

## ANNUAL REPORT 2002

### ANNUAL REPORT OF THE NATION BANK OF UZBEKISTAN 2002 YEAR

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## **CHAIRMAN'S FOREWORD**

Dear Ladies and Gentlemen!

Applying its own model of transition to market economy the Republic of Uzbekistan has been consistently implementing market transformations aimed to achieve macroeconomic balance as a major condition for economic growth that has been observed for the past eight years.

Objectively built up guarantees of macroeconomic stability and perspectives of economic developments determine and presuppose strengthening of competition in all sectors of Uzbek economy. The process of qualitative evolution of the Uzbek banking system goes in line with the development of the industrial sector. Requirements to the banking institutions of the country are getting tougher and the competition has strengthened.

In such conditions, Bank's orientation to the world banking standards and policies based on prudent conservatism and risk assessment ensured successful development of its business.

Simultaneously, despite the obvious achievements, the past year appeared not to be easy for the National Bank of Uzbekistan. Active implementation of gradual liberalization of the economy and, first and foremost, liberalization of foreign exchange regulation resulted in unavoidable devaluation of national currency. This affected financial performance of companies, including their short-term ability to serve the foreign currency loans.

In order to raise the stability of the Bank and the quality of its assets, we applied Basel Committee recommendations and have strengthened risk management practices using statistical assessment of the probability of unfavorable events for the Bank; permanent risk monitoring; systems of internal management and supervision that excluded inefficient decision making on the implementation of banking operations; conducted active work on restructuring and rehabilitation of clients' business and rendered them financial advisory services.

Conversion of the part of the capital into doubtful debt provisions based on critical assessment of credit portfolio lead to the emergence of losses calculated according to international accounting standards.

Nevertheless the Bank remained to be a stable and reliable financial institution pursuing all criteria of banking reliability and fulfilling with a good margin the compulsory economic normatives set by the Central Bank of the Republic of Uzbekistan thanks to the excessive capitalization of the Bank and significant retained profits for the previous years.

Conversion of the part of the capital into reserves complies with the strategy of pre-privatization preparation carried out in collaboration with the foreign partners, participating in the planned privatization of the National Bank of Uzbekistan. This strategy includes determination of the optimal size of the capital to meet both requirements of reliability and scale of business that will ensure satisfactory profitability for potential investor.

Positive dynamics of clientele growth and maintenance of profitability of banking business serves as a cogent indicator of the effectiveness of the undertaken measures and allows the Bank steadily preserve the leader's position in the banking sector of Uzbekistan.

Country's leadership has been enthusiastically resolving financial and structural problems of the economy by providing efficient enterprises with legislative and financial possibilities for restructuring and development. Last year the government started the process of decisive liquidation of the enterprises bearing chronic losses providing respective level of support to the banks. Accounting for these circumstances, NBU is confident of its stable positions.

The Bank highly appreciates the confidence of our clients and partners. From our part, we are undeviatingly pursuing our chosen principles of trusting partnership and individual approach to any client.

Let me express the assurance that our joint efforts will contribute to faster and effective progress of Uzbekistan along the road to market reforms, full-fledged integration of the country into the international economic system, welfare and prosperity of the Republic of Uzbekistan.

Zainutdin Mirkhodjaev  
Chairman of the Board

## ECONOMY OF UZBEKISTAN

The National Bank of Uzbekistan made its business in 2002 against a background of stable growth of the majority of macroeconomic parameters of the Republic of Uzbekistan, significant successes in the development of banking and financial sector and increase of the living standards of its population.

The 2002 year marked the next stage of reformation of the economy, creation of independent state and free democratic society.

The gross domestic product of the country has grown by 4.2%; volume of the industrial production grew by 8.5%, agriculture output by 6.1%, production of the consumer goods - by 11.8%.

Growth of capital inflow to the economy, mainly to the base branches of the real sector made up the major factor of development of the Uzbekistan economy. Improvement of the investment climate in the country promoted investments growth by 3.8%, of which capital of foreign investors made up 20%. A number of factories with high level technological equipment and manufacturing competitive products were put into operation.

Successful monetary policy resulted in the reduction of the inflation rate to 18% per annum. Positive results have been also achieved in the social area i.e. average monthly wages have grown by 47%. As a result, GDP per capita has increased by 1.4 times and real incomes have grown by 12.6%.

Certainly, among positive results of 2002 there is the positive foreign trade balance that has totaled USD 276.4 million.

Corporatization process of enterprises also progressed in 2002. About two thousand enterprises have changed their ownership structure. Currently, the share of non-public sector makes up 73.3% of GDP, and 35% of GDP are produced in the private sector. Private investors raised their interest for stock market operations.

Continuously the great role was attached to the development of small and medium business that is the cornerstone of the improvement of young economy of Uzbekistan. In 2002, thirty eight thousand small and medium enterprises were created, and their total number has reached 240 thousands. Commercial banks have undoubtedly played the decisive role in the development of the private sector. Volume of loans rendered by the banks to small and medium enterprises has increased by 30% as compared with 2001 and made up approximately 265 billion soum. The cooperation of Uzbekistan with the international financial partners in the field of support to small and medium business played great importance.

During the past year, the banking system of Uzbekistan has further strengthened and continued its rather intensive development. Total capital of the commercial banks has grown by 43%, and their total assets – by one third, their financial soundness and liquidity has grown.

Complex of measures aimed to further liberalization of foreign exchange market was carried out in 2002. The exchange rate was unified; the banks became completely independent in their foreign exchange operations.

The Government of the Republic has determined the following priority directions of the development of the economy for 2003:

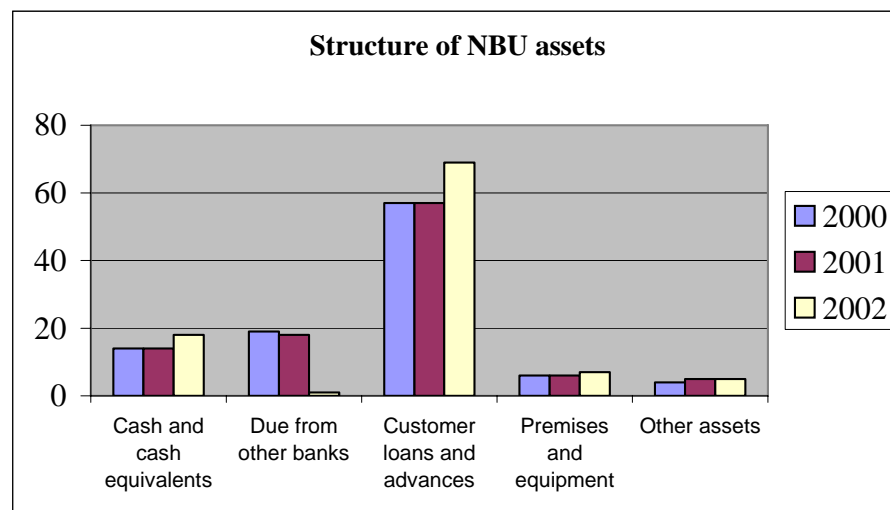
- Strengthening of the role of private sector in the economy of the country.
- Reduction of share of the state in the authorized capital of corporatized enterprises, strengthening of the role of the shareholders in the management of corporatized enterprises.
- Further introduction of market relations in the rural area.
- Provision of steady balanced economic growth, conduct of tough monetary policy, sharp reduction of the inflation rate, provision of stability of national currency.
- Further liberalization of the exchange market, provision of current account convertibility.
- Further implementation of the National Program of Personnel Training, creation of the integral system of skills improvement and advanced training of the staff, motivation of their professional growth, as a major condition of overall progress.

