-oriented and import-substitution manufacturers. Bank's network of branches and affiliates ensures active lending of corporate and retail clients, enterprises of various patterns of ownership and SME.

The NBU's credit portfolio in 2001 made up \$2.2 billion, including leasing operations.

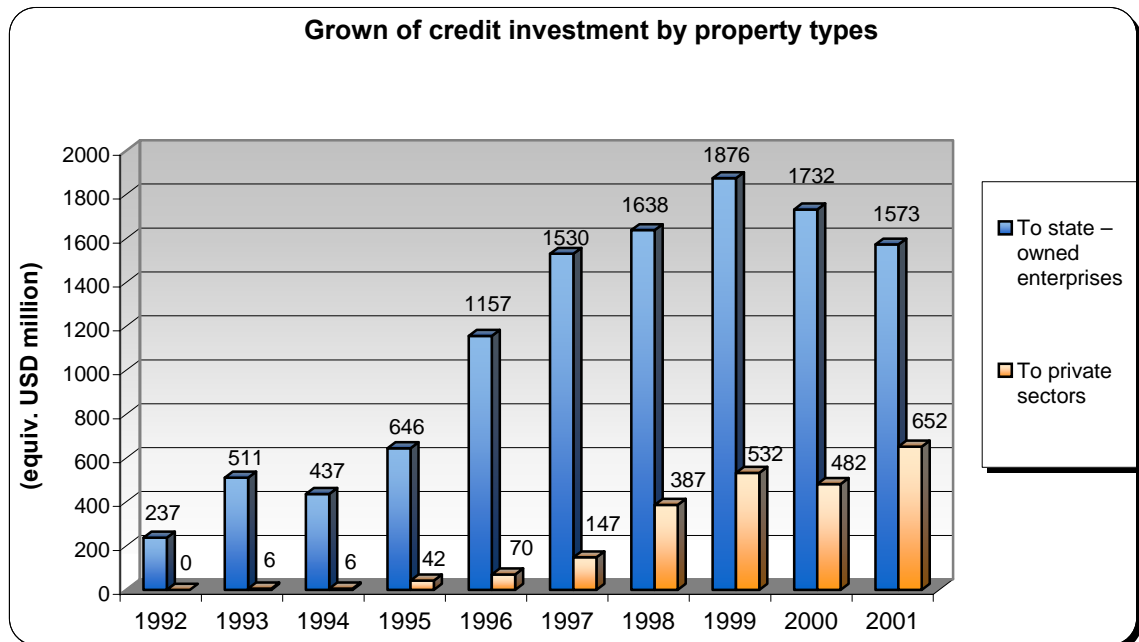


The NBU's credit portfolio contains projects in such sectors as fuel industry, power generation, chemical industry, manufacture of mineral fertilizers, deep processing of cotton fiber, processing of fruit and vegetable produce, communications and transport. Share of medium and long-term credits in the total amount of the portfolio comprised 88% (84% in 2000).





Since 1995, the NBU has been actively financing private business. Volumes of credits in this area have increased by 15.5 times. The Bank is also financing leasing operations, the volume of which makes up \$331 million, or 15% of its credit portfolio.



Alongside with lending major investment projects in the country, the Bank provides its clients with various tools of support of export-import transactions, such as bank guarantees, factoring and bill discounts. In 2001 volume of factoring operations made up \$80.5 million.

## PROJECT FINANCE

The NBU possesses the great experience in project financing and acts as an organizer of financing for the majority of large investment projects and small and medium-sized business projects implemented in the country.

<b>№</b>	<b>Name of the branch</b>	<b>Number of projects</b>	<b>Project cost</b>	<b>Credit amount</b>	<b>Relations to the amount of the extended credits</b>
<i>Total</i>		<b>267</b>	<b>7120,25</b>	<b>3987,72</b>	<b>100,0</b>
Of which by branches:					
1.	Fuel and power generation complex	6	1293,29	506,31	12,7
2.	Mining industry	4	473,52	38,97	0,98
3.	Chemical industry and production of mineral fertilizers	18	1146,82	404,32	10,1
4.	Metallurgical complex	8	85,32	48,56	1,2
5.	Light and textile industries	34	806,92	385,61	9,7
6.	Agro-industrial complex	22	571,73	515,4	12,9
7.	Building material	18	49,58	30,75	0,8
8.	Transportation infrastructure	19	940,3	849,22	21,3
9.	Services and tourism	16	549,34	359,7	9,0
10.	Pharmaceutical industry	13	82,73	64,23	1,6
11.	Infrastructure of telecommunications and electronics	15	422,99	336,18	8,4
12.	Pulp and paper industry	16	76,55	50,52	1,3
13.	Production of furniture	1	2,4	1,0	0,02
14.	Food industry	70	284,73	183,16	4,6
15.	Machine-building complex	5	259,47	143,5	3,6
16.	Other industries	2	74,56	70,27	1,8

