

APPROVED
by the decision of the Supervisory board
of Joint Stock Company
"Mortgage Refinancing Company of
Uzbekistan
dated "30" November 2022

BUSINESS PLAN
for 2023

Joint-Stock Company
"Mortgage Refinancing Company of Uzbekistan"

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Introduction

Joint Stock Company "Mortgage Refinancing Company of Uzbekistan" was established on 04.11.2019 in accordance with the Decree of the President of the Republic of Uzbekistan UP-5715 dated 13.05.2019. "On additional measures for the development and expansion of the mortgage lending market".

According to the Decree, the initial authorized capital of the Company was determined in the amount of UZS 25 billion (Eq. \$2.6 million) with a single founder represented by the Ministry of Finance of the Republic of Uzbekistan (MoF). Later the authorized capital of the company was increased up to UZS 100 billion (Eq. \$9.5 million) due to the injection of funds from 12 commercial banks-shareholders and currently makes up UZS 112.2 billion (Eq. \$10.2 million) after distribution of profits in 2021 to increase the authorized capital by issuing additional shares of the company.

The Company is a commercial enterprise the main objectives of which are:

- To assist in the development of the mortgage market in Uzbekistan;
- To provide the market with long-term funds attracted from credit institutions by refinancing them.

The main objectives of the Company are:

- attraction of financial resources in the domestic and international capital markets, including funds of international financial institutions and foreign governmental financial organizations (hereinafter - IFIs and IFOIs), with their subsequent channeling to refinance mortgage loans;
- providing, on the basis of market principles, financial resources to commercial banks to meet the population's growing need for affordable housing;
- organization of issuance of securities, including mortgage securities, and their placement among investors;
- assistance in improving the system of mortgage lending, the introduction of modern methods and tools for the development of the mortgage market, increasing liquidity and reducing risks in the market of mortgage lending and mortgage-backed securities;
- participation in the development of methodological and regulatory framework in the sphere of mortgage lending and refinancing, including by attracting foreign experts and specialists.

SECTION I. MACROECONOMIC ENVIRONMENT

1.1. Macroeconomic indicators for 9 months of 2022

GDP¹. According to the results of 9 months of 2022 gross domestic product of the country amounted to 627.5 trillion UZS (Eq. \$56.97 billion) or 105.8% compared to the same period of the last year. The sectors of Services (37%), Industry (26%), and Agriculture, Forestry, and Fisheries (23%) significantly contributed to the formation of GDP in the reporting period, while the sectors of Construction (6%) and Net taxes on products (8%) had the least impact. On year-to-year basis over the last four years, shares in gross added value added by the each of the above sectors has been roughly at the same level. Whereas separately observing each sector a slight increase can be observed in the Services and Industry sectors. The growth rate of economic sectors in dynamics shows a mixed trend: there is a strong recovery in 2021 after the pandemic of 2020, and moderate growth in the 9 months of 2022. This allows to assume that achieving and exceeding the previous year's ratios is impacted by the complicated geopolitical situation in the CIS countries, the pandemic in China, and as a result deteriorating economic situation in the world (high imported inflation, rising prices for energy resources, food and consumer goods).

Table 1. Dynamics of GDP for 2018-2022.

Indicator		2018 YE	2019 YE	2020 YE	2021 YE	by end of 9M 2022	
GDP	trillion UZS (Eq. \$ bln)	406,7 (\$50,4)	529,4 (\$59,9)	602,2 (\$59,9)	734,6 (\$69,2)	627,5 (\$57,0)	
	Total shares	100%	100%	100%	100%	100%	
	Growth rate, %	+5,1%	+5,7%	+1,9%	+7,4%	+5,8%	
Gross added value	Industry Sector	trillion UZS	95,8	136,1	153,2	189,6	162,2
		share in total	24%	26%	25%	26%	26%
		Growth rate, %	+10,8%	+5,0%	+0,9%	+8,7%	+5,3%
	Construction Sector	trillion UZS	22,1	30,6	37,5	45,8	40,2
		share in total	5%	6%	6%	6%	6%
		Growth rate, %	+14,3%	+22,9%	+9,5%	+6,8%	+6,3%
	Services Sector	trillion UZS	129,5	187,1	215,8	262,5	233,1
		share in total	32%	35%	36%	36%	37%
		Growth rate, %	+5,5%	+6,0%	+0,7%	+9,2%	+7,9%
	Sector of Agriculture, Forestry, and Fisheries	trillion UZS	113,7	130,3	151,3	183,5	143,5
		share in total	28%	25%	25%	25%	23%
		Growth rate, %	+0,3%	+3,1%	+2,9%	+4,0%	+3,6%
	Net taxes on products	trillion UZS	45,6	45,3	44,4	53,2	48,5
		share in total	11%	9%	7%	7%	8%
		Growth rate, %	+5,9%	+4,7%	+1,6%	+6,7%	+4,1%
GDP per capita		Eq. \$	1529,2	1783,6	1749,4	1983,0	1603,4
USDUZS rate		average annual	8069,0	8839,0	10055,8	10610,0	11009,3