## BANK IN 2002

Development of the National Bank of Uzbekistan that possesses the significant part of the cumulative assets of the banking system of the Republic reflects the common processes occurring in the economy of the state against the background of general active development of the banking sector of the Republic and growth of the interbank competition.

It has historically built up that executing its main functions, the Bank finances the main part of the projects connected with the re-structuring of the economy. Attracting loans from the leading international financial institutions and foreign commercial banks, the Bank serves the main lender of small and medium business, particularly in financing of the purchase of foreign advanced technologies and know-how.

If we look at the structure of the balance sheet of the Bank and volumes of loan investments in the past years, we can see that this type of business remains a major one for the Bank.



At the same time both the structure of loan portfolio and the structure of the resource base of the Bank, reflect the involvement of the increasing part of the population in the active business and development of private entrepreneurship, growth of well-being of the population and trust to the banking sector. Share of private entrepreneurs and individuals has been increasing both in the loan portfolio structure and in the resource base.

New products of the Bank developed and introduced in 2002 are focused on strengthening class of entrepreneurs and satisfaction of the needs of the population whose assets and financial transactions are getting more widely involved in banking turnover.

Deepening of economic reforms and implementation of the joint programme of the Republic of Uzbekistan with the International Monetary Fund has resulted in change of the consolidated financial indicators of the Bank. The main features of the programme include:

- further liberalization of the economy, including introduction of full current account convertibility of the national currency;
- unification of the exchange rates for foreign exchange operations and transition to a free rate of national currency determined by the demand and supply in the market;
- liberalization of foreign trade regulation;
- commitment to transfer management of international reserves to the Central Bank of the Republic of Uzbekistan.

Also it should be noted that transfer of international reserves of the Republic caused only the change of the quantitative parameters of the balance sheet, taking into account the conservative and separate principle of management of commercial operations and state reserves.

Depreciation of the exchange rate of the national currency and its unification for all kinds of operations have not only influenced (and not to so much extent) on the balance sheet of the Bank, which lost USD 110 million in equivalent due to exchange rate depreciation, but more the quality of the Bank's assets. As a result the Bank introduced amendments in its risk management policy, that, first of all, imply strengthening of the whole complex of measures and extension of the range of instruments applied in banking practices to ensure prevention and minimization of probable losses proceeding from forecasting various scenarios of development of macroeconomy, market and financial condition of certain borrowers.

### **Highlights of the balance sheet of the National Bank of Uzbekistan**

Years	Assets		Capital	
	Equiv. in Soum bln	Equiv. in \$ thousand	Equiv. in Soum bln	Equiv. in \$ thousand
2000	1 339	3 913 019	156 643	661 707
2001	2 717	3 799 000	297 096	639 000
2002	3 265	3 193 000	408 885	608 000

Nominal value of the balance in national currency has grown by 37% against the previous year and made up Soum 310 billion. Substantial growth of operations and deposits in national currency reflected the growth of business activity in the domestic market of Uzbekistan, and restoration of the working capital and financial performance of enterprises were observed.

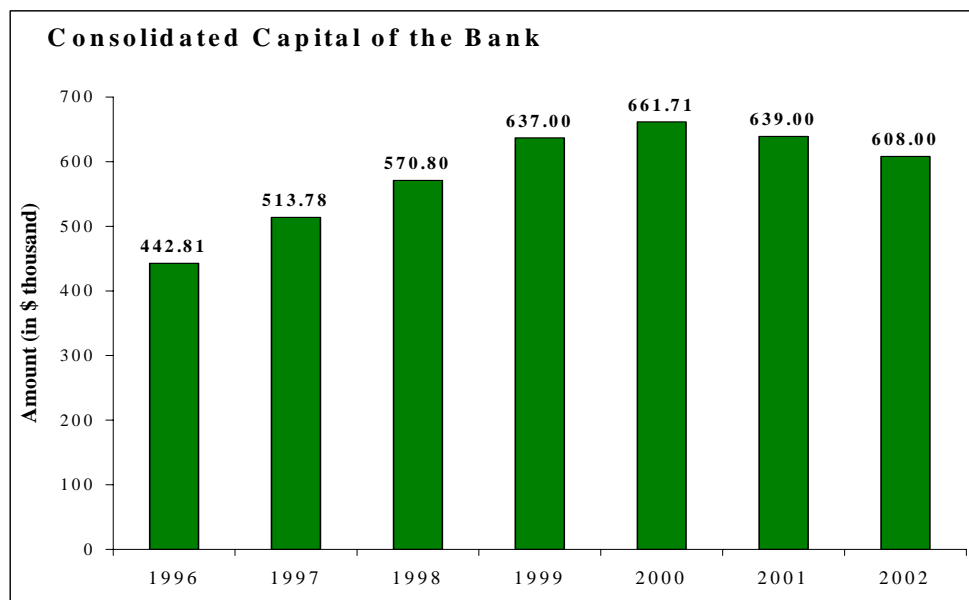
At the same time, there was a decrease in the consolidated balance in terms of the USD equivalent due to, firstly, the transfer of the management of the state international reserves to the Central Bank of the Republic of Uzbekistan, secondly, due to the negative impact of exchange rate depreciation on assets in national currency. There was no change in the volumes of the commercial assets of the Bank in terms of foreign currency. Translation of the balance into US dollars is carried out because over 80% assets of the balance sheet structure fall on the assets in hard currency.

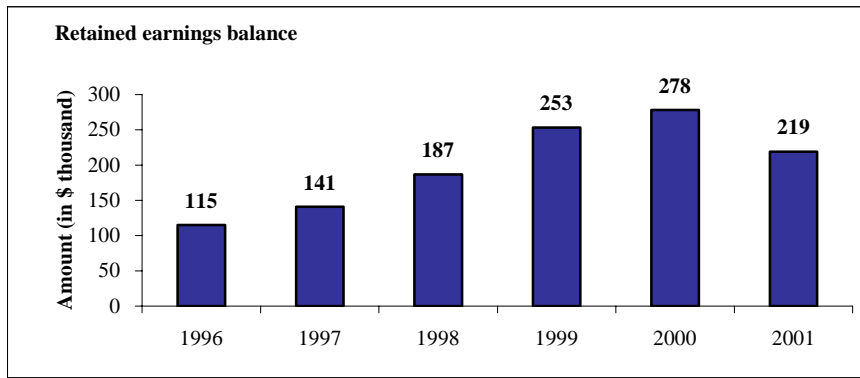
The National Bank of Uzbekistan completed year 2002 with the negative financial result that was caused by the implementation of the risk management policy. In 2002, the Bank increased loan loss reserves and carried out management of assets with a more rigid policy of non-recognition income on the assets with the discounted value. These reserves were formed at the expense of current-year profit and retained profit of the Bank from the previous years.