For these years the NBU has been financing the projects that have ensured the deep structural reorganization of the economy and solution of major tasks for its adaptation to market conditions. Among them there were the projects that have ensured:

- energy self-sufficiency of the country by procurement of the advanced technology to fuel and energy generation sector and, thus, raising export potential of the country, namely Kokdumalak Gas-chemical Complex producing gas condensate; Bukhara Oil Refinery; Fergana Oil Refinery; Shurtan Gas-chemical Complex; enriched kaolin production by JSC 'Ugol' in Angren;

- rationalization of export structure and transition from export of raw resources to export of high-quality semi-finished and finished goods, particularly in the textile industry. A number of new enterprises were established and modernized such as JV 'Papfen', 'Namangan-textiles', JV 'Asnan-textiles', JV 'Kasansai-tekmen', JV 'Kabul-Fergana Co.', and etc. Implementation of the Program of Industry Modernization made it possible to lower the share of cotton fiber exports to 28% (48 % in 1992); the share of its deep processing reached 25%;

- modernization of agro-industrial complex through the procurement of modern highly productive agricultural equipment made by the 'Case' Corporation; creation of new and reconstruction of manufacturing facilities of mineral fertilizers - production of non-concentrated nitric acid and ammonium nitrate at PC 'Azot' (Fergana); production of phosphorite flour at the Kyzylkum Phosphorite Mills; creation of enterprises processing agricultural produce. It did not only allow achieving self-sufficiency in food products, but sharply increased the export potential of the agro-industrial sector of the country as well;

- creation of new industry in Uzbekistan - automobile production that turned out to be one of the largest branches of the economy. Established wide network of adjacent production supports manufacturing of cars at the JSC 'UzDaewooAuto', lorries and midi buses at JV 'SamKochAvto'. They have provided localization of manufacturing of the accessory parts, like manufacturing of flat and car glasses at the JSC 'Quartz'; acid accumulators at the JV 'Uz-Escide', and allowed the Uzbek automobile makers to become ones of the largest exporters in the market of the CIS countries;

- creation of modern infrastructure of tourism in Uzbekistan having huge development capacity - construction of the hotels of the international class like 'Sheraton', 'Intercontinental' and 'Shodlik Palace' in Tashkent; 'President' Hotel in Samarqand and reconstruction of the 'Khorezm' Hotel in Urgench - gives the opportunity to realize the huge interest existing throughout the world regarding the heritage and modernity of the Great Silk Road;

- formation of modern digital and optical fiber systems of telecommunications and infrastructure in the country. This develops the Uzbek export of services in the area of communications, electronics and transportation - construction of a national segment of trans Asian-European optical fiber line of communications, development of telephone communications in Tashkent, Samarqand and other regions of the Republic; leasing of Boeings, A 310 and RJ-85 airplanes, foundation of Technical Maintenance Center for new types of aircrafts allowing the Republic of Uzbekistan to consistently and organically integrate with the global economic communications.

On the whole the NBU was serving 202 credits totaling \$2.7 billion under 97 investment projects, including 142 refinanced foreign credits amounting to \$2.4 billion. Last year, financing was arranged for 30 projects amounting to \$330.4 million. Yet 169 projects amounting to over \$2.8 billion are under the appraisal within the Bank. Along with this, all projects financed by the NBU have been oriented to the development of new manufacturing branches defining the perspective of further effective economic development of the Republic of Uzbekistan.

