

OTP Bank signed a contract on the privatisation of Ipoteka Bank in Uzbekistan

Summary of the transaction and key facts about the Uzbek economy, banking sector and Ipoteka Bank

12 December 2022

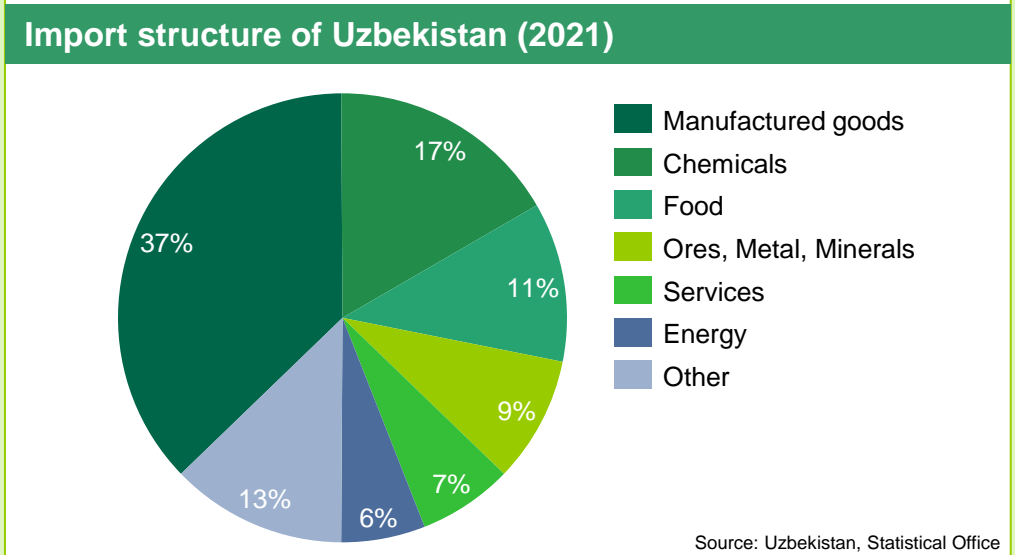
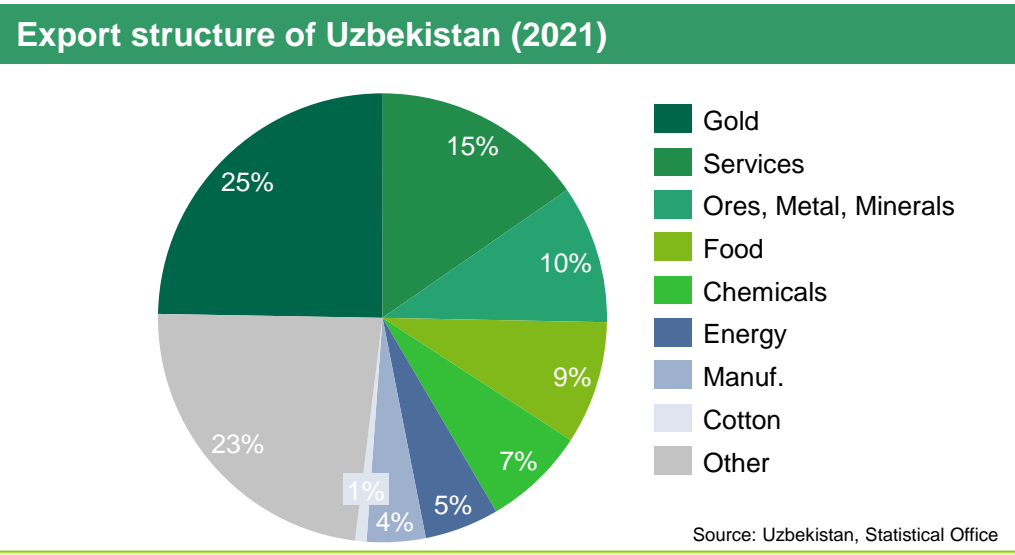
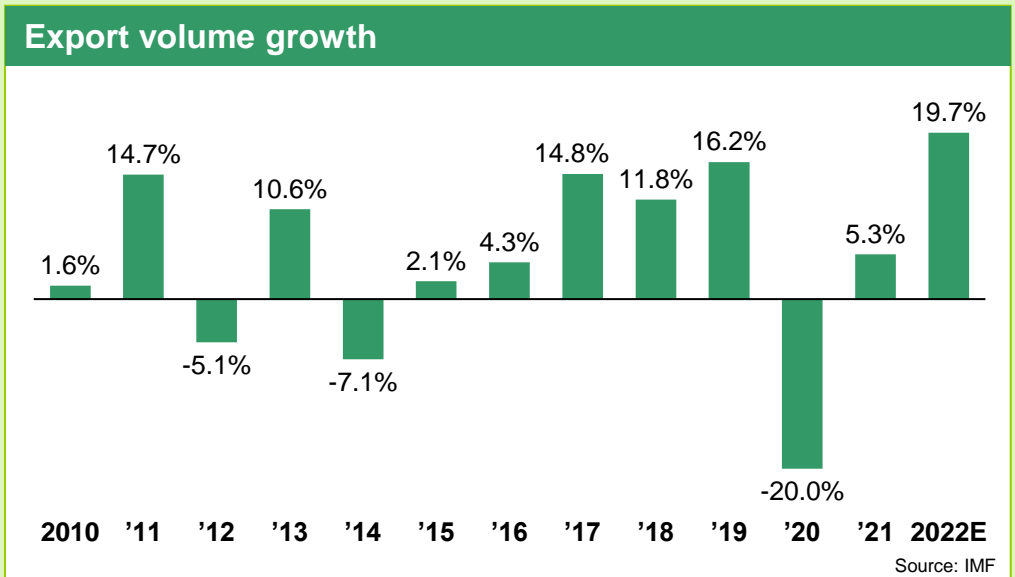
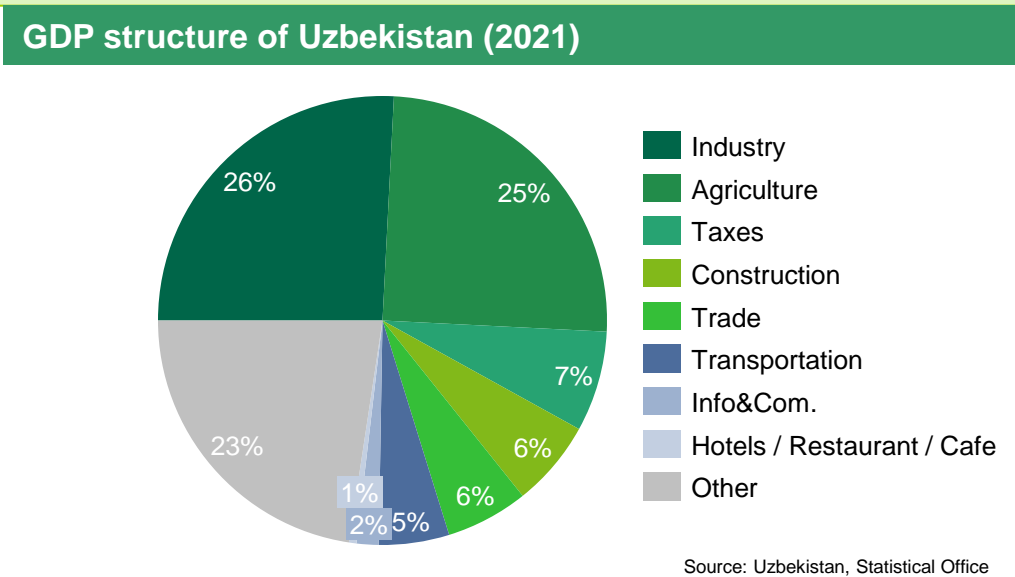