Bank's privatization is one of the important factors determining the management policy on Bank's capital. In order to increase investment attractiveness for a potential investor the Bank has to determine the optimum size of the authorized capital and volumes of reserves. It is worth noting that the National Bank of Uzbekistan always supported the fair margin of safety on its capital adequacy.

#### **Dynamics of capital adequacy ratio (BIS)**

<b>2000</b>	<b>2001</b>	<b>2002</b>
71%	72%	82%



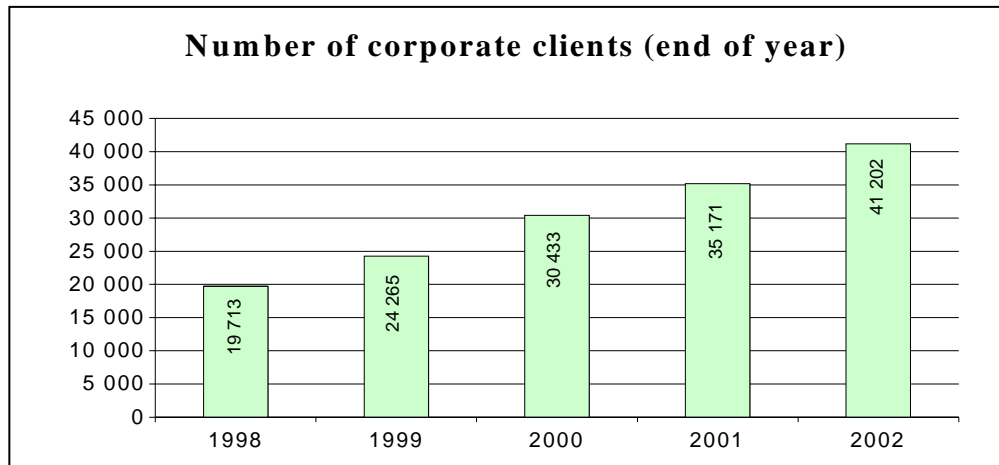


It became possible because the Government of the Republic of Uzbekistan never deducted the dividends and capitalized the income of the Bank.

### **CORPORATE BANK**

At present, corporate business of the National Bank of Uzbekistan presents a complex ramified system and includes over a hundred of banking products and multitude of financial schemes. This allows it to satisfy the requirements of all categories of corporate clients.

Total number of corporate clients of the National Bank of Uzbekistan has grown during 2002 by over 17%, of which the main share falls on the enterprises of private, small and medium businesses; their share in total base makes up over 60%.



Application of flexible pricing and lending policy, development of mutually beneficial schemes of money flows and use of diverse banking instruments promoted the increase of a number of new customers throughout the regional network of the Bank. Thus, their quantity in the regional branches of the Bank increased by 19.3%, by this the share of their clientele base of regional branches of the Bank increased from 77.7% to 79.1%.

Strategy of corporate banking is focused on the satisfaction of needs of various groups of the clients.



First, these are the large corporate clients of such industry like mining and processing, metallurgy, including precious metals, mechanical engineering, air, railway and automobile transport, telecommunication, textile industry, chemical industry and production of mineral fertilizers, tourism and its supportive services (hotel complex and communications). Interests of this group of clients include international payments, investment loans, recently, stock market products, privatization issues and closely connected with it issues of corporatization and financial improvement.

Another group of corporate clients, for whom special kinds of services are developed, presents small and medium enterprises based on the private capital. Taking into account the attention paid by the Republic to the development of small and medium business, NBU constantly improves its range of services provided for this particular group of clients; it influences the process of Bank's re-structuring. Thus, in 2002 division of small and medium business was transformed into a separate Group.

Both domestic and foreign correspondent banks make up a separate group of clients. Main strategy is determination and satisfaction of individual interests of foreign partners in Uzbekistan and, at the same time, representation of interests of Uzbekistan, clients and local correspondent banks in the international market.

Development of personal managers system and individual treatment of each client depending on his interests and the innovative approach to the elaboration of complex of services provides the National Bank of Uzbekistan with the constantly growing clientele base and, thus, makes it competitive in the market of banking services.

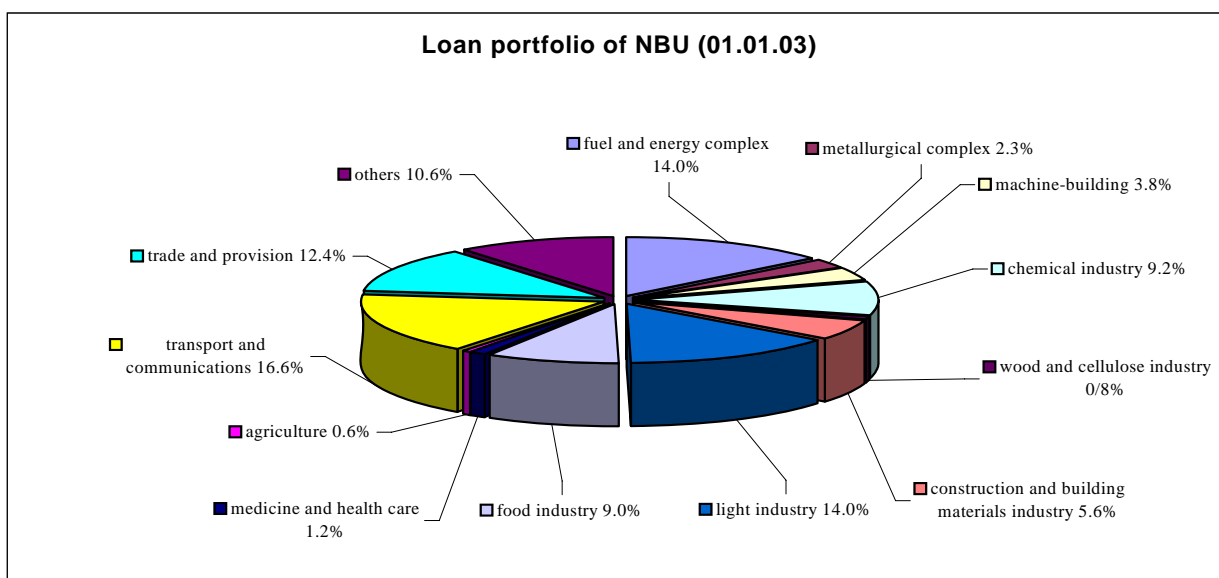
## **LENDING**

Structure of loan portfolio of the Bank reflects the policy of the Republic aimed at the development of the priority industries. The National Bank of Uzbekistan adheres to same policy at all stages of reformation of Uzbekistan economy.

At the first stage, it was the achievement of fuel-and-energy and food sustainability. At the second stage, alongside with the modernization of the existing branches, the priority was attached to creation of new productions (automobile building industry) and import-substitution of productions.

