



# REPUBLIC OF UZBEKISTAN

## FINANCIAL SECTOR ASSESSMENT PROGRAM

### DETAILED ASSESSMENT OF OBSERVANCE—BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

August 2025

This paper on Uzbekistan was prepared by a staff team of the International Monetary Fund in the context of an IMF Financial Sector Assessment Program (FSAP). It is based on the information available at the time it was completed in July 2025.

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July 17, 2025

# DETAILED ASSESSMENT OF OBSERVANCE

## BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

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This report was prepared in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission in Uzbekistan during November 2024, led by Mr. Vassili Prokopenko, IMF and Ms. Gunhild Berg, World Bank, and overseen by the Monetary and Capital Markets Department, IMF, and the Finance, Competitiveness and Investment Global Practice, World Bank. Further information on the FSAP program can be found at <http://www.imf.org/external/np/fsap/fssa.aspx>, and [www.worldbank.org/fsap](http://www.worldbank.org/fsap).



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## Glossary

AML-CFT	Anti-Money Laundering / Combating the Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction
AQR	Asset Quality Review
BCBS	Basel Committee on Banking Supervision
BL	Law of the Republic of Uzbekistan "On Banks and Banking Activities"
BCP	Basel Core Principles for Effective Banking Supervision
BIA	Basic Indicator Approach
BO	Beneficial Owner
CAR	Capital Adequacy Ratio
CBU Law	Law of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan"
CBU	Central Bank of Uzbekistan
CCB	Capital Conservation Buffer
CDD	Customer Due Diligence
CP	Core Principle
CRO	Chief Risk Officer
DPD	Days Past Due
D-SIB	Domestically Systemically Important Bank
DSTI	Debt service to income
EAD	Exposure at Default
ECAI	External credit assessment institutions
ECL	Expected Credit Losses
EC	Essential Criterion
EVE	Economic Value of Equity
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
FSR	Financial Stability Report
FX	Foreign Exchange
GDP	Gross Domestic Product
GRBS	Guidelines on Risk Based Supervision
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
IRRBB	Interest Rate Risk in the Banking Book
JSC	Join Stock Company and Protection of Shareholders Rights Act
KPI	Key Performance Indicator
LCR	Liquidity Coverage Ratio

LGD	Loss Given Default
LNLA	Law of Normative Legal Act' No. 682/2020
LoLR	Lender of Last Resort
LTV	Loan to Value Ratio
MFI	Micro-Finance Institutions
ML	Money Laundering
MOU	Memorandum of Understanding
MRC	Mortgage Refinancing Company
MOJ	Ministry of Justice
NAPP	National Agency for Prospective Projects
NBFI	Non-Bank Financial Institution
NII	Net Interest Income
NPA	Non-Performing Assets
NPL	Non-Performing Loans
NSFR	Net Stable Funding Ratio
ORMF	Operational Risk Management Function
PCA	Prompt Corrective Action
PD	Probability of Default
RAS	Risk Assessment System
RBA	Risk Based Approach
RWA	Risk weighted assets
SICR	Significant Increase of Credit Risk
SME	Small and Medium Enterprises
SOE	State Owned Enterprise
SOB	State Owned Bank
SREP	Supervisory Review Examination Process
TA	Technical Assistance
UTP	Unlikely to Pay
WB	World Bank

## List of Regulations

Abbreviation	Name of the Regulation or Guideline
BL	Law of the Republic of Uzbekistan "On Banks and Banking Activities"
CBU Law	Law of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan"
GRBS	Guidelines on Risk-Based Supervision
JSC	Join Stock Company and Protection of Shareholders Rights Act
LNLA	Law of Normative Legal Act No. 682/2020
RAFS	Regulation "On Requirements for the Accounting Policy and Financial Statements of Commercial Banks" No. 3337 dated 27.11.2021
RAQP	Regulation on the Procedure for Classifying the Quality of Assets in Commercial Banks, Forming Reserves to Cover Potential Losses on Assets and Using these Reserve No. 2696 on July 14, 2015
RBSC	Regulation "On the Banking Supervision Committee of the Central Bank of the Republic of Uzbekistan" No3/3 - January 20, 2024
RCAR	Regulation of the Capital Adequacy Requirement for Commercial Banks No. 2693/2015
REA	Regulation on the peculiarities of conducting audits in banks and banking groups, as well as the procedure for issuing a qualification certificate to an auditor for the right to conduct audits in banks
RIA	Regulation "On Requirements for Internal Audit in Commercial Banks" No 3302/2021
RIP	Regulation on information protection (RIP) in automated banking systems of commercial banks No. 3224/2020
RCG	Regulation about the approval of the Charter of Corporate Governance in Commercial Banks No 3254/2020
RPAMS	Regulation on the Procedure for Applying Measure and Sanctions Against Banks and Non-Bank Credit Organization
RPCABA	Regulation on the Procedure and Conditions for Admission to Banking Activities
RRLM	Regulation on Requirements for Liquidity Management of Commercial Banks No. 2709/2015
RRM	Regulation on minimum requirements for the risk management system in banks and banking groups 2023 No 3427
GRBS	Guidelines on Risk-Based Supervision

## EXECUTIVE SUMMARY

**In the context of Uzbekistan's transition to a market-based economy, the authorities have undertaken several reform measures that strengthened banking supervision.** Starting in 2019, a new central bank law enhanced the independence of the Central Bank of Uzbekistan (CBU) and set price and banking sector stability as its mandate. In 2020, the Government of Uzbekistan's (GoU) Banking Sector Reform Strategy laid the foundation for privatizing many state-owned commercial banks (SOCBs) and changing their operating model towards a commercially orientated and competitive system. In December 2023, the CBU Board of Directors adopted the Guidelines on Risk-Based Supervision (GRBS). As of November 2024, additional legislations<sup>1</sup> have been drafted and are under consideration by the Parliament: i) to establish the Financial Stability Board and designate the CBU as the new Resolution Authority; and ii) to extend the deposit insurance system from physical persons to legal entities, introduce a limit to the protection of deposits (UZS 200 MN), and gradually reduce the term for the possible compensation to depositors (up to seven days).

**While reforms are headed in the right direction, further legal and supervisory strengthening measures remain to be completed.** The process for adoption of the CBU regulations should be amended; risk-based supervision needs to be expanded to climate-related financial risks and operational resilience related risks; and the CBU should implement consolidated supervision, tighten non-performing loan (NPL) recognition, and ensure that SOCBs lending to State Owned Enterprises (SOEs) is based on arm's length basis commercial terms, among others.

**While the CBU's independence is upheld in principle in the Constitution (Article 151) and in the CBU Act, there are other legal instruments that have a limiting effect on the CBU.**

Assigning development responsibility to the CBU might conflict with its primary objective as a banking supervisor, i.e. ensuring the safety and soundness of banks and the banking system. Other objectives, including consumer protection and financial inclusion should be subordinated. Article 23 of the CBU Law does not provide for the duty to publicly disclose the reasons for removal of the Chair of the CBU Board.

**Moreover, the Law on Normative Legal Act (LNLA) impinges on the CBU's ability to independently set its own regulations.** As a banking supervisor, the CBU's goal is to ensure the safety and soundness of banks and the banking system. Nevertheless, the CBU's power to set prudential standards is weakened by the LNLA, which (i) requires the CBU to agree with the 'Chamber of Commerce and Industry'<sup>2</sup> and (ii) enables the Ministry of Justice (MOJ) to refuse the registration of the CBU regulations on technical as well as non-technical grounds. Therefore, the CBU's independence is constrained by the LNLA either vis-a-vis the industry/private sector or with regard to the government. The need to reach an agreement with the Chamber of Commerce and Industry goes well beyond consultation. It should be noted that the Chamber of Commerce and

<sup>1</sup> Law: "On Rehabilitation and Liquidation of Banks" is currently under consideration by the Legislative Chamber of the Oliy Majlis of the Republic of Uzbekistan. The Law on Guarantee of Protection of Banks Deposits was adopted in the first reading by the Legislative Chamber of the Oliy Majlis of the Republic of Uzbekistan.

<sup>2</sup> While the Law does not explicitly mention the banking sector, the Law views CBU regulations as affecting business activities because banks can affect business activities through lending and interest rates.



Industry represents private banks, amongst other industries as well. Moreover, the MoJ's power to refuse the registration of the CBU draft normative act is broad. The MoJ not only assesses the compliance of the CBU Regulation with the Constitution and the laws of the Republic of Uzbekistan, but also evaluates the '*requirements of legal and technical drafting*' (such as the observance of grammatical, orthographic, and punctuation rules), and can challenge those CBU Regulations which introduces '*excessive administrative and other restrictions for physical persons and legal entities*'. This impinges on the CBU's power to independently set prudential policies.

**The CBU is transitioning from compliance to risk-based supervision (RBS) with additional steps and experience required to fully implement RBS; now that the framework is in place, implementing robust RBS should be a priority.** As part of the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025, the CBU has increased the minimum capital of banks and amended both regulations on corporate governance and risk management; it also introduced the GRBS (December 2023). The new methodology is robust and more forward looking; however, it neither addresses climate-related financial risks nor operational resilience. In 2023, the CBU tested the new methodology on 4 banks; in 2024 on 14 banks; and in 2025 it is planning to conduct the risk assessment for all 36 banks. Nevertheless, the implementation of the new methodology poses challenges to the CBU. Implementing RBS requires the supervisor to exercise sound judgment, considering the quality of banks' risk management and internal controls. The CBU must ensure that well-supported judgments are being made consistently within and across supervisory teams. In 2024, there were 13 changes to the automatic rating during the assessment of 14 banks' risk profiles, but the scrutiny of each upgrading and downgrading has not been as intense as warranted due to the novelty of the methodology for the assessors. In addition, off-site supervision of corporate governance needs strengthening.

**The CBU deploys a combination of off-site supervision and on-site inspections for evaluating the banks' risk profile and internal control environment.** For off-site supervision, the focal point of the processes is the so called 'curator'. The curator does not sit at the bank, but s/he may attend the commercial bank's board meetings as an observer, which might lead to reputational risk for the CBU; therefore, it is recommended that this role should be formalized in the Law or in binding regulation (dos and don'ts). Moreover, there is no cooling-off period before a curator can be hired by the supervised banks. On-site inspections are generally conducted within the 30-day limit envisaged by the internal regulation; this timeline may constrain the ability to conduct a thorough credit file review of corporate exposures. Furthermore, inspections should focus more in-depth on banks' corporate governance.

**Supervisory reporting should be enhanced to rectify several deficiencies.** Supervisory reporting is collected only on solo level, based on internal accounting policy, instead of accounting principles and rules that are widely accepted internationally. There is no reporting on climate-related financial risks, and the CBU does not have the power to request information from entities in the wider group. Ad hoc information requests are channeled in an unstructured and less secure form (via emails). The CBU has not properly shifted its reporting to a risk-based approach, leveraging on the principle of proportionality.

**Although CBU declared to have transitioned to Basel III, there is a need to strengthen both the capital definitions as well as the credit risk weighted assets methodology.** Banks are required to observe a total capital adequacy requirement of 13 percent of risk weighted assets, which includes a capital conservation buffer of 3 percent. As of end December 2023, the capital adequacy ratio (CAR) stands at 17.5 percent. However, the capital definition is not fully aligned with the Basel Framework: for example, subordinated debts, which are about 1/3 of Tier 2, do not meet the writing-off/conversion requirement. Moreover, there are some deviations in the methodology for risk weighted assets, albeit limited. The CBU has identified 7 domestic systemically important banks (D-SIBs), but it has not applied a systemic bank (D-SIB) buffer to them yet. Moreover, given the lack of a Pillar II methodology, the capital requirements are not calibrated to banks' risk profile.

**Uzbek banks can benefit from improved credit risk management.** Some banks have relaxed underwriting standards in retail lending: the share of mortgages allocated to households without official income remains elevated, albeit decreasing (43 percent in January 2024, 60 percent in October 2023); there is a discrepancy (about 28 percent) between residential real estate prices and fundamental values; and there are cases where microloans are used to repay mortgage loans. Banks might underestimate the borrower's total indebtedness (DSTI), since '*buy now pay later*' type loans are underreported in the credit bureau. The assessors acknowledge that the recent concentration limit (25 percent of the loan portfolio) has constrained banks' risk appetite for car loans.

**The criteria to identify non-performing loans (NPLs) require tightening.** The CBU's NPL criteria do not include credit impaired under the applicable accounting framework, e.g. IFRS 9 Stage 3 assets (as of December 2023, the NPL ratio stood at 4.2 percent while IFRS Stage 3 loans are equal to 7.8 percent). In addition, there is no definition of forbore exposures: the notion of '*assets with revised terms*' neglects the concept of '*financial difficulty*' of the borrowers, and the list of changes to the contractual terms ('*concession*') is not exhaustive. Furthermore, the process of reclassifying assets (other than those with '*revised terms*') as performing is not stringent, as three months of a '*cure period*' is missing.

**SOB lending to SOEs is not subject to the qualitative requirements in place for related party transactions.** The lending from SOCBs to SOEs is not always done on arm's length basis commercial terms, indicating credit risk management is not being implemented adequately. Although the CBU has discretion regarding the qualification of related parties and the application of '*more favorable terms*', it rarely exerted its '*reasoned judgments*' on this topic.

**The recent amendments to the Regulation on Risk Management (RRM), registered by the MoJ in January 2025 and which will enter into force in April 2025, introduced the definition of trading book, expanded market risk to derivative instruments, and broadened the risk appetite requirements for market risk.** The CBU has not yet properly implemented these amendments, particularly in relation to the new risk appetite requirements. In addition, these amendments elevate interest rate risk in the banking book (IRRBB) to a separate and material risk category, as until April 2025 IRRBB is a sub-category of market risk. Moreover, although banks continue to maintain high liquidity reserves, liquidity requirements do not fully reflect the risk profile of banks.

**The oversight of banks' ability to deliver critical operations under disruption is underdeveloped.** Operational resilience is neither incorporated in the GRBS, nor part of the regulation on minimum requirements for the inspection of banks. There has been no evidence of assessment by the CBU of banks' mapping process of critical operations and interdependencies, business continuity plans and their testing, and third-party risk management. The CBU has not issued a regulation on outsourcing of service providers.

**While consolidated supervision has been identified as a priority area for regulatory and supervisory enhancement, the CBU has not implemented consolidated supervision so far.** It is recommended for the CBU to issue a Regulation to establish the specifics of consolidated supervision (Article 48 of the Banking Law (BL)) and the procedures for determining the perimeter and methods of consolidation (Article 61 of the CBU Law). Prudential requirements and supervisory reporting should be expanded from individual to consolidated level. The CBU should assess how group-wide risks are managed and if entities in the wider group may jeopardize the safety and soundness of the bank and the banking system.

**The CBU should prioritize the operationalization of the upcoming crisis management framework.** The draft Law "*On Resolution and Liquidation of Banks*" will establish the Financial Stability Board (the CBU will act as the secretariat of the Board) and designate the CBU as the Resolution Authority. The CBU should prioritize conducting a resolvability assessment of D-SIBs and issuing a regulation on recovery plans.

# INTRODUCTION AND METHODOLOGY<sup>3</sup>

## A. Introduction

**1. This assessment of the implementation of the Basel Core Principles for Effective Banking Supervision (BCP) in Uzbekistan has been completed as a part of the Financial Sector Assessment Program (FSAP) mission undertaken by the International Monetary Fund (IMF) and the World Bank (WB).** The assessment was performed during the first FSAP mission in November 2024. It reflects the legal, regulatory, and supervisory frameworks in place as of November 2024. It is not intended to represent an analysis of the state of the banking sector or the crisis management framework, which are addressed in other parts of the FSAP.

## B. Information and Methodology Used for Assessment

**2. The CBU requested to be assessed according to the Revised BCP Methodology issued by the Basel Committee on Banking Supervision (BCBS) in April 2024.** The revised BCP reflects regulatory and supervisory developments, structural changes in banking, and lessons learnt in FSAP assessments since the last revision in 2012 (see Box 1 for more information on the 2024 Revised Core Principles). It should be noted that the ratings assigned during this assessment are not directly comparable to those assigned in other jurisdictions, and assessments will inevitably be country-specific and time-dependent to varying degrees.

**3. For this assessment, the CBU chose to be assessed against Essential Criteria (EC) and Additional Criteria (AC) but graded against Essential Criteria only.** The methodology provides three options for assessment: (i) assessed and graded against only ECs, (ii) assessed against both ACs and ECs, but graded only against ECs, or (iii) assessed and graded against both ECs and ACs. In this report, only ECs are graded.

**4. The assessment team reviewed the framework of laws, rules, and guidance and held extensive meetings with officials of the CBU, and additional meetings with the Ministry of Economy and Finance, Financial Intelligence Unit (FIU), banking sector participants, external auditors, and other stakeholders.** The authorities provided a well-prepared self-assessment of the BCPs, as well as responses to additional questionnaires, and facilitated access to supervisory documents and files on a confidential basis as well as staff and systems. The FSAP mission met with the CBU's staff responsible for banking supervision and relevant external stakeholders from the private sector and related associations. These meetings were held on a confidential basis and the information gained from those meetings is not directly ascribed in this report.

**5. The standards were evaluated in the context of Uzbekistan's financial system's sophistication and complexity.** The BCPs have been designed to be applied to a wide range of jurisdictions whose banking sectors will inevitably include a broad spectrum of banks. To accommodate this breadth of application, a proportionate approach is adopted within the BCPs,

<sup>3</sup> The assessment team comprised Erika Balaikiene (IMF) and Ezio Caruso (World Bank).

both in terms of the expectations on supervisors for the discharge of their own functions and in terms of the standards that supervisors impose on banks. An assessment of a country against the BCPs, therefore, recognizes that its supervisory practices should be commensurate with the complexity, interconnectedness, size, and risk profile and cross-border operation of the banks being supervised. In other words, the assessment considers the context in which the supervisory practices are applied. The concept of proportionality underpins all assessment criteria. For these reasons, an assessment of one jurisdiction cannot be directly comparable to that of another.

**6. This assessment focuses on the supervision of a mix of state-owned banks (SOBs) and private commercial banks.** The banking system in Uzbekistan is comprised of 36 commercial banks of which 9 are state-owned banks and 27 are private banks. SOBs represent a significant portion of the system at 67 percent of total banking sector assets. The ultimate shareholder of state-owned banks is the Ministry of Economy and Finance.

**7. An assessment of compliance with the BCPs is not, and is not intended to be, an exact science.** Reaching conclusions requires judgment by the assessment team. Banking systems differ from one country to another, as do their domestic circumstances. Furthermore, banking activities are undergoing rapid change, prompting the evolution of thinking on, and practices for, supervision. Nevertheless, by adhering to a common, agreed methodology, the assessment should provide the Uzbekistan authorities with an internationally consistent measure of the quality of their banking supervision in relation to the BCPs, which are internationally acknowledged as minimum standards.

#### Box 1. The 2024 Revised Core Principles

**The revised Core Principles reflect regulatory and supervisory developments, structural changes in banking, and lessons learnt from FSAP assessments since the last revision in 2012.**

The update took account of the lessons learned from: countries' implementation of the Core Principles as updated in 2012; the impact of, and policy responses to, the COVID-19 pandemic; and FSAP assessments completed since 2013. Several thematic topics also informed the revisions to the Core Principles, including evolving risk considerations related to: (i) financial risks; (ii) operational resilience, including cyber security risks; (iii) systemic risk and macroprudential supervision; (iv) risks from structural transformations driven by climate change and the digitalization of finance; (v) the sustained growth of nonbank financial intermediation; and (vi) evolving corporate governance and risk management practices, including sound risk culture and sustainable business models.

**There is a greater emphasis on systemic risk and sound risk management practices.**

Supervisors continue to be required to assess the risk profile of the banks not only in terms of the risks they run and the efficacy of their risk management, but also the risks they pose to the banking and the financial systems. Expectations regarding supervisory assessment of risk have been raised to incorporate more clearly the analysis of banks business models, and risks brought by the wider group, as well as considerations on how the macroeconomic environment, business trends, and the build-up and concentration of risk inside and outside the banking sector may affect the risk to which banks are exposed.

**Box 1. The 2024 Revised Core Principles (concluded)**

Amendments were introduced to reinforce the need for group-wide approach to supervision, and requirements regarding operational risk and operational resilience have been significantly updated to ensure that banks are better able to withstand, adapt to and recover from severe operational risk-related events, such as pandemics, cyber incidents, technology failures and natural disasters.

**The revised BCP reinforce aspects that were already present in the previous methodology, highlighting their materiality for effective supervision.** In particular, the BCPs continue to emphasize the powers that supervisors should have to address safety and soundness concerns, and the expectation on the actual use of the powers, in a forward-looking approach through early action. This includes, a heightened focus on powers and independence, and expectations concerning capacity for timely, consistent, and conclusive supervisory actions; adequacy of liquidity arrangements; and the interface between daily supervisory practices and crisis management measures. As a reflection of the enhanced expectations, 9 additional criteria have been upgraded to essential criteria.

**The BCP are universally applicable and accommodate a wide spectrum of banks and financial systems.** The revised standard reinforces the concept of proportionality, in terms of both the expectations on supervisors for the discharge of their functions and the complexity of standards that supervisors impose on banks, and standards emphasize that proportionality should not be understood as dilution of standards, but as maintaining stringency of approach through proportionate methods and ensuring appropriate responses to the global diversity of banks and banking systems.