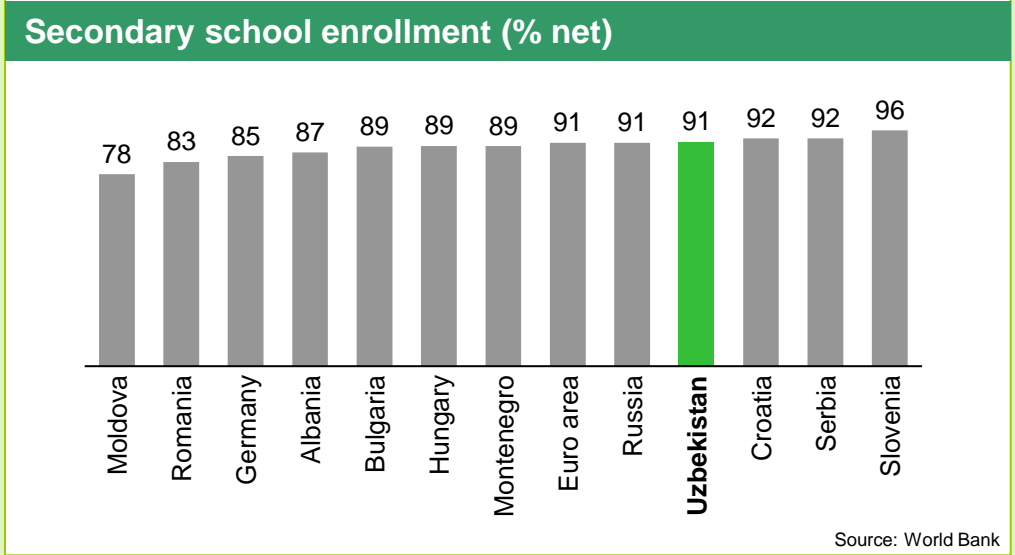
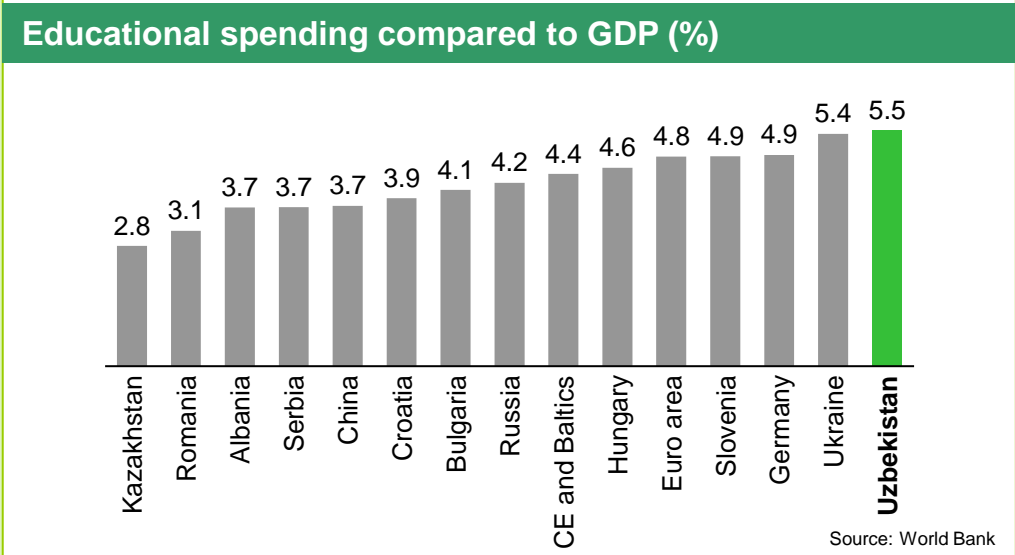
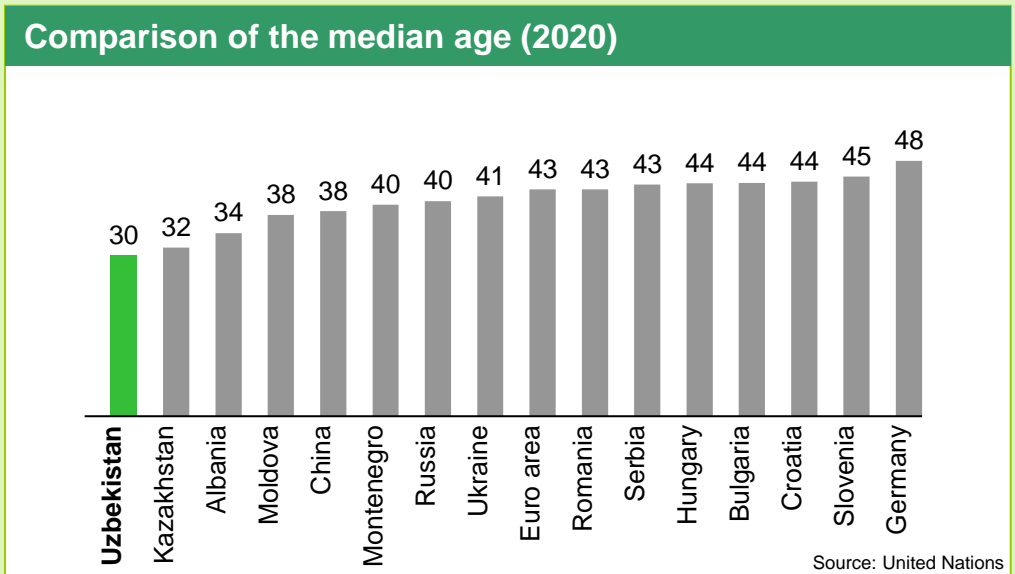
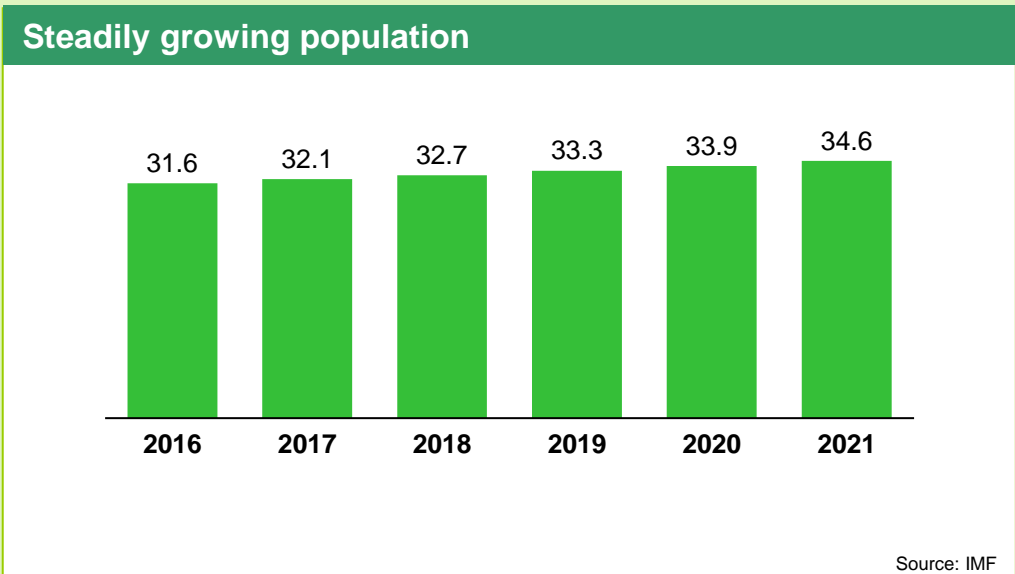
OTP is entering a promising, fast-growing market with a relatively low penetration of banking services

