

## FINANCIAL ANALYSIS

### A. Introduction

1. The financial analysis of participating financial institutions (PFIs) in the additional financing for the Horticulture Value Chain Development Project was undertaken as part of broader financial due diligence that included financial management assessment and integrity due diligence. The analysis comprised a review of each PFI's financial performance and an assessment of its compliance with Central Bank of Uzbekistan (CBU) prudential regulations and Asian Development Bank (ADB) loan covenants established for the ongoing Horticulture Value Chain Development Project.

2. Eight PFIs were selected for and have been engaged in the disbursement of funds under the ongoing project—Asaka Bank, Davr Bank, Hamkorbank, Ipak Yuli Bank, Ipoteka Bank, National Bank of Uzbekistan, Turon Bank, and Uzpromstroybank. All except Hamkorbank have agreed to participate in the proposed project and have been subjected to financial due diligence.<sup>1</sup>

### B. Summary of Participating Financial Institution Financial Indicators

#### 1. National Bank of Uzbekistan

3. The National Bank for Foreign Economic Activity of the Republic of Uzbekistan (NBU) was established in 1991 by presidential decree. It is fully owned by the Cabinet of Ministers of Uzbekistan. The bank provides financial services to the government, accepts deposits from the public, extends loans, makes transfer payments in Uzbekistan and abroad, exchanges currencies, and provides other banking services to its corporate and retail customers. Pursuant to the order of the government and CBU,<sup>2</sup> the bank represents the interests of the government in dealings with foreign banks, international financial institutions, and other financing entities. The NBU primarily provides investment finance and serves the transportation and communications sectors. By value of total assets, the NBU is the largest bank in Uzbekistan with a market share of 24.3%. As of the end of the third quarter of 2017, the NBU had 93 full-service branches and 359 other outlets, with 5,898 employees. The NBU is currently in full compliance with all CBU prudential regulations. It is also in full compliance with the requirements of ADB loan covenants under the original project. Financial highlights for the NBU from 2014 to the end of the third quarter of 2017 are in Table 1.

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<sup>1</sup> Hamkorbank declined to participate in the proposed project as it has agreed to participate in a forthcoming World Bank-financed credit line for livestock development, which would limit its capacity to absorb additional funding under the proposed project. Summary and detailed financial due diligence is in supplementary documents 20A and 20B, financial management assessments of PFIs and the Rural Restructuring Agency are in supplementary documents 21 and 22, and integrity due diligence reports are in supplementary document 23. Due to the confidentiality of financial information, these documents are neither listed nor publicly circulated after ADB's internal reviews. These documents are available upon request.

<sup>2</sup> Decree of the Cabinet of Ministers No. 15 dated 23 January 2013.

**Table 1: National Bank of Uzbekistan Financial Highlights 2014–Q3 2017**  
(\$ million)

Indicator	2014	2015	2016	Q3 2017
Net loans	3,417.0	3,643.4	4,198.4	4,034.2
Total assets	5,296.9	5,606.6	6,321.0	5,983.0
Deposits and short-term funding	2,028.2	2,140.6	2,650.1	1,821.7
Total liabilities	4,840.8	5,153.2	5,864.6	5,449.1
Equity	456.0	453.4	456.5	533.9
Net operating and other income	184.4	183.6	192.6	147.8
Expenses and tax	134.9	130.0	135.4	68.7
Net income after tax	49.5	53.5	57.2	79.1
Capital adequacy ratio (%)	19.2	16.6	19.3	19.4
Return on assets (%)	0.9	1.0	1.0	1.6
Cost-income ratio (%)	66.4	66.0	61.1	40.8
NPLs to gross loans (%)	0.6	0.5	2.0	0.2

NPL = nonperforming loan, Q3 = third quarter.

Source: Asian Development Bank.

## 2. Uzpromstroybank

4. The Joint-Stock Commercial Bank Uzbek Industrial and Construction Bank (Uzpromstroybank) was incorporated in 1991. The government is the bank's largest shareholder with 80.9% of shares which it holds through the Fund for Reconstruction and Development of Uzbekistan (FRDU) and the Ministry of Finance (MOF). Uzpromstroybank mainly provides investment finance and treasury services to the energy sector (which accounts for around 40% of the country's exports), as well as to telecommunications, chemical, and transportation enterprises. By value of total assets, Uzpromstroybank is the third largest bank in Uzbekistan with a market share of 12.04%. As of the end of the third quarter of 2017, Uzpromstroybank had 44 full-service branches and 183 other outlets, with 4,123 employees. Uzpromstroybank is currently in compliance with all CBU prudential regulations with the exception of the maximum risk on large loans, which was 10.5 times tier 1 capital at the end of the third quarter of 2017 rather than the required 8.0 times. The bank is also not in full compliance with the requirements of ADB loan covenants under the original project. The extent of noncompliance is not, however, significant. Return on assets (ROA) for the first 9 months of 2017 was 0.6% rather than the required 1.0%. Financial highlights for Uzpromstroybank from 2014 to the end of the third quarter of 2017 are in Table 2.