At present, special attention is paid to the saturation of the internal consumer market with the goods produced from local inputs and manufacture of goods of high degree of readiness.

In this light, the National Bank of Uzbekistan consistently implements its lending policy. Sectoral structure of loan portfolio looks as follows:



Loan portfolio volume for 2002 increased by 45.0% and, as of January 1, 2003 made up Soum 2 219.9 billion (USD 2.3 billion equivalent). The major share of loan portfolio comprises mid-term and long-term loans weighting 84.3% (against 87.9% on January 1, 2002).

Foreign exchange loan facilities to the extent of 74.4% were refinanced resources of foreign banks and 25.6% - own resources of the Bank. In terms of national currency – 63.5% were presented by the own assets of the Bank and 36.5% - attracted target borrowings.

In the past year in the light of general processes of deepening of market reforms and liberalization of the exchange market, the Bank has strengthened the policy of credit risk management, system of evaluation of quality of loan portfolio and rating of the borrowers. Proceeding from this, the bank has increased the norms of loan loss reserves that comprised 4.0% of foreign currency loan portfolio and 6.5% in terms of national currency loan portfolio.

Along with this, arrangements were made for the development and focusing of lending on the monitoring of disbursed loans aimed to prevent risks and minimize losses generated by them. Credit Risks Management Group was created within the Bank to monitor and supervise the quality of the loan portfolio.

## **PROJECT FINANCE**

Since the first years of its establishment, the National Bank of Uzbekistan has been involved in financing various projects directed to the re-structuring of the economy. Project financing is based on the principles of economic feasibility and repayment. It is implemented both at the expense of own resources of the Bank, and through the attraction of resources from large financial institutions and banks of the USA, Germany, France, UK, Spain, Japan etc.

So far, for period of 1993-2002 the National Bank of Uzbekistan within the framework of foreign credit lines, centralized and own resources have financed 279 large investment projects with the total loan requirement of USD 3987.72 mln.

<b>Name of the sector</b>	<b>Number of projects</b>	<b>Total cost of projects</b>	<b>Loan amounts</b>	<b>% to the total amount of the issued loans</b>
<b>Total:</b>	<b>134</b>	<b>5189,0</b>	<b>3421,8</b>	<b>100,0</b>
Of which by sectors:				
Fuel and energy complex	6	1265,6	1674,2	38,1
Mining industry	4	115,3	35,2	0,8
Chemical industry and production of mineral fertilizers	7	257,6	291,5	6,6
Metallurgical complex	6	328,9	41,6	0,9
Light and textile industries	16	586,4	222,2	5,1
Agroindustrial complex	21	593,1	538,8	12,2
Building materials	3	82,8	59,8	1,4
Transport infrastructure	12	830,8	806,2	18,3
Sphere of services and tourism	11	355,7	251,8	5,7
Pharmaceutical industry	9	80,0	63,9	1,5
Infrastructure of communications and electronics	12	159,3	140,0	3,2
Cellulose and paper industry	9	81,2	30,9	0,7
Food-processing industry	11	184,6	29,9	0,7
Machine-building complex	5	251,1	145,4	3,3
Other industries	2	86,8	74,5	1,7

In 2002, the National Bank of Uzbekistan concluded 14 new loan agreements with foreign banks for 10 projects in such areas like public health services, agriculture, light industry and TV and radio broadcasting.

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

Within the framework of the program of support to the development of small and medium business, the National Bank of Uzbekistan finances projects utilizing credit lines provided by a number of foreign banks and international financial institutions, extra-budgetary funds of the Republic and own resources of the Bank.

So far, within the framework of the foreign credit lines of European Bank for Reconstruction and Development (EBRD) (I, II), Asian Development Bank (ADB) (I, II), Kreditanshdalt fur Wideraufbau (KfW), International Financial Corporation (IFC), OPEC Fund and a number of export-credit agencies, 152 projects totaling USD 388 million have been accepted for financing, of which loan amount comprises USD 231 million.

During 2002 within the framework of attracted foreign credit lines 31 projects amounting to USD 46.4 million were fully approved, and financing for 20 projects with the loan amount of USD 26.2 million was opened.

Foreign credit lines are mainly represented by the following industrial sectors:

Food-processing industry - 45%,

Light industry - 23%,

Production of building materials - 14%,

Chemical industry - 4%,

Other sectors of the economy - 14%.

In the SME loan portfolio structure of the Bank 53% of borrowers are private enterprises with the share of foreign partners, 11% - small private enterprises, 22% - joint-stock companies, 14% - shirkat entities. In 2002, borrower-enterprises produced output for Soum 33 billion, including export production sold for USD 7.7 million.

Twenty thousand new jobs have been created through the implementation of projects.

The National Bank of Uzbekistan actively creates the basis for further increase of the inflow of foreign investments into the Republic. Thus, during the visit of the official delegation of the Republic of Uzbekistan to the USA on 11-15 March, 2002, the Agreement on the opening of the credit line amounting to USD 55 million was signed with the US Eximbank and Bank of New York on financing projects of small and medium business against the insurance cover of the US Eximbank without the sovereign guarantee of the Republic of Uzbekistan.

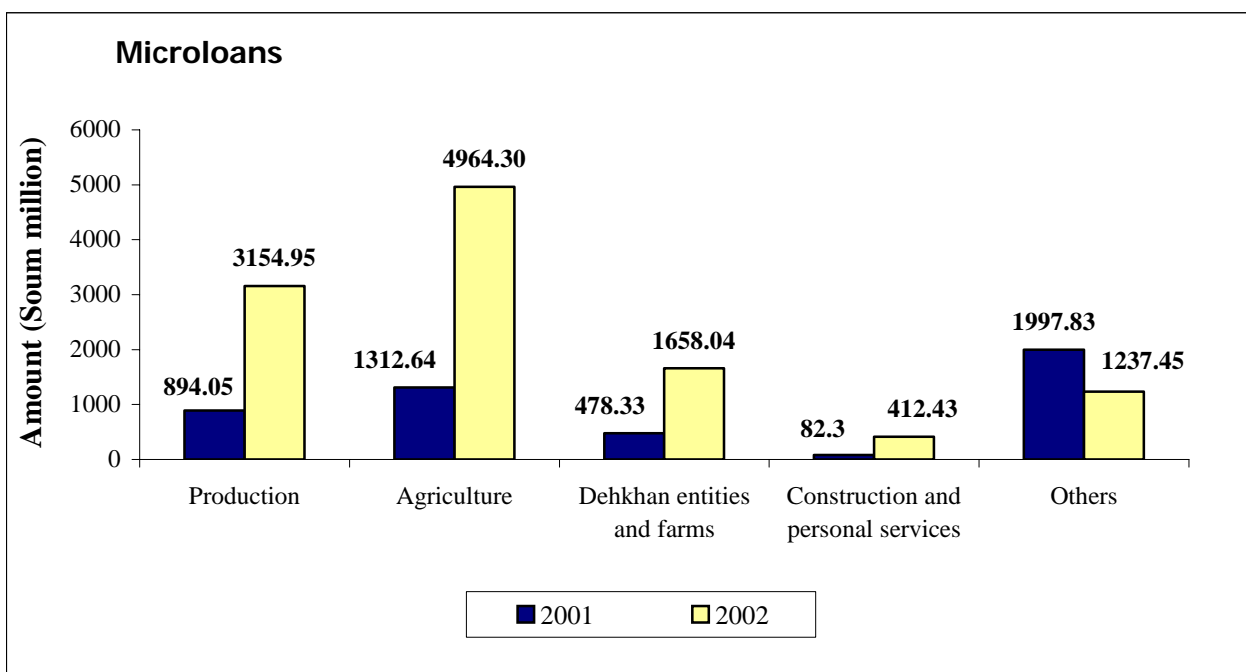
Having a good credit history, the Bank works on issues of acquiring the new loans and credit lines to finance small and medium businesses from the EBRD, ADB and IFC.