#### **SMALL AND MEDIUM BUSINESS SUPPORT**

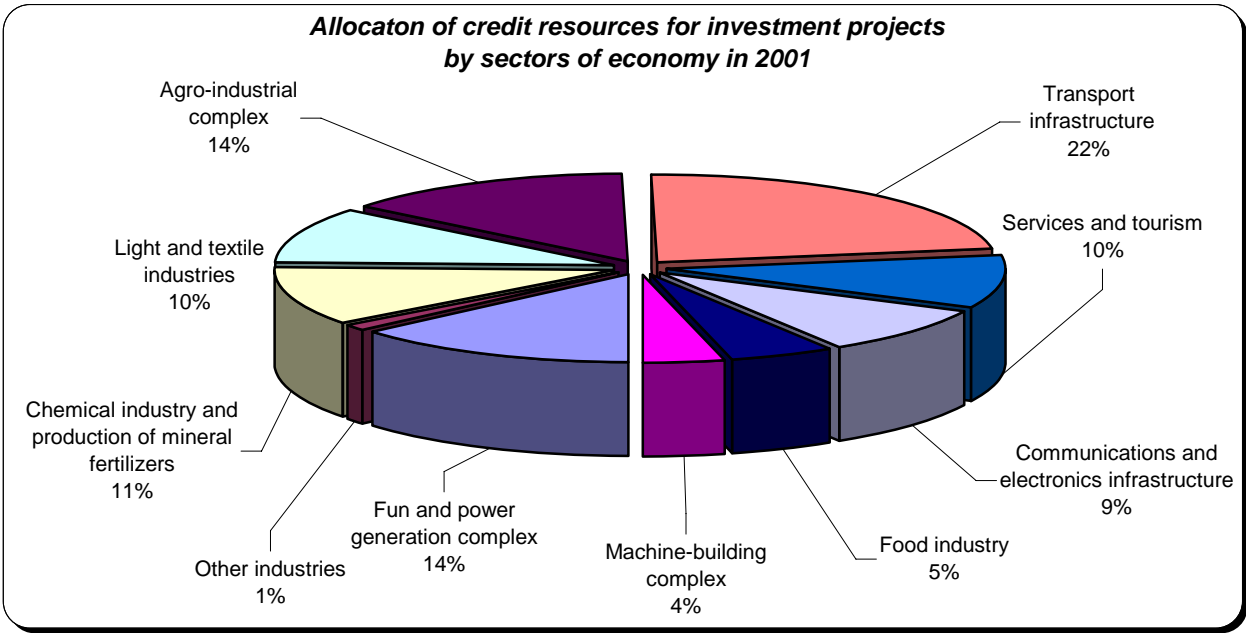
Support of the private business, small and medium-sized businesses is the major priority in the economic policy of the Government of Uzbekistan.

Today, the non-state sector of the country produces 70% of GDP; over 53% of all engaged in the national economy are the representatives of small and medium-sized businesses. Their share in the country's GDP makes up 24.5%. The internal market is ever more being filled with the domestic goods. As for now, small and medium-sized enterprises of Uzbekistan make a significant part of meat and milk production, various juices, soft drinks, ice cream and confectionery products. Using local raw materials SME actively master manufacturing of building materials, textile products, footwear, processing of vegetables and fruits, etc.

Uzbekistan is one of the first CIS countries that actively began to attract credit lines from the international financial institutions to support SME projects and institutional development in this area. During ten years of crediting such investment projects the NBU has accumulated considerable experience.

NBU's attraction of the EBRD credit line (\$60 million) in 1993, without an exaggeration, was of key importance for the national economy. This credit line initiated lots of other programs of leading IFIs in Uzbekistan and played a great role in the formation of a new class of the proprietors in the country. Twenty two projects successfully implemented within its framework served the first durability check, and in many respects predetermined the further course of SME development, allowed to accumulate experience of attraction and effective application of modern equipment, technologies and know-how in this area.