## INSTITUTIONAL AND MARKET STRUCTURE— OVERVIEW<sup>4</sup>

### A. Institutional Structure

- 1. The CBU regulates the activities of banks and ensures the stable functioning of banking and payment systems in the country.** The CBU is independent in carrying out its tasks (Article 151 of the Constitution of the Republic of Uzbekistan). The main objectives of the CBU are to ensure the stability of (i) prices, and (ii) the banking system, as well as (iii) the functioning of the payment systems. Making a profit is not the CBU's goal (CBU Law, Article 5). The CBU can use *"reasoned judgment when ... regulating and supervising banks"* (CBU Law, Article 63).
- 2. The CBU is not the only financial regulatory and supervisory authority in Uzbekistan. Insurance companies are licensed and supervised by the National Agency for Prospective**

<sup>4</sup> This part of the assessment draws from other FSAP documents.

**Projects (NAPP), which is also responsible for capital market regulation and supervision.**

Although there are close economic and business ties between banks and insurance companies (e.g., insured loans, companies participating in each other's share capital, etc., thus transferring risks specific to one sector to another), the CBU and NAPP have not signed a cooperation agreement. Meetings and information sharing are irregular, which may raise the risk that supervision and information exchange might be insufficient and ineffective, potentially delaying the implementation of measures applied to companies.

**B. Overview of the Banking Sector**

**3. The financial system of the Republic of Uzbekistan is bank-centered, with a high presence of the State.** As of July 1, 2024, the assets of the banking sector accounted for 94.6 percent of all assets of the financial system. There are 36 banks operating in Uzbekistan; of these, 9 banks<sup>5</sup> have a state share, and account for 67 percent of the banking system's asset (as of January 1, 2019, this figure was 84 percent). The 27 private banks hold the remaining 33 percent of the banking system's assets (UZB 242.8 trillion). The banking system's total assets are equivalent to 55 percent of Gross Domestic Product (end 2023). Bank loans comprise of 40 percent of GDP.

**Table 1. Uzbekistan: Assets of Financial System Participants Operating in Uzbekistan as of July 1, 2024**

№	Financial Institutions	Number	Volume of assets, billion UZS	Share, %
1	Commercial banks	36	690 424	94,6
2	Leasing organizations	38	10 271	1,41
3	Insurance organizations	35	10 212	1,40
4	Microfinance Organizations	91	5 802	0,79
5	Mortgage Refinancing Company (KRI)	1	4 441	0,61
6	Fund for Guaranteeing Citizens' Deposits in Banks	1	3 841	0,53
7	Payment Institutions	47	3 157	0,43
8	Pawnshops	90	413	0,06
9	Payment system operators	3	989	0,14
10	Republican Currency Exchange	1	293	0,04
11	Republican Stock Exchange	1	67	0,01
<b>12</b>	<b>Total</b>	<b>344</b>	<b>729 911</b>	<b>100</b>

<sup>5</sup> In August 2024 a public bank was privatized.



# PRECONDITIONS FOR EFFECTIVE BANKING SUPERVISION<sup>6</sup>

## A. Sound and Sustainable Macroeconomic Policies

**4. Despite headwinds and uncertainty from the pandemic and Russia's war in Ukraine, Uzbekistan's growth has remained strong.** In 2023, real GDP grew by 6.7 percent; the first half of 2024 has seen the continuation of robust investment and consumption growth. Consumer price inflation remains relatively high at 10.5 percent in 2024Q3, reflecting administrative energy price increases, while core inflation remains more modest at 7 percent. The authorities are making efforts to advance Uzbekistan's economic development through market-oriented reforms; however, the state footprint in the economy remains high. The authorities have been reducing the state's involvement in the financial sector through efforts to modernize the governance of state-owned banks, including by putting them through transformation programs, mandating them to operate commercially, and privatization.

**5. The authorities have taken macroprudential measures to preserve financial stability.** In response to aggressive credit growth in retail lending, in August 2023, the CBU set a concentration limit on car loans to 25 percent of the loan portfolio. In July 2024, the CBU extended the debt service to income (DSTI) limit on all loans to individuals. DSTI was originally applied only to microloans. Starting on January 1, 2025, the DSTI will be decreased from 60 to 50 percent. In addition, in July 2024, the CBU tightened capital requirements for residential real estate and car loans by calibrating them not only to the Loan to Value (LTV) ratio but also to DSTI.

## B. Framework for Financial Stability Policy Formulation

**6. The CBU's semi-annual Financial Stability Report is the main tool for effective dialogue on macroprudential policy issues between financial system participants and the public.** The CBU's Financial Stability Department monitors financial vulnerabilities of the Uzbek banking system and conducts macroprudential stress testing.

**7. The draft Law "On Resolution and Liquidation of Banks"<sup>7</sup> will establish the Financial Stability Board.** The members of the Board and its rights and obligations will be regulated by the legal acts of the President of the Republic of Uzbekistan. The CBU will act as the secretariat of the Board. The Board shall hold a meeting at least once every six months, as well as at the request of the CBU and the members of the Board. The main task of the Financial Stability Board will be to analyze systemic risk and deal with financial crises. The Board will be an inter-departmental coordinating advisory body, adopting recommendations based on mutual agreement, unless otherwise specified in the decision of the President of the Republic of Uzbekistan.

<sup>6</sup> This section draws from other documents produced for the FSAP. A complete analysis of the macroeconomic framework is contained in Article IV reports.

<sup>7</sup> The draft law is under consideration by the Legislative Chamber of the Oliy Majlis of the Republic of Uzbekistan.



## C. A Well-Developed Public Infrastructure

**8. Uzbekistan has improved its anticorruption framework.** The Anti-Corruption Agency was established in 2020. The Agency has led significant efforts to advance the legal framework and strategies for combatting corruption, accelerating digitalization of government services, and implementing measures to detect conflicts of interest. The new Constitution (2023) improves the independence of the Prosecutor General's Office, Chamber of Accounts, and the judiciary. The Supreme Board for the Selection of Judges strengthened selection procedures for new judges, while the government plans to introduce an international commercial court to streamline the adjudication of contract disputes and launched a public procurement portal, which requires bidders to disclose beneficial owners. The draft Law on Asset Declaration will require public officials to report assets and income, which would be available to the public.

**9. In April 2022, a new Law "On Insolvency" was enacted with the objective of modernizing the insolvency system and encouraging restructurings.** The new Law introduced four types of options to restructure distressed but viable firms: i) pre-judicial rehabilitation, ii) judicial rehabilitation, iii) external management, and iv) amicable agreement. In addition, the Law features a liquidation procedure applicable to non-viable firms, which can be simplified in case the debtor owns no assets. State-owned companies, which were not subject to the previous insolvency regime, are subject to the new Law - a positive development considering their prominence in the Uzbek economy. The Bankruptcy Law has granted jurisdiction on insolvency matters to the Economic Courts, which hear all insolvency cases. The Law also introduced a new chapter dealing with the insolvency of consumers. Starting from January 2023, the status of bankruptcy can be officially designated to individuals whose debt exceeds a certain threshold. Considering the rapid growth in consumer lending and car loans, this measure is welcomed, as consumer indebtedness levels can be a cause of concern.

## D. Framework for Crisis Management, Recovery, and Resolution

**10. The draft Law "On Resolution and Liquidation of Banks" will establish the CBU as the new Resolution Authority.** The goal of the resolution law is to prevent the occurrence of a systemic financial crisis and reduce its negative consequences. This will be achieved by ensuring the continuity of fulfillment of the Central Bank's critical functions; protecting the rights of depositors; reducing the allocation of funds from the state budget as much as possible for the resolution of the bank. The draft law also expands the set of resolution tools of the Central Bank by introducing the transfer of assets and liabilities, permitting the designation of a bridge bank, enabling bail-in, and designing and implementing a reorganization plan. It also identifies financing mechanisms for an orderly resolution of a bank. In preparation for the law's promulgation, the CBU will develop resolution plans for D-SIBs by identifying obstacles to resolution and requiring banks to remove them. Subsequently, the CBU might also develop resolution plans for banks other than D-SIBs.

## E. Public Safety Net

**11. The current deposit guarantee law is in the process<sup>8</sup> of being improved to be more comprehensive.** The Law "On Guarantees for the Protection of Citizens' deposits in Banks" guarantees citizens' deposits in full, but deposits of individual entrepreneurs and legal entities do not fall under its protection. To improve the existing deposit guarantee system for broader coverage, a draft law was developed. The amended law will cover both individuals and legal entities, up to an insured deposit limit of UZS 200 MN (moving away from the current blanket guaranteed approach). The Deposit Guarantee Agency estimated that with such a limit, about 99.6 percent of depositors will be protected, including deposits in foreign currencies; albeit any deposit insurance payouts will be made in national currency.

**12. The draft deposit guarantee law is envisioned to improve the financial and operational efficiency of the deposit guarantee system.** The term for the payment will be gradually reduced from twenty business days starting in January 2025 to fifteen and seven in January 2026 and January 2027, respectively. The target size of the Guarantee Fund is set at five percent of the total amount of the banks' deposit base. Banks' will be contributing: (i) one-time (0.1 percent of the minimum authorized capital); (ii) quarterly (in an amount set by the Agency's Board by multiplying the calendar contribution rate by the deposit base); and (iii) through special contributions, introduced to eliminate actual or possible deficit of the Fund. The Agency will be entitled to take a budgetary loan from the State or credit from the CBU, in case of deficit of the Guarantee Fund. The Agency will also be able to finance resolution procedures of banks within certain limits. The Fund's resources may be invested in the assets identified by the law as low risk, provided that these assets can be easily converted to cash within seven business days with little or no loss of their value. The draft law envisages interaction mechanisms between the Agency and the CBU, the Ministry of Economy and Finance, and other public bodies.

## F. Effective Market Discipline

**13. The regulation on corporate governance (RCG) for banks delineates the responsibilities of the banks' managerial and operational structure.** The RCG requires banks to post information on their website, contributing to market discipline. It also envisages a whistleblowing system to report to the banks' board (or a committee) inappropriate or unethical behaviors.

**14. The law "On Joint-Stock Companies and Protection of Shareholders' Rights" further developed the corporate management system in Uzbekistan.** It increased legal protection of shareholders, including minority shareholders, strengthening responsibility of executive bodies and control over joint stock companies, as well as ensuring information transparency of joint stock companies for shareholders and investors.

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<sup>8</sup> It was conceptually adopted in the first reading by the Legislative Chamber of the Oliy Majlis of the Republic of Uzbekistan

## MAIN FINDINGS

### A. Responsibilities, Objectives, Powers, Independence, Accountability (CPs 1-2)

**15. The CBU's power to set prudential standards is weakened by the LNLA.** As a banking supervisor, the CBU's main goal is to ensure the safety and soundness of banks and the banking system. However, to set prudential standards, the LNLA requires the CBU to agree with the Chamber of Commerce and Industry regarding the content of its own Regulations. The law does not explicitly mention the financial sector, however it implicitly considers banks as affecting business activities through their lending and interest rates, thus requiring such an agreement. The Law also enables the Ministry of Justice to refuse the registration of the CBU Regulations based on technical and non-technical merits. There have been cases in which this process has delayed the setting of prudential standards for the banking sector. To strengthen the CBU's powers to set prudential standards independently, the law should be amended. The BL does not clearly empower the CBU to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank.

**16. While the Constitution and the CBU Law preserve the supervisor's independence, there is a material gap between *de jure* and *de facto* independence.** The attribution of the CBU's responsibility to adequately implement development programs gives the CBU a financial development task which goes beyond the three legal mandates provided by the CBU Law (ensuring price and financial stability, and the functioning of the payment system). This negatively affects the CBU's operational independence. Development goals might come at the expense of the safety and soundness of banks and banking system.

**17. Moreover, there are areas in which the legislation can be improved.** The CBU Law should clarify eligibility criteria for the CBU Board members; for example, sound reputation, honesty/integrity, and minimum years of professional experience. The law does not specify incompatibility criteria for the two independent members; for example, members should not hold positions in Parliament or Government. Most importantly, Article 23 of the CBU Law does not provide for the duty to publicly disclose the reasons for removal of the Chair of the CBU Board. The CBU has effective internal governance mechanisms which enables it to take supervisory decisions at a level appropriate to the significance of the issue; however, in case an urgent action is needed to prevent significant damage to the financial system, the Banking Supervisory Committee should be able to adopt a '*provisional motivated judgment*'. This would enable the person concerned to be heard as soon as possible after taking the supervisory decision.

### B. Licensing, Changes in Control, and Major Acquisitions (CPs 4-7)

**18. The CBU has recently improved its licensing regime including raising the minimum capital, but further refinements could be made.** The CBU recently increased the minimum capital, and banks were given a transition period to achieve the level of UZS 500 BN by January 2025; however, some banks may not reach the required capital and for this reason the CBU restricted

dividend distributions. In the past three years (2021-2023), the CBU has received 7 applications for a banking license, of which 6 were approved; one was denied due to the precarious financial conditions of the applicant. The licensing process consists of two stages: issuance of a preliminary permit and issuance of a license. The CBU has established criteria to be met for obtaining a banking license. The evaluation of the business plan for licensing purposes is not comprehensive: it does not provide a broad and detailed picture of the activities of the future bank. The justification of the foreseen activity is superficial, and the sustainability of the bank's business model is not assessed. The financials and forecasts are presented in only one (baseline) scenario. No comparison with existing peers is made; competitiveness within the market is also not assessed.

**19. The Licensing Department is responsible for evaluating proposed changes in ownership of a bank.** The CBU has the right to refuse or to issue a preliminary permit for the acquisition. Banks submit monthly reports to the CBU on the ownership structure containing information about each shareholder owning one or more percent of the share in the authorized capital of the bank. The assessors examined recent examples of transfer of control: the evaluation of the expected/foreseen bank's business model does not provide a detailed explanation of how the bank's business will be continued after the transfer will occur.

**20. Banks are prohibited from making an investment in non-financial activities.** Those investments that are allowed are described in the Banking Law Article 7; they pertain to financial activities and are restricted by limits: they cannot exceed, at entity level, fifteen percent of the bank's Tier1 capital; and at an aggregated level, fifty percent of the bank's Tier 1 capital. The CBU does not require ex-ante or ex-post notification of acquisitions up to these limits and collects only quantitative information through regular prudential reporting. Considering that the limits to major investments apply only on solo level, the CBU might not be able to constrain investments made by entities other than banks belonging to the banking group, which could nevertheless pose undue risks to the bank.

## C. Supervisory Approach, Tools and Reporting (CPs 8-10)

**21. The recent adoption of the GRBS (2023) represents a milestone in the transition from compliance to a risk-based approach.** Nonetheless, the guideline does not incorporate climate-related financial risks, while banks in Uzbekistan are vulnerable to physical and transition risk. The full implementation of the new methodology to the entire banking system poses challenges to the CBU. For example, in 2024, there were 13 changes in the automatic rating during the assessment of 14 banks' risk profiles, but the scrutiny of each upgrading and downgrading has not been as intense as required due to the novelty of the methodology. The CBU has identified 7 D-SIBs, and during the assessment it publicly disclosed the list of D-SIB as well as information on the process to assess and determine systemic importance. The CBU has not conducted a resolvability assessment of D-SIBs.

**22. The CBU deploys a combination of off-site supervision and on-site inspections for evaluating the banks' risk profile and internal control environment.** The curator is a focal point for the supervisory processes; however, this role has not been formalized in the Law or in binding regulation, and this could lead to reputational risk for the CBU, considering that the curator has

multiple interactions with banks, including attendance of board meetings. Moreover, there is no cooling-off period before the curator can be hired by the supervised banks. The assessors did not find sufficient evidence of separate meetings held by the CBU with independent directors. A system enabling the CBU to systematically track open findings with banks (beyond the action plan) is lacking. There is no general duty by banks to notify the CBU in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments. The assessment of corporate governance is not systematically included in the report shared with the assessors. There is room for improving the effectiveness of on-site inspections. Most inspections (80 percent) are conducted within the 30-day limit envisaged by the internal regulation and this timeline may constrict the ability to conduct a thorough credit file review considering the large number of corporate exposures examined. In addition, the assessment of corporate governance is not systematically included in the reports shared with the assessors and such a risk profile is not mentioned by the Resolution 'Minimum Requirements for Inspections in Banks, based on the Risk-Based Supervision Guidelines' (August 2024).

**23. The CBU collects prudential reports and statistical returns on a solo basis, but not on a consolidated basis.** It requests ad hoc information in an unstructured form, via emails or other less secure channels. Supervisory reporting relies on CBU Recommendations which are based on internal accounting policy, instead of accounting principles and rules that are widely accepted internationally. The CBU does not collect information that allows for the assessment of the materiality of climate-related financial risks. Even though the CBU regularly reviews and adjusts data packages, all banks, regardless of their size, complexity and systemic importance, are obliged to provide the same data at same frequency and granularity; therefore, the CBU has not properly shifted its reporting to a risk-based approach, leveraging on the principle of proportionality. The CBU does not have the power to request relevant information from any entities in the wider group, irrespective of their activities. To strengthen the process and assure better accuracy and integrity of supervisory information, the CBU intends to proceed with the SupTech initiative.

## **D. Corrective and Sanctioning Powers of Supervisors (CP 11)**

**24. The regulatory framework for corrective and sanctioning powers enables the CBU to raise concerns at an early stage and through supervisory tools that permit follow-up.** The CBU's arsenal of corrective measures and sanctions is broad and the CBU has demonstrated that it is not shy to apply these measures to banks including SOBs. Corrective measures and sanctions are applied in accordance with the gravity of the situation and can not only be applied to banks, but also members of the supervisory and management board, key personnel, as well as direct or indirect owners of substantial ownership, including the Beneficial Owner (BO). The CBU publishes on its official website statistics on the measures and sanctions applied. However, the cooperation and collaboration with relevant authorities (Deposit Guarantee Agency, the Ministry of Economy and Finance, the Financial Stability Board, the Central Securities Depository) in deciding when and how to effect the orderly resolution of a problem bank, is not in place until the draft law "On Resolution and Liquidation of Banks" is approved and implemented.

## E. Cooperation, Consolidated and Cross-Border Banking Supervision (CPs 3, 12-13)

**25. To strengthen cooperation with the NAPP, the CBU is encouraged to sign an MoU or Agreement for cooperation.** Although there are close economic and business ties between banks and insurance companies, the CBU and NAPP (the regulator and supervisor of insurance and capital market) have not established a formalised framework for cooperation and information exchange. Meetings and information sharing among authorities are irregular, which may lead to the risk of insufficient and ineffective information exchange; risk spreading among the sectors might cause adverse consequences.

**26. The CBU is operating as a host supervisory authority rather than a home authority.** There is only one Uzbek bank with a subsidiary abroad, whose assets are neither significant to the parent bank's size nor to the market of the host country. Considering the limited cross border operation, the CBU has not established a supervisory college, but it signed an MoU with the host country authority. The assets of subsidiaries established by foreign banks and operating in the local market account for about 10 percent of the total assets of the entire banking system. There are subsidiaries which are significant and recognized as D-SIBs. The establishment of colleges is the responsibility of the home authority; nevertheless, the CBU, as host supervisor with shared interest in the effective supervisory oversight of the banking group, has not adequately engaged with the home supervisor to gain comprehensive information on the wider group risks or the parent company risks. For example, a supervisory college exists in relation to the biggest subsidiaries operating in Uzbekistan (about 7 percent of total assets); since the CBU has not been invited to join such a college, it could formalize a request to the home supervisor in order to join the college.

**27. While consolidated supervision has been identified as a priority area for regulatory and supervisory enhancement, the CBU has not prioritized consolidated supervision.** The CBU has not issued a regulation to establish the specifics of consolidated supervision (Article 48 BL) and the procedures for determining the perimeter and methods of consolidation (CBU Law Article 61). Prudential requirements apply only on an individual bank level. The CBU has recently mapped 19 banking groups and requested technical assistance to advance its engagement on consolidated supervision.

## F. Corporate Governance (CP 14) and Risk Management (CP 15)

**28. The CBU has a comprehensive regulation covering the corporate governance arrangements in banks, which was recently strengthened; however, there is no requirement for a succession plan. Moreover, the Risk Committee is not mandatory for D-SIBs.** The assessment of corporate governance as an autonomous risk profile in the context of risk-based supervision was introduced in 2023. Since then, supervisors are expected to evaluate on an annual basis the corporate governance and risk management as a separate component of the bank's risk assessment. Nevertheless, despite the introduction of corporate governance as a separate pillar in

the risk profile, the off-site assessment of this pillar has not been fully tested in the pilot phase (in only one out of four risk assessments there was evidence of corporate governance analysis).

**29. The RRM, issued in April 2023, sets out its expectations for banks to have a risk management process. In January 2025, the Ministry of Justice registered several amendments to the RRM issued by the CBU, which will become effective in April 2025.** These amendments: (i) expand the risk coverage to IRRBB, country risk and operational resilience related risk; (ii) require board's approval for large exposures; (iii) introduce new duties for the risk management units, namely back testing of internal models and avoidance of undue reliance on external ratings; and (iv) provide for mandatory notification to the CBU of the CRO removal. Nevertheless, the recent amendments lack concrete implementation. Notwithstanding the recent amendments to the RRM, the assessors could not find evidence that the CBU determines that (i) banks perform regular and independent validation and testing of the models and (ii) the banks' boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use. Moreover, the revised RRM does not contain a requirement to publicly disclose the CRO removal. *'Requirements for internal capital adequacy assessment procedures'* (RRM article 67-71) are optional for all banks, regardless of size and domestic systemic importance. The CBU has not issued a regulation to determine content, updating and procedure for submitting recovery plans.