## **MICROLENDING**

In 2002, the National Bank of Uzbekistan took active participation in microlending to individual businessmen, dekhkan farms and other entities of small business carrying out their business both at the status of legal entity and without it.

Out of the total volume of microloans granted by the commercial banks to the SME's, weight of microloans given by the branches and affiliates of the National Bank of Uzbekistan makes up 26.5%.

In 2002, the National Bank of Uzbekistan provided 3347 microloans totaling UZS 9769 million.



Microloans rendered to the firms and individual businessmen promote development of family business, growth of the living standards of the population, especially in remote areas. Along with this, microloans assist to preserve skills and traditions of crafts production and national applied arts. Loans for the needs of the farms promote development of new mode of life in the countryside by creating new job and new class of proprietors.

## COOPERATION WITH FINANCIAL INSTITUTIONS

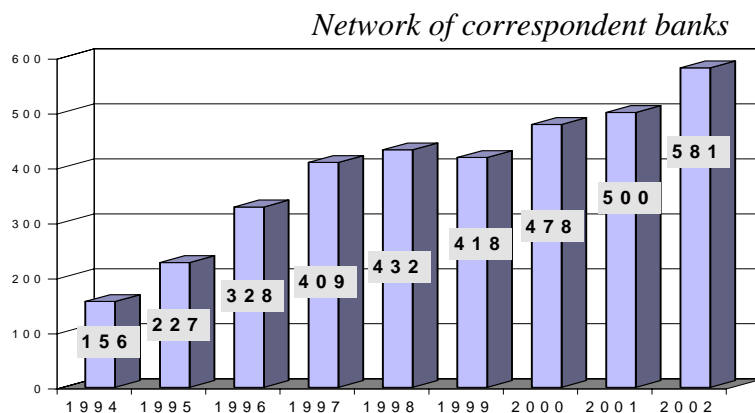
The Bank is an active participant of the international financial community. Taking the leading position in country in the attraction of foreign investments and volume of international payments, the Bank also actively participates in the development and deepening of cooperation with the domestic financial institutions.

NBU's position in the international financial markets and in the financial market of the country has been deservedly attested by getting various international awards in 2002. Under the Program of the "ADFIAP Award 2002", established by the Association of Financial Institutions of Development of Asia and the Pacific Ocean for the banks that have implemented the most innovative projects, NBU was recognized the winner in the category «Development of Technologies » for the e-banking product «Remote System of Electronic Service for the Clients» (Bank-client system).

Also, in September, 2002, during the Annual Meeting of the International Monetary Fund and of the World Bank Group in the USA, the National Bank of Uzbekistan was awarded the "Best Bank of Uzbekistan" for 2002 from "Global Finance" and "Euromoney" magazines.

National Bank of Uzbekistan represents the Republic of Uzbekistan in various international financial organizations, such as the Asian Bankers Association (ABA) and the Association of Development Financial Institutions of Asia and the Pacific. In September 2002 at the 19<sup>th</sup> Annual Meeting of the Board of ABA Directors in Seoul, Korea, the Chairman of the Board of the National Bank of Uzbekistan was elected to the Board of Directors of ABA.

Nowadays, the National Bank of Uzbekistan offers its clients international payment services of any degree of complexity in all forms accepted in the international practice; rendering qualified consultations to the clients and development of the tailored schemes of settlements. To preserve the leading position in this area among the banks in Uzbekistan, the National Bank of Uzbekistan has ramified its correspondent network that by the end of 2002 has totaled over 580 banks located in 67 countries of the world.



Twenty-five correspondent NOSTRO accounts provide the National Bank of Uzbekistan and its clients with the optimal combination of countries and currencies to carry out settlement operations. Constantly growing turnover on the accounts testifies for the trust of the clients in the bank's system of international payments.

Duly fulfillment of obligations before the partners is the principle of NBU's work with the foreign correspondent banks, on the same principle the Bank builds its inter-relations with the clients.

As has been stated above, the Bank actively develops cooperation with the Uzbek banking and financial institutions. As for today, the National Bank of Uzbekistan serves 32 LORO correspondent banks.

Alongside with settlement service, the Bank develops such areas of cooperation like project finance (refinancing of KfW credit line for Pakhtabank and Uzjilsberbank), trade finance, money market (syndication of loans – UzDaewoo Bank), personnel training (joint seminars and training programs) and others.

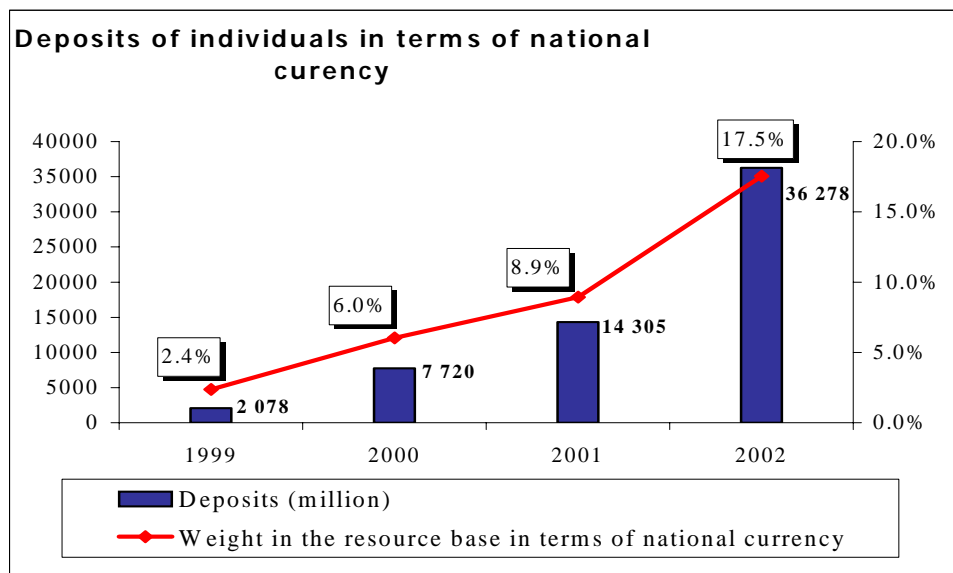
The National Bank of Uzbekistan, being an infrastructure-forming institute, actively participates in the formation of banking infrastructure and creation of sound competitive environment. The Bank is the dominant member of the group of SWIFT network users in Uzbekistan, a basic member of the VISA system. Thus, Business bank and ABN AMRO AO NB Uz render their clients the services on issue and service of VISA cards as agents of the National

Bank of Uzbekistan. In 2002 the project of the entry of Asaka Bank, the second-large bank in the Republic, into the number of founders of NBU affiliate bank, «Asia Invest Bank» was completed.