**Table 2: Uzpromstroybank Financial Highlights 2014–Q3 2017**  
(\$ million)

Indicator	2014	2015	2016	Q3 2017
Net loans	2,482.2	2,532.9	2,651.6	2,326.0
Total assets	3,201.1	3,139.9	3,190.2	2,948.1
Deposits and short-term funding	993.7	913.9	855.0	424.8
Total liabilities	2,924.0	2,859.9	2,926.0	2,742.7
Equity	277.1	280.0	264.2	205.4
Net income after tax	14.8	29.0	28.7	14.1
Capital adequacy ratio (%)	17.4	15.7	15.1	16.0
Return on assets (%)	0.5	0.9	0.9	0.6
Cost-income ratio (%)	81.0	71.4	68.5	65.2
NPLs to gross loans (%)	0.3	0.2	1.1	0.4

NPL = nonperforming loan, Q3 = third quarter.

Source: Asian Development Bank.

### 3. Asaka Bank

5. The Joint-Stock Commercial Bank Asaka Bank was incorporated in Uzbekistan in 1995. The government is Asaka Bank's major shareholder with the MOF holding 35.4% and the FRDU holding 49.8% of shares. Other shareholders are public and private enterprises under government control, which together account for 19.9% of shares. Asaka Bank is the second largest bank in Uzbekistan by value of total assets and has a market share of 13.1%. As of the end of the third quarter of 2017, Asaka Bank had a total network of 183 offices, comprising six branches in Tashkent, 20 regional branches, and 157 other outlets. The bank had 3,090 employees at the end of the third quarter of 2017. Asaka Bank was not in compliance with all CBU prudential regulations as of the end of the third quarter of 2017. Its total capital adequacy ratio (CAR) was 10.8% rather than the required 12.5%, and leverage was 5.2% rather than the required 6.0%. However, the bank received a capital injection from the government of SUM104 billion (\$87 million equivalent) in October 2017, which will raise the total CAR and leverage ratios to the minimum levels. The bank is in compliance with the requirements of ADB loan covenants, with the exception of ROA. The extent of noncompliance, however, is minor, with ROA at 0.8% rather than the required level of 1.0%. Financial highlights for Asaka Bank from 2014 to the end of the third quarter of 2017 are in Table 3.

**Table 3: Asaka Bank Financial Highlights 2014–Q3 2017**  
(\$ million)

Indicator	2014	2015	2016	Q3 2017
Net loans	1,483.1	1,818.4	1,994.9	1,690.3
Total assets	2,168.8	2,576.3	3,136.5	2,809.2
Deposits and short-term funding	1,774.3	2,231.2	2,811.5	2,372.5
Total liabilities	1,889.8	2,310.8	2,893.7	2,591.9
Equity	279.0	265.4	242.8	217.2
Net income after tax	33.6	31.0	28.3	18.4
Capital adequacy ratio (%)	16.98	11.1	11.1	15.2
Return on assets (%)	1.6	1.3	1.0	0.8
Cost-income ratio (%)	65.6	61.7	67.65	59.5
NPLs to gross loans (%)	0.1	0.3	2.2	0.4

NPL = nonperforming loan, Q3 = third quarter.  
Source: Asian Development Bank.

### 4. Ipoteka Bank

6. Ipoteka Bank was established in 2005. At the end of the third quarter of 2017, the bank's shareholding comprised direct state ownership through the FRDU and MOF (70.8%), indirect state ownership through state-controlled enterprises (9.3%), and other shareholders (19.9%). The government assigned the bank the role of financing residential mortgages in urban areas. It also provides services to Uzbekistan's Treasury and utility companies, and provides finance to state entities. By value of total assets, Ipoteka Bank is ranked fourth amongst Uzbek banks with a market share of 7.6%. As of the end of the third quarter of 2017, Ipoteka Bank had 38 full-service branches (28 in Tashkent and 10 regional branches), 732 express centers, and 5,151 employees. Ipoteka Bank is currently in compliance with all CBU prudential regulations. It is also in full compliance with the requirements of ADB loan covenants. Financial highlights for Ipoteka Bank from 2014 to the end of the third quarter of 2017 are in Table 4.

**Table 4: Ipoteka Bank Financial Highlights 2014–Q3 2017**  
(\$ million)

Indicator	2014	2015	2016	Q3 2017
Net loans	1,029.4	1,197.5	1,435.0	1,164.1
Total assets	1,346.7	1,550.7	1,778.7	1,551.2
Deposits and short-term funding	828.6	923.6	1,020.8	761.4
Total liabilities	1,243.6	1,437.2	1,650.6	1,394.0
Equity	103.1	113.5	128.1	157.2
Net income after tax	22.0	22.2	23.9	38.5
Capital adequacy ratio (%)	13.2	11.6	11.7	18.0
Return on assets (%)	1.7	1.5	1.4	2.9
Cost–income ratio (%)	76.2	77.4	76.5	47.0
NPLs to gross loans (%)	0.7	0.9	1.3	0.8

NPL = nonperforming loan, Q3 = third quarter.

Source: Asian Development Bank.