## G. Capital Adequacy (CP 16)

**30. Although the CBU declared that it voluntarily implemented Basel III, the capital definition deviates from the said framework. There are also deviations in the credit risk weighted assets, albeit for some minor exposures.** Banks are required to comply with higher minimum capital requirements than the Basel Framework; nevertheless, the definition of capital does not give enough emphasis to those elements of capital permanently available to absorb losses on a going concern basis. For example, some criteria for the inclusion of common shares in the common equity Tier 1 (CET1) are missing (distribution features). Moreover, subordinated debts, which represent about 1/3 of the Tier 2 capital, do not meet the writing-off/conversion requirement. Given the lack of a Pillar II methodology and a systemic risk buffer for D-SIBs, the capital requirements are neither calibrated to banks' risk profile nor to banks' systemic importance.

## H. Credit Risk and Problems Assets, Provisions and Reserves (CP 17–18)

**31. The CBU should scrutinize origination practices that might lead to accumulation of NPLs.** The RRM has strengthened the prudential framework for credit risk; nevertheless, some banks have relaxed underwriting standards in retail lending. Although decreasing, the share of mortgages allocated to households without official income remains elevated (according to a recent CBU thematic review, this share stood at 43 percent in January 2024, down from 60 percent in October 2023): at the same time, residential real estate prices are not anchored to fundamental values (on average this discrepancy has been estimated by the CBU at 28 percent). Moreover, there are cases where microloans are used to repay mortgage loans. The assessment of creditworthiness



might underestimate the total indebtedness (debt service to income, DSTI) of obligors, since 'buy now, pay later' type of loans are underreported in the credit bureau. The increase in car loans was quick and, in some cases, aggressive due to speculative activities in the secondary market; the recent concentration limit on car loans (25 percent of the loan portfolio) has constrained banks' risk appetite.

**32. The regulatory framework for 'problem exposures, provisions and reserves' is deficient.**

The criteria for an exposure to be identified as non-performing are too narrow, as they do not include defaulted exposures (there is no definition of default in the regulatory framework) and credit impaired under the applicable accounting framework, e.g. IFRS 9 Stage 3 assets (as of December 2023, the NPL ratio stood at 4.2 percent while IFRS Stage 3 loans are equal to 7.8 percent). Although 'unlikely to pay' (UTP) are included in the "unsatisfactory" assets, the assessors observed poor practices in implementing the UTP criterion. It is common for banks to report only under 90 days past due (dpd), with some exceptions. In addition, there is no proper definition of forbore exposures. In that regard, '*assets with revised terms*' neglects the concept of 'financial difficulty' of the borrowers, and the list of changes to the contractual terms does not capture all the possible 'concessions' that a bank might make to a borrower in financial difficulty. Moreover, the first revision of the terms does not change the previous classification. Some exceptions may also obfuscate identification of the true extent of banks' asset quality (for example, neither the extension of the grace period up to 6 months, nor the reduction of the interest rate on loans in national currency up to a level not lower than 2 p.p. of the CBU key rate leads to the classification of an asset as restructured). Furthermore, the process of reclassifying assets (other than those with 'revised terms') as performing is not stringent since a 'cure period' of at least three months is missing. .

## I. Risks (CP 19–25)

**33. Sovereign risk is not adequately incorporated into a banks' risk assessment.** Overall, the banking sector's exposures to the sovereign, as estimated during the assessment, is UZS 102 bn, equal to 16.6 percent of total assets and 102 percent of total capital. Given the lack of a Pillar 2 framework, sovereign risk is not adequately incorporated into the banks' risk assessment (for example, capital add-on for outlier banks).

**34. While SOEs may not be subject to the related party limit, SOB transactions with SOEs should respect typical qualitative requirements of related party transactions.** This includes ensuring that these transactions are conducted on an arms' length basis, avoid conflicts of interest, and are approved and monitored by the CBU. The CBU should intensify supervision of SOB lending to SOEs. In addition, although the CBU has discretion regarding the identification of related parties and the application by banks of unlawful 'more favorable terms', it has rarely exerted its 'reasoned judgments' on this topic. Furthermore, the definition of related party excludes '*members of the committees of the bank and of the parent bank who not responsible for bank risk management*': the expression is unclear and might open a window of opportunities for insiders' abuse in transactions other than lending (for example, procurements).



**35. Following Russia's war in Ukraine, the CBU stepped up its regulatory and supervisory efforts on country and transfer risk.** However, the CBU does not properly ensure that country risk is sufficiently taken into account in the determination of provisions.

**36. The amendments to the RRM registered by the MoJ in January 2025 and set to enter into force in April 2025 introduce the definition of trading book, expand market risk to derivative instruments, and broaden the risk appetite requirements for market risk. They also consider IRRBB as an autonomous and material risk.** However, the CBU has not yet implemented these amendments, particularly in relation to the new risk appetite requirements for market risk and the supervisions of IRRBB. Moreover, based on the information shared, the supervisory reporting is limited to the notional amount of derivatives and does not incorporate the fair value, without which it is difficult for the CBU to assess the materiality of this market risk subcategory.

**37. The CBU has a strong focus on liquidity risk management.** There is a set of requirements to monitor banks' liquidity. The minimum amount of liquid assets consists of 10 percent of total assets. Banks are obliged to report their liquidity positions daily. The LCR and the Net Stable Funding Ratio (NSFR) became effective from January 2016 through the phased-in approach. Since January 1, 2019, both ratios set a minimum requirement of 100 percent; the ratios should be fulfilled in local and in foreign currencies and in all currencies. However, liquidity requirements are not calibrated to the bank's risk profile and systemic importance. Moreover, the CBU liquidity stress testing by the Prudential Supervision Department is based on scenarios not adequately conservative (for example, the assumptions on deposit outflow and drawdown of credit line was, respectively, only 2-3 percent and 1-2 percent).

**38. The above-mentioned amendments to the RRM incorporate operational resilience; nevertheless, the oversight of the banks' ability to deliver critical operations under disruption is underdeveloped.** Operational resilience is neither incorporated in the GRBS, nor part of the regulation on minimum requirements for the inspection of banks. There has been no evidence of assessment by the CBU of banks' mapping process of critical operations and interdependencies, business continuity plans and their testing, and third-party risk management. The CBU has not issued a regulation on outsourcing services.

## **J. Auditing and Financial Reporting (CPs 26-27)**

**39. In Uzbekistan, the Ministry of Economy and Finance is the 'authorized state body' in the field of accounting and audit activities.** For banks, the CBU has the power to determine the composition and content of financial statements, as well the specifics of conducting audit in banks. While the CBU has adopted regulations that are broadly aligned with international standards regarding financial reporting and external audit, the CBU has not clarified the differences between banks' financial statements prepared in accordance with IFRS and those prepared in accordance with its Regulation "On Requirements for the Accounting Policy and Financial Statements of Commercial Banks" (RAFS) No. 3337/2021; this dual regime places undue burden on banks. Moreover, although Article 75 of the BL requires an audit organization to 'immediately inform the CBU about situations

that lead to gross violations of the laws on banks and banking activities', it does not include 'serious violations' in the duty of communication.

## K. Disclosure and Transparency (CP 28)

**40. The CBU has not implemented Pillar 3 of the Basel Framework, but adequate disclosure is requested to joint stock companies and, more specifically, for banks by the RCG (Article 53).** The assessors went through the websites of the same banks and found a sufficient level of disclosure. Nevertheless, disclosure requirements do not include information related to (i) risk management strategies, and (ii) risk exposures (for example, sovereign risk, climate risk). Moreover, SOCBs do not disclose their exposures to SOEs as part of related party transactions.

## L. Abuse of Financial Services (CP 29)

**41. The CBU has adopted a comprehensive approach to implement the existing legislation and regulations for AML/CFT.** The CBU once a year performs an assessment of AML/CFT risk profile for all banks and proceeds with the AML/CFT sectorial analysis for all financial sectors. Banks identified as "high" risk are subject to on-site inspection for the next year. There is a dedicated unit for AML/CFT on-site inspections to cover the whole financial sector. Considering that it consists of only 8 FTEs, it can be assumed that the resources available to the CBU for AML/CFT on-site inspections are not sufficient. Cooperation and collaboration among the authorities brings positive results and proves that attitude to the AML/CFT risks is a priority at the national level. There is positive evaluation from the Eurasian Group of combating money laundering and financing of terrorism (EAG) which also found a strong level of supervision over the activities of financial institutions.

## DETAILED ASSESSMENT

### A. Supervisory Powers, Responsibilities and Functions<sup>9</sup>

<b>Principle 1</b>	Responsibilities, objectives and powers. <sup>10</sup> An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups. A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorize banks, conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns.
<b>Essential criteria</b>	
<b>EC1</b>	The responsibilities and objectives of each of the authorities involved in banking supervision are clearly defined in legislation and publicly disclosed. Where more than one authority is responsible for supervising the banking system, a credible and publicly available framework is in place to avoid regulatory and supervisory gaps. <sup>11</sup>
Description and findings re EC1	<p>In accordance with Article 151 of the Constitution of the Republic of Uzbekistan, the CBU regulates the activities of banks, ensures the stable functioning of the banking and payment systems in the country. Two laws together constitute the foundation of the banking supervision framework in Uzbekistan: 1) The Law of the Republic of Uzbekistan 'On the Central Bank of the Republic of Uzbekistan' No ZRU-582 (CBU Law) and 2) the Law of the Republic of Uzbekistan "On Banks and Banking Activities" No ZRU-580 (Banking Law, BL).</p> <p>CBU Law Article 5 defines the mission of the CBU, which includes '<i>to ensure the stability of the banking system</i>' (see EC2); Article 11 mandates the CBU to use '<i>reasoned judgment when ... regulating and supervising banks</i>'; and Articles 60 and 61 spell out the regulatory and supervisory functions of the CBU, which are exerted by its Banking Supervision Committee (Article 64, see CP2).</p> <p>Similarly, Article 4 of the BL defines the CBU '<i>a government authority that regulates the banking activities and exercises mandates for licensing, regulation and prudential supervision.</i>' Prudential supervision is the '<i>supervision carried out by the Central Bank of the Republic of Uzbekistan over the activities of banks in order to prevent and reduce the specific risks of banking activities</i>' (BL Article 3). Accordingly, the BL makes the CBU responsible for a range of regulatory and supervisory functions relating to the banks by</p>

<sup>9</sup> Please note that while this table replicates the methodology in the BCP standards as included in the Basel Framework (BCP), the numbering of footnotes follows this document and not the latter.

<sup>10</sup> Reference documents: BCBS, Sound Practices: implications of fintech developments for banks and bank supervisors, February 2018; BCBS, Report on the impact and accountability of banking supervision, July 2015; BCBS, Principles for the supervision of financial conglomerates, September 2012; [SCO40].

<sup>11</sup> If countries have shared or transferred prudential tasks to a supranational supervisor, the roles and responsibilities that have been shared or transferred are clearly set out in law and publicly disclosed. Any residual powers or responsibilities that are retained must be publicly disclosed so that there is clarity on the division of responsibility.

	<p>granting banking license and authorizing qualifying holders (Chapter II), giving permission to set up branches and representative offices (Chapter III); corporate governance (Chapter IV); laying down prudential and risk management requirements (Chapter V); prudential supervision (Chapter VI); sanction (Chapter VII); consumers' protection (Chapter VIII and IX); accounting, reporting and audit (Chapter X); and reorganization and liquidation (Chapter XI).</p> <p>Responsibilities and objectives of the CBU as a banking supervisor are publicly disclosed through the CBU Law and the BL, as well as numerous regulations formulated by the CBU for operationalizing its legislative intent.</p>
<b>EC 2</b>	<p>The primary objective of banking supervision is to promote the safety and soundness of banks and the banking system. If the banking supervisor is assigned broader responsibilities, these are subordinate to the primary objective and do not conflict with it.</p>
Description and findings re EC2	<p>Pursuant to Article 5 of the CBL, <i>'The main objectives of the CBU are to ensure stability of: (i) prices, (ii) banking system, (iii) functioning of payment systems. The activity of the CBU to ensure the stability of the banking system should not adversely affect the stability of prices. Making a profit is not the goal of the Central Bank.'</i></p> <p>Although the 'safety and soundness' of banks and the banking system are not expressly mentioned by the CBL Article 5, they can be considered embedded in the objective to ensure the <i>'stability of the banking system'</i>.</p> <p>The CBU is also tasked with the consumer protection objective (BL Chapter IX). In principle, this goal does not necessarily conflict with the <i>'safety and soundness'</i> of banks and the banking system; it could even complement it, for example, by mitigating legal and reputational risks stemming from relationships with retail customers.</p> <p>However, the way in which the consumers protection is spelled out by the CBU Law could determine a potential conflict with the financial stability mandate, because it intersects and embraces a broader financial inclusion mandate. For example, Article 62 CBL states that: <i>'To fulfil the functions of protecting the rights of consumers of the services of credit organizations, the Central Bank . . . takes measures to increase the availability of financial services'</i> (in the same vein, Article 12). Since a financial inclusion mandate is common to several other Central Banks, especially in emerging markets and developing economies. There could certainly be synergies between financial inclusion and financial stability, but also trade-offs. Conflicts could arise if the CBU accepts that banks lower loan underwriting standards to promote financial inclusion and reach underbanked or underserved population. In a country where the State plays a dominant role in the financial sector, such a conflict could materialize in relation to the vast array of government supports subsidized lending programs, due to their focus on disbursement.</p>

	<p>The assessors discussed with the CBU staff areas of synergies but also potential conflicts between financial stability and financial inclusion. The assessor also noted that, to mitigate these conflicts, the financial inclusion unit was separated from the Department of Methodology of Regulating Credit Organizations' (2023). Notwithstanding such expedient, the assessors concluded that potential conflicts between financial stability and financial inclusion persist.</p>
<b>EC3</b>	<p>Laws and regulations provide a framework for the supervisor to set and enforce minimum prudential standards for banks. The supervisor has the power to increase the prudential requirements for individual banks based on their risk profile and systemic importance.</p>
Description and findings re EC3	<p>The CBU issues Regulations <i>'that are binding on all individuals and juridical persons on the territory of the Republic of Uzbekistan'</i> (Article 9 of the CBU Law).</p> <p>Banks and banking groups <i>'are required to comply with the prudential standards established by the CBU'</i> to ensure financial stability and protect the legitimate interests of depositors and creditors (BL, Article 38).</p> <p>However, the CBU's power to set prudential standards is weakened by the LNLA, which requires that the draft normative legal act:</p> <ul style="list-style-type: none"> <li>• <b>must be agreed upon</b> with (i) interested state bodies and organizations; and (ii) with other state bodies and organizations in cases stipulated by legislation (LNLA, Article 30).</li> <li>• should pass the <b>registration by the Ministry of Justice</b> (MOJ) to come into force (LNLA, Article 37)</li> </ul> <p>According to the LNLA, any legislation that affects business activities must be consulted with the Chamber of Commerce and Industry. In the case of entrepreneur activities, this implies any financing activities such as interest rates set for entrepreneurship by the CBU must be agreed upon with the Chamber of Commerce and Industry (Article 102).</p> <p>The CBU pointed out that the responsible employees of the MoJ, when reviewing the normative legal acts of the Central Bank, examine the document <b>solely for its compliance with the legislation</b>. The assessors found instead that MoJ legal review power is broader. MoJ legal review can embrace provisions and norms that introduce <i>'excessive administrative and other restrictions for physical persons and legal entities'</i> (LNLA, Article 27). This power is wider and goes beyond 'compliance' with the Constitution and the laws of the Republic of Uzbekistan, or other normative legal acts that have higher legal force than the CBU regulation. Moreover, the MoJ can challenge the <i>'requirements of legal and technical drafting'</i> (including the observance of grammatical, orthographic and punctuation rules of the draft regulation, as concretely occurred).</p> <p>According to Article 110 of the LNLA, the MOF can refuse registration if the draft legal act:</p>

	<ul style="list-style-type: none"> <li>• is not agreed with all interested bodies at the level of their first heads (in exceptional cases, their first deputies)</li> <li>• does not include the documents specified by Article 109 (among them ,a legal opinion signed by the head of the developer's legal service, the tables of disagreements, the information about the chronology of development and agreeing of the draft etc.)</li> </ul> <p>The Lack of agreement with all interested bodies, including Chamber of Commerce and Industry, is ground for refusal. This exposes the CBU regulatory power to legal vulnerabilities: not only the MoJ can refuse the registration, but, if CBU does not coordinate with the Chamber of Commerce and Industry, banks or corporates could argue that the CBU breached the procedural rules when setting standards that '<i>directly or indirectly affect the implementation of business activities</i>'.</p> <p>The assessors became aware of a disagreement between the CBU and Chamber of Commerce which required the CBU justifying their powers over setting debt burden limits.</p> <p>In another case, the draft regulation on risk management was refused by Ministry of Justice on two bases: i) the proposed regulation was being introduced in a fragmented manner, ii) legislative draft techniques such as grammatical, orthographic and punctuation rules of the draft regulation were not observed.</p> <p>Such cases of disagreement between the Ministry of Justice and CBU have led to significant regulatory delays.</p> <p><b>Powers for setting of minimum prudential standards</b></p> <p>BL Article 38 empowers the CBU to set prudential standards on:</p> <ul style="list-style-type: none"> <li>• capital adequacy</li> <li>• concentration risk (both '<i>single-name</i>' and economic sector)</li> <li>• liquidity</li> <li>• limits to exposures to related party</li> <li>• limits for uncollateralized loans</li> <li>• assets classification and provisioning</li> <li>• accrual of interest on the bank's assets and their recording in the financial statements</li> <li>• limits to equity investments</li> <li>• requirements for the acquisition and ownership of real estate and other property</li> <li>• open currency position limits</li> <li>• other prudential standards established by the CBU in accordance with generally accepted international practice.</li> </ul> <p><b>Enforcement powers of the CBU</b></p>
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	<p>Chapter 7 of the BL (<i>'Measures and sanctions taken by the Central Bank for violations of legislation on banks and banking activities'</i>) deals with enforcement. It vests the CBU with the right to apply measures and sanctions against the bank, members of the supervisory board and the board, as well as key personnel of the bank who are responsible for violations specified in Articles 54, 55 and 56. Violations are classified as gross, serious and minor. Both gross and serious violations include non-compliance with prudential standards (see CP11).</p> <p>Moreover, BL Article 51 (<i>'Supervisory Measures'</i>) enables the CBU to require banks and banking groups to take immediate actions in several cases, including ensuring and maintaining prudential capital standards in excess of the requirements set by the CBU; submitting an action plan to ensure the compliance of the activities of the banks or banking groups with the requirements of the BL; early termination of powers or replacement of one or more members of the supervisory board, etc.</p> <p><b>Powers to increase the prudential requirements.</b></p> <p>Article 38 of the BL confers to the CBU the <i>'right to establish additional premiums to the values of <b>liquidity and capital adequacy ratios</b> for banks, banking groups and systemically important banks, to cover potential losses arising from maximum changes in risk factors.'</i></p> <p>Pursuant to Chapter 3, par. 5 of the CBU RCAR, the CBU can require the banks to increase the size of their regulatory capital in cases of:</p> <ul style="list-style-type: none"> <li>• unsatisfactory financial situation that may lead to unsecured and unstable banking activity</li> <li>• unsatisfactory forecasts profits</li> <li>• high level of risks and off-balance items</li> </ul> <p>The CBU may also require banks to ensure a <u>higher</u> capital adequacy coefficient based on the risks inherent in their activities, economic conditions, and financial position. Such risks include, but are not limited to, large amounts of NPLs, net losses, high asset growth, high risk of interest rate risk, or risk-based activities (Regulation of the Capital Adequacy Requirement for Commercial Banks, RCAR, Chapter 7, par. 39).</p> <p>Although no similar provisions are contemplated by the CBU Regulation on Requirements for Liquidity Management of Commercial Banks No. 2709/2015 (RRLM), the assessors considered that the power to increase liquidity prudential requirements is sufficiently covered by the BL, either in relation to risk profile (risk factor) or systemic importance.</p> <p>Along with capital and liquidity requirements, other provisions enable the CBU to increase the prudential requirements for individual banks based on their risk profile and systemic importance. For example, Article 51 of the BL entitles the CBU to require banks and banking group to take immediate actions by (i) applying individual reserve</p>
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	requirements (e.g. <b>provisioning</b> ), (ii) providing additional <b>reporting or disclosure</b> of information; (iii) <b>fulfill other instructions</b> by the CBU.
<b>EC4</b>	Banking laws, regulations and prudential standards are updated as necessary to ensure that they remain effective and relevant to changing industry and regulatory practices. These are subject to public consultation, as appropriate, and published in a timely manner.
Description and findings re EC4	<p>Banking laws, regulations and prudential standards have been updated by the CBU, as and when considered necessary.</p> <p>In 2019, Uzbekistan's Senate approved a package of financial sector laws, including amendments to the CBL Law to enhance the Central Bank's independence, and broader revisitation to the BL to meet international standards.</p> <p>In May 2020 the <b>Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025</b> was approved (see CP2, EC4) and since then several prudential standards have been updated to pursue the objectives of this strategy. For example, in line with the goal to increase the efficiency of the banking system, the strategy identified improvement in banks' governance and the CBU approved '<i>Regulation on corporate governance of commercial banks</i>' No. 3254/2020. In the same vein, to ensure financial stability, the strategy, among other things, pointed out the need to (i) increase the minimum capital of banks; (ii) and introduce a modern risk management system. Accordingly, in 2023, amendments to BL increased the minimum capital for banks (see CP 5). Moreover, as mentioned in EC3, in April 2023 the CBU approved the Regulation on minimum requirements for the risk management system in banks and banking groups No 3427/2023. Several other prudential standards have been accordingly updated in recent years: it is worth mentioning the Regulation "<i>On the Procedure for Applying Measures and Sanctions in Relation to Banks and Non-Bank Credit Organizations</i>" No 3492/2024.</p> <p><b>Public Consultation and publication</b></p> <p>In accordance with Article 24 of the LNL draft regulatory legal acts are posted by the CBU on the <b>portal</b> for public discussion as prescribed by law. The period of public discussion is determined by the originator of the legislation based on the specifics of the topic. It cannot be less than fifteen days from the date of posting the draft regulatory legal acts on the portal. The originator of the legislation is obliged to justify the reason for rejecting comments.</p> <p>Pursuant to BL Article 38 '<i>The upcoming changes in prudential standards are officially announced by the Central Bank no later than one month prior to their enactment</i>'.</p> <p>The CBU highlighted that an informal pre-consultation takes place with banks by sharing the draft regulation. Although the BL Article 10 envisages the Banking Association for the exchange of information and joint solutions on issues related to the implementation of banking activities, in Uzbekistan the Banking Association does not play an active role in executing this activity.</p>



	Normative Legal Act must be published on the official websites of the bodies within one day after its adoption. The publication of normative legal acts shall be a mandatory prerequisite for the application of the law (Article 38 LNLA).
<b>EC5</b>	<p>The supervisor has the power to:</p> <ul style="list-style-type: none"> <li>(a) have full access<sup>12</sup> to a bank's board, management, staff and records (including records that are held by relevant service providers and can be accessed either directly or through the supervised bank);</li> <li>(b) review the overall activities of a bank (including activities performed by relevant service providers), whether domestic or cross-border; and</li> <li>(c) supervise the foreign activities of banks incorporated in its jurisdiction.</li> </ul>
Description and findings re EC5	<p>Several provisions ensure that the CBU has full access to and power to review the banks' overall activities and their relevant service providers. The CBU can access bank's premises', board, management, staff and records during on-site inspections; moreover, it can access banks' board, senior management and staff through its curators (see CP 8).</p> <p>Article 61 of the CBL Law confers to the CBU the right to inspect and review reports and other documents, not only on banks, but also of their relevant service providers. It states that <i>'to exercise the supervisory function the CBU has the right to:</i></p> <ul style="list-style-type: none"> <li>• <i>request and verify reports, as well as other documents, require clarification of information received from credit institutions, and related persons . . . as well as banking groups, <b>persons providing services and transactions transferred outsourced by banks</b>, and associations (unions) of credit institutions;</i></li> <li>• <i>inspect (check) credit institutions . . . <b>persons providing services and operations outsourced by banks</b>, as well as persons subject to consolidated supervision</i></li> </ul> <p>Moreover, BL:</p> <ul style="list-style-type: none"> <li>• Article 45 obliges banks to provide the CBU with the information necessary to assess their compliance with the prudential requirements of the legislation on banks and banking activities.</li> <li>• Article 41 requires banks that outsource services to ensure the provision of information to the CBU of the outsourced services and its operations</li> <li>• Article 50 empowers CBU to (i) receive and check reports, as well as other documents, demand clarification of information received from banks, related persons and persons subject to its supervision, as well as <b>persons performing services and operations outsourced by the bank</b>; (ii) check the activities of banks, <b>persons providing services and operations outsourced by the bank</b>, as well as persons subject to consolidated supervision; and (iii) use information system and database banks</li> </ul>

<sup>12</sup> For this purpose, "access" includes supervisory access in person to the bank's premises, and to senior executive staff and the board (both individual members and as a whole) in person or virtually as needed.