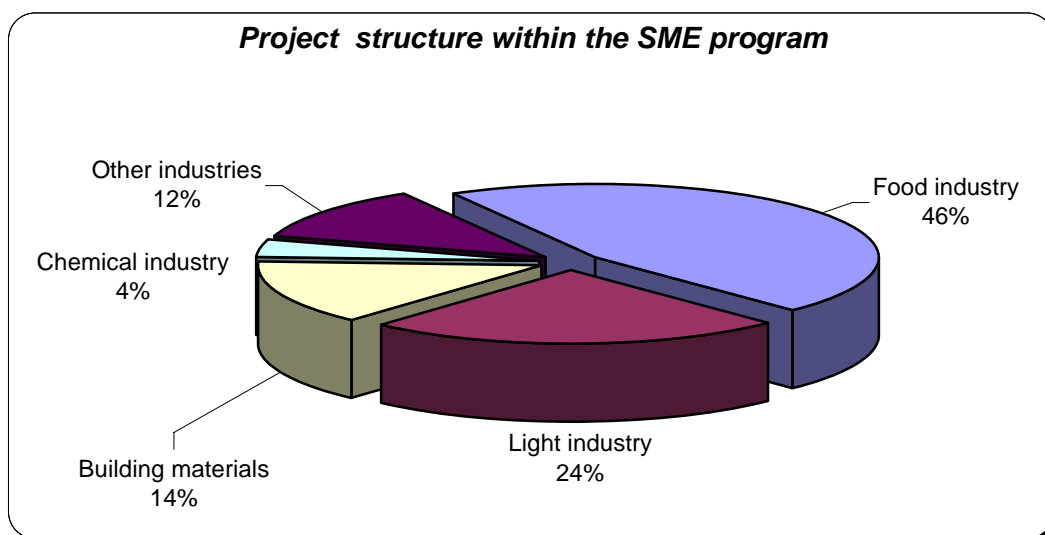
In 1997 the EBRD following the first credit line opened the second credit line of \$60 million already without the State guarantee. The same year the ADB opened its credit line of \$50 million. They were followed by the credit lines from KfW, IFC and the OPEC Fund, the second ADB credit line and credit lines from the foreign banks extended against the insurance coverage of the US Eximbank, SACE, HERMES, COFACE and others.



At the Annual Asia Pacific Bankers Congress the NBU was recognized the winner in the nomination for 'The Best Financial Development Program' for the implementation of 'SME Development Program' and contribution to the development of private sector in the country.

Other banks of Uzbekistan followed the NBU in raising international investments for SME. Today, eight of them have been involved in these programs.





## **MICRO CREDITING PROGRAM**

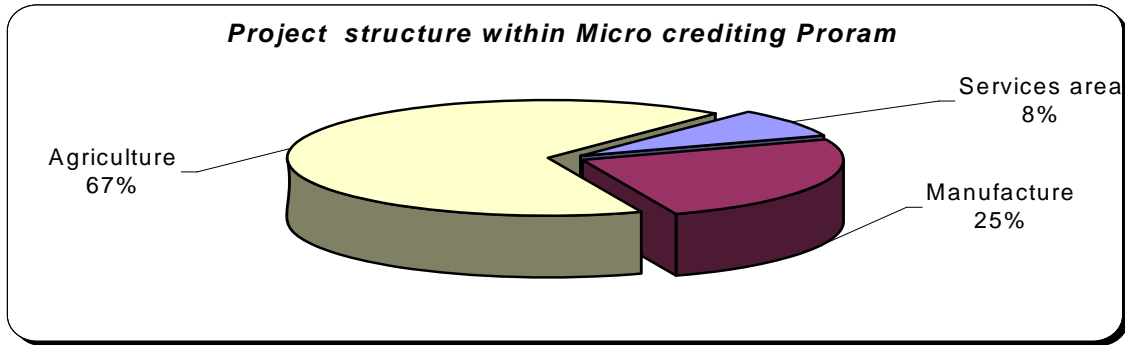
The NBU actively participates in this program. During 2001 such 2556 projects received credits for Soum. The Micro crediting Program is a component of the Program for Support of Small and Medium-sized Business Development in Uzbekistan. It is called to create favorable conditions for financing individual businessmen, dekhkan and farmer's entities, as well as other forms of small businesses.

Historically, motivation and adherence to the private business was always strong in the mentality of the local population. Since the ancient times craftsmanship, weaving, pottery manufacture, applied arts and trade have been developing in the region, and such professional skills have been handed down from generation to generation. Today, solving the problems of modern economy, Uzbekistan successfully relies on the in-depth historical traditions and experience.