## 5. Ipak Yuli Bank

7. The Joint-Stock Innovation Commercial Bank Ipak Yuli Bank was incorporated in 1990 and re-registered as a new legal entity in June 2000 under the same legal name. Ipak Yuli Bank's shareholders mainly comprise government-controlled enterprises which accounted for 24.9% of shares as of October 2017. In April 2013, ADB became a shareholder of Ipak Yuli Bank and as of October 2017 it held 13.5% of shares. As of the end of the third quarter of 2017, Ipak Yuli Bank was in compliance with all CBU prudential regulations with the exception of (i) tier 1 and total CARs, which were slightly under the required minimum levels; and (ii) guarantees granted by the bank, paid to beneficiaries and not covered by principal, which exceeded the required limit. The bank is currently in compliance with the requirements of ADB loan covenants. Financial highlights for Ipak Yuli Bank from 2014 to the end of the third quarter of 2017 are in Table 5.

**Table 5: Ipak Yuli Bank Financial Highlights 2014–Q3 2017**  
(\$ million)

Indicator	2014	2015	2016	Q3 2017
Net loans	273.7	331.9	392.4	234.3
Total assets	525.3	626.7	707.3	395.8
Deposits and short-term funding	398.4	476.4	516.7	223.2
Total liabilities	471.5	568.1	642.6	352.4
Equity	53.8	58.6	64.7	43.3
Net income after tax	11.5	13.2	19.9	17.4
Capital adequacy ratio (%)	10.1	12.5	13.9	13.9
Return on assets (%)	2.3	2.3	3.0	3.0
Cost–income ratio (%)	73.3	72.4	60.7	55.5
NPLs to gross loans (%)	1.4	1.8	0.8	0.2

NPL = nonperforming loan, Q3 = third quarter.

Source: Asian Development Bank.

## 6. Turon Bank

8. The Joint-Stock Commercial Bank Turon Bank was incorporated in 1990 by the Ministry of Agriculture and Water Resources. Turon Bank's shareholders comprise government agencies and government-controlled companies. The MOF and FRDU together own 68.2% of the bank's shares. By value of total assets Turon Bank was the 17th largest bank in Uzbekistan with a market share of 1.0% at the end of the third quarter of 2017. As of the end of the third quarter of 2017, Turon Bank had 147 outlets, comprising five branches in Tashkent, 13 regional branches and 129

other outlets, and had 1,133 employees. Turon Bank was in full compliance with all CBU prudential regulations at the end of the third quarter of 2017. However, it was not in full compliance with ADB loan covenants. The bank's cost-income ratio (78.7%) exceeds the maximum required level of 75.0%. Financial highlights for Turon Bank are in Table 6.

**Table 6: Turon Bank Financial Highlights 2014–Q3 2017**

	(\$ million)			
<b>Indicator</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Q3 2017</b>
Net loans	164.0	151.5	159.8	97.0
Total assets	243.9	250.1	270.5	191.2
Deposits and short-term funding	204.6	207.1	221.0	108.1
Total liabilities	218.3	222.7	244.1	161.1
Equity	25.5	27.5	26.3	30.1
Net income after tax	7.6	6.6	4.6	2.0
Capital adequacy ratio (%)	14.6	11.1	12.9	18.4
Return on assets (%)	2.9	2.7	1.8	1.3
Cost-income ratio (%)	75.7	74.7	82.3	78.7
NPLs to gross loans (%)	0.3	0.6	5.3	1.4

NPL = nonperforming loan, Q3 = third quarter.

Source: Asian Development Bank.

## 7. Davr Bank

9. Davr Bank was established in 2001. The bank is fully privately owned, with its shares widely distributed amongst several individuals, with the largest single shareholder owning 9.9%. By value of total assets at the end of the third quarter of 2017, Davr Bank is the 20th largest bank in Uzbekistan with a market share of 0.4%. As of the end of the third quarter of 2017 Davr Bank had seven branches in Tashkent and five other outlets. Significantly, it has no regional branches. The bank had a total of 445 employees. As of the end of the third quarter of 2017, Davr Bank was in full compliance with all CBU prudential regulations, except in respect of its open currency position. Davr bank is in full compliance with the requirements of ADB loan covenants. Financial highlights for Davr Bank from 2014 to the end of the third quarter of 2017 are in Table 7.

**Table 7: Davr Bank Financial Highlights 2014–Q3 2017**

	(\$ million)			
<b>Indicator</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Q3 2017</b>
Net loans	40.1	47.5	65.4	30.8
Total assets	64.8	83.6	104.8	65.6
Deposits and short-term funding	50.0	64.6	84.4	51.5
Total liabilities	50.3	67.9	86.5	54.7
Equity	14.5	15.7	18.3	10.9
Net income after tax	4.7	5.0	5.0	5.5
Capital adequacy ratio (%)	22.1	22.0	17.6	18.5
Return on assets (%)	8.0	6.6	5.2	8.5
Cost-income ratio (%)	50.3	54.2	59.5	52.2
NPLs to gross loans (%)	0.0	0.2	0.4	0.3

NPL = nonperforming loan, Q3 = third quarter.

Source: Asian Development Bank.