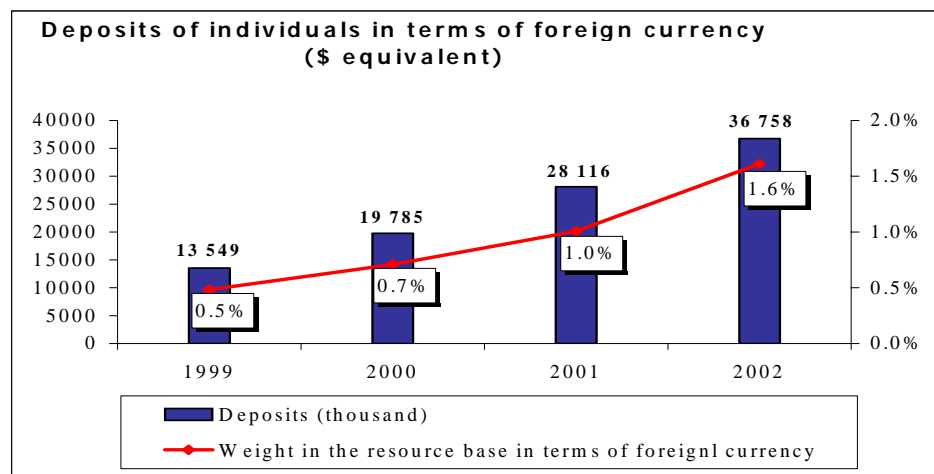
## RETAIL BANK

Having defined in 1998 the work with the retail clients as one of the priorities, the Bank continued its active operation in the market of retail services in 2002.

Currently the National Bank of Uzbekistan offers more than 70 kinds of retail services, including operations deposits of individuals. Since 2000, it has been keeping the leading position in the deposit market of the Republic.



During 1998-2002 volume of the individual's assets in terms of national currency on the accounts increased from 0.1 to 36.3 billion Sum.



The Bank conducts the work on the attraction of foreign currency resources. In the course of these operations USD 36.7 million were added to the deposit accounts.

Number of the depositors both in national and foreign currencies rose during 1998-2002 almost by 10 times. During 2002, they rose by over 1.5 times and by January 1, 2003 have made up about 330 thousand.

Decision of the Central Bank of the Republic of Uzbekistan to cancel reserve requirements on individual deposits and reduce the taxable base of the commercial banks by the amount of time deposits growth has promoted the decrease of costs and generation of the profit on deposit operations.

The Bank actively expands the range of services for individuals. In 2002 banking institutions launched operations on the reception of utility payments from the clients, and during rather a short period this kind of services has become widely popular among the from the population.

The National Bank of Uzbekistan was the first among the banks of the Republic that began to offer its clients the services on operations with the American Express traveler's checks that can be exchanged for cash foreign exchange at the banks and representations of the American Express company worldwide.

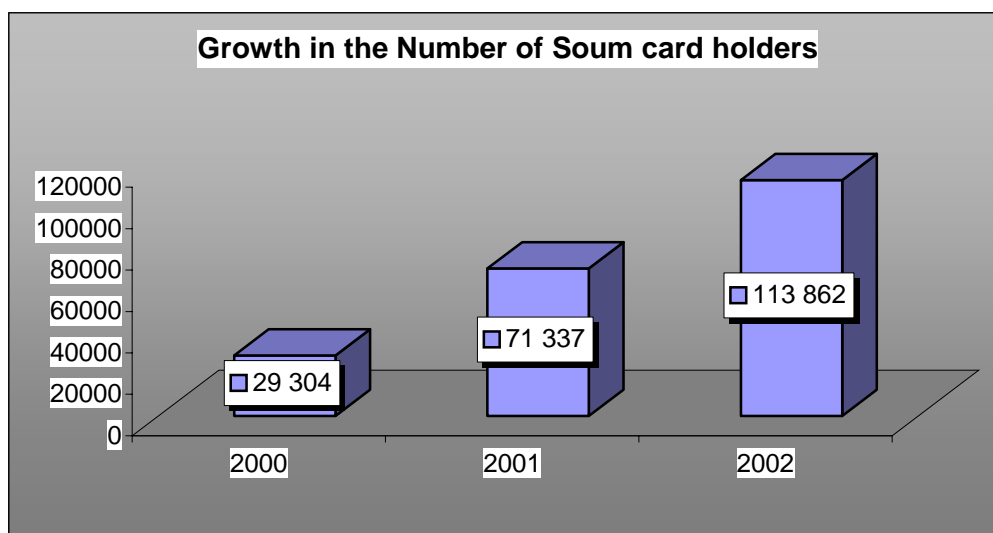
Since 2002 the National Bank of Uzbekistan, besides implementing interbank wire transfers has begun to offer fast international transfers through the «Western Union» system. By the end of 2002, the number of the branches of the National Bank of Uzbekistan switched onto this system has grown to 27. Number of clients served through the Bank's offices has made up about 18 thousands.

## **PLASTIC CARDS**

In 2002, the Bank completed the stage of formation and expansion of the network of servicing plastic cards holders, and simultaneously finished transition from the system of single issuance to the system of multiple issuance of plastic cards. This brought in the all-Republican network of settlement-issue centers of cards, and to a great extent created the significant part the infrastructure of ATM and terminal equipment. This has allowed creating failure-safe and reliable system of non-cash servicing of cards holders and at the same time to ensure the proper quality of services. As a result, the issue in 2002 comprised over 42 thousand Soum cards against 71 thousand for the previous five years. Thus, total number of Soum cardholders of the Bank has exceeded 113 thousand people. By the end of the year, the total balance on the card accounts has made up about Soum 4.2 billion.

Total turnover of the operations conducted on them in 2002 made up Soum 23.8 billion, of which Soum 22 billion, of which were conducted through ATMs.





The largest trading and servicing enterprises of the Republic, whose number increased by 2.5 times last year, accept cards of the National Bank of Uzbekistan as a means of payment.

The Bank continued the work aimed to increase the number of implemented projects on salary payments through Soum plastic cards to the employees of large corporate clients. Over 100 new projects were implemented in 2002, they provided for the substantial expansion of the number of users of the single payment system.

Upon the initiative of the National Bank of Uzbekistan there has been created the interbank clearing system for Soum cards participated by NBU, "«Asaka Bank", "«Pakhtabank", «Khalk Bank», "«Uzprivatbank" and "«Uzjilsberbank". These banks serve Soum cards of all participants of the banking system along with their own clients. The latter expanded the opportunities for the card users and increased the attractiveness of the banking product to potential clients. The National Bank of Uzbekistan serves as the processing Centre of interbank card transaction.