To strengthen the role of banks as active participants of the investment process, expand the financial support for dekhkan entities, farms and small businessmen and follow the Decree of the President of the country issued in March, 2001, banks created Funds of Preferential Lending formed from up to 25% deductions from the banks profits. For 5 years the banks are exempted from paying income tax on financing investment projects of small business for the sake of formation of the Funds of Preferential Lending.

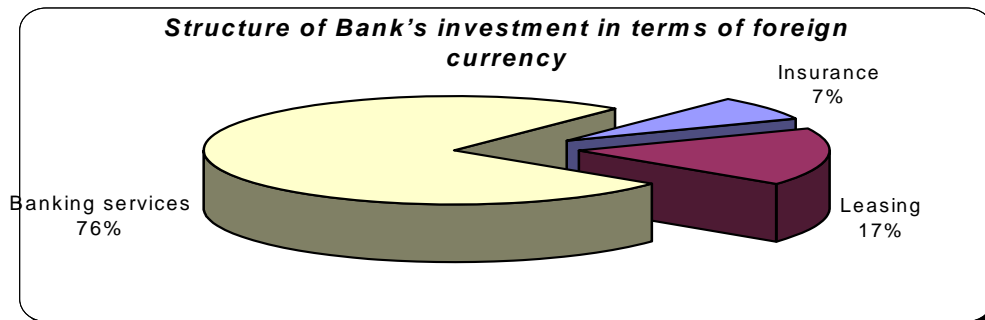
4.2 billion, that is by 2.2 times more than in the past year. Financing of small business investment projects based on the processing of local raw materials is carried out, mainly, in the following directions:

- building materials;
- furniture;
- confectionery products;
- stationary products;
- footwear; and
- ready-made garments.

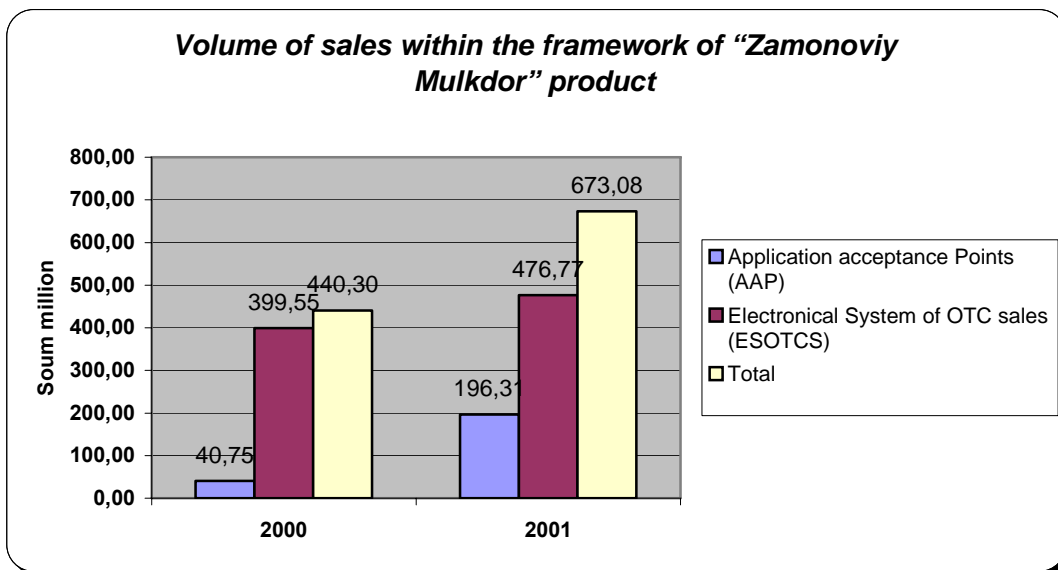


## INVESTMENT ACTIVITY

Development of the investment bank, in the broadest meaning, within the NBU structure, is one of the major tasks. Purpose of the investments of the Bank, both currently and in the long run, is the achievement of the optimum of commercial interests of the Bank with the priorities of economic development, client's interests, assets diversification, minimization of risk and increase of efficiency of the resources.



