AVESTA INVESTMENT GROUP

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Banks capital increase

On April 7, 2023, the Senate approved the amendments into the Law "On banks and banking activity". The document should be approved and signed by President now to be in force. The text of the document is not been published, but according to the statement of the Senate's press service, besides changes in restrictions on foreign ownership from off-shore jurisdictions and other changes, the minimal requirements to the size of the authorized capital of banks will gradually increase from September 1, 2023 to January 1, 2025 from 100bln UZS to 500bln UZS.

We made approximate calculation of the amount of capital of banks operating in Uzbekistan within next 20 months, taking into account their current equity size and profitability (set between 5 and 25% for most of the banks, except the neo-banks). Despite currently at least three banks had losses during the last 12 months, we set min 5% profitability ratio for the 2023-2024. We also excluded from calculations the newly established banks (Smart, Apex, Hayot), as well as Saderat Iran bank, which is not publishing the latest reporting.

	Equity deficit, bln. UZS			
	9M2023 (F)	2023 (F)	1Q2024 (F)	2024 (F)
NBU	0	0	0	0
Agrobank	0	0	0	0
UzSQB	0	0	0	0
Asakabank	0	0	0	0
Xalq Banki	0	0	0	0
Ipoteka-bank	0	0	0	0
Mikrokreditbank	0	0	0	0
Qishloq qurilish bank	0	0	0	0
Hamkorbank	0	0	0	0
Kapitalbank	0	0	0	0
Ipak Yo'li	0	0	0	0
Turonbank	0	0	0	0
Aloqabank	0	0	0	0
Orient finans bank	0	0	0	0
Trastbank	0	0	0	0
Tenge Bank	0	0	0	0
InFinBank	0	0	0	0
KDB Bank Uzbekistan	0	0	0	0
TBC Bank	0	0	0	0
Davr-bank	0	0	0	0
Asia Alliance Bank	0	0	0	0
Ziraat Bank Uzbekistan	0	0	0	0
Universal bank	0	0	0	0
Anor Bank	0	0	-18	-120
Garant bank	0	0	-94	-208
Madad Invest Bank	-3	0	-135	-261
Poytaxt Bank	-35	-28	-173	-310
Ravnaq bank	-58	-61	-208	-347
Uzum Bank	-29	-17	-151	-253
O'zagroeksportbank	-99	-97	-245	-387
Total	**-223**	**-203**	**-1 024**	**-1 887**

As of the end of 9M2022 twelve banks had an equity size below or close to the 500bln UZS, five of which according to our calculations will cover the deficit by their profits, moreover, all of these banks have a relatively high ROE for the previous years or very profitable business models, as TBC UZ, which in addition have an access to the capital injections from the shareholders.

At least five banks may have a deficit as of the end of 3Q2023 for total 223bln UZS, but Uzum Bank will probably have opportunities to increase equity by the announced investments from the shareholders in the size of $300mln. As of the end of 1Q2024 already seven banks are in the risk zone with 1.02trln UZS deficit, number of which will probably have additional funding from shareholders. As of the end of 2024 the total deficit may reach 1.9trln UZS with about 270bln average deficit for seven banks. A couple of other banks might also face troubles if they will not be able to keep the high profitability or the share of reserves (which cannot be turned into a charter capital required by law) in equity will be high.

According to The Senate the introduction of this rule creates an opportunity to increase the level of capitalization and resource base of banks, create additional legal conditions for attracting foreign investment in the sector, and provide additional loans to the population and business entities. It was also noted that this serves to expand the participation of banks in the processes of structural changes in the economy by increasing their investment attractiveness.

Actually, we see the same approach for the increase of minimal requirements of the banks and insurance companies in Uzbekistan, which push the sector for consolidation or M&A process and for the smaller banks it may drive to some affiliated schemes, lower risk consideration policies, lower reserves creation and other negative factors to increase equity size to the required minimum. We believe, that strict control of liquidity and capital adequacy ratios is the more appropriate approach for the banking sector regulation and attraction of the capital.

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