¹The State Committee of the Republic of Uzbekistan on Statistics
source link: <https://stat.uz/ru/default/ezhekvtartal-nye-doklady/21517-2022>

Inflation². In Uzbekistan, in January-September 2022, the level of the consumer price index (CPI) was at 8.1%, and on yearly basis CPI increased by 12.2% against the same period of last year. Particularly, on yearly basis, there was an increase in prices for Food products by 16.6%, for Non-food products by 10.9%, and for Services by 6.4%.

Table 2. Dynamics of CPI for 2018-2022.

Indicator		2018 YE	2019 YE	2020 YE	2021 YE	by end of 9M 2022
CPI	Total growth rate (yearly basis), %	14,3%	15,2%	11,1%	9,98%	12,2%
	Food products	14,9%	18,6%	15,3%	13,0%	16,6%
	Non-food products	12,5%	10,9%	8,8%	7,8%	10,9%
	Services	15,8%	15,2%	7,1%	7,7%	6,4%

The level of CPI is significantly affected by imported inflation, due to high prices in countries with high turnover, as well as in the other economies.

Table 3: The dynamics of CPI for 2018-2022 in the countries with the largest trade turnover with the Republic of Uzbekistan

Country	Date source	2018 YE	2019 YE	2020 YE	2021 YE	by end of 9M 2022
China	*	2,1%	4,5%	2,5%	0,9%	2,8%
Russian Federation	**	2,9%	3,0%	4,9%	6,7%	14,3%
Kazakhstan	***	6,0%	5,2%	6,7%	8,4%	17,7%
Turkey	****	20,3%	11,8%	14,6%	36,1%	83,4%
South Korea	*****	4,4%	4,8%	5,4%	2,5%	5,6%
Kyrgyzstan	*****	1,5%	1,1%	6,3%	11,9%	15,5%
Germany	*****	3,8%	5,3%	5,8%	9,1%	10,0%
India	*****	5,2%	9,6%	3,7%	5,6%	6,5%
USA	*****	1,9%	2,3%	1,4%	7,0%	7,7%

*<https://www.bls.gov/> | **<https://www.destatis.de/> | ***<http://www.stats.gov.cn/> | ****<https://rosstat.gov.ru/> | *****<https://data.tuik.gov.tr/> |
*****<https://www.inflation.eu/> | *****<https://kostat.go.kr/> | *****<https://data.worldbank.org/> | *****<http://www.stat.kg/>

Foreign Trade Turnover (FTT)³. Foreign trade turnover in January-September 2022 reached \$36.0 billion and compared to the same period of 2021 increased by \$7.7 billion or 27.2%. Exports amounted to \$14.05 billion of the total FTT volume (an increase of 35.7% was registered against January-September 2021), and imports - \$22.0 billion (an increase of 22.3%). As a result, the negative balance of foreign trade turnover amounted to -\$7.9 billion.

^{2,3} The State Committee of the Republic of Uzbekistan on Statistics
source link: <https://stat.uz/ru/default/ezhekvtartal-nye-doklady/21517-2022>

Table 4. Top ten countries with the largest trade turnover with the Republic of Uzbekistan (in \$ billion)