	<ul style="list-style-type: none"> <li>Article 47 requires the CBU to annually approve a supervisory program which includes an <b>inspection plan</b> and enables the CBU to conduct additional inspections, as necessary, and it permits thematic examination of certain risks.</li> </ul> <p><b>Foreign activities of banks</b></p> <p>The CBU has the power to supervise the foreign activities of banks incorporated in its jurisdiction based on Articles 31 and 48 of the BL.</p> <p>Article 31 of the BL consents Uzbekistan banks, with the CBU permission, to open subsidiaries abroad and create branches, and provide capital to create other banks, including in the creation of foreign banks, in the following cases:</p> <ul style="list-style-type: none"> <li>(i) the existence of an agreement on the exchange of information between the CBU and the banking supervisory authority of the host country;</li> <li>(ii) the legislation of the host country and the methodology for its application do not impede the <b>performance of the CBU of supervisory functions over a subsidiary or branch</b>;</li> <li>(iii) the management and financial condition of the bank are sufficient for the planned activities carried out through a subsidiary or branch;</li> <li>(iv) compliance with prudential standards and with other requirements of the legislation on banks and banking activities.</li> </ul> <p>Point (ii), implies that the CBU has the power to supervise the foreign activities of banks incorporated in its jurisdiction.</p> <p>Moreover, according to Article 48 of the BL, the <b>CBU should exercise consolidated supervision</b> over banks in the following cases:</p> <ul style="list-style-type: none"> <li>creation of a banking group;</li> <li>determination by the CBU of the bank as the parent bank or member of the banking group by '<b>reasoned judgment</b>';</li> </ul> <p>To organize effective interaction, exchange of information and establish effective supervision on a consolidated basis, the CBU has the right to conclude written agreements on interaction and cooperation with the banking supervisory authorities, including of other countries, observing the procedure for the use of secrets, personal data and confidential information protected by the laws of the countries (see CP3).</p>
<b>EC6</b>	<p>When, in a supervisor's judgment, a bank is not complying with laws or regulations, or it is engaging or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system, the supervisor has the power to:</p> <ul style="list-style-type: none"> <li>(a) take (and/or require a bank to take) timely corrective action;</li> <li>(b) impose a range of sanctions;</li> <li>(c) revoke the bank's license; and</li> <li>(d) cooperate and collaborate with relevant authorities to achieve an orderly resolution of the bank, including triggering resolution where appropriate.</li> </ul>

Description and findings re EC6	<p><b>Corrective actions</b></p> <p>According to 67 of the CBU Law, the CBU has the right to apply measures and sanctions to banks, direct and indirect shareholders, including BO, members of the supervisory board and management board, as well as key personnel of banks, in accordance with the legislation on banks and banking activities.</p> <p>Article 51 of the BL (<i>Supervisory measures</i>) enables the CBU to require banks or banking groups to take <b>immediate action</b> in cases of:</p> <ul style="list-style-type: none"> <li>• inconsistency of the activities with the requirements of the legislation on banks and banking activities</li> <li>• presence of information based on the reasoned judgment about the <i>possible violation</i> of the requirements of the legislation on banks and banking activities <i>within the next twelve months</i></li> <li>• identification of <i>risks</i> affecting the activities and (or) information security of the bank or banking group.</li> </ul> <p><b>Sanctions</b></p> <p>As detailed under CP 11, the BL defines gross, serious, and minor violations (Articles 54, 55 and 56 of the BL) and enables the CBU to impose a range of measures and <b>sanctions</b> for each type of violations (Articles 57, 58, and 59 of the BL). If it is possible to quantify the incomes received from the financial transactions carried out by the bank in violation of the BL, the fines could reach <u>two times</u> the amount of these income in case of gross violation; <u>one and a half times</u> for serious violations; the amount of these incomes, for minor violation. If such a quantification is not possible, the fines could be 5, 2 or 1 percent of the net profit received by the bank for the previous financial year, or 1, 0.5, or 0.1 percent of the total capital of the bank, respectively, for gross, serious, or minor violations. Other measures are also available to the CBU and are detailed under CP11.</p> <p><b>Revocation of bank license</b></p> <p>In case of gross violation, the CBU could also <b>revoke a banking license</b> (BL Article 57; see CP 11). Moreover, the CBU has the right to revoke a banking license in cases, among others, a bank fails to comply with the conditions for granting a license; a bank incurs or may incur losses exceeding ten percent of its regulatory capital in three consecutive quarters or fifty percent of the regulatory capital, regardless of the time period; at the onset of bank insolvency. The CBU has recently revoked 2 banking licenses (see CP 11)</p> <p><b>Orderly resolution of bank</b></p> <p>While some instruments are in place for reorganization and liquidations of banks, the development of broader mechanisms for an <b>orderly banks' resolution</b> is missing. The CBU staff highlighted that the draft Law of the Republic of Uzbekistan "<i>On Resolution and Liquidation of Banks</i>" enables the CBU, when exercising its powers to rehabilitate and liquidate banks, to cooperate and exchanges information with state bodies and organizations, as well as supervisory authorities of foreign states. The assessors took</p>
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	note of the existence of a draft Law but could not incorporate it in such exercise before its enactment.
<b>EC7</b>	The supervisor has the power to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank. The supervisor has access, whether directly or through the supervised bank, to all necessary information for conducting such a review irrespective of where it is available.
Description and findings re EC7	<p>The BL neither defines the 'parent company' nor 'companies affiliated with parent companies'. It does define <b>parent bank</b> (BI Article 3). The Civil Code (Article 68) defines instead 'associate' company as 'dependent if another participating company has more than twenty percent of its voting shares'.</p> <p>The CBU highlighted that several provisions in the BL would enable it to exert supervisory function over a parent company and companies affiliated with parent companies to determine their impact on the safety and soundness of the bank. For example, the CBU quoted definition of '<i>person related to a bank</i>' (see CP 20), and mentioned also '<i>person subject to consolidated supervision</i>' (Article 61, 64 and 66). In the context of the licensing procedures, the CBU also highlighted its power to review the activities of the founder, the potential acquirer, or substantial owner (see CP 5 and CP6). If the parent company and its affiliates are foreign, the CBU underscored it could rely on the cooperation agreement and exchanges of information with international organizations, central banks and other foreign supervisors (BL Article 68).</p> <p>The assessors expressed the view that a review of the powers of the CBU, and appropriate legislative amendments are recommended to obviate any legal uncertainty and to unambiguously vest it with powers to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank. In substance the assessors have not found robust evidence that the CBU reviews the activities of parent companies and of companies affiliated with parent companies and assess their impact on the safety and soundness of the bank.</p>
<b>Assessment of Principle 1</b>	<b>Largely Compliant</b>
Comments	<p>To avoid double jeopardy, the issues related to the involvement of the Chamber of Commerce and Industry and the Ministry of Justice in issuing CBU regulations are addressed as part of the assessment of CP 2</p> <p>Finding</p> <ul style="list-style-type: none"> <li>The CBU's primary objective of banking supervision is to promote safety and soundness of banks and the banking system, but other objectives, including consumer protection and financial inclusion are not subordinated. The BL does not clearly state that the CBU has the power to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank.</li> </ul>

	<p>Recommendations</p> <ul style="list-style-type: none"> <li>Subordinate the CBU's responsibility in consumer protection and financial inclusion and development to its primary objective to ensure the safety and soundness of banks and the banking system. Empower the CBU to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank.</li> </ul>
<b>Principle 2</b>	<p><b>Independence, accountability, resourcing and legal protection for supervisors.</b><sup>13</sup></p> <p>The supervisor possesses operational independence, transparent processes, sound governance, budgetary processes that do not undermine autonomy, and adequate resources, and is accountable for the discharge of its duties and use of its resources. The legal framework for banking supervision includes legal protection for the supervisor.</p>
<b>Essential criteria</b>	
<b>EC1</b>	<p>The operational independence, accountability and governance of the supervisor are prescribed in legislation and publicly disclosed. There is no government or industry interference that compromises the operational independence of the supervisor. The supervisor has full discretion to set prudential policy and take any supervisory actions or decisions on banks under its supervision.</p>
Description and findings re EC1	<p>The legal status, powers, functions, and organization of activity of the CBU are determined by the Constitution of the Republic of Uzbekistan, the CBU Law, and other acts of legislation (CBU Law, Article 3).</p> <p><b>Independence</b></p> <p>Pursuant to Article 151 of the Constitution of the Republic of Uzbekistan, the CBU shall be independent in carrying out its tasks.</p> <p>Moreover, several provisions of the <u>CBU Law</u> protect the operational independence of the CBU, not only as a supervisor, but in general as Central Bank, and to prevent either government or industry interference:</p> <ul style="list-style-type: none"> <li>Firstly, <i>'The CBU makes decisions within the limits of its powers and functions <b>independently</b> of other public authorities and governing bodies. The CBU is not liable for the debts of the state, and the state is not liable for the debts of the CBU, unless they themselves have assumed such obligations or unless otherwise is provided by law</i> (CBU Law Article 3);</li> <li>Secondly, <i>'the procedure for carrying out an <b>inspection</b> on persons subject to supervision is determined by the CBU <b>independently</b>. Inspection are be carried out <b>without the consent</b> and notification of state bodies and other organizations</i> (CBU Law Art. 66)</li> <li>Thirdly, the <b>CBU is prevented from providing loans or financial assistance to the Government</b> of the Republic of Uzbekistan, other public authorities, and organizations, including financing the deficit of the State budget of the Republic of Uzbekistan. The CBU is also <b>prevented from participating in the capital of banks</b>, and it cannot issue guarantees for the obligations of third parties, including the Government of the Republic of Uzbekistan (CBU Law Article 6).</li> </ul>

<sup>13</sup> Reference document: BCBS, Report on the impact and accountability of banking supervision, July 2015.

	<ul style="list-style-type: none"> <li>• Fourth, as regards the <b>distribution of profits to the State</b>, the Board is entitled to form by its decision reserves and special purpose funds. It is not allowed to transfer the remainder of the profits to the State budget prior to the consideration of the CBU annual report (CBU Law Article 14)</li> <li>• Fifth, the CBU is not entitled to use operations in the open market <b>to finance the State budget, buy government securities</b> of the Republic of Uzbekistan at their initial placement (Article 34)</li> </ul> <p>CBU and banks are not responsible for each other's obligations (CBL Law, Article 56). The CBU has shown to the assessors that it possesses discretion to <b>take supervisory actions</b> or decisions on banks under its supervision, <b>including SOBs</b>. The CBU demonstrated that it applied sanctions to state-owned banks (SOB) and prevented 4 of them from issuing new loans (not secured by funds) until the share of NPLs reached the level of 5 percent of total loans (see CP 11). It also removed a board member of a SOB (see CP 14) and recommended changing the head of risk management (see CP 15). Nevertheless, as described under CP1, the CBU discretion to <b>set prudential policies</b> is not 'full', since legislation that effects business activities, including financing activities, must be consulted and agreed with the Chamber of Commerce and Industry, and its entering into force is subject to the MoJ registration (LNAL, Article 102). From a policies setter standpoint, the CBU independence, while upheld in principle in the CBU Act, is limited by the LNLA either vis-a-vis the industry/private sector parties due to the need to achieve agreement with the Chamber of Commerce and Industry – an entity which among others represents private banks – or with regard to the government, because the MoJ can refuse registration based on technical and not technical grounds.</p> <p><b>Accountability</b></p> <p>The CBU is <b>accountable</b> to the Senate of the Oliy Majlis (Parliament) of the Republic of Uzbekistan, which reviews the annual report together with the conclusion of the audit organization (CBU Law, Article 8). The annual report with the attachment of the conclusion of the audit organization is submitted for consideration by the Senate of the Oliy Majlis of the Republic of Uzbekistan no later than May 15 of each year. It includes an analysis of the state of the economy; a report on the activity of the CBU, including an overview of monetary policy and the state of the banking sector. The CBU publishes an annual report on its official website annually. The assessors went through the last two CBU annual reports and found them a useful source of information in the field of financial stability of the banking system.</p> <p><b>Governance</b></p> <p>The supreme body of the CBU is the Executive Board (CBU Law, Article 18). The CBU Executive Board is vested with multiple prerogatives. In the sphere of banking regulation and supervision, the Board determines the calculation procedure and permissible values of prudential standards for banks, including domestic systemically</p>
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	<p>important banks (D-SIBs) and banking groups; approves the rules for financial transactions and accounting for banks; makes decisions on the issuance, renewal and revocation of banking licenses; approves the regulations and composition of the <b>Banking Supervision Committee</b> (see EC4) and hear its reports; makes decisions on the banking system in accordance with the requirements of the legislation; approves the minimum requirements for the activities of banks in the implementation of relationships with their customers (CBU Law, Article 20).</p> <p>The <b>Internal Audit Service</b> carries out internal audit of the CBU activity and report to the <b>Audit Committee</b> (CBU Law, Article 16). The Audit Committee consists of three members, one of which is independent; members are appointed by the CBU Board of Directors to whom the Audit Committee is accountable for its activities.</p> <p>The CBU is also subject to <b>external audit</b>, carried out annually by audit organizations in accordance with International Standards on Auditing. Information obtained by the external auditors is confidential and not subject to disclosure without his consent (CBU Law, Article 17).</p>
<b>EC2</b>	<p>The process for the appointment and removal of the head(s) of the supervisory authority and members of its governing body is transparent. The head(s) of the supervisory authority is (are) appointed for a minimum term and is (are) removed from office during their term only for reasons specified in law or if they are not physically or mentally capable of carrying out the role or have been found guilty of misconduct. The reason(s) for removal is (are) publicly disclosed.</p>
Description and findings re EC2	<p>The CBU Board of Directors consists of nine members:</p> <ul style="list-style-type: none"> <li>the Chairman, who is Chairman of the CBU, is appointed for <u>five years</u> (CBU Law Article 23) and released from the position by the Senate of the Oliy Majlis of the Republic of Uzbekistan on the proposal of the President of the Republic of Uzbekistan (CBU Law Article 19);</li> <li>the first Deputy Chairman and five deputies are appointed and dismissed by the President of the Republic of Uzbekistan on the proposal of the Chairman (CBU Law, Article 24). There is no term for these positions;</li> <li>two independent members, approved by the Committee of the Senate of the Oliy Majlis of the Republic of Uzbekistan on the proposal of the Chairman of the Central Bank. CBU Law does not specify the term limit of the two independent members of the CBU Board of Directors.</li> </ul> <p>As regard the <b>transparency of the appointment process</b>, the law does not clarify <u>eligibility criteria</u> for Board members (for example, sound reputation, honesty/integrity, and minimum years of professional experience), as well as incompatibility criteria (e.g. between CBU Board members and members of the Parliament/Government). However, the CBU pointed out that Article 25 of the CBU Law does apply also to Board members (except independent members) as they are staff of the CBU; this Article, among other prescriptions, prevent them from engaging in any other types of paid activities, except for scientific and teaching activities. Such a ban should adequately <u>cover incompatibility</u></p>

	<p><u>criteria</u>. Nonetheless, it would be opportune to also spell out eligibility criteria. Moreover, since independent members are not staff of the CBU, there are neither eligibility criteria nor incompatibility criteria for them.</p> <p>Pursuant to Article 23 of the CBU Law, the CBU Chairman may be dismissed from his post on the following reasons:</p> <ul style="list-style-type: none"> <li>• expiration of the term of office</li> <li>• self-application for dismissal from the post, indicating the reasons</li> <li>• entry into legal force of the court's conviction against him</li> <li>• the impossibility of fulfilling the official duties for health reasons, based on the conclusion of the state medical commission</li> <li>• death or declaring as deceased by a court decision</li> <li>• committing actions incompatible with being in office, including gross violation of this Law and causing significant damage to the interests of the Central Bank.</li> </ul> <p>Under the Chairman's proposal, the President of the Republic can dismiss the First Deputy and Deputy Chairmen from their positions on the following reasons:</p> <ul style="list-style-type: none"> <li>• application for dismissal from the post, indicating the reasons</li> <li>• entry into legal force of the court's conviction against them</li> <li>• impossibility to fulfill their official duties for health reasons, based on the conclusion of the state medical commission</li> <li>• death or declaring as deceased by a court decision</li> <li>• committing actions incompatible with being in office, including gross violation of this Law and causing significant damage to the interests of the Central Bank.</li> </ul> <p>The law does not prescribe that <b>reasons for dismissal are publicly disclosed</b>. Such a deficiency is important to be addressed, because soon after the BCP mission, the assessors became aware of the early termination of the mandate of the CBU Chairman, without a disclosure of the reason. The CBU contended that reasons for dismissal stand public in so far as they are provided by the law. The assessors acknowledged that the law limits the reasons for dismissal; however, once the decision of dismissal is taken, the reasons supporting it should be publicly disclosed. This was not the case for the recent termination of the CBU Chairman, which occurred before the natural end of his term. According to the explanation provided by the CBU, the termination of the Board Chairman mandate was carried out in accordance with the decision of the Council of the Senate of the Oliy Majlis of the Republic of Uzbekistan (Decision No. KQ-15-V, dated 11 December 2024). This decision followed a presentation by the President of the Republic of Uzbekistan and was based on the Chairman's formal application for dismissal, which detailed the reasons for his release from the position. While the described procedure formally abides by Article 23 of the CBU Law, (<i>'self-application for dismissal from the post, indicating the reasons'</i>), the assessors expressed the view that such Article should be amended, because it leaves the reason for termination obscure. In addition, the law is also silent on the <b>process of removal of the two independent members</b>.</p>
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<b>EC3</b>	The supervisor publishes its objectives and is accountable through a transparent framework for the discharge of its duties in relation to those objectives. The supervisor regularly communicates its supervisory priorities publicly.
Description and findings re EC3	<p>The <b>CBU has not formally published its supervisory objectives</b>. However, in the last 4 years, they have been intimately related to the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025, approved by Decree of the President of the Republic of Uzbekistan dated May 12, 2020, No UP-5992.</p> <p>This strategy, which is <u>public</u>, defined the goals, <b>objectives and priorities</b> for the development of the banking system, delineate the directions for its transformation and reform in the period 2020-2025, and identify possible solutions based on the experience of foreign countries and considering global trends in the financial sector. Nevertheless, considering that the strategy is approaching its natural end (2025), the CBU needs to take stock of what has been achieved, undertake the activities not completed yet, redetermine its goals and clearly communicate supervisory priorities.</p> <p>The strategy identifies <b>four priority areas</b> of reforms to address the challenge stemming from the dominant position of the state in the banking sectors:</p> <ul style="list-style-type: none"> <li>• <b>Increasing the efficiency of the banking system</b> by creating equal competitive conditions in the financial market, lending exclusively on a <u>market basis</u>, reducing the dependence of banks on state resources, modernizing banking services, creating an effective infrastructure and automating banks' activities, as well as phasing out non-core functions of banks. To that aim, it was planned to introduce <u>advanced standards on corporate governance</u>, abandoning subsidized lending, liberalize banking activities and harmonize them with the best international practices to attract strategic foreign investors.</li> <li>• <b>Ensuring the financial stability</b> by improving the quality of the loan portfolio and risk management, maintaining moderate growth in lending volumes, improving corporate governance and <u>attracting managers with international practical experience</u>, introducing technological solutions for assessing financial risks. To that goal, it was considered to improve supervision, <u>introduce a modern risk management system</u>, <u>increase the minimum capital</u>, develop a deposit insurance system, conduct an independent asset quality review (AQR) of banks with a state share, integrating the credit bureaus database, improving the legislation on out-of-court settlement, bankruptcy, and enforcement.</li> <li>• <b>Reduce the state share in the banking sector.</b> The privatization of large banks is proceeding in two phases. The first stage consisted of an <u>institutional transformation</u> (2020-2021) of SOB, with the cooperating international financial institutions. This should have led to improve (i) corporate governance (with experienced independent members, specialized committees, review of the organizational structure, assess the quality of the executives, transition to international financial reporting standards, IFRS); (ii) business strategy (expanding the range of banking services) and (iii) operations (introduction of modern information technologies, and develop</li> </ul>