With the purposes of attraction of a wide circle of the investors, including medium-sized and small ones, to the securities market, the Bank applies vigorous efforts for the development of its own bank product 'Zamonaviy Mulkdor' - electronic system of securities trade through 27 branches and affiliates covering all regions of the country. The NBU has the right to be proud of the fact that its contribution to the stock market development in the country was awarded at the Asia Pacific Bankers Congress in 2001. 'Zamonaviy Mulkdor' was recognized as a winner in the nomination for 'The Best Innovative Product'.



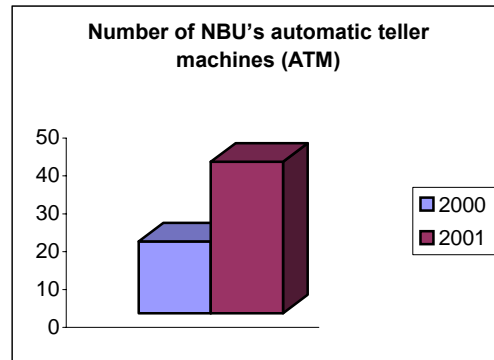
## RETAIL BANKING

Development of retail banking is among the NBU's major tasks. Firmly adhering to the policy of expansion of services for the population, the Bank is among of recognised leaders of the financial market in the country regarding individual deposits and attracted resources of the population.

As for today, the Bank provides over 70 kinds of retail services. The number of deposits of individuals with the NBU increased by 6.9 times in 1998-2001, including those grown in 2001 by over 1.5 times. Significant growth of clients accounts for the expansion of services provided through NBU branches and affiliates, electronic services, increased trust of the population, purposeful work on the optimization of terms of deposits, development and introduction of new deposits, and improvement of quality of the services.

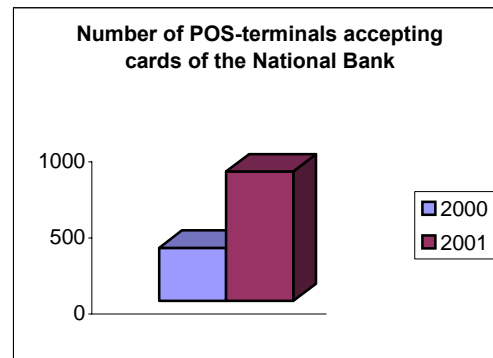
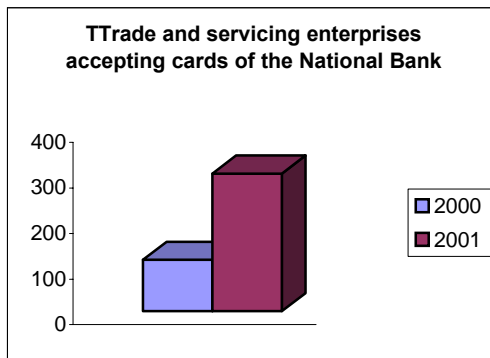
The above mentioned developments have allowed the NBU to become a leader in the attraction of individual deposits in Uzbekistan, having outstripped 'Khalk Bank' specializing in servicing retail clientele.

The Bank yet considers its work with the individuals to be one of perspective areas of its activity in 2002.



## OPERATIONS WITH PLASTIC CARDS

The Bank attaches major importance to the development of services for the population to various types of plastic cards. In their introduction the NBU acts as a true innovator, courageously using the most advanced technologies. The number of cardholders increased by 2.5 times during one year. Expansion of the network of trade and services enterprises accepting NBU cards for payments has given a new impulse to growth of their popularity among the people. Over 300 largest enterprises in the trade and services area have signed with the Bank contracts on servicing Soum cards; of them 189 did this in 2001.



Bank's services on plastic cards have expanded due to the installation of ATMs in the supermarkets, airports, hotels and the Underground stations.

Plastic cards settlement system with the participation of the Asaka Bank and Pakhtabank in the NBU clearing center stands out as an innovation of the Bank in the area of issuing and servicing of the Soum plastic cards. These banks began to serve each other's cards, and this has considerably raised their attractiveness.

In 2001, NBU has got Tadbirkorbank, Businessbank and ABN Amro Bank to participate in cooperation with the Association of Visa International. The above named banks acted as the NBU agents rendering services to its clients on the issuance and servicing of VISA cards. The NBU began encashment of Eurocard/Mastercard, and concluded the contract with the American Express

Company on the attraction of local trade and servicing enterprises for servicing cards of this Company.