Country		2018 YE	2019 YE	2020 YE	2021 YE	by end of 9M 2022
China	Export / Import	2,87/3,56	2,52/5,10	1,93/4,50	2,52/4,92	2,02/4,77
Russian Federation	Export / Import	2,12/3,54	2,49/4,13	1,47/4,17	2,06/5,46	2,16/4,38
Kazakhstan	Export / Import	1,35/1,57	1,43/1,94	0,90/2,11	1,17/2,74	1,01/2,25
Turkey	Export / Import	0,94/1,11	1,20/1,32	1,02/1,08	1,69/1,70	1,20/1,26
South Korea	Export / Import	0,11/2,05	0,09/2,66	0,04/2,10	0,05/1,84	2,02/4,77
Kyrgyzstan	Export / Import	0,27/0,13	0,68/0,15	0,76/0,15	0,79/0,16	0,68/0,18
Germany	Export / Import	0,05/0,72	0,05/0,93	0,07/0,76	0,07/0,69	0,07/0,71
Turkmenistan	Export / Import	0,06/0,24	0,14/0,40	0,13/0,40	0,19/0,69	0,15/0,41
Afghanistan	Export / Import	0,60/0,00	0,61/0,00	0,77/0,00	0,65/0,00	0,51/0,00
Total	Export / Import	8,37/12,92	9,21/16,63	7,09/15,27	9,19/18,2	9,82/18,73

SECTION II. OVERVIEW OF THE BANKING SECTOR AND MORTGAGE MARKET

2.1. Overview of the banking sector

As of October 1, 2022, the number of commercial banks registered by the Central Bank of the Republic of Uzbekistan amounted to 33, including 12 banks with the government majority shares in the authorized capital.

The capitalization of the banking system since the beginning of 2022 has increased by 108.3% to UZS 76.8 trillion, which is more than 17.0% compared to the same period of 2021.

In 2022, the banking system continued to play a critical role in the anti-crisis program. The role of the banking system in the economy in 2022 is shown in the table below.

Table 5. The role of the banking system in the economy ⁴

Name of indicators	2020 YE	2021 YE	by end of 9M 2022
GDP, bln UZS	602 193,0	734 587,7	627 476,9
Assets of commercial banks, bln UZS	366 121,1	444 922,5	539 990,3
Assets to GDP, %	60,8	60,6	86,1
Loans, bln UZS	276 974,8	326 385,6	362 933,3

⁴ Socio-economic situation of the Republic of Uzbekistan for January-September 2022, The State Committee of the Republic of Uzbekistan on Statistics, www.stat.uz и Information on relative indicators of banks as of 01.10.2022, www.cbu.uz

Loans to GDP, %	46,0	44,4	57,8
Deposits, bln UZS	114 746,9	156 189,8	206 758,8
Deposits to GDP, %	19,1	21,3	32,9
Equity, bln UZS	58 351,3	70 917,6	60 299,2
Equity to GDP, %	9,7	9,7	9,6

State-owned banks continue to make significant contribution to the development of the banking system and economy of the country, the comparative main indicators of which are presented in the table below.

Table 6. Information on the main indicators of two groups of commercial banks as of October 1, 2022 (in trillion UZS)

Name of the group	Assets		Loans		Equity		Deposits	
	amnt.	share of total, %	amnt.	share of total, %	amnt.	share of total, %	amnt.	share of total, %
Total	540,0	100%	362,9	100%	76,8	100%	206,8	100%
Banks with government majority	427,3	79%	303,1	84%	60,3	78%	134,0	65%
Other banks	112,7	21%	59,8	16%	16,6	22%	72,8	35%

2.2. Overview of the mortgage market

There is high level demand for mortgage loans in Uzbekistan, which is facilitated by the relatively young population with the need of housing. Remarkably the population of Uzbekistan for the last 30 years has grown from 20 to 35.8 million people, or 1.79 times. At the same time, 57.0% of the country's population is of working age, and more than 60% of the population of Uzbekistan is not older than 30 years. With the population growth rate remaining unchanged and the necessity to replace the aging housing stocks, the potential demand for construction financing and, accordingly, mortgage lending in the next 20 years remains extremely high.

The main role in Uzbekistan mortgage market hold commercial banks, and, above all, banks with the predominant share of state participation in the authorized capital. As of October 1, 2022, the amount of loans of all commercial banks in Uzbekistan reached UZS 362.9 trillion, while the volume of mortgages amounted to UZS 43.2 trillion, or 11.9%.⁵

⁵ Mortgage loans review for 9 months of 2022, www.cbu.uz

Table 7. Key indicators of mortgage loans (trillion UZS) ⁶

Name of indicator	by end of 9M 2020	by end of 9M 2021	by end of 9M 2022
Total volume of mortgages	6,4	6,1	10,3
- in the primary market	6,3	4,9	7,9
- in the secondary market	0,1	1,2	2,4
Government program “new arrangements”	0,8	2,9	5,9
Banks own resources (equity and deposits)	1,2	0,6	2,6
UzMRC resources	-	1,2	0,1
Total mortgage loans residual	26,1	32,8	43,2

The ratio of the mortgage portfolio of banks to GDP is 6.9%, that is higher for 1.6% in comparison with the figures for the end of 2021. The progress reflects low pace in development of country’s mortgage market compared to the mortgage markets of other countries.