	<p>human resources). The second stage contemplated the sale of the state stake in banks on a competitive basis to investors with appropriate experience, knowledge and reputation ("Ipoteka-Bank", "Uzpromstroybank", "Aloqabank", "Asaka", 'Qishloq Qurilish' and 'Turon'). To meet the financial needs of all segments of the population, it was planned to retain the state's participation in three banks ("National Bank for Foreign Economic Affairs", "Agrobank" and JSCB "Microcreditbank"). At the date of the BCP assessment three state owned banks were privatized.</p> <ul style="list-style-type: none"> <li>• <b>Increase the availability and quality of financial services</b> through the concentration of state presence and the adoption of targeted measures on underserved and vulnerable segments, the development of a network of low-cost service points, and the creation of favorable conditions for the formation and development of non-bank credit institutions. It was planned to develop the <i>National Strategy for Increasing Financial Inclusion</i>, and a holistic and cost-effective financial intermediation system to fill existing gaps; optimize the existing network of bank branches, introduce "digital banking" business model, and taking measures to develop mortgage lending in urban and rural areas.</li> </ul> <p>In this context, <b>the CBU was responsible for the below measures:</b></p> <ul style="list-style-type: none"> <li>• revision of the regulatory and supervisory framework, in accordance with the BL and the CBU Law to ensure a smooth transition from a state-dominated banking sector to a sector with a more visible role for private investors</li> <li>• revision of licensing regulations to ensure the entry of stable players with long-term, realistic strategic initiatives and viable business plans to maintain the stability and integrity of the sector</li> <li>• development and approval of regulatory legal acts considering the recommendations of the BCBS</li> <li>• curbing excessive growth of the loan portfolio by introducing capital buffers for systemically important banks</li> <li>• developing requirements for the transparency of banks and information published by banks on a regular basis</li> <li>• enhancing the capacity of staff involved in oversight activities</li> <li>• developing a prompt corrective actions mechanism to solve problems at an early stage</li> <li>• enhancing the role of information technology in the process of oversight, data exchange and reporting</li> <li>• gradual reduction of non-core functions of banks</li> <li>• development a regulatory framework for consolidated supervision</li> <li>• ensuring compliance with capital adequacy and liquidity requirements</li> <li>• revision of the provisions on corporate governance, internal control and risk management</li> <li>• developing requirements for a reliable stress testing system in banks</li> <li>• Improving the reporting system by reducing unnecessary and outdated reporting requirements and automating the reporting process for effective oversight</li> <li>• transition to risk-based supervision, which allocation of resources in the areas of the greatest risk, e.g. large systemic banks, banks with a high or deteriorating risk profile and/or business activities with poor quality of risk management</li> <li>• adopting of an appropriate system of resolution, as well as deposit insurance</li> </ul>
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	<ul style="list-style-type: none"> <li>developing guidelines for the management of various risks (concentration and liquidity risk, credit, operational, currency risk, etc.)</li> </ul> <p>To achieve these objectives, Appendix II of the strategy designed a roadmap with the CBU responsible for several deliverables within specific timelines.</p> <p><b>The CBU achieved some important goals in the last four years.</b> Among them it is with mentioning: the on-going transition to risk-based supervision; revisiting the RCG; revision of licensing regulations; developing the regulation for risk management; increasing the minimum capital; developing the draft Law "On Bank Resolution and Liquidation"; issuing a regulation of the debt burden on individual borrowers.</p> <p>However, similar achievements have not been reached in other important areas like <b>consolidated supervision</b> (deadline for the regulation expired in 2022), <b>amending the regulation on asset quality and provisioning</b> to bring it in line with the Basel Framework and IFRS 9 (deadline 2022) and introducing a <b>capital buffer for D-SIBs</b>.</p>
<b>EC4</b>	<p>The supervisor has effective internal governance and communication processes that enable timely supervisory decisions to be taken at a level appropriate to the significance of the issue and expedited procedures in the case of an emergency. The allocation of responsibilities within the organization as well as the delegation of authority for particular tasks or decisions are clearly defined. Supervisory processes include internal checks and balances to support effective decision-making and accountability. The governing body is structured to avoid any real or perceived conflicts of interest.</p>
Description and findings re EC4	<p>The CBU Board of Directors determines and manages the main activities of the CBU (CBU Law, Article 18). The Board has allocated responsibilities and delegated authority for the <b>regulatory and supervisory functions to the Banking Supervision Committee</b>, determining tasks and mandates, (CBU Law Article 64).</p> <p><b>The Banking Supervisory Committee</b></p> <p>The composition of the Committee is approved by a resolution of the CBU Board (Chapter 3, Regulation "On the Banking Supervision Committee of the Central Bank of the Republic of Uzbekistan" No3/3 January 2024; RBSC). The number of members should be odd. At present, the Committee consists of 11 members:</p> <ul style="list-style-type: none"> <li>(i) the Chairman is the First Deputy Chairman of the CBU Board (who does not have responsibility on monetary policy);</li> <li>(ii) the Deputy Chairman of the CBU Board is also Deputy Chairman of the Committee);</li> <li>(iii) 9 heads of key Departments (Currency Regulation and Balance of Payments, Inspection, Prudential Supervision of Banks, Financial Monitoring, Consumer Protection, Licensing, Methodology, Payment Systems, and Legal).</li> </ul> <p>Meetings of the Committee are held as necessary, but <u>at least twice a month</u>. The Committee is charged with multiple tasks. Among them, it approves the <b>annual program of prudential supervision; the composition of banks' supervisory board, management board and key personnel</b>. It also issues or refuses to issue the qualification certificate for the external auditors of banks (see CP 27); it makes decisions based on the <b>reasoned judgment</b>. The Committee proposes to the CBU Board the</p>

	<p>licensing and registration of banks, as well as restriction to the distribution of profits, authorization for the early repayment of subordinated loans; establishment of additional buffers to liquidity and capital, including for the D-SIB buffer; measures aimed at improving banking supervision.</p> <p>There are several provisions in the RBSC which ensure check and balance mechanisms. Among them, it is worth mentioning those related to conflict of interests (Article 10) and the procedure for including and discussing issues on the agenda and making decisions (Chapter 5).</p> <p><b>Reasoned Judgment</b></p> <p>The Banking Supervision Committee is responsible for making decisions <b>based on the 'reasoned judgment'</b> when conducting the following assessment (CBU Law, Article 63):</p> <ul style="list-style-type: none"> <li>• licensing (evaluation of financial position and impeccable business reputation of founders and owners of a bank's shares, including BOs;</li> <li>• <i>'persons acting in concert'</i>;</li> <li>• related party transactions;</li> <li>• risk management and internal control;</li> <li>• assets and liability of a bank.</li> </ul> <p>The <b>reasoned judgement</b> is equivalent to <i>'supervisory judgement'</i>. In principle, all supervisory decisions involving discretion should be based on reasoned judgement. The procedure for the <b>reasoned judgment</b>, which is described under CP8, EC1, envisaged a <b>robust process for making supervisory decisions, anchoring supervisory discretion to facts. It is also respectful of defense rights</b>, ensuring that banks and their direct and indirect founders and shareholders can submit a motivated response during the due diligence (<b>right to comments</b>), and can be invited to attend the meeting of the Banking Supervisory Committee (<b>right to be heard</b>). However, the CBU is not able adopt a <i>'provisional motivated judgment'</i>, giving the persons concerned the opportunity to be heard as soon as possible <u>after</u> taking its decision. If there is a need to expedite procedures (for example, resolution decision or urgent decision necessary to prevent significant damage to the financial system), the CBU should be able to exert a <i>'provisional motivated judgment'</i> providing the concerned party with the right to be heard <u>after</u> the decision is taken. That would be an important complement to the CBU powers in those cases when urgent action is needed; for example, if the need arises to classify a borrower as a related party and prevent the bank from further lending.</p> <p><b>Communication process</b></p> <p>The CBU Law requires the CBU to develop and implement a communication policy, with the goal to increase the effectiveness not only of monetary policy, but also of the <b>banking system stability measures</b>, by communicating the goals and essence of the CBU policy to the public. The communication policy of the CBU is carried out through</p>
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	<p>the publication of analytical materials, reviews, statistics, interviews, speeches, as well as through the organization of press briefings.</p> <p>Moreover, in line with the Law of the Republic of Uzbekistan "On the openness of the activities of state authorities and administration" (No ZRU-369) Decree of the President of the Republic of Uzbekistan dated 14.06.2022 "On measures to increase the level of openness of the activities of state bodies and organizations and the introduction of an assessment system", the CBU is enhancing its communication process also through the social networks such as Telegram, Facebook, Twitter, Instagram, LinkedIn, Youtube.</p> <p>To ensure the transparency of the banking system, the CBU is also requested to publish and regularly update its official website with information pertaining to laws and other normative legal acts adopted in the field of supervision and regulation of banks, and recommendations for their application; general criteria and methodologies used in testing the systems, strategies, procedures and mechanisms used by banks to comply with the requirements of banking legislation, and assessing the risks to which banks are or may be exposed; list of bank managers; data contained in the statements of banks (with the exception of information constituting bank secrets or other secrets protected by law); <b>measures and sanctions taken</b> (CBU Law, Article 69; see CP 11). Moreover, the CBU publishes on its official website the reasoned decision related to the application for obtaining a preliminary permission to acquire the bank's shares, even without the consent of a potential acquirer (BL Art, 28).</p> <p><b>Conflict of interest</b> CBU Law:</p> <ul style="list-style-type: none"> <li>• Article 7 requires the CBU to develop and implement a policy to prevent, identify and manage conflicts of interest and measures to prevent corruption, which are mandatory for all employees of the Central Bank, as well as its subordinate organizations.</li> <li>• Article 20 mandates the CBU Board of Directors to consider and approve the policy for the prevention, identification and management of conflicts of interest.</li> <li>• Article 24 requires the Chairman of the CBU to ensure the separation of mandates between his deputies, as well as the heads of independent structural divisions, including in the implementation of banking regulation, supervision and control in the field of financial market, to prevent, identify and manage conflicts of interest.</li> </ul> <p>There are rules to mitigate conflict of interest that might arise within members of the Banking Supervisory Committee, including the Chairman and the Deputy Chairman (RBSC paragraph 10). They require notification of the conflict, the reflection of this circumstance in the decision, and the abstention duty from discussion.</p>
<b>EC5</b>	<p>The supervisor and its staff have credibility based on their professionalism and integrity. There are rules on how to avoid conflicts of interest and on the appropriate use of information obtained through work, with sanctions in place if these are not followed.</p>

<p>Description and findings re EC5</p>	<p>Pursuant to Article 25 of the CBU Law, the CBU determines independently procedures for assessing the qualifications and professional level of employees.</p> <p>The professionalism of the CBU staff working in banking supervision is out of question. It has been pursued through ensuring transparency in the recruitment processes, as well as improvement of qualifications through training. The recruiting process is based on open competition and enables the CBU to test the level of knowledge of foreign languages. The CBU is proud that the interview process, conducted by an expert group of specialists, is based on impartiality, transparency and equal opportunity for all candidates, and is regularly monitored by specialists of Compliance-control and Internal Audit departments. However, the assessors noted the limited number of females in the managerial position. During the hiring process, data of candidates are studied to prevent corruption risks, paying attention to information about cases of conflict of interest, behavior in the previous workplace, honest and impartial performance of the duties assigned to them in their work activities. In conjunction with a new Law on Conflict of interest, which prevented employees of State Authorities from holding shares in the business entity under control, the Compliance Unit undertook an assessment and found that 21 employees had invested in shares of banks. The CBU highlighted that the conflict of interest was related to staff employed from the private sector, who had not dismissed the shares in a timely manner after being employed by the supervisor. The question was brought to the attention of the CBU Board, and the employees concerned were requested to sell the shares. At the time of the assessment, all shares had been sold.</p> <p>As regards integrity, in addition to the requirements set out by CBU Law Article 7 mentioned under EC4, which are <u>mandatory for all employees</u>, there are several rules on how to avoid conflicts of interest and on the appropriate use of information obtained through work. Art 27 of the CBU Law prohibits employees from:</p> <ul style="list-style-type: none"> <li>• engaging in any other types of paid activities, except for scientific and teaching activities (see also EC 2);</li> <li>• being a member of the supervisory boards of banks, economic management bodies and business entities;</li> <li>• disclosing or using in the interests of third parties' information constituting bank secrets, or other information, access to which is limited in accordance with the law, which became known by them during the performance of their official duties;</li> <li>• being involved in auditing the financial and economic activities of business entities, including banks, banks outsources and persons subject to consolidated supervision.</li> </ul> <p>Moreover, Article 19 of the Law of the Republic of Uzbekistan "<i>On Combating Corruption</i>" (N ZRU-419) establishes that officials and other employees of state bodies and other organizations are obliged to comply with the law, perform their official duties impartially, objectively, in good faith, in compliance with the rules of ethical behavior and refrain from committing any corruption offenses or any other actions that create</p>
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	<p>conditions for the commission of such offenses. According to Article 21 of this Law, employees of state bodies, in the performance of official duties, should not allow personal interest that leads or may lead to a conflict of interest. Employees of state bodies, as well as their managers, who have violated the requirements for preventing or resolving conflicts of interest, are liable in accordance with the law.</p> <p>The CBU has issued <b>several documents to combat corruption</b>. Among them, it is worth to mention the "Anti-Corruption Policy No 21/8 dated 24.09.2022); the Regulation "On the Identification and Management of Conflicts of Interest" (No21/8 dated 24.09.2022); the 'Instruction on the study of candidates hired for work in the system of the Central Bank of the Republic of Uzbekistan" (No21/8 dated 09/24/2022); the 'Instruction on the organization of training for employees of the Central Bank of the Republic of Uzbekistan in the field of ethics and anti-corruption (No21/8 of 24.09.2022); the "Regulations for receiving and considering reports of corrupt behavior and conflict of interest in the Central Bank of the Republic of Uzbekistan through communication channels" (No21/8 dated 24.09.2022); the "Methodology for Assessing Corruption Risks in the Central Bank of the Republic of Uzbekistan" (No21/8 dated 24.09.2022); the "Procedure for Incentives for Employees Who Report Corruption Offenses in the Central Bank of the Republic of Uzbekistan and Guarantees that they will not be oppressed" (No8/13 dated March 25, 2023);</p> <p>CBU developed a map of corruption risk and formed a <b>Register of conflicts of interest</b>, which is held by the Compliance Unit. Starting from 2021, employees fill out '<i>Declarations of Conflicts of Interest</i>' (annually, at hiring, and during the rotation process) which detail information about close relatives and related persons who may cause conflicts of interest. After that, the Register of Conflict of Interest is posted on the open platform "E-Anti-Corruption" (<a href="https://e-anticor.uz/oz">https://e-anticor.uz/oz</a>) which collects up-to-date data from the internal electronic resources of the Anti-Corruption Agency in the Republic of Uzbekistan. The CBU pointed out that there have been no complaints related to corruption from its employees.</p> <p>Moreover, according to the Regulation "On Identifying and Managing Conflicts of Interest in the Central Bank System", employees are obliged to pursue the interests of citizens, the state, the CBU and society in the performance of their professional or official duties, to ensure openness in professional activities, to disclose in good faith the full list of information about close relatives and related persons, as well as to disclose information about conflicts of interest on time and in full. Employees are prohibited from allowing nepotism, favoritism, parochialism; retaining any gift or hospitality from directly controlled persons; act under the supervision or control of close relatives or related persons; direct control over the former place of work or activity; establishing cooperative relations related to procurement.</p> <p>An important rule provided by the GRBS to mitigate the 'regulatory capture' and potential conflict of interest is the rotation: a supervisor may not oversee the same bank for more than three consecutive years.</p>
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<b>EC6</b>	<p>The supervisor has adequate resources for the conduct of effective supervision and oversight. It is financed in a manner that does not undermine its autonomy or operational independence. This includes:</p> <ul style="list-style-type: none"> <li>(a) a budget that provides for staff in sufficient numbers and with skills commensurate with the risk profile and systemic importance of the banks supervised;</li> <li>(b) salary scales that allow it to attract and retain qualified staff;</li> <li>(c) the ability to commission external experts with the necessary professional skills and independence to conduct supervisory tasks subject to the necessary confidentiality restrictions;</li> <li>(d) a budget and programme for the regular training of staff;</li> <li>(e) a technology budget sufficient to equip its staff with the tools needed to supervise the banking industry and assess individual banks; and</li> <li>(f) a travel budget that allows appropriate on-site work, effective cross-border cooperation and participation in domestic and international meetings of significant relevance (eg supervisory colleges).</li> </ul>																
Description and findings re EC6	<p>The CBU does not levy fees on banks and funds its supervisory function through income stemming from Central Banking activities. Staff were satisfied with the resources provided for the fulfillment of their function.</p> <p><b>Staff</b></p> <p>As of September 2024, 168 employees out of a total of 750 CBU staff work in the Banking Supervisory and Regulatory units. In addition, the Financial Stability Department analyzes factors affecting the financial system stability, and it is in charge of macroprudential policy.</p> <table border="1" data-bbox="599 1255 1331 1822"> <thead> <tr> <th>Supervisory and regulatory unit (banks)</th><th>Number of Personnel</th></tr> </thead> <tbody> <tr> <td>Directors and Deputy Directors</td><td>12</td></tr> <tr> <td>Inspection Department</td><td>65</td></tr> <tr> <td>Prudential Supervision Department of Banks</td><td>42</td></tr> <tr> <td>Department of Methodology for Regulating the Activities of Credit Institutions</td><td>22</td></tr> <tr> <td>Financial Monitoring Department</td><td>20</td></tr> <tr> <td>Department of Licensing and Permitting Procedures</td><td>19</td></tr> <tr> <td><b>In general, employees</b></td><td><b>168</b></td></tr> </tbody> </table>	Supervisory and regulatory unit (banks)	Number of Personnel	Directors and Deputy Directors	12	Inspection Department	65	Prudential Supervision Department of Banks	42	Department of Methodology for Regulating the Activities of Credit Institutions	22	Financial Monitoring Department	20	Department of Licensing and Permitting Procedures	19	<b>In general, employees</b>	<b>168</b>
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	<p>The Prudential Supervision Department of Banks is in charge of off-site supervision. It includes 6 divisions:</p> <ul style="list-style-type: none"> <li>• Four of them carry out analysis of banks. They are composed of the so-called "curators" who are representatives of the CBU in the banks (see also CP 9). Curators, who are approved by the Deputy Chairman of the CBU Board in charge of the Supervision, are appointed based on the risk profile and systemic importance of the bank. For D-SIBs, (see CP8, EC2), curators are appointed among heads of divisions of the Department. <b>There are 23 Curators</b>, 7 of which oversee the 7 D- SIBs, while the remaining 16 are responsible for the other 29 banks.</li> <li>• One deals with supervisory reporting.</li> <li>• One analyses the risks in the banking system.</li> </ul> <p>The salary scale of these specialists corresponds to the complexity of the work performed and their qualifications. Over the past 4 years, staff turnover in this unit has not been high.</p> <p>The Inspection Department carries out on-site supervision. Out of 9 divisions, 4 deal with inspections of banks, 1 conducts compliance risk inspection, 1 is in charge of currency operations inspections, 1 works at the request of the law enforcement agencies, and 1 is responsible for coordination (the other 3 units carry out inspections, respectively, on microfinance organizations, pawnshops, and payment institutions).</p> <p><b>Salary scale</b></p> <p>Pursuant to Article 25 of the CBL Law '<i>The terms of employment, termination of an employment contract, <b>remuneration of employees</b> of the Central Bank and other labor relations are determined by the Central Bank in accordance with the legislation</i>'. The <b>CBU staff does not fall under the civil servant remuneration discipline</b> (Article 43 the "On the State Civil Service" (No ZRU-788), and the remuneration of state civil servant does not apply to the CBU employees.</p> <p>The CBU salary scale is based on the position, length of service and the nature of the work performed. It includes, along with a salary, an allowance in the form of a percentage of salary itself, that is calibrated to qualifications, skills, experience and other abilities. Additional allowance is added progressively with an increase in the length of service for employees. The CBU pointed out that the remuneration package enables it not only to attract resources, including from the relevant educational institutions by means of internships, but also to helps them to maintain qualified staff, as showed by the low level of turnover.</p> <p><b>Ability to commission external experts</b></p> <p>Article 45 of the BL empowers the CBU to hire external experts to perform supervisory functions, if necessary. However, CBU has never done it.</p>
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	<p><b>Budget for training</b></p> <p>The CBU pointed out that it pays special attention to the capacity development of its employees, including through training aimed at ensuring a continuous process of knowledge and skill development. The main partners are Joint Vienna Institute (JVI) (Austria), the IMF (HQ and Regional Center), and the Swiss State Secretariat for Economic Affairs (SECO). In 2023, 185 CBU employees (100 managers and 85 specialists) took part in 116 foreign training events (Austria, USA, China, Switzerland, Germany and the Russian Federation). The training covered banking regulation and supervision, supervisory activities, monetary, macroeconomic and macroprudential policy, currency regulation, IT, cybersecurity, financial technology, audit, and accounting. The Departments of Banking Regulation and Supervision hold the highest indicator of foreign training courses in 2023 (29 courses, with 53 employees). In the first three quarters of 2024, 179 employees (43 from the supervisory units) took part in 97 foreign training and seminars events, covering, among others, macroprudential policy, risk-based supervision, financial stability and supervisory stress testing, financial crisis management. The CBU stressed that training also covered new and emerging risks: climate-related financial risks, green finance and climate change, Supervision of Cyber Risks, the Path to Operational Resilience, as well as managerial skills for the heads of structural divisions, their deputies and middle managers (leading team, motivation, stress management).</p> <p><b>Technology budget</b></p> <p>The CBU stressed that it is transforming its internal processes related to the collection, processing and analysis of data. The CBU Board approved a roadmap for the implementation of SupTech, developed jointly with the World Bank. One important project is the <b>automation of supervisory reporting</b>. Together with KPMG, the first stage of the project has been completed, and it identified the data needs of all units carrying out supervision. A unified data model has been developed: supervisory reports are split into initial granular data, and verification rules for each data unit. A data quality control mechanism has been developed and will be implemented during the second phase of the project. Processes for the entire data management cycle have been developed. Currently, the CBU is selecting a vendor for the second stage of the project (see CP10, EC9). Other planned projects include the Implementation of the electronic licensing system (e-Licensing) and the Implementation of the Anti-Money Laundering Solution.</p> <p><b>Travel budget</b></p> <p>The CBU pointed out that the costs associated with on-site work, cross-border cooperation and participation in international meetings are covered by the CBU's own funds.</p>
<b>EC7</b>	<p>As part of their annual resource planning exercise, supervisors regularly take stock of existing staff skills and projected requirements/needs over the short and medium term, considering relevant emerging risks and practices as well as supervisory developments. Supervisors review and implement measures to bridge any gaps in numbers and/or skillsets identified.</p>
Description and findings re EC7	<p>The CBU highlighted that it fulfilled the requirement of this EC in the context of the training program for 2024-2026, whereby it has classified employees by target groups, and it will be applying a targeted training approach to each group. It also pointed out that the training programs are aimed at developing hard, soft and digital competencies</p>