- **On 12 December 2022 OTP Bank signed a purchase and sale contract on the privatization of Ipoteka Bank in Uzbekistan**
- **According to the contract, OTP Bank will purchase 100% of the shares held by the Ministry of Finance of the Republic of Uzbekistan (nearly 97% shareholding) in two steps: 75% of the shares now and the remaining 25% three years after the financial closure of the first leg of the transaction**
- **OTP Bank and the International Finance Corporation (IFC) have agreed to cooperate on Ipoteka Bank in the future. IFC has been providing financing and transformation support to Ipoteka Bank for several years and IFC confirmed it is committed to continuing its support and cooperating with OTP Bank, the new majority shareholder**
- **The transaction is the first step in the privatization process of the local, predominantly state-owned banking sector**
- **Ipoteka Bank is the 5th largest bank in Uzbekistan with a total asset-based market share of 8.5%**
- **Ipoteka Bank is the market leader in mortgage lending with around 30% market share**
- **The financial closure of the transaction is subject to regulatory approvals and expected in 1H 2023**

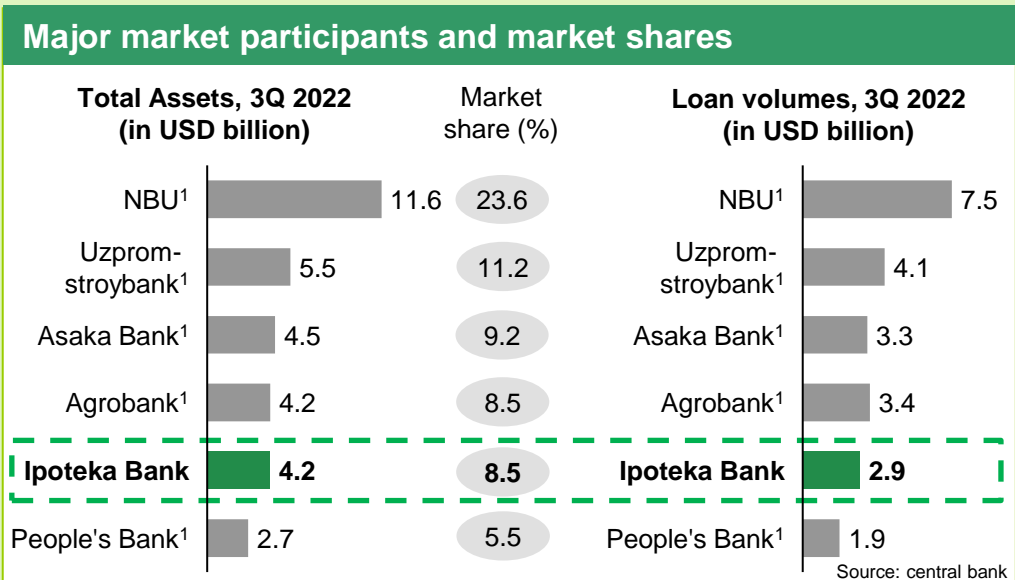
Steadily growing GDP and export; the external trade is mainly commodity driven