The main players in the mortgage market are Ipoteka-bank (27.4%), Qishloq Qurilish Bank (22.6%), NBU (15.7%), Uzpromstroybank (7.7%), Asaka Bank (7.4%), Halq Bank (6%) and other banks (13.3%).

2.3. Company results for 2021 and 9 months of 2022

2021 YE. In 2021, the Management worked on the formation of an internal regulatory framework, improving the terms of lending to banks and the work of efficiency of management bodies and relevant committees.

Also, during 2021 the Management paid great attention to the issues of corporate governance. Particularly, the work of all management bodies was organized completely and highly: i.e. the General Meeting of Shareholders, the Supervisory Board and the relevant committees and the Executive Body.

The main event in corporate governance was the Annual General Meeting of Shareholders held on June 18, 2021, which considered the general results of financial and economic activities in 2020, the activities of the management bodies, the external auditors' opinion, and other issues that, according to the law, should be considered at the final annual meeting.

The other significant event was the Company's breakthrough in negotiations with the MoF and ADB regarding the enhancements to mortgage loan product and introducing relevant amendments to the Loan Subsidiary Agreement between MoF and UzMRC under the Loan Agreement No.3870-UZB for USD 150 mln.

As a result, on June 17, 2021, Additional Agreement signed with MoF amending following conditions: a) method pricing formula on withdrawals revised: CBU policy rate minus 2,5 % with cap between 8% minimum and 12% for maximum; b) the payment dates were rescheduled from May 5 and November 5 to May 10 and November 10 of each year. The acquired benefits were a) determination fixed price of interest rate on withdrawal with more relevant market conditions and b) alignment the maturity of the assets and liabilities to mitigate liquidity risk.

⁶ Mortgage loans review for 9 months of 2022, www.cbu.uz

The other significant introduced amendments agreed with ADB and MoF were: the increase for the required maximum loan amount for a single end-borrower (from UZS 323 mln to UZS 400 mln) and the increase for the required maximum monthly income amount of the end-borrower (from UZS 10 mln per month to UZS 15 mln per month).

With the abovementioned changes in SLA and in PAM, UzMRC increased its loan portfolio significantly, i.e., the loan portfolio expanded by USD 78 mln against USD 45 mln planned. This fact indicated high interest both by banks and population to such product of the Company.

Ultimately the financial and economic figures for 2021 amounted: for assets UZS 1,208.6 bln, capital UZS 114.2 bln, liabilities UZS 1,166.4 bln., the gross profit at the end of the year reached to 12.8 billion UZS.

9 months 2022. The 9 months of 2022 were characterized with continued refinancing activities, cooperation with international financial institutions and continued dialogue with the regulator and the government on unresolved issues amid regional geopolitical tensions.

During the above period, the Company's Credit Committee approved 15 refinancing transactions for total amount of USD 378.9 bln in eligible mortgages for six PFIs.

The Management has actively been negotiating with the IFC the issuance and placement of debut corporate bonds, but due to the rise in cross-currency swap prices, UzMRC was forced to suspend discussions until the stabilization of prices in capital markets.

Also, UzMRC established trading government securities (GS). Investments of available funds in GS provides the number of advantages: 1) The yield on GS is more attractive compared to bank deposit instruments; 2) As CBU classifies risks in GS with highly liquid assets, investments in GS positively affect the performance of liquidity norms established by CBU; 3) the yield received by GS is higher for income tax amount (15%) as government relieves taxes received by investment in GS.

Significantly, in June 29, 2022 another round of the Annual General Meeting of Shareholders was held. Shareholders reviewed the results of financial and economic activities of 2021: the activities of the management bodies, the external auditor's report, and other issues, which, according to the law, should be considered at the final annual meeting. For the first time Shareholders decided to allocate part of the net profit of 2021: to increase the share capital of UzMRC by issuing additional shares and distributing them among existing shareholders. The total amount of shares issued was UZS 12,227,000,000.

During the reported period the Management continued working with other ongoing projects, including maintaining activities in working group of such mortgage laws as "Zakladnaya" and developing IT documentation for accounting, treasury, automated system, and electronic document workflow.