	of employees, and it is also planned to conduct mandatory types of training for existing and new employees. The assessors noted that the training program can certainly address skill set needs, but what the EC requires is an annual resource planning exercise to assess short- and medium-term needs. The CBU added that, at least to deal for cyber risk, it had implemented measures to bridge the gap in number and skillset identified, by setting up a <b>Cyber Security Center</b> (CERT) composed of 29 staff; 8 of them are fully dedicated to banking supervision.
<b>EC8</b>	In determining supervisory programs and allocating resources, supervisors consider the risk profile and systemic importance of individual banks, and the different risk mitigation approaches available.
Description and findings re EC8	<p>The BL requires the CBU to consider the risk profile and systemic importance of banks when determining the supervisory program and allocating resources. Pursuant to Article 47 of the BL, the CBU annually approves a <b>program of prudential supervision</b> over banks' activities, which includes:</p> <ul style="list-style-type: none"> <li>• banks (that according) the results of stress tests show significant financial stability risks or possible non-compliance with the requirements of the BL;</li> <li>• systemically important banks;</li> <li>• banks requiring, in the opinion of the CBU, additional supervision.</li> </ul> <p>The prudential supervision program contains:</p> <ul style="list-style-type: none"> <li>• the <b>procedure for the CBU to exercise supervisory functions and allocate resources</b>;</li> <li>• procedures for identifying banks subject to additional supervision, and measures necessary for its implementation;</li> <li>• a bank inspection plan.</li> </ul> <p>Considering the results of the bank's risk assessment, the CBU may take appropriate measures, including increasing the frequency of bank inspections; additional reporting; additional inspections on the execution of the bank's business plan; conducting a thematic examination of certain risks.</p> <p>Moreover, Chapter 6 of the Strategy for Reforming the Banking System (2020-2025) requires the CBU to transition to <b>risk-based supervision</b> and <b>allocate supervisory resources around the greatest risk</b> – namely large systemic banks, banks with a high or deteriorating risk profile and/or business activities with poor quality of risk management and high internal risks.</p> <p>The CBU GRBS (No42/29 of December 23, 2023) pursues an allocation of resources, intensity and scope of supervisory activities proportional to the level of risks.</p>
<b>EC9</b>	Laws provide protection to the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. The supervisor and its staff are adequately protected against the costs of defending their actions and/or omissions made while discharging their duties in good faith. <sup>14</sup>

<sup>14</sup>The term "supervisor and its staff" is to be understood as covering the head of the authority, the governing body, employees and any professional service providers who carry out tasks for the supervisory authority. As the protection is provided in respect of actions taken and/or omissions made while discharging duties in good faith, it is not removed when the term of appointment, engagement or employment is ended.

Description and findings re EC9	<p>The CBU Law provides protection to the supervisor and its staff, including with regard to the cost of defending in judicial and administrative proceedings. According to CBU Law Article 70, (Legal protection of employees of the Central Bank in the performance of duties), <i>'The CBU, its employees, external experts and interim managers, as well as other persons performing supervision duties defined by this Law, including after the termination of their powers or completion of work at the Central Bank, shall be liable only for actions (inaction) committed in bad faith in the performance of their duties'</i>. Moreover, the CBU <i>'shall pay the costs of representing the interests of the persons specified in part one of this article in judicial and administrative proceedings initiated in connection with the duties performed by these persons in accordance with this Law, including in cases of termination of their powers or completion of work in the Central Bank'</i>.</p> <p>At the same time, under article 15 of the Civil Code, losses caused to a citizen or legal entity as a result of the adoption of an act that does not comply with the law by a State body or a citizens' self-government body, as well as by the unlawful actions or omissions of their officials, are subject to compensation by the State or the citizens' self-government body. Such losses are compensated at the expense of extra-budgetary funds of the state body or the citizens' self-government body of citizens. By a court decision, compensation for losses may be imposed on officials of state bodies, self-government bodies of citizens, through whose fault the losses were caused.</p> <p>Over the past five years, there have been three court proceedings on the supervisory function, during which the court ruled in favor of the CBU (two cases relate to revocation of bank's licenses, one to revocation of payment organization license). There are no pending cases and there were no legal cases ascertaining illegal actions (inactions) committed by employees in the performance of their duties.</p>
<b>Assessment of Principle 2</b>	<b>Materially Non-Compliant</b>
Comments	<p>Although the Constitution of the Republic of Uzbekistan and the CBU Law preserve the CBU's independence, the assessors found a material gap between <i>de jure</i> and <i>de facto</i> independence. The responsibility to adequately implement development programs introduces a financial inclusion/development mandate which goes beyond the three objectives provided by the CBU Law (ensuring price and financial stability, and the functioning of the payment system). This negatively affects the CBU's operational independence.</p> <p>In addition, the CBU does not have full discretion to independently set prudential policies, since its draft normative legal act that effects business activities, including financing activities, must be agreed with the Chamber of Commerce and Industry, and are subject to the MoJ registration. From a policies setter standpoint, the CBU's independence, while upheld in principle in the CBU Law, is limited by the LNLA either vis-a-vis the industry/private sector parties, or with regard to the government. The need to reach agreement with the Chamber of Commerce and Industry – an entity which represents private banks amongst other industries – goes well beyond a normal consultation process. Moreover, the MoJ can refuse registration of CBU's proposed Regulation based on technical and non-technical grounds (such as the observance of</p>

	<p>grammatical, orthographic, and punctuation rules); it can also challenge those CBU Regulations which introduce '<i>excessive administrative and other restrictions for physical persons and legal entities</i>'. This impinges on the CBU's power to independently set prudential policies.</p> <p>The CBU is <b>accountable</b> to the Senate of the Oliy Majlis (Parliament) of the Republic of Uzbekistan. The transparency of the appointment and removal process of the head(s) of the supervisory authority and members of its governing body should be improved: the law does not clarify <b>eligibility criteria</b> for the CBU Board members (for example, sound reputation, honesty/integrity, and minimum years of professional experience), and it does not specify <b>incompatibility criteria</b> for the two independent members (for example, with the position of member of the Parliament or the Government). <b>There is no duty to publicly disclose the reason for removal.</b> Such a deficiency is material: after the BCP mission, the President of the Republic of Uzbekistan appointed a new Chairman of the CBU Board before the expiration of the natural terms of the former Chairman. According to the explanation provided by the CBU, the termination of the Board Chairman's mandate was carried out in accordance with the decision of the Council of the Senate of the Oliy Majlis of the Republic of Uzbekistan (Decision No. KQ-15-V, dated 11 December 2024). This decision followed a presentation by the President of the Republic of Uzbekistan and was based on the Chairman's formal application for dismissal, which detailed the reasons for his release from the position. While the described procedure formally abides by Article 23 of the CBU Law, ('<i>self-application for dismissal from the post, indicating the reasons</i>'), the assessors expressed the view that such Article should be amended, because it leaves the reason for termination obscure.</p> <p>The CBU has not formally published its <b>supervisory objectives</b>. Considering that the Strategy for Reforming the Banking System is approaching its natural end (2025), the CBU needs to take stock of what has been achieved, undertake the activities not completed yet, redetermine its goals and clearly communicate supervisory priorities for the years ahead (for example, completing the process of transitioning to risk based supervision; introducing consolidated supervision; introducing capital buffers for D-SIBs; aligning the assets quality regulation and supervisory reporting to IFRS 9).</p> <p>The Banking Supervisory Committee enables the CBU to take timely supervisory decisions at a level appropriate to the significance of the issue. The procedure for the use of reasoned judgment is robust and anchors supervisory discretion to facts. It is also respectful of defense rights, ensuring that banks and shareholders can submit responses during the due diligence (right to comments), and attend the meeting of the Banking Supervisory Committee (right to be heard). However, in the case of an emergency, the CBU should be able to exert a '<i>provisional motivated judgment</i>' providing the concerned party with the right to be heard and to comment <u>after</u> the decision is taken.</p>
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	<p>There are rules to mitigate conflict of interest of the staff. The CBU does not levy fees on banks and funds its supervisory function through the income stemming from central banking activities. There are 168 employees to oversee 36 banks (7 D-SIBs). The assessors were not made aware of budget constraint; recently, training was expanded to new and emerging risk (climate) and hiring has covered gaps in cybersecurity. While the BL empowers the CBU to hire external experts to perform supervisory functions, the CBU has never done it. CBU Law protects the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith.</p> <p>Findings</p> <ul style="list-style-type: none"> <li>• There is a material gap between <i>de jure</i> and <i>de facto</i> independence. While the CBU's independence is upheld in principle in the Constitution and in the CBU Act, there are other legal instruments that have a limiting effect on it. The responsibility to ensure the adequate implementation of development programs negatively affects the CBU's operational independence. Moreover, from a policies setter standpoint, the CBU lacks full discretion to set prudential policies, either vis-a-vis the industry/private sector parties, due to the need to achieve agreement with the Chamber of Commerce and Industry – an entity which among others represents private banks – or with regard to the government, because the MoJ can refuse registration of the CBU's proposed legislation based on technical and non-technical grounds.</li> <li>• The law does not clarify eligibility criteria for the CBU Board members (for example, sound reputation, honesty/integrity, and minimum years of professional experience), and it does not specify incompatibility criteria for the two independent members (for example, members should not hold positions in Parliament or Government).</li> <li>• Article 23 of the CBU Law does not provide for a duty to publicly disclose the reasons for removal of the Chairman of the CBU Board. The CBU has not published its supervisory objectives.</li> <li>• The CBU cannot adopt a '<i>provisional motivated judgment</i>', giving the persons concerned the opportunity to be heard as soon as possible <u>after</u> taking its decision.</li> </ul> <p>Recommendations</p> <p>Take action to ensure that the CBU's independence is not only enshrined in the Constitution and in the CBU Law, but also protected in substance, including by avoiding that the responsibility for the implementation of development programs might compromise its operational independence.</p> <ul style="list-style-type: none"> <li>• Amend Article 102 of the LNLA to streamline the process for the adoption of regulations setting prudential standards by the CBU, e.g. no need for agreement with the Chamber of Commerce and Industry.</li> <li>• Amend Article 110 of the LNLA to narrow the Ministry of Justice's power to refuse the registration of the CBU Regulations.</li> <li>• Enhance the transparency of the appointment and removal process of CBU Board members by:</li> </ul>
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	<ul style="list-style-type: none"> <li>• introducing in the CBU Law (Article 19 and 24) eligibility criteria (for example, sound reputation, honesty/integrity, and minimum years of professional experience) and, for the two independent members, also incompatibility criteria (for example, they should not be the Parliament or the Government), and</li> <li>• Amending Article 23 of the CBU Law and requiring that reasons for dismissal are publicly disclosed.</li> <li>• As the 2020-2025 banking sector strategy is coming to its expiration, take stock of what has been achieved, and redetermine and regularly communicate supervisory priorities publicly.</li> <li>• In case urgent action is needed (for example, classifying a borrower as a related party and preventing the bank from further lending), enable the CBU to adopt a "<i>provisional motivated judgment</i>," giving the persons concerned the opportunity to be heard as soon as possible <u>after</u> taking its decision.</li> </ul>
<b>Principle 3</b>	<b>Cooperation and collaboration.</b> Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information. <sup>15</sup>
<b>Essential criteria</b>	
<b>EC1</b>	Arrangements, whether formal or informal, are in place for cooperation, including analysis and sharing of information and undertaking collaborative work, with all domestic authorities with responsibility for the safety and soundness of banks, other financial institutions and/or the stability of the financial system. There is evidence that these arrangements work in practice, where necessary.
Description and findings re EC1	<p>In accordance with Article 68 of the CBL, the CBU has the right to conclude agreements on cooperation with national and foreign authorities in the implementation of supervisory functions, including the exchange of confidential information.</p> <p>To ensure cooperation within the country, various cooperation formats are created and supported. However, formal cooperation agreements, such as agreements or MoUs, mostly apply to cooperation with foreign authorities, while cooperation between domestic institutions is mostly informal and organized upon request.</p> <p>An example of domestic cooperation is the inter-institutional commission established by Decree, aimed at exchanging information and expanding cooperation in the field of AML/CFT (AML/CFT Network). Both state institutions and market participants participate in this commission. This commission has two levels: one comprising top-level bank managers and the other made up of expert groups composed of other bank officials. Under this group, ongoing cooperation and various forms of collaboration take place and training on AML/CFT issues are organized.</p> <p>The CBU is not the only financial regulatory and supervisory authority in the country. Insurance companies are licensed and supervised by the NAPP, which is also responsible for capital market regulation and supervision. Although there are close economic and business ties between banks and insurance companies (e.g., insured loans, companies participating in each other's share capital, etc.), thus transferring risks specific to one</p>

<sup>15</sup> Principle 3 is developed further in Principle 12 (BCP40.27), Principle 13 (BCP40.30) and Principle 29 (BCP40.66).



	sector to another), the CBU and NAPP have not signed a cooperation agreement. Meetings and information sharing are irregular, which may raise the risk that supervision and information exchange might be insufficient and ineffective, potentially delaying the implementation of measures applied to companies and causing unfavorable consequences.
<b>EC2</b>	Arrangements, whether formal or informal, are in place for the supervisor to coordinate, within its mandate, with relevant authorities with responsibility for macroprudential policy when undertaking actions related to monitoring, identifying and addressing systemic risks that have the potential to affect the stability of the banking system.
Description and findings re EC2	<p>In accordance with the draft law "On Resolution and Liquidation of Banks," the Financial Stability Council will be established to ensure financial stability in the Republic of Uzbekistan. The Council will analyze the risk of systemic financial crises, manage crises, and eliminate their consequences. It will facilitate the exchange of important information, including legally protected information. The composition, rights, and obligations of the Council, as well as other issues related to its activities, will be regulated by a relevant regulatory legal document issued by the President of the Republic of Uzbekistan. Additionally, the CBU holds informal meetings with specialists from the NAPP to discuss monitoring, identifying, and eliminating systemic risks that may affect the stability of the banking system.</p> <p>The Banking Supervision and Financial Stability Departments, both part of the CBU, closely cooperate on financial stability, assessing the sustainability of banking activity models, and other relevant issues. These departments work together to perform the banking sector's stress tests.</p>
<b>EC3</b>	Arrangements, whether formal or informal, are in place for cooperation, including analysis and sharing of information and undertaking collaborative work, with relevant foreign supervisors of banks. There is evidence that these arrangements work in practice, where necessary.
Description and findings re EC3	<p>In accordance with Article 68 of the CBL, the CBU has the right to conclude cooperation agreements with both national and foreign authorities in the implementation of supervisory functions, including the exchange of confidential information.</p> <p>The CBU establishes a framework for international cooperation and information exchange. This framework includes eight bilateral agreements, and twenty-six memoranda of understanding (MOUs) signed with foreign regulators and financial institutions. Bilateral agreements are concluded by the CBU and endorsed by the Ministry of Foreign Affairs; while MOUs do not require Ministry of Foreign Affairs intervention. These agreements cover a wide range of areas of cooperation, such as banking supervision, cybersecurity, payment systems, and AML/CFT. MOUs have been signed with the supervisory authorities of Azerbaijan, Hungary, Georgia, Iran, Kazakhstan, Korea, Malta, Mongolia, Pakistan, Russia, Tajikistan, and Türkiye. Additionally, the Central Bank of the Republic of Uzbekistan has signed agreements with the National Bank of Kazakhstan, the National Bank of Tajikistan, and the Bank of Russia in the field of banking supervision. Draft agreements with the National Bank of Kyrgyzstan are currently being developed.</p>
<b>EC4</b>	The supervisor may provide confidential information to another domestic authority or foreign supervisor but must take reasonable steps to determine that any confidential



	information so released will be used only for bank-specific or system-wide supervisory purposes and will be treated as confidential by the receiving party.
Description and findings re EC4	<p>The CBU provides confidential information to other national authorities in accordance with CBL Law Article 68. This law grants the CBU the right to conclude agreements of cooperation with national and foreign authorities for the implementation of supervisory functions, including the exchange of confidential information. Article 48 of the BL reinforces the CBU's power to exchange information and establish effective supervision, including on a consolidated basis. The CBU is obliged to comply with the requirements for the treatment of confidential and/or secret information, personal data, or data protected by laws.</p> <p>Staff of national authorities, including the CBU, must ensure the safety of this information and prevent its disclosure or use for personal purposes or for the benefit of third parties. Any information of a confidential nature provided by central banks is considered confidential by the receiving party and is used legally and solely for supervisory purposes.</p> <p>In addition, in accordance with Articles 6-8 of the Law on Bank Secrecy (No 530-II), other national authorities that have received confidential information, including information constituting bank secrecy, must treat it as confidential and use it for its intended purpose. Employees of the national authorities must ensure their safety and prevent their disclosure or use for personal purposes or for the benefit of third parties.</p> <p>At the same time, any information of a confidential nature provided by central banks is considered confidential by the receiving party as confidential and is used on legal grounds and only for supervisory purposes.</p> <p>In addition, under article 10 of the Principles and Guarantees of Freedom of Information Law (No. 439-II), the owner or owner of confidential information is obliged to notify persons requesting information of existing restrictions on access to such information. Article 11 of this Law also establishes that any information is subject to protection, the unlawful handling of which may cause damage to its owner, owner, user and other person.</p> <p>In addition, in accordance with Articles 4 and 6 of the Law of the Republic of Uzbekistan "On Commercial Secrets" (No ZRU-374), a trade secret must meet the following requirements:</p> <ul style="list-style-type: none"> <li>• have actual or potential commercial value for its owner due to its unknown to third parties;</li> <li>• not be publicly known or publicly available in accordance with the law;</li> <li>• be provided with measures to protect its confidentiality;</li> <li>• not possess signs of state secrets and other secrets protected by law.</li> </ul> <p>The content and scope of a trade secret are determined by its owner.</p> <p>The owner of a trade secret has the right to suspend, modify and cancel in writing the trade secret regime; determine the procedure and conditions for access to trade secrets.</p>