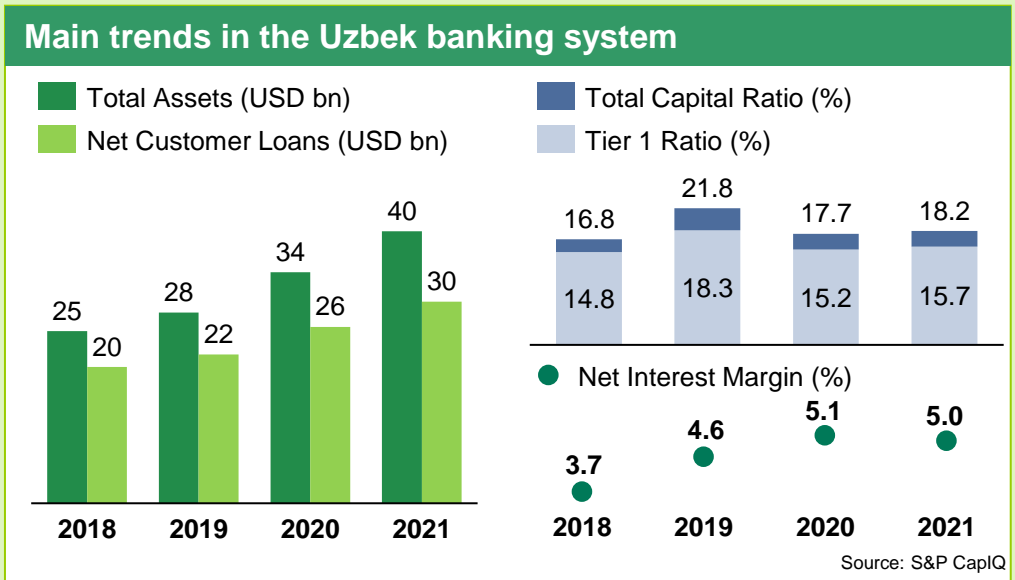
Fast growing and young population, educational spending compares favourably to *Emerging Markets* countries



The Uzbek banking sector is characterized by high level of state ownership (~80%) and dynamic credit growth



- ### Major market characteristics
- Dollarization is high**, 50% of loans, 40-45% of deposits, and 60% of all liabilities are denominated in FX.
 - Credit growth has been dynamic** in the 2016-2021 period, 45% on average, driven by private corporate and retail loans (50-60% CAGR). By 3Q 2022 loan growth of public companies fell to a mere 2%, and 16% to private companies.
 - Despite a gradual moderation, the loan to deposit ratio in the banking system still exceeds 200%²**. In the past years lending growth was financed by government funds, foreign loans and capital; deposit penetration stagnated, but deposit growth accelerated recently.
 - Retail loans to GDP is 9.5%**, within that mortgage loan penetration is 5%.
 - Corporate loans to GDP ratio is around 35% of GDP**.
 - The NPL ratio grew from 1% to 5%** due to the pandemic and economic headwinds, but started decreasing recently.



Uzbek banking reforms and regional overview

- In 2017, Uzbekistan's banking reform has been launched: **currency controls were removed**, allowing free floating exchange rate. A law passed in 2019 redefined the mandate of the Central Bank of Uzbekistan, **focusing on price stability**. Rules on **currency transfers, anti-money laundering** and availability of the banking services were adopted.
- The modernization roadmap of the sector also includes the **privatization of six state-owned banks until 2025**.