Among other initiatives, the Management has adopted an information classification policy to ensure that information processed in organization is handled appropriately by its staff. The Management has initiated a detailed study of the mortgage market on a quarterly basis. The idea behind the study was to ensure that the Company's refinancing mechanism is consistent with market conditions and to provide strategic insight into adjustments that may be required to the refinancing mechanism.

According to the results of 9 months of 2022, the UzMRC's assets amounted to UZS 1,719.5 bln., liabilities amounted to UZS 1,589.4 bln., capital UZS 130.1 bln. Net profit by the end of the reporting period amounted to UZS 16.5 bln.

SECTION III. BUSINESS PLAN 2023

3.1 Opportunities and challenges in the mortgage lending market

An important feature of the mortgage market is that commercial banks are limited in long-term resources for mortgage lending, so a significant role in such lending plays the state and its programs. These programs are financed from budgetary allocations and credit lines of international financial institutions guaranteed by the state.

So, the total amount of long-term resources allocated by MoF to commercial banks as of 01.09.2022, amounted to UZS 5.1 trl⁷. As of 01.01.2022, the volume of issued resources amounted to UZS 4.9 trl., as of 01.01.2021, the volume of issued resources amounted to UZS 2.6 trl.

The following government documents play a significant role in the development of the mortgage lending market:

- Presidential Decree No. UP-6186 of 11.03.2021 "On additional measures to provide the population with housing through the allocation of mortgage loans on the basis of market principles";
- Decree of the Cabinet of Ministers of the Republic of Uzbekistan № 576 of 21.09.2020. "On the introduction of a simplified system of granting a mortgage loan for the construction and reconstruction of individual houses";
- Decree of the President of the Republic of Uzbekistan No. PP-4701 of 01.05.2020. "On additional measures to improve housing conditions of the population and further expand the mortgage lending market";
- Decree of the Cabinet of Ministers of the Republic of Uzbekistan №182 of 25.03.2020. "On Approval of the Regulations on the Procedure of Payment of Subsidies to Citizens for the Purchase of Housing";
- Decree of the Cabinet of Ministers of the Republic of Uzbekistan No.29 of 16.01.2020. "On measures to implement the Program of development of the mortgage market in Uzbekistan with the participation of the Asian Development Bank";
- Presidential Decree No. UP-5886 of 28.11.2019. "On additional measures to improve the mechanisms of mortgage lending";
- Decree of the Cabinet of Ministers of the Republic of Uzbekistan № 868 of 14.10.2019. "On measures to organize the activities of the joint-stock company "Mortgage Refinancing Company of Uzbekistan";
- Presidential Decree No. UP-5715 of 13.05.2019. "On additional measures for the development and expansion of the mortgage market";

⁷ Statistical data as of 01.09.2022, www.ipoteka-bozori.uz

- Presidential Decree No. UP-5623 of 10.01.2019. "On measures to radically improve urbanization processes";
- Decree of the President of the Republic of Uzbekistan No. PP-3350 of 23.10.2017. "On additional measures for effective implementation of the Program for construction and reconstruction of affordable apartment buildings in urban areas for 2017-2020".

The main limitations in the development of mortgage lending, according to commercial banks, are (a) the lack of long-term financing and exposure to interest rate risk, and (b) the lack of a stable official source of income for potential borrowers and exposure to high credit risk.

Along with the reforms initiated by the President and the state in all spheres of life, the mortgage lending market was not an exception. In particular, the Presidential Decree No. 5715 of May 13, 2019 "On Additional Measures to Develop and Expand the Mortgage Market" was adopted, which approved a "road map" with specific measures to reform the industry.

As part of the measures prescribed in the decree, it was provided for the implementation of the "Mortgage Market Sector Development Program" developed jointly by ADB and MoF, where the cornerstone and structural element of the program is the creation of the Company for refinancing mortgages of Uzbekistan, which, as mentioned above, is actively involved in the implementation of the Program.

In addition, the Company's objectives are also to assist in improving the mortgage lending system, the introduction of modern methods and tools for development of the mortgage market, as well as participation in the development of methodological and regulatory framework in the field of mortgage lending and refinancing.

UzMRC's activity in 2022 showed the existing difficulties in meeting the set objectives, among which the following main factors can be highlighted:

- 1) The inability at the moment to attract resources from the local capital market by issuing secured bonds because of the insufficiency of the regulatory framework for the issue of such securities and, consequently, the failure to achieve the planned volumes of refinancing mortgage loans;
- 2) The onset of significant geopolitical factors, the consequence of which was a significant increase in the main rate of the CBU from 14% to 17%, then lowered to 15%, as well as the strong volatility of the national currency and a sharp slope of the sovereign curve in international capital markets;

As a result of the above factors, Management had to urgently look for other sources of raising resources. It was assumed that these would be borrowed funds from two sources: (1) ADB's Credit Line 2 with new refinancing terms; (2) Loan funds from budget from MoF.