	<p>The MOU examined by the assessors ensure reasonable steps to determine that any confidential information is used only for bank-specific or system-wide supervisory purposes and will be treated as confidential by the receiving party. For example:</p> <ul style="list-style-type: none"> <li>• one MOU that the assessors reviewed envisaged that confidential information share in electronic format must be encrypted appropriately and transferred between trusted identity of both participants, using secure communication channel. The <b>participants give their consent to forward the data disclosed to each other to the competent foreign law enforcement agency;</b></li> <li>• another MOU reviewed by the assessors envisages that the information share shall be used only for supervisory purpose permitted by the parties' national legislation, is confidential and subject to strict control and protection. Parties will maintain confidentiality and will not disclose or act on such information without obtaining the prior written consent of the other party. In case of request by a third authority, the party receiving such a request shall promptly notify the other party and ask for its consent to disclose information. If a party is obliged by its national Law to disclose information, it should notify the other party, indicating which information is compelled to disclose, If there a court decision on disclosing confidential information, prior notice is not required and the party obliged by the court decision to disclose information should only notify the other party as soon possible about the mentioned decision.</li> </ul>
<b>EC5</b>	<p>The supervisor receiving confidential information from other supervisors uses the confidential information for bank-specific or system-wide supervisory purposes only. The supervisor does not disclose to third parties' confidential information received without the permission of the supervisor providing the information and is able to deny any demand (other than a court order or mandate from a legislative body) to disclose confidential information in its possession. If the supervisor is legally compelled to disclose confidential information it has received from another supervisor, it promptly notifies the originating supervisor, indicating what information it is compelled to release and the circumstances surrounding the release. Where consent to passing on confidential information is not given, the supervisor uses all reasonable means to resist such a demand or protect the confidentiality of the information.</p>
Description and findings re EC5	<p>Pursuant to Article 68 of the CBU Law, the CBU has the right to disclose the information received from a foreign state with the consent of the person who provided it and for the purposes for which the person concerned has given consent.</p> <p>As stated under EC4, the MOU examined by the assessors ensure that the CBU does not disclose to third parties' confidential information received without the permission of the supervisor providing the information. If the CBU is obliged to disclose confidential information received from another supervisors, the MOU requires prompt notification to the other party, along with the indication of the information the CBU is compelled to disclose.</p> <p>Moreover, Article 6 of the Law of the Republic of Uzbekistan "On Bank Secrecy" (No. 530-I) states that the CBU does not have the right to disclose or provide information</p>

	<p>constituting bank secrecy, which became known to it in connection with the implementation of its legally assigned tasks, except in cases provided by law.</p> <p>Disclosure of confidential information by the CBU shall be carried out in accordance with the procedure established by law. Additionally, Article 25 of the CBU Law prohibits employees of the CBU from disclosing or using, for the benefit of third parties, information constituting bank secrecy or other information with restricted access, which became known to them in connection with the performance of their official duties.</p> <p>State bodies are obliged to create conditions that ensure the confidentiality of trade secrets provided to them by their owner. Employees of state bodies shall not disclose or transfer trade secrets that have become known to them in connection with the performance of their official duties to other persons, including state bodies, except in cases provided by law. They are also prohibited from using such information for personal gain or other personal purposes.</p> <p>According to Article 25 of the CBU Law, employees of the CBU are prohibited from disclosing or using in the interests of third parties information constituting bank secrecy, or other information, access to which is limited in accordance with the law, which became known to them in connection with the performance of their official duties.</p> <p>At the same time, according to Articles 7, 14, 16 of the Law "On Commercial Secrets" (No ZRU-374), the protection of a trade secret is carried out by its owner and (or) confidential until the loss of confidentiality of the trade secret. The owner of a trade secret is obliged not to disclose a trade secret transferred by him to the confidential in accordance with the contract. The confidential is obliged to maintain the confidentiality of the trade secret received by him under the contract.</p>
<b>EC6</b>	Processes are in place for the supervisor to support resolution authorities (e.g. central banks and finance ministries as appropriate) undertaking recovery and resolution planning and actions.
Description and findings re EC6	<p>The CBU has developed a draft law "On Resolution and Liquidation of Banks," which is currently under consideration by the Legislative Chamber of the Oliy Majlis of the Republic of Uzbekistan. Article 4 of this draft law establishes that the Central Bank of the Republic of Uzbekistan is the authorized state body for the resolution and liquidation of banks.</p> <p>The CBU shall make decisions independently of other state power and management bodies within the framework of its powers and obligations regarding the resolution and liquidation of banks, except in cases provided by this law.</p> <p>According to this draft law, the CBU will have the power to cooperate and exchange information with state bodies and organizations, as well as with foreign regulatory bodies, to rehabilitate and liquidate banks. The CBU will notify the Deposit Guarantee Agency, the Ministry of Economy and Finance, the Financial Stability Board, the Central Securities Depository, and the payment systems of which the bank is a member of any decision related to the bank's resolution.</p>

<b>Assessment of Principle 3</b>	<b>Largely Compliant</b>
Comments	<p>Findings:</p> <ul style="list-style-type: none"> <li>Laws, regulations and MOUs provide a framework for cooperation and collaboration with relevant domestic and foreign authorities; however, forms of cooperation vary. Insurance companies in Uzbekistan are licensed and supervised by NAPP, yet cooperation between CBU and NAPP occurs only on an ad-hoc basis. It is not formalized and the agreement for cooperation is not signed.</li> </ul> <p>The resolution authority who is an important agent in banking supervision and the resolution network have not been established (the draft law has been submitted for approval and adoption), therefore an important framework for cooperation is missing.</p> <p>Recommendations:</p> <p>Sign a cooperation agreement with NAPP (in a form acceptable to the parties), foreseeing regular meetings, agreeing on information that would be relevant to exchange on a regular basis, foreseeing the availability to exchange confidential information, and describing a channel for such information exchanges.</p> <p>After the resolution authority is established, it is recommended to provide the principles for cooperation and prepare and implement the cooperation framework.</p>
<b>Principle 4</b>	<b>Permissible activities.</b> The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined, and the use of the word "bank" in names is controlled.
<b>Essential criteria</b>	
<b>EC1</b>	The term "bank" is clearly defined in laws or regulations.
Description and findings re EC1	The term "bank" is clearly defined in laws and regulations. According to Article 3 of the BL, a bank is "a legal entity that is a commercial organization that carries out cumulative operations for opening and maintaining bank accounts, making payments, attracting funds into deposits, and providing loans on its own behalf, defined as banking activities." The BL (Article 6) provides a description of deposits and specifies that only banks are entitled to engage in the activity of attracting funds into deposits.
<b>EC2</b>	The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined either by supervisors, or in laws or regulations.
Description and findings re EC2	<p>The permissible activities of institutions that are licensed and subject to supervision as banks are defined in Article 5 of the BL where provisions regarding the business activities of banks are described. Financial transactions carried out by banks include:</p> <ul style="list-style-type: none"> <li>attraction of funds to deposits;</li> <li>making payments, including without opening bank accounts;</li> <li>opening and maintaining bank accounts of individuals and legal entities, including correspondent accounts of banks;</li> <li>provision of loans on terms of repayment, payment of interest and maturity on its own behalf at the expense of its own and borrowed funds;</li> <li>operations with foreign currency in cash and non-cash forms;</li> <li>trust management of property under an agreement with an individual or legal entity;</li> <li>collection and cash services;</li> </ul>

	<ul style="list-style-type: none"> <li>• issuance of guarantees and acceptance of other obligations for third parties, providing for the fulfillment of their obligations;</li> <li>• acquisition of the right of claim from third parties for the fulfillment of obligations in cash (factoring);</li> <li>• issue, purchase, sale, accounting and storage of securities, management of securities under an agreement with a client, performance of other operations with them;</li> <li>• purchase and sale of refined precious metals, including the maintenance of accounts for safekeeping of metals and anonymized (non-physical) accounts of metals;</li> <li>• buying and selling coins made of precious metals;</li> <li>• carrying out transactions with derivative financial instruments (derivatives);</li> <li>• leasing of special premises or safes located in them for storing documents or valuables;</li> <li>• provision of leasing;</li> <li>• issuance of loans in the forms provided for by law;</li> <li>• provision of consulting services related to financial transactions;</li> <li>• asset portfolio management;</li> <li>• issuance, use and redemption of electronic money;</li> <li>• issuing bank cards and processing payments, servicing bank cards in conjunction with other organizations, including other financial institutions.</li> </ul> <p>The BL states that banks are not entitled to carry out financial transactions not specified in their license for banking activities. Banking activities carried out without a license are considered illegal, and the income received from such activities is subject to withdrawal for the benefit of the state budget.</p> <p>Prohibited activities are described in Article 7 of the BL. Banks are prohibited from directly engaging in production, trade, insurance, and other activities not related to the implementation of financial transactions as provided by the legislation on banks and banking activities. This limitation does not apply to certain cases defined by the same article, such as when banks acquire shares in another bank or when they are reorganizing in the form of a merger or acquisition.</p>
<b>EC3</b>	The use of the word "bank" and any derivations, such as "banking", in a name, including domain names, is limited to licensed and supervised institutions in all circumstances where the general public might otherwise be misled.
Description and findings re EC3	<p>Article 11 of the BL states that the term "bank" or combinations with the word "bank" allowed to be used as a trademark only by entities licensed to carry out banking activities. Legal entities licensed to carry out banking activities are required to include the term "bank" in their company name.</p> <p>In addition, in accordance with Article 3 of the Law of the Republic of Uzbekistan "On Firm Names", the name of a legal entity must contain an indication of its organizational and legal status. According to Article 46 of the Civil Code of the Republic of Uzbekistan, a person who illegally uses the name of the company, at the request of the owner of the right to a company name, is obliged to stop using it and compensate the losses caused.</p> <p>The CBU ensures the observance of the use of the word "bank" by unlicensed entities. The assessors were provided with the following examples:</p>

	<ul style="list-style-type: none"> <li>During monitoring conducted in 2024, 12 cases of the use of phrases with the term "bank" were identified. The CBU sent letters to the identified entities, insisting on the exclusion of the term "bank" from the company names. The CBU also asked the Public Services Agency to make every effort to prevent such cases during the registration and re-registration of legal entities.</li> <li>In 2020, the CBU identified 17 cases of the use of phrases with the term "bank" and took the necessary measures to ensure compliance with the legislation on banks and banking activities.</li> </ul> <p>The verification of the use of the term "bank" is carried out by the CBU on an ad hoc basis.</p>
<b>EC4</b>	The taking of deposits from the public is reserved for institutions that are licensed and subject to supervision as banks. <sup>16</sup>
Description and findings re EC4	<p>According to Article 760 of the Civil Code of the Republic of Uzbekistan, the right to attract deposits is granted to banks that have obtained a license issued in accordance with the procedure established by law. Additionally, Article 6 of the BL establishes that only banks have the right to engage in activities to attract funds into deposits.</p> <p>To protect the public's interests and prevent the attraction of funds into deposits by entities without a license to carry out banking activities, the CBU periodically publishes statements and warnings to improve the financial literacy of the population and prevent fraud.</p>
<b>EC5</b>	The supervisor or licensing authority publishes or otherwise makes available a current list of licensed banks, including branches of foreign banks, operating within its jurisdiction in a way that is easily accessible to the public.
Description and findings re EC5	<p>The list of banks licensed by the CBU is published on the CBU's website (<a href="https://cbu.uz/en/credit-organizations/">https://cbu.uz/en/credit-organizations/</a>).</p> <p>In accordance with Article 23 of the BL, the CBU, based on the request of a potential acquirer, publishes on its official website a reasoned decision made following the consideration of an application for preliminary permission to purchase shares of the bank. The CBU also has the right to publish this information without the request of a potential acquirer.</p> <p>Additionally, according to Article 246 of the Regulation "On the Procedure and Conditions for Issuing a Permit for Banking Activities," information about the revocation of a bank's license must be published in the media, as well as on the official website of the CBU within one day from the date of this decision.</p>
<b>Assessment of Principle 4</b>	<b>Compliant</b>
Comments	The permissible activities of institutions that are licensed and subject to supervision as banks by the CBU are clearly defined and the use of the word "bank" in names is

<sup>16</sup> The Committee recognizes the existence of non-bank financial institutions that take deposits but may be regulated differently from banks. These institutions should be subject to a form of regulation commensurate to the type and size of their business and, collectively, should not hold a significant proportion of deposits in the financial system.

	<p>controlled. The taking of deposits from the public is reserved only for institutions that are licensed and subject to supervision as banks. The list of banks licensed by the CBU is published on the CBU's website.</p> <p>Findings:</p> <p>The term 'bank' can only be used by companies engaged in banking activities. The CBU does not regularly conduct investigations on the use of the term 'bank.' The investigations carried out in 2020 and 2024 identified companies using the term in their name (trademark) without justification (i.e. illegally).</p> <p>Recommendations:</p> <p>Establish effective systems to monitor the use of the term 'bank' and derivation (including through digital platforms, social media, and advertisements) to avoid that the general public can be misled.</p>
<b>Principle 5</b>	<p><b>Licensing criteria.</b><sup>17</sup> The licensing authority has the power to set criteria for licensing banks and to reject applications where the criteria are not met. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of board members and senior management) of the bank and its wider group, its strategic and operating plan, internal controls, risk management and projected financial condition (including capital base). Where the proposed owner or parent organization is a foreign bank, the prior consent of its home supervisor is obtained.</p>
<b>Essential criteria</b>	
<b>EC1</b>	<p>The law identifies the authority responsible for granting and withdrawing a banking license. The licensing authority could be the banking supervisor or another competent authority. If the licensing authority and the supervisor are not the same, the supervisor has the right to have its views on each application considered and its concerns addressed. In addition, the licensing authority provides the supervisor with any information that may be material to the supervision of the licensed bank. The supervisor imposes prudential conditions or limitations on the newly licensed bank, where appropriate.</p>
Description and findings re EC1	<p>The CBU is authorized to issue and revoke banking licenses. Art 12 of the CBU Law grants the CBU the power to grant licenses for bank establishment and to revoke a bank's license.</p> <p>Over the past three years (2021-2023), the CBU has received 7 applications for a banking license, of which 6 applications were approved and licenses for banking activities were issued, while one application was denied due to precarious financial conditions of the applicant.</p> <p>The CBU has not imposed prudential conditions or limitations on newly licensed banks. The CBU applies the same baseline prudential requirements to all banks. In other words, a newly licensed bank is subject to the same standard conditions as any other bank. However, under Article 7 of the BL, the CBU is authorized to impose additional</p>

<sup>17</sup> Reference documents: BCBS, Corporate governance principles for banks, July 2015; BCBS, Shell banks and booking offices, January 2003.

	measures—specifically, extra premiums on liquidity and capital adequacy ratios based on the risk profile of a bank.
<b>EC2</b>	Laws or regulations give the licensing authority the power to set criteria for licensing banks. If the criteria are not fulfilled or if the information provided is inadequate, the licensing authority has the power to reject an application. If the licensing authority or supervisor determines that the license was based on false information, the license can be revoked.
Description and findings re EC2	<p>According to the CBU Law, the CBU establishes the procedure for licensing activities. Article 15 of the BL foresees the procedure for licensing banks consists of two stages:</p> <ul style="list-style-type: none"> <li>(i) issuance of a preliminary permit, i.e. initial approval, which is an agreement to prepare for the establishment of the bank; and</li> <li>(ii) issuance of a license, which is a granted permit to conduct banking business activities.</li> </ul> <p>To <b>obtain a preliminary permit</b>, the applicant, no later than three months after signing the foundation agreement, submits to the CBU a package of documents, including:</p> <ul style="list-style-type: none"> <li>• the foundation agreement, the bank's charter,</li> <li>• the minutes of the constituent meeting,</li> <li>• the list of founders,</li> <li>• information on direct and indirect founders, including the BOs,</li> <li>• financial statements of the founder – legal entity for the last three years, confirmed by an audit organization,</li> <li>• documentary confirmation of information on the sources of funds contributed to the formation of the authorized capital of the bank,</li> <li>• information on members of the supervisory board and the management board of the bank,</li> <li>• the organizational structure of the bank,</li> <li>• the draft regulation on the internal audit service of the bank,</li> <li>• the business plan of the bank for the next three years,</li> <li>• copies of the draft credit,</li> <li>• investment and emission policies of the bank,</li> <li>• as well as the bank's policies on risk management and internal control.</li> </ul> <p>At the same time, in accordance with Article 19 of the BL, the <b>grounds for refusal to issue a preliminary permit</b> for the establishment of a bank are:</p> <ul style="list-style-type: none"> <li>• non-compliance of the submitted documents specified in regulation with the requirements of the legislation on banks and banking activities;</li> <li>• non-compliance of the founders, including the BOs;</li> <li>• inability of the bank to achieve the goals presented in the business plan;</li> <li>• the presence of requirements in the laws or regulations of another country regulating the activities of one or more persons having close ties with the bank being created, or the application of prohibitions and restrictions to these persons by the competent authorities of the other country that impede the implementation of the supervisory function of the Central Bank, or the presence of other obstacles to compliance with the legislation on banks and banking activities of the Republic of Uzbekistan;</li> <li>• failure to submit additional documents and information requested by the CBU.</li> </ul>



	<p>The basis for refusing to issue a preliminary permit for the establishment of a bank <b>may be a reasoned judgment</b> of the CBU.</p> <p>When a foreign bank is established or acquires shares in the authorized capital of a bank additional documents are required. These documents are: i) the decision of the authorized body of the foreign bank on the establishment or the acquisition of shares of the domestic bank and ii) the charter of the foreign bank. Moreover, a written confirmation by the home supervisor that the foreign bank is: i) under its consolidated supervision, ii) has the right to accept funds for deposits, iii) has been authorized to establish or participate in the capital of the bank (or confirmation that such permission is not required), iv) a document confirming the compliance of the capital adequacy and credit rating of the foreign bank with the requirements established by the CBU (Article 17 of CBU Law).</p> <p>If the documents and information are insufficient to make a decision on the issuance of a preliminary permit for the establishment of a bank, CBU has the right to request additional documents and information. Failure to submit additional information to CBU can be the basis for refusing to issue a preliminary permit for the establishment of a bank.</p> <p>According to Article 21 of the BL the <b>grounds for refusal of state registration</b> of a bank and issuance of a license are:</p> <ul style="list-style-type: none"> <li>• non-compliance of the amount of the formed authorized capital of the bank with the requirements of the BL at the time of filing an application for state registration of the bank and issuance of a license;</li> <li>• non-compliance with the requirements on the founders, including the BO;</li> <li>• non-compliance of the bank's key personnel with the qualification requirements of the CBU;</li> <li>• non-compliance of the bank's premises, the provision of their protection, the provision of equipment, organizational and technical means and software with the requirements of the CBU.</li> </ul> <p>In accordance with Article 20 of the BL, if it is established that a license was obtained using forged documents, the license is revoked by the CBU.</p>
<b>EC3</b>	<p>The licensing authority determines that the proposed legal, managerial, operational and ownership structures of the bank and its wider group will not hinder effective:</p> <p>(a) supervision on both a solo and a consolidated basis; and</p> <p>(b) implementation of corrective measures in the future.</p> <p>Shell banks must not be licensed.</p>
Description and findings re EC3	<p>To obtain the preliminary permit (BL Article 16) and the state registration and issuance of a license (BL Article 21), the founder of a bank, which can be legal entities or individual, resident as well as non-resident (BL Article 12), must meet the requirements provided by</p>

	<p>the BL Law Art 24. This Article (<i>'Assessment of potential acquirer'</i>) states that the CBU assesses, among others:</p> <ul style="list-style-type: none"> <li>• the impact of the corporate governance structure potential acquirer and related persons on the regulation and supervision of the bank</li> <li>• the possible integration of the potential acquirer's activities with the bank's activities and its impact on the development of the bank's activities.</li> </ul> <p>Such an assessment is undertaken by the CBU not only in case of transfer of significant ownership ('potential acquirer; see CP 6), but also in relation to licensing of a bank, having regard to the founder. Reference to 'related party' of the founder (and potential acquirer) should cover the assessment of the wide group.</p> <p>Same article foresees that the CBU issues a preliminary permit for the acquisition of bank shares in the absence of excessive fragmentation of shareholders - legal entities into levels of more than three levels from the potential acquirer to the BO.</p> <p>At the same time, when assessing the founders of a bank, the CBU, among other things, examines:</p> <ul style="list-style-type: none"> <li>• possible integration of activities with the bank's activities and its impact on the development of the bank's activities;</li> <li>• the influence of the organizational structure of the corporate governance of the founder and related persons on the regulation and supervision of the bank.</li> <li>• whether the founders will be able to participate in the authorized capital of the bank when it is created (to own shares of the bank) in the absence of: <ul style="list-style-type: none"> <li>○ suspicions that the potential acquirer is not the BO of the proposed acquisition;</li> <li>○ excessive fragmentation of founders (shareholders) – legal entities into levels (more than three levels from the potential acquirer to the BO).</li> </ul> </li> </ul> <p>In addition to the measures outlined, other legal mechanisms are also applied. For example, according to Article 17 BL legal entities registered and individuals residing in a state or territory that offers preferential tax regimes and/or does not require disclosure of the BO identity or the provision of information during financial transactions cannot act as founders or shareholders of a bank</p> <p>Furthermore, the aggregate share of non-residents—both individuals and legal entities that are not international financial institutions, foreign banks, or other credit organizations—must not exceed 50% of a bank's charter capital.</p> <p>The above requirements serve as an additional measure to enhance the transparency of a bank's ownership structure</p> <p>The CBU proceeds with its assessment of the foreseen institution as being subject to its effective supervision and sanctioning. The assessors reviewed two licensing files and found robust evidence of the extensive analysis conducted by the CBU, which goes well beyond the direct founder and encompasses the BO and wider group of the applicant.</p>
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<b>EC4</b>	The licensing authority identifies and determines the suitability of the bank's major shareholders <sup>17</sup> (including the beneficial owners) and others that may exert significant influence. It also assesses the transparency of the ownership structure, the sources of initial capital and the ability of shareholders to provide additional financial support, where needed.
Description and findings re EC4	<p>The CBU assesses the direct and indirect founders, including the BOs with substantial ownership and the managers of the bank by following criteria:</p> <ul style="list-style-type: none"> <li>• business reputation of direct and indirect founders, including BO with substantial ownership;</li> <li>• business reputation, knowledge, skills and experience of members of the Supervisory Board and the Management Board, as well as key personnel of the bank;</li> <li>• financial solvency of the founders, in particular, in relation to the size and specifics of the bank's activities;</li> <li>• the ability of the bank to comply with the prudential requirements established by the legislation on banks and banking activities;</li> <li>• absence of suspicion of the existence of accepted or ongoing attempts to legalize the proceeds of crime, the financing of terrorism and the financing of the proliferation of weapons of mass destruction, as well as the assumption of an increase in this risk;</li> <li>• possible integration of the founders' activities with the bank's activities and its impact on the development of the bank's activities;</li> <li>• the impact of the organizational structure of corporate governance of the founders and related persons on the regulation and supervision of the bank.</li> </ul> <p>The assessment procedure is described in the RPCABA.</p> <p>When assessing the compliance of a potential acquirer with the criterion of business reputation, the following are taken into account:</p> <p>1) moral qualities and good faith of the potential acquirer (without applying the principle of proportionality):</p> <ul style="list-style-type: none"> <li>• the absence of an outstanding or unexpunged conviction in relation to the potential acquirer for crimes in the field of economy, against the order of administration or for crimes related to the financing of terrorism and legalization of proceeds from criminal activity;</li> <li>• lack of evidence that the potential acquirer is responsible for the actions that led the legal entity to bankruptcy or critical financial condition;</li> <li>• absence of a court decision depriving the potential acquirer of the right to engage in professional activities in the field of finance;</li> <li>• application by the competent supervisory authority to a potential acquirer in the past of a sanction restricting ownership in the authorized capital (authorized capital) of a legal entity;</li> <li>• provision of reliable information to the CBU;</li> <li>• lack of evidence that the potential acquirer tried to avoid the valuation;</li> </ul> <p>2) professional competence (applying the principle of proportionality):</p>

<sup>17</sup> This includes corporate owners of banks, for those countries which allow corporate ownership of banks.