In 2002 the Bank issued international cards Visa Classic and Visa Electron, and rendered services to the holders of the cards issued by the foreign banks for both tourists and businessmen.

In 2002, the Bank enlarged the number of offices to withdraw cash from Eurocard and MasterCard. Following the agreement signed with the American Express company the Bank continued its work regarding attraction of local trading and servicing enterprises to operate with the company's cards.

## **BRANCH NETWORK**

Dynamical development and management of the affiliation network is a priority of the Bank. The year 2002 turned into the year of the further modernization and development the affiliation network of the Bank, which currently comprises 99 branches and sub-branches. Through introduction of new banking products, the Bank aspired to improve the quality services provided to the clients.

We can mention among them the electronic banking (“Bank-client” system) provides granting full-fledged distant banking on-line. This service allows Bank’s clients to operatively manage their accounts, form various payment documents, and receive statements of current balances on the accounts and other necessary information.

Special attention is attached to the introduction of retail banking products in the regions: «Soum card of the National Bank of Uzbekistan», «the Project on wages on the base the Soum card of the National Bank of Uzbekistan» and other retail services.

The continuous work of the branches aiming to attract clientele promoted formation of stable resource base of the whole bank. Availability of the own resource base, correct diversification of loan portfolio, deep investigation of the perspective sources of incomes and wide spectrum of banking products meeting the most exquisite requirements of the clients, allows the Bank to occupy the leading position among the banks of the Republic in the market of loan and financial services, promoting development of all economic sectors of the Republic.

Aiming to satisfy the wide spectrum of client’s needs and create maximum additional convenience for them, the Bank has continued establishment and improvement of the network of mini-banks by raising their number to 18. They promote creation of strong competitive position of the Bank and influence the pace of market transformations held in various regions of Uzbekistan, especially in the ones remote from the industrial centres. Established mini-banks offer the customers a wide range of banking services.

## **INVESTMENT BANK**

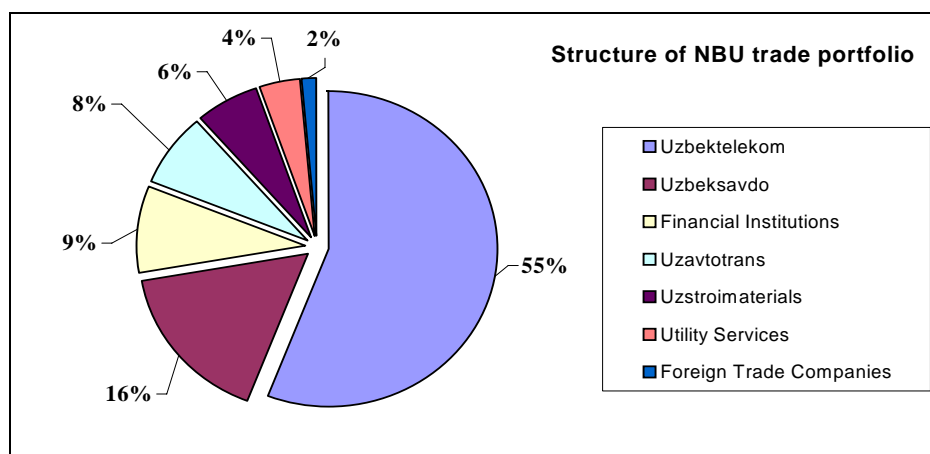
In 2002, the National Bank of Uzbekistan was actively developing the concept of the Investment bank. The investment activity of the Bank is aimed to both current and long-term achievement of optimal combinations of commercial interests of the Bank (income generation) from placed investments and priorities of the nation-wide policy implemented in the Republic concerning development of various industries, as well as diversification of Bank’s assets to minimize the risk and improve the efficiency of investments.

Currently, the National Bank of Uzbekistan has created all preconditions for active development of the investment banking services. Particular emphasis is given to providing underwriting services for corporate clients, financial advisory for re-structuring enterprises, as well as participation in the privatization of state-owned enterprises and search for foreign investors. In this, the National Bank of Uzbekistan relies on the established links with large corporate clients, strong human resources and active cooperation with the international banks. Role of information and analytical work and analysis of local and international capital markets are also important.

## **SECURITIES OPERATIONS**

Being the professional securities player, the National Bank of Uzbekistan actively operated in the stock market in 2002. As of January 1, 2003, trading portfolio of the National Bank of Uzbekistan of the Republic of Uzbekistan comprises the shares of the 22 largest joint-stock companies.

As of January 1, 2003, structure of trade portfolio of the Bank split by branches of the economy looks as follows:

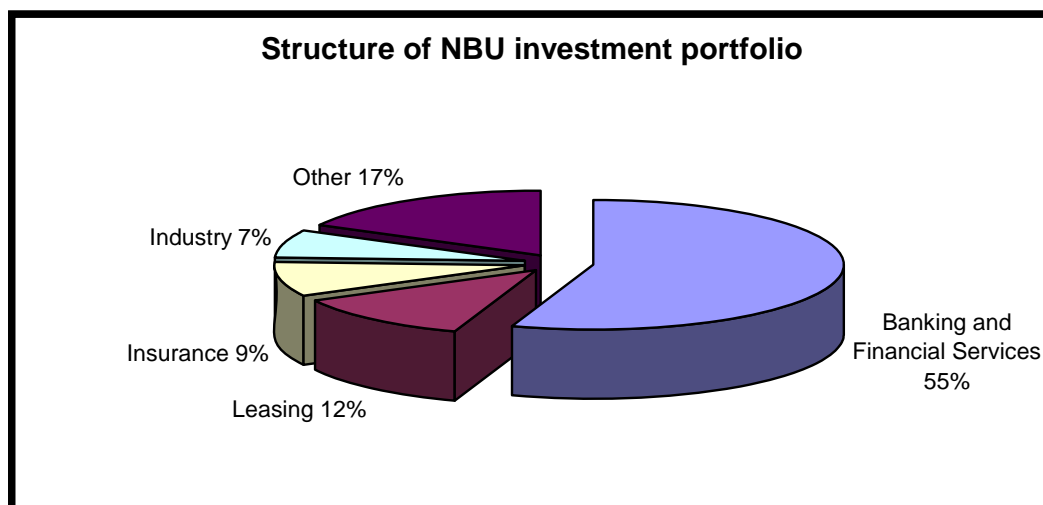


By the end of 2002, total investments in the trade portfolio of the Bank made up Soum 953.5 million.

National Bank of Uzbekistan greatly contributes to the development of the secondary capital market and promotes creation of its infrastructure. Introduction of “Zamonaviy mulkdor” product opens free access to securities trading for the wide circles of the investors, including medium and small-sized ones. This system, created on the basis of technically equipped branches and affiliates, makes one of the important infrastructure component of the OTC securities trading, including technology of clearing of securities transactions, system of data transfer between the Republican clearing center of securities operations «Elsis Savdo» and NBU’s office accepting applications.

### **BANK’S EQUITY INVESTMENTS**

As a result of the investment activity of Bank’s participation in the capitals of banking, industrial, financial and lending, insurance, innovative, research and other organizations, volume of the investment portfolio of the National Bank of Uzbekistan in 2002 increased by 36%. As of January 1, 2003 total amount of equity investments of the Bank in 27 enterprises comprised USD 15.7 million and Soum 6 239.0 million.