The company carried out a lot of work on attracting credit funds both with ADB and MoF. In particular, with representatives and consultants of ADB the work was done to prepare financial calculations proving the expediency of allocating credit funds, new terms of financing were developed and coordinated with all interested parties, and contractual documents on allocation of funds were worked out. Work was done with MoF to prepare a government decision on the allocation of loan funds to the UzMRC from the budget.

As a result of this work on 22.09.2022 was issued Presidential Decree¹ PP-377 "On measures to create additional convenience of the population in the use of mortgage loans", under

which to UzMRC was allocated a budget loan of up to UZS 300 bln. of borrowed funds from international financial institutions to support the State budget for a period of up to 3 years at a rate of 12,0%, with interest payments every 6 months to refinance mortgage loans allocated by commercial banks.

Also on November 14, 2022 within the framework of the Mortgage Market Development Program of Uzbekistan between ADB and UzMRC was signed the Project Agreement. Next step will be the signing of Subsidiary Loan Agreement between MoF and UzMRC for the amount of USD 150,0 mln with a plan to start disbursing in 2023.

Although the impact of the above difficulties is expected to be temporary, market stability requires significant government resources and external financing. The current situation also underscores the importance of building a domestic financial and legislative infrastructure.

UzMRC, jointly with the ministries and agencies concerned, is now actively involved in the process of introducing the instrument of “Zakladnaya”, which would greatly simplify the mechanism of operation of the mortgage market, especially in refinancing operations, as well as in the formation of a new legislative framework for the capital market and for mortgage-backed securities.

Based on the above, the Company's activities in the market of long-term financing of commercial banks, based on the tasks assigned to the Company by the government, are very relevant and promising in 2023.

3.2. Plan for loan operations

In 2023, it is planned to issue new loans totaling the equivalent of USD 130,0 mln. USD or UZS 1 497,4 bln. Monthly devaluation of the national currency is projected at 0.33%, the weighted average USDUZS rate – UZS 11 443,71.

Depending on the sources of funding, it is planned to use two loan products:

1) Loan product 1 – funding by ADB (Line 2) in accordance with the Loan Agreement between ADB and the Republic of Uzbekistan, represented by MoF, and UzMRC, as well as the Agreements on refinancing, concluded with commercial banks. Under this product loans in the amount of UZS 1 497, 4 bln are planned to be financed at the rate of CBU minus 2.5 % per annum and plus the UzMRC’s operational margin of 1 % per annum. It is assumed that despite the increase of CBU policy rate to 17% from 18.03.2022 and falling to 14% is expected from the beginning of the following year, and for simplification of calculations, the lending rate on Loan product 1 is assumed at the rate of 12.5% per annum;

2) Loan product 2 – funding by attracted budget funds of MoF. The loan is planned to be disbursed at the end of 2022 in the amount of UZS 300,0 bln at the rate of 13,0% per annum, and it is expected to be repaid at the end of Q1 of 2023 from withdrawals under Loan product 1.

All loans calculations for 2023 are based on current fixed interest rates.

The UzMRC’s total loan portfolio at the end of 2023, taking into account reserves, will amount to UZS 3 089,4 bln. with an average weighted interest rate of 12.6% per annum.

The amount of planned income accruals in 2023 from credit operations is planned at the level of UZS 311,3 bln.

In the event of changes in the mechanism of setting the interest rate on attracted and issued loans, as well as changes in the policy rate of CBU, the profit and loss statement will be recalculated accordingly.

In order to manage credit risks and the classification of loans issued in accordance with the requirements of CBU, UzMRC will work closely with commercial banks to obtain all necessary information for monitoring, timely response and appropriate decisions on loan portfolio management.

3.3. Plan for investment operations

At the beginning of 2023 UzMRC's investment portfolio will consist of bank deposit instruments and GS which totally will amount to UZS 124,5 bln. It is planned to increase it to the portfolio to UZS 1 212,3 bln during the year.

The sources of significant increase in investment portfolio is planned by fund injections from current shareholders and potential investors into the share capital of the Company. The investment portfolio size complying with CBU's requirements will not exceed the amount of equity capital.