Since 1999 the NBU has been selling the American Express traveler's checks, one of the most reliable and convenient ways of transportation of money popular all over the world. All branches and affiliates of the Bank sell and purchase the traveler's checks. In 1999 the Bank sold the checks for \$140.1 thousand, in 2000 - for over \$6.8 million. Sales of 2001 made up \$18.8 million. Moreover, for the first time in Uzbekistan the NBU carried out reimbursement of the lost checks to its clients, and, thus, even strengthened the trust of the clients to the Bank.

## **PERSONNEL**

The Bank is, in fact, the people working in it. At present, 5384 people are working within the NBU system. The multinational collective of the Bank is young and highly professional. It is characterized by high corporate spirit allowing the Bank to set up and fulfill serious tasks.

The first years of work, when the young, arrogant team with great enthusiasm was forming the base of the Bank, make the time most sated with events within the ten-year history of the Bank that, in many respects, predetermined directions of the development and modern pattern of the NBU. During those years when the Bank's personnel was undergoing its formation, there was incorporated the principle of combination of experts with wide experience in banking and people with no experience but managerial skills and economic knowledge. This alloy has, certainly, ensured the dynamic and assured development of the Bank.

During the next years the inherent enthusiasm of the NBU was added with the effective system of personnel selection and training, management of its development. Today, strategy of staff development comprises creation of optimum conditions for disclosing gifted persons, maximum utilization of the abilities of our employees. Successful business of the Bank in the past year, in many respects, has been achieved due to consistent work with the personnel aimed at a perspective.

Practically from the very beginning of its operation the Bank aspires to take the most of the opportunities of its partners to provide the NBU employees with the training at the leading foreign banks, participate in the international banking seminars and conferences. About 600 employees of the Bank have been involved in such programs.

The Bank has successfully been working with the Center of Advanced Training, which offers more than professional knowledge and skills. Special educational programs are developed to tackle issues of business ethics, mutual relations with clients, partners, colleagues, as well as conduct of negotiations. Over 800 specialists of the Bank have gone through these courses.

The NBU takes the most active part in the educational programs of the country targeted to prepare highly skilled experts in the sphere of economy and finance. Thus, the NBU acts as the basic sponsor of the 'Umid Fund' sending talented youth to the leading educational institutions abroad. The whole group of young specialists that received the first class education with the assistance of the 'Umid Fund' is now successfully working practically in all areas, including the NBU itself. They are distinguished by deep professional knowledge, perfect command of foreign languages, energy and drive for success.

Annually over 300 students from the higher educational institutions of the country come on probation training to the NBU. The best of them become our colleagues.

## **BANK'S PRIVATIZATION**

According to the decision of the Government of the country it is envisaged to privatize and sell 40% of NBU's shares to foreign investors. The privatization program has been adopted with the purposes of attraction of strategic investors, increase the transparency and management efficiency of the Bank. Change of the ownership pattern will allow the Bank to use the basic principles of corporate governance; more effectively realize its strategy of development focused on the strengthening of its leading positions.

International financial institutions actively participate in the privatization of the banking sector in Uzbekistan. The EBRD and the Ministry of Finance of Uzbekistan signed the Agreement envisaging the all-round support to the banking sector of the country from the EBRD's side. According to the Agreement between the World Bank and the Ministry of Finance of the country there has been established the Bureau for Privatization of Banking Institutions. The NBU and the Deutsche Bank signed the Agreement on the consulting support of Deutsche Bank during the organizational re-structuring of the NBU.

The program of privatization of the banking sector was reflected in the Memorandum on the Economic and Financial Policy for the Period from January 1 till June 30, 2002 within the framework of the program carried out under the IMF supervision. According to it privatization of the Asaka Bank is scheduled for 2003, and of the NBU - for 2004.

Major efforts of the Bank are directed today to the active attraction of foreign investments to the priority sectors, to the implementation of SME projects, expansion of corporate and retail clientele, improvement of the efficiency of performance in the stock market, elaboration of the program of institutional development and privatization of the NBU.

In the year that has come the NBU intends to strengthen its positions in the corporate and retail markets of banking services in Uzbekistan, consistently represent interests of the clients in the external markets offering new banking and financial products and promoting mutually advantageous cooperation, economic development and growth of the welfare of its clients.