### **RE-STRUCTURING, PREPARATION FOR PRIVATIZATION AND CORPORATIZATION**

In 2002 the schedule of privatization of the National Bank of Uzbekistan changed. New terms were determined in the Memorandum on the Economic and Financial Policy for the Period from 1 January till 30 June, 2002 within the framework of the IMF Staff Monitoring Program. Privatization of the National Bank of Uzbekistan is scheduled for 2004.

In 2002, the Bank carried out a complex of preprivatization measures aimed at improving the attractiveness of the Bank. They included:

- (1) changes in the organizational and legal form of the Bank;
- (2) institutional development with the optimization of functions performed by the Bank;
- (3) market evaluation of assets of the Bank and optimization of the size of its capital;
- (4) preparatory work on hiring a financial adviser to sell the stake of shares.

One of the main stages before privatization is its corporatization and issue of shares. The Bank together with the international auditor's company Ernst and Young determined parameters of the capital of the Bank and its structure during corporatization.

Alongside with this, the Bank has taken measures on organizational re-structuring based on due diligence conducted in 2001 by Deutsche Bank. Due diligence covered 12 areas of banking activity, and experts of the Bank have now been implementing recommendations the Bank received. Thus, with the aim to split functions of issuing and monitoring loans and, therefore, improve control over the quality of loan portfolio and minimization of risk exposure in lending operations, the Credit Risks Management Group (GUKR) was established; during 2002, the methodological base of GUKR has been improved. With the purposes of increase of the level of services offered to small and medium the Small and Medium Business Group was created basing on the respective division of Project Finance Centre. As for development of information technologies, functions of development and support software and information technologies have been split. The Bank announced tender for the introduction of a new system of an operational day. Upon the results of the tender, in September, 2002 the Bank signed the contract with the "Temenos" Company on the installation of the new system of an operational day "Globus" that meets all current international standards. The Bank has changed the structure of the Corporate Clients Group; the Bank's staff is also implementing other changes.

## HUMAN RESOURCES

Nowadays, the factor that helps the banks to survive is bound on the quality of service and satisfaction of the requirements of the clientele, and that directly depends on the qualification and efficient performance of the employees. For this reason, the National Bank of Uzbekistan has been consistently prioritizing the issue of personnel development in its policy.

In 2002, the human resources policy of the Bank was constantly improving following requirements of the market and was characterized by further development of the system of corporate staff management. The staff service of NBU carried out recruitment and placement of the staff, supported professional growth, formation of personnel reserve, development and perfection of the system of material and moral incentives and motivation, took measures of social protection of the staff and veterans of NBU, provision of medical services.

The National Bank of Uzbekistan builds its system of personnel training proceeding from the operational needs (Centre for advanced training of NBU specialists, seminars organized by foreign banks - Credit Suisse First Boston, American Express and etc.), resolution of strategic interests (training abroad, Banking and Finance Academy, Regional Banking Educational Center and a like), as well as creation of opportunities for the increase of professional level of the employees preconditioning development of their business career (Academy of State and Public Construction under the President of the RUz, Higher School of Business).

The Bank keeps on searching for talented youth, trains and brings them up in the spirit of the best banking traditions.

The Bank has provide internship for **323** students of the economic higher educational institutions of the Republic in the Bank's units and branches.

Together with the Tashkent State University of Economics (TashGEU), NBU has developed the new project providing parallel training in banking for a specially selected group of students from TashGEU. Sixty most promising students were selected out of 200 in December 2002 to begin their academic and practical course with NBU in January 2003.

Significant factors to augment the Bank's traditions, to form and maintain corporate culture through the arrangement of collective measures held for the sake of not only joint leisure and creation of mood, but also serving to bring up the feeling of pride for the collective, complicity with the life of the Bank. Conduct of sport competitions participated by the teams formed from the workers of the Bank, and support of the own football team and club «NBU Asia» can be referred to such events. To measures raising corporate spirit of the employees, we refer organization of the creative analytical group made up of the perspective young workers of the Bank.

At present, the strategy of work with the staff implies creation of optimal conditions for the disclosure of talented specialists, maximum utilization of the abilities of any employee, formation of the team of the adherents.

## ARCHAEOLOGICAL MONUMENTS OF UZBEKISTAN

Uzbekistan, with its ancient history, is extremely rich of cultural monuments. Traces of active historical development of nations once upon a time inhabiting this country have been found. This land has preserved diverse traces of human stay - remains of constructions, household objects, objects of work and culture in their various forms.

During the years of independence many major archaeological monuments of the Stone Age, of Bronze and Early Iron centuries have been discovered and investigated throughout Uzbekistan. They have allowed restoring the history of the unwritten past of the people of our country. These findings allow tracking the thousand-year development of Central Asian civilization since its settling by primitive people.

The site in Selengur grotto (Fergana) dated the beginning of Low Paleolith (1-1.5 million years back) is considered to be the most ancient archaeological monument of Uzbekistan. Among other monuments of the Stone Age, we can name the site in Teshik-Tash grotto with the unique burial of a Neanderthal boy and petroglyphs of the Neolith epoch in the Zarautsai grave (Surkhandarya).

Monuments of the epoch of Eneolith and bronze (3rd – beginning of the 1st thousand B.C.) – Sapalitepa and Djarkutan (Surkhandarya), discovered in the south of Uzbekistan, testify to the high development of town-planning. Composition of these historical monuments proves the availability of complex planning structure.

The antique monuments (end of the 4th century B.C. – 4th century A.D.) Koi-Krylgan-kala, Toprak-kala (Khorezm), Dalverzintepa, Kampyrtepa, Old Termez, Khalchayan (Northern Bactria, Surkhandarya) related to the epoch of the advanced statehood occupy an exclusive place in the history of Uzbekistan. Their excavations have allowed revealing the urban structure, fortification and architecture, main occupations of the population. This period stands out for the high achievements in the field of creative arts that, after borrowing some features of the Hellenistic culture, continued development in its own way.

Functioning of the Great Silk Road, the first transcontinental road in the history of the humankind that connected the East and the West was one of the major conditions cultural prime at that time.

Great significance must be attached to early medieval monuments (5-7 centuries A.D.): palace on the Afrasiab, palace in Varahsha (Bukhara) and Balalyktepa manor (Surkhandarya), where unique in content and decoration wall paintings have been discovered.

Triumph of Islam (since the 8th century A.D.) has introduced new elements into Uzbekistan culture, has almost completely changed its character and content. This epoch is marked by high achievements in the field of architecture, applied arts and architectural decor.

Bright evidence to this are provided by the huge medieval cities (Afrasiab, Bukhara, Old Termez, Khiva etc.) and preserved architectural monuments - genuine masterpieces of architecture: Samanids Mausoleum in Bukhara and Arab-ata in Tim; mosques and minarets, Registan Square and Amir Temur's Palace in Shakhrisabz and numerous architectural monuments of Bukhara, Samarkand and Khiva.

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