Investments in bank deposits will be made based on thorough analysis of market conditions, considering the choice of a reliable and solvent bank offering attractive interest rates, and the limits set for these banks.

Decisions on investments will be made on a collegial basis with consideration of this issue at meetings of the Assets and Liabilities Management Committee of the Company (ALCO). ALCO will also consider the issues of setting limits on interbank transactions, analysis of banks' financial reports and make appropriate decisions.

Investments will allow UzMRC to earn additional income and increase its profitability.

It is assumed that the weighted average interest rate on the portfolio of investments in bank deposit instruments by 2023 YE should be 14.08% per annum, compared to 18.44% per annum at the present moment. The decrease in the weighted average interest rate is explained by the fact that bank deposits repayable during the year can be placed at a lower rate than at present due to the expected decrease in policy rate of CBU and market rates on bank deposit instruments and government securities in 2023.

According to the results of investment operations, the Management plans to receive income in the amount of UZS 109.9 bln.

Also, there are no plans to make provisions for these operations.

3.4. Plan to increase share capital

MoF, majority shareholder of UzMRC, together with other shareholders decided to increase the Company's share capital and bring it up to UZS 1.2 trl by injecting cash from existing and new shareholders.

This increase will enable UzMRC to issue corporate bonds up to the amount of its equity capital prior to the possibility of issuing secured bonds as part of the planned approval of the new capital market legislation.

Measures to increase the share capital and the placement of a new issue of shares are planned to be completed by the end of the first half of 2023.

It is also possible to change capital categories such as retained earnings and reserve capital by decision of the Annual General Meeting of Shareholders. It is expected that 5% of the net profit received based on the results of the Company's activity in 2022 will be allocated, and that dividends will be paid to shareholders either in cash or by additionally issued shares.

3.5. Plan for attracting credit funds

In 2023, Management plans to attract resources from two sources:

1) ADB credit line in accordance with the Loan Agreement between MoF, Project Agreement between ADB and UzMRC and Loan Subsidiary Agreement (LSA) between MoF and UzMRC. It is planned to attract funds to the amount of UZS 1 497,4 bln. at fixed rate by the policy rate of CBU minus 2.5% per annum. Thus, the interest rate on borrowing resources should amount to 11.5% per annum;

2) Loan funds of MoF. It is planned to attract funds to the amount of UZS 300,0 bln at the rate of 12.0% per annum for this source. It is planned to repay these resources at the end of the first quarter of 2023 at the expense of selected funds under the ADB credit line 2.

Interest expenses on these borrowings are planned at the level of UZS 287,2 bln.

SECTION IV. INVESTMENTS IN FIXED AND INTANGIBLE ASSETS

As of 01.01.2023, UzMRC's investments in fixed and intangible assets will amount to UZS 547 mln., considering depreciation. In 2023, it is planned to acquire fixed and intangible assets for a total amount of UZS 11.2 bln.

The development of UzMRC's operation system is the most important task for the Company in order to create technical infrastructure.

To achieve this goal, the Strategy of development of IT in UzMRC together with consultants of Frankfurt School of Finance and Management has been developed.

The strategy of development of IT is aimed to meet the needs of the Company in information, analytics, and structural solutions. This strategy is based on the Company's technical documents on IT and the minimum information security requirements of CBU.

The Supervisory Board approved the scheduled the plan for the automation of the UzMRC's processes. The completion of processes was planned for the end of Q1 2023. By 2022 it was planned to carry out procurement procedures (tender), choose developer (supplier), conclude contract, conduct design analysis by developer and approve final version of technical specification.

Currently, the work on the examination of tender documentation and terms of reference are being carried out in the state authorities. To perform all the planned procedures within the established deadlines and order, the third-party organization Avalon LLC, specializing in IT projects, has been engaged.

The planned amount of investment in the development and implementation for IT project, and the other licenses estimated UZS 7,7 bln.

The expenditures of UZS 3,5 bln are planned to purchase server equipment for UzMRC IT system, personal computers, communications equipment, furniture & fixtures and office machines.