USD bn or %, 2021	Total Assets	Total Deposits	Net Customer Loans	Net Interest Margin	Cost-to-Income
Kazakhstan	89.8	62.0	43.5	4.9	31.6
Uzbekistan	40.1	13.8	29.7	5.0	45.5
Azerbaijan	22.5	16.1	9.4	4.6	60.6

Source: S&P CapIQ

¹ State-owned bank.
² Based on customer deposits to total (non-interbank) loans' ratio disclosed by the central bank.

Ipoteka Bank achieved around 20% ROE in 2021 and even exceeded that in the first half of 2022

Financial highlights of Ipoteka Bank (IFRS, in HUF billion equivalent)

Statement of recognized income	2018	2019	2020	2021	1H 2022
Operating profit	11	23	34	48	29
Total income	28	43	55	74	43
Net interest income	22	34	43	61	36
Net fees and commissions	6	7	8	7	4
Other income	0	2	4	6	3
Operating costs	-17	-20	-20	-26	-14
Risk costs	-3	-9	-19	-17	-6
Profit before tax	8	14	16	31	22
Corporate tax	-2	-2	-3	-6	-5
Profit after tax	6	11	12	25	17
Balance sheet					
Total assets	668	740	925	1,206	1,374
Financial assets	50	86	168	251	242
Due from other banks	17	26	51	61	63
Gross loans	602	633	724	930	1,111
Retail	112	186	293	424	513
Corporate & small business loans	490	447	432	506	598
Provision for expected credit losses	-9	-17	-34	-52	-67
Customer deposits	239	246	261	409	379
Retail	52	57	55	71	89
State and public organisations	46	47	62	76	79
Other legal entities	141	142	144	262	211
Interbank liabilities	376	383	549	647	789
Shareholders' equity	54	110	115	148	192
Performance indicators					
ROE	11.9%	13.1%	10.7%	19.8%	21.5%
ROA	1.1%	1.6%	1.4%	2.4%	2.8%
Total revenue margin	5.0%	6.0%	6.3%	7.1%	6.9%
Net interest margin	3.9%	4.7%	5.0%	5.8%	5.8%
Cost to Income	61.0%	47.5%	37.2%	34.7%	32.8%
Cost to Assets	3.0%	2.8%	2.4%	2.5%	2.3%
Risk cost rate (on average total assets)	0.6%	1.3%	2.2%	1.6%	1.0%
Net loan to deposit ratio	248%	250%	264%	215%	275%

Naturals	2020	1H 2022
Number of branches	39	39
Employees	4,208	4,072
Number of ATMs ¹	495	575
Volume of transactions through POS terminals (in billion UZS) ²	5,768	10,455

Main features of Ipoteka Bank's operations

- **Ipoteka is the 5th biggest bank in Uzbekistan** with 8.5% market share based on 3Q 2022 total assets.
- Ipoteka Bank has **more than 1.6 million retail clients**
- Ipoteka is the **market leader in mortgage lending** with a **market share of ~30%**. Around 90% of the mortgage loan stock was issued through state funded and subsidized mortgage programs, both at Ipoteka and in the market.
- **Ipoteka has received approximately USD 200 million funding from international financial institutions** such as EBRD, IBRD, IDA, IFAD, ADB and IFC³.
- **The transformation of the bank has already started with the active participation of IFC.** Centralization of processes, scaling up the call center, improving compliance processes, and setting up an AML (anti-money laundering) department are all parts of the ongoing transformation.
- **Ipoteka has already introduced fully digital solutions**, such as a totally online account opening solution available in the renewed mobile application. Thanks to the digitalization efforts, the number of the active digital users doubled in 1.5 years.

Average HUF/UZS rates: 2018: 0.033; 2019: 0.033; 2020: 0.031; 2021: 0.029; 1H 2022: 0.031;

closing HUF/UZS rates: 2018: 0.034; 2019: 0.031; 2020: 0.028; 2021: 0.030; 1H 2022: 0.035.

¹ ATM figure under 2020 column represents 2021. ² 2020 data: Jan – Nov; 2022 data: Jan – Oct. ³ IDA – International Development Association,

IFAD – International Fund for Agricultural Development, ADB – Asian Development Bank, IFC – International Finance Corporation.



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