Cashflow of investments in fixed and intangible assets in 2023 are shown in the table below:

Table No. 8. Company's investments in fixed and intangible assets

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Category	Start period	2023	End period
Lease Hold Improvement	11,0	10,0	21,0
Furniture & Fixtures	138,5	120,0	258,5
IT System & Upgrades	92,9	7 700,0	7 792,9
Personal Computers	145,6	3 210,0	3 355,6
Office Machines	281,7	75,0	356,7
Communication Equipment	65,2	82,0	147,2
Depreciation	(187,8)	(1 700,0)	(1 887,7)
Net Fixed and Intangible assets residual	547,1	9 497,0	10 044,1

SECTION V. OPERATING EXPENSES

The Company's operating expenses consist of the following:

- 1) Total Staff costs
- 2) Total Office Expense
- 3) Total Travel & Transportation
- 4) Total Depreciation Expense
- 5) Provision for possible losses
- 6) Other Operating Expenses (inc. Total Consultant & Outsourcing Fees, Total Communications, Insurance, and others)

Total personnel costs include the cost of salaries of employees and members of the Supervisory Board, social benefits, and employee bonuses. The amount for this category of expenditure is planned at UZS 12 640,3 mln.

Office expenses include the cost of renting premises, maintenance and repair of office equipment, fuel and maintenance of official vehicles, consumables for technical devices, printing materials, kitchen supplies and food products, courier services, licenses and registrations, periodicals, etc. The amount under this category of expenditure is planned in the amount of UZS 1 560,0 mln.

Travel and transportation costs include the cost of services of road carriers. The amount for this expenditure item is planned at the amount of UZS 60,0 mln.

Depreciation charges include the cost of depreciation of fixed assets and intangible assets in 2023 should amount to UZS 1 700,0 mln.

Provisions for possible losses. In the formation of reserves for loan operations the Company will be guided by the CBU's Regulation No.3219 dated 10.02.2020 "On Coordination and Regulation of the Activities of Mortgage Refinancing Organizations". According to the requirements of this regulation the UzMRC will have to classify its loans by quality and on this basis form provisions to cover possible losses in the following gradation:

- standard - 0%;
- substandard - 10 %;
- unsatisfactory - 25%;
- doubtful - 50%;
- uncollectible - 100% of the amount of overdue payments.

The Company plans that throughout its operations the loans will be classified as standard loans for which no provisioning is required, however, there may be cases where banks will not be able to replace mortgage loans falling under the "substandard" classification by the monthly reporting dates and, in such case, 10% provisioning is required. It is assumed that 0.6% of the loan portfolio will be classified as "substandard" for which a 10% provision will be covered. The assumption of 0.6% of loans classified as substandard is based on the IFRS 9 requirements for provisioning for standard loans. Thus, it is assumed that provisions for possible losses on loans should amount to UZS 2 040,8 mln.

Other operating expenses include expenses for banking and insurance services, Internet, telephony, brokerage and consulting services, advertising services, etc. The total amount of this category is planned at UZS 1 535,0 mln.

Balance sheet for 2023 by quarter

UZS bln

Category	End of Q1	End of Q2	End of Q3	End of Q4
Assets				
Cash and cash equivalents	130,0	1 217,6	1 209,5	1 213,8
Loans refinanced	1 902,7	2 281,2	2 683,3	3 089,4
Other assets	89,9	74,3	202,9	173,3
TOTAL ASSETS	2 122,5	3 573,2	4 095,6	4 476,5
Liabilities				
Loans	1 904,0	2 282,8	2 685,1	3 091,4
Other liabilities (accruals and others)	82,0	50,6	132,4	66,6
TOTAL LIABILITIES	1 986,0	2 333,3	2 817,5	3 158,0
TOTAL CAPITAL	136,6	1 239,9	1 278,2	1 318,5
TOTAL CAPITAL AND LIABILITIES	2 122,5	3 573,2	4 095,6	4 476,5

Comparative profit and loss statement

UZS bln

Profit and loss accounts	Q1'23	Q2'23	Q3'23	Q4'23	Total
Interest income	64,9	86,0	129,0	141,4	421,2
Interest expenses	(55,6)	(62,6)	(77,8)	(89,5)	(285,7)
TOTAL NET INTEREST INCOME	9,3	23,4	51,1	51,8	135,6
Interest fee expenses (commitment charge)	(0,6)	(0,5)	(0,3)	(0,1)	(1,5)
NET INCOME BEFORE OPERATING EXPENSES	8,6	22,9	50,8	51,7	134,0
Operating expenses	(4,9)	(4,6)	(5,8)	(4,3)	(19,6)
NET PROFIT BEFORE TAX	3,7	18,3	45,1	47,4	114,5
Income tax	(0,6)	(2,7)	(6,8)	(7,1)	(17,2)
NET PROFIT (LOSS)	3,2	15,5	38,3	40,3	97,3