	<ul style="list-style-type: none"> <li>• prudent management of participatory interests (shares) of legal entities by a potential acquirer;</li> <li>• experience of prudent management accumulated as a participant (shareholder) exercising control, and (or) the head of legal entities operating in the financial market.</li> </ul> <p>According to paragraph 53 of the RPCABA, if the potential acquirer is a legal entity, the assessment of compliance with the business reputation criterion covers the legal entity itself, as well as its participants (shareholders) and members of management bodies.</p> <p>In addition, according to paragraph 59 of this Regulation, when assessing the financial solvency of a potential acquirer, the activity and efficiency of its previous economic, financial and other activities are taken into account before submitting documents for obtaining preliminary permission to purchase bank shares.</p> <p>According to paragraph 67 of the RPCABA, the funds used to make the proposed acquisition must come from legal sources, and the financing mechanism must be transparent. For this purpose, the potential acquirer shall submit to the information confirming:</p> <ul style="list-style-type: none"> <li>• the source of origin of these funds;</li> <li>• the scheme of the movement of these funds;</li> <li>• the absence of the movement of these funds through financial institutions that are under the supervision of the competent authorities of states or territories that provide a preferential tax regime and (or) do not provide for the disclosure of the identity of the BO and the provision of information when conducting financial transactions.</li> </ul> <p>Assessors were provided with example when the founders of a newly created bank, who applied for preliminary permission from the CBU to create a bank, were denied this permit, as they could not provide documentary evidence of the sources of funds allocated to form the minimum amount of the authorized capital of the bank being created.</p> <p>According to Article 36 of the Law "On Banks and Banking Activities", the bank is obliged to ensure that the members of the supervisory board and the management board, as well as key personnel of the bank, constantly comply with the requirements of the legislation on banks and banking activities.</p>
<b>EC5</b>	A minimum initial capital amount is stipulated for all banks.
Description and findings re EC5	The minimum capital is set in the law and recently increased as prescribed by the 2020-2025 Banking sector strategy. Banks were given the below transition period to reach the new level of capital; however, there is the possibility that some banks will not reach the new minimum capital by January 2025. For this reason, the CBU restricted the dividend distributions (see also CP 11)

	<p>According to Article 13 of the BL, the minimum amount of the authorized capital of a bank must be:</p> <p>until September 1, 2023, one hundred billion sums;</p> <p>from September 1, 2023, two hundred billion sums;</p> <p>from April 1, 2024, three hundred and fifty billion sums;</p> <p>from January 1, 2025, five hundred billion sums.</p> <p>It is also foreseen the structure and composition of the capital.</p>
<b>EC6</b>	<p>At authorization, the licensing authority evaluates the bank's proposed board members and senior management in terms of their expertise and integrity, availability and time commitment to assume the responsibility, and any potential for conflicts of interest (fit and proper test). The fit and proper criteria include skills and experience in relevant financial operations commensurate with the intended activities of the bank; and no record of criminal activities or adverse regulatory judgments that make a person unfit to hold important positions in a bank.<sup>18</sup> The licensing authority determines whether the bank's board has collective sound knowledge of the material activities the bank intends to pursue, and the associated risks. The supervisor reassesses the suitability of board members in case of significant events (e.g. change of control or major acquisition) or upon receipt of information that impacts their fitness and propriety.</p>
Description and findings re EC6	<p>BL foresees that members of the supervisory board, management board and key personnel of the bank must have an impeccable business reputation, experience, knowledge and skills necessary to ensure effective management of the bank's risks, making informed decisions within their powers.</p> <p>The impeccable business reputation includes the review of criminal records. The assessment of the time commitment is conducted by analyzing the other directorships of the proposed members declared in the questionnaire (annexed to the licensing regulation). This also enables the CBU to verify potential conflicts of interest.</p> <p>The CBU approves the candidates for members of the Supervisory Board, the Management Board and key staff. Key staff includes heads of internal control functions. The terms of assessment, documents required for assessment, compliance criteria, as well as the procedure for approving members of the Supervisory Board, the Management Board and key personnel of the bank are determined by the CBU. At the same time, the bank is obliged to ensure that members of the supervisory board and management board, as well as key staff, <b>constantly comply with the requirements of the legislation on banks and banking activities.</b></p> <p>According to paragraph 83 of the RPCABA, the assessment and approval of the head is carried out in the following cases:</p> <ul style="list-style-type: none"> <li>• as part of the submission of an application for obtaining a preliminary permit to establish a bank and an application for state registration of the bank and the issuance of a license;</li> <li>• before assuming the position of a manager;</li> </ul>

<sup>18</sup> Refer to Principle 14 (BCP40.33).

	<ul style="list-style-type: none"> <li>• in the event of new events affecting the compliance of the manager with the requirements of these Regulations.</li> </ul> <p>According to paragraphs 91-92 of the Regulation, the candidate's experience, knowledge and skills are evaluated taking into account the systemic importance, specifics, scale and complexity of the bank's activities, as well as the responsibilities assigned to it.</p> <p>According to paragraph 104 of the RPCABA , the experience, skills and knowledge of the members of the Supervisory Board and the Management Board of the bank must collectively cover the following areas for effective and prudent management of the bank:</p> <ul style="list-style-type: none"> <li>• the main areas of the bank's activities and the risks associated with them;</li> <li>• financial markets, including the money market and the securities market;</li> <li>• accounting and reporting;</li> <li>• risk management, including identification, assessment, monitoring, control and mitigation of the main types of bank risks;</li> <li>• countering the legalization of proceeds from crime, the financing of terrorism and the financing of the proliferation of weapons of mass destruction;</li> <li>• internal audit;</li> <li>• information technology and security;</li> <li>• normative legal acts of the Republic of Uzbekistan;</li> <li>• Ability to plan strategically and understand the bank's business strategy or business plan and its implementation;</li> <li>• management experience and skills.</li> </ul> <p>The candidates fill in a template spelling out skill and experience; the CBU might interview candidate the check the suitability. The assessors were provided with case of rejection, identified that certain facts about the candidate's reputation have been hidden. The assessors also were provided with the case while insufficient competences were determined, the candidate was obliged to complete training and provide evidence of the knowledge obtained.</p>
<b>EC7</b>	<p>The licensing authority reviews the proposed strategic and operating plans of the bank. This includes determining that an appropriate system of corporate governance, risk management and internal controls, including those related to the detection and prevention of criminal activities<sup>19</sup> as well as the oversight of proposed outsourced functions, will be in place. The operational structure is required to reflect the scope and degree of sophistication of the proposed activities of the bank.</p>
Description and findings re EC7	<p>According to the RPCABA, when licensing a bank, the CBU considers the following:</p> <ul style="list-style-type: none"> <li>• the bank's business plan for the next three years, providing for the strategy, directions, scale, financial prospects of the bank's activities;</li> <li>• the bank's credit, investment and emission policies, as well as the bank's risk management, including operational risk and internal control policies;</li> <li>• Regulations on the Internal Audit Service of the Bank;</li> <li>• organizational structure of the bank.</li> </ul>

<sup>19</sup> Refer to Principle 29 (BCP40.66).

	<p>In accordance with Article 33 of the BL, a bank must have a clearly defined organizational structure of corporate governance, defining:</p> <ul style="list-style-type: none"> <li>• transparent areas of responsibility;</li> <li>• effective procedures for identifying, managing, monitoring and communicating the risks to which the bank is or may be exposed (crisis simulation scenarios);</li> <li>• the procedure for assessing liquidity and capital adequacy to cover operational risk;</li> <li>• appropriate internal controls, including accounting procedures;</li> <li>• policies and methods of employee remuneration that promote and are consistent with prudent and effective risk management.</li> </ul> <p>The corporate governance organizational structure, procedures and mechanisms should be comprehensive and appropriate to the nature, scale and complexity of the risks inherent in the bank's business model and activities. Internal controls should at least ensure that governance and risk assessment functions are performed and that internal audit requirements are met.</p> <p>The CBU has the right to establish a separate procedure for obtaining preliminary permission when establishing a bank or participating in the authorized capital of the bank of international financial institutions, foreign banks and other credit institutions with high capital and credit ratings.</p>
<b>EC8</b>	<p>The licensing authority reviews pro forma financial statements and projections of the proposed bank. This includes an assessment of the adequacy of the financial strength to support the proposed strategic plan as well as financial information on the principal shareholders of the bank.</p>
Description and findings re EC8	<p>According to the RPCABA, when licensing a bank, the Central Bank considers the following:</p> <ul style="list-style-type: none"> <li>• the bank's business plan for the next three years, providing for the strategy, directions, scale, financial prospects of the bank's activities;</li> <li>• the bank's credit, investment and emission policies, as well as the bank's risk management and internal control policies;</li> <li>• Regulations on the Internal Audit Service of the Bank;</li> <li>• organizational structure of the bank.</li> </ul> <p>According to the above Regulation, the bank's business plan must include an assessment of:</p> <ul style="list-style-type: none"> <li>• the bank's ability to ensure financial stability, meet prudential standards and comply with the requirements of legislation on banks and banking activities;</li> <li>• the bank's ability to long-term existence as a profitable financial institution;</li> <li>• adequacy of the bank's risk management system.</li> </ul> <p>In addition, a business plan must include:</p>

	<ul style="list-style-type: none"> <li>• economic justification for the creation of the bank and financial prospects of the bank's activities (budget, forecasted: balance sheet, profit and loss statement, capital adequacy);</li> <li>• the structure of the bank's management and internal control system;</li> <li>• the bank's credit policy (mechanisms for assessing risk when issuing loans, continuous control of loans issued and all other types of risk, as well as other issues related to the bank's credit policy);</li> <li>• proposed measures to counter the legalization of proceeds from crime and the financing of terrorism and the financing of the proliferation of weapons of mass destruction;</li> <li>• plan for attracting customers and creating a customer base of the bank;</li> <li>• a plan for attracting personnel and implementing personnel policy;</li> <li>• an asset and liability management plan;</li> <li>• other aspects related to the proper organization and functioning of the bank.</li> </ul> <p>The assessors examined two files (one approval and one rejection). The evaluation of the business plan is not comprehensive: it does not provide a broad and detailed picture of the activities of the future bank. The sustainability of the bank's business model is not assessed. The financials and forecast are presented in only one (baseline) scenario. No comparison with existing peers is made, competitiveness within the market is also not assessed.</p>
<b>EC9</b>	<p>In the case of foreign banks establishing a branch or subsidiary, before issuing a license, the host supervisor establishes that no objection (or a statement of no objection) from the home supervisor has been received. For cross-border banking operations in its country, the host supervisor determines whether the home supervisor practices global consolidated supervision and uses this information to inform its approach to licensing and supervision.</p>
Description and findings re EC9	<p>According to Article 17 No ZRU-580) foresees when a foreign bank is established or participates in the authorized capital of a bank, in addition to the standard package of documents, the following documents are additionally submitted:</p> <ul style="list-style-type: none"> <li>• decision of the authorized body of the foreign bank on the establishment or its participation in the authorized capital of the bank;</li> <li>• charter of a foreign bank;</li> <li>• a written confirmation from the banking supervision authority of a foreign bank that this foreign bank is under its consolidated supervision, has the right to accept funds for deposits and it has been issued a permit from the banking supervisory authority to establish or participate in the authorized capital of the bank or a confirmation that such permission is not required. Such written confirmation is a no objection;</li> <li>• a document confirming the compliance of the capital adequacy and credit rating of the foreign bank with the requirements established by the Central Bank.</li> </ul> <p>When considering an application for a preliminary permit to establish a bank, the CBU take into account:</p>



	<ul style="list-style-type: none"> <li>the existence of an agreement (MoU) on the exchange of information between the CBU and the banking supervision body of the foreign bank (the founder);</li> <li>information and opinions of the competent authorities of the country of residence of the non-resident.</li> </ul> <p>According to Article 30 No ZRU-580, the establishment of branches by foreign banks in the Republic of Uzbekistan is not allowed.</p>
<b>EC10</b>	The licensing authority or supervisor has policies and processes to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that the supervisory requirements outlined in the license approval are being met.
Description and findings re EC10	<p>The CBU assesses the ability of new participants to achieve their strategic goals and business plan during the annual assessment of the risk profile of banks when analyzing the "Business Model" component in accordance with the RON.</p> <p>The Central Bank verifies the achievement of the bank's stated goals and priorities by comparing the development strategy, the forecast budget with actual indicators. If inconsistencies are identified, the bank's rating is downgraded, which accordingly entails the application of supervisory response measures and on-site inspections requiring the bank to bring its activities in line with the stated goals.</p>
<b>EC11</b>	The criteria for issuing licenses are consistent with those applied in ongoing supervision. The supervisor determines that banks continue to comply with the applicable criteria once they are licensed.
Description and findings re EC11	The requirements that a bank must meet when issuing a license correspond to the requirements for operating (functioning) banks. In particular, the criteria relating to the fit & proper of members of the supervisory board, the management board and key personnel of banks are the same in licensing and supervision.
<b>Assessment of Principle 5</b>	<b>Largely Compliant</b>
Comments	<p>Over the past three years (2021-2023), CBU has received 7 applications for a banking license, of which 6 applications were approved and licenses for banking activities were issued, while one application was denied due to precarious financial conditions of the applicant.</p> <p>CBU is authorized to issue and revoke banking licenses. The licensing process is clearly described and properly communicated. It consists of two stages:</p> <p>(i) issuance of a preliminary permit, i.e. initial approval, which is an agreement to prepare for the establishment of the bank; and</p> <p>(ii) issuance of a license, which is a granted permit to conduct banking business activities.</p> <p>CBU has established criteria to be met for obtaining a banking license. The conditions under which an application might be rejected are clearly described.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>The evaluation of the business activities (business plan) for licensing purposes is not comprehensive: it does not provide a broad and detailed picture of the activities of the future bank. The justification of the foreseen activity is superficial,</li> </ul>

	<p>and the sustainability of the bank's business model is not assessed. The financials and forecast are presented in only one (baseline) scenario. No comparison with existing peers is made; competitiveness within the market is also not assessed.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> <li>Amend the CBU <i>Regulation on 'Procedure and Conditions of Authorisation of Banking Activities'</i> No. 3252 by enhancing requirement for the preparation of a business plan and strengthen the evaluation on business plan during the licensing by performing: <ul style="list-style-type: none"> <li>✓ a detailed assessment of the performance;</li> <li>✓ a review regarding the complexity of the bank both from the organizational and business perspectives;</li> <li>✓ an evaluation of the sustainability of the business model;</li> <li>✓ an evaluation of the bank's forecasts for at least three years according to both baseline and stress scenarios;</li> <li>✓ an assessment of bank's compliance with prudential requirements under the stress conditions;</li> <li>✓ a comparison with existing peers.</li> </ul> </li> </ul> <p>It is recommended to clearly describe that the criteria for evaluation of business plan for the process of issuing licenses are consistent with those applied in ongoing supervision.</p>
<b>Principle 6</b>	<b>Transfer of significant ownership.</b> <sup>20</sup> The supervisor <sup>21</sup> has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties.
<b>Essential criteria</b>	
<b>EC1</b>	Laws or regulations contain clear definitions of "significant ownership" and "controlling interest".
Description and findings re EC1	<p>Article 3 of the BL defines <b>substantial ownership</b> as direct or indirect possession by a person or persons acting jointly of at least five percent of the authorized capital of a legal entity, acquired as a result of one or more transactions.</p> <p>In addition, according to Article 19 of the BL , control is understood as a relationship between persons that meets one of the following criteria:</p> <ul style="list-style-type: none"> <li>possession by a person of a predominant share in the authorized capital (authorized capital) of another legal entity;</li> <li>the right of a person who is a participant (shareholder) of a legal entity to appoint or replace a majority of members of the management bodies of this legal entity;</li> <li>the ability of a person to influence the activities of a legal entity in accordance with the agreement concluded with it and (or) the provisions of its charter;</li> </ul>

<sup>20</sup> Reference documents: BCBS, Parallel-owned banking structures, January 2003; BCBS, Shell banks and booking offices, January 2003.

<sup>21</sup> While the term "supervisor" is used throughout Principle 6, the Committee recognizes that in a few countries these issues might be addressed by a separate licensing authority.

	<ul style="list-style-type: none"> <li>the ability of a person who is a participant (shareholder) of a legal entity to influence the members of the management bodies of this legal entity appointed by him as a result of exercising the right to vote. This criterion shall not be applied if the control meets one of the criteria specified in paragraphs two to four of this part;</li> <li>the ability of a person who is a participant (shareholder) of a legal entity to manage a dominant share in the authorized capital (authorized capital) of this legal entity by agreement with its other participants (shareholders) or members.</li> </ul>
<b>EC2</b>	There are requirements to obtain supervisory approval or provide immediate notification with respect to proposed changes that would result in a change in ownership (including beneficial ownership), to the exercise of voting rights over a particular threshold or to a change in controlling interest.
Description and findings re EC2	<p>According to Article 22 of the BL, individuals and legal entities or persons acting jointly, including non-residents, are required to obtain prior permission from the CBU before acquiring, directly or indirectly, a share in the authorized capital of a bank, which as a result of one or more transactions will amount to:</p> <ul style="list-style-type: none"> <li>five or more percent, but not more than twenty percent;</li> <li>twenty or more percent, but not more than fifty percent;</li> <li>fifty percent or more.</li> </ul> <p>Banks are required to obtain prior approval from the CBU before acquiring, directly or indirectly, shares in another bank, or increasing their stake. To increase the share in the authorized capital of another bank, banks are required to obtain repeated prior permission from the CBU. CBU permission is also required when a person receives shares of the bank in the amount specified above (5, 20 and 50 percent) <b>under circumstances beyond his control</b>. The rights attached to the share are suspended until the CBU grants permission. In addition, in accordance with Article 26 of the BL the direct or indirect owner of substantial ownership, including the BO, is obliged to notify the CBU and the bank within ten days in writing, including in electronic form, in the following cases:</p> <ul style="list-style-type: none"> <li>execution of a transaction for which preliminary permission was obtained to purchase the bank's shares;</li> <li>increase in the share of shares established by of Article 22 of this BL, acquired with prior permission;</li> <li>making a decision on the alienation or reduction of substantial ownership in the authorized capital of the bank, as a result of which the substantial ownership will be less than fifty, twenty or five percent, respectively;</li> <li>receipt by a person of the bank's shares in the amount established by of Article 22 of this BL, under circumstances beyond his control.</li> </ul> <p>The assessors examine recent examples of transfer of controlling interest. The acquirer provided the CBU with the business plan to describe the business model of the bank after the acquisition. However, the evaluation by the CBU of expected/foreseen bank's business model after the transfer of control does not provide a detailed explanation of how the bank's activities will be continued after the transfer of control.</p>
<b>EC3</b>	The supervisor has the power to reject any proposal for a change in significant ownership (including beneficial ownership) or controlling interest, or prevent the exercise of voting rights in respect of such investments to ensure that any change in

	significant ownership meets criteria comparable with those used for licensing banks. If the supervisor determines that the change in significant ownership was based on false information, the supervisor has the power to reject, modify or reverse the change in significant ownership.
Description and findings re EC3	<p>According to Article 23 of the BL, to obtain preliminary permission for the purchase of the bank's shares, the potential acquirer shall submit to the CBU an application. A potential acquirer is a person or group of persons acting jointly who intend to acquire, directly or indirectly, including as the BO, of the bank's shares in connection with the proposed acquisition. The CBU has the right to refuse to issue a preliminary permit for the acquisition of bank shares without conducting an assessment in the presence of documents and (or) information confirming the non-compliance of the potential acquirer with one of the criteria specified in Article 24 of the BL:</p> <ul style="list-style-type: none"> <li>• no compliance with requirements related to business reputation and financial soundness of the potential acquirer, AML/CFT suspicious, bank's ability to comply with prudential requirements, integration of the bank's activity with the activity of the potential acquirer, impact on corporate governance;</li> <li>• there is suspicion that the potential acquirer is not the BO of the proposed acquisition;</li> <li>• excessive fragmentation of shareholders - legal entities into levels (more than three levels from the potential acquirer to the BO);</li> <li>• submission of documents in full;</li> </ul> <p>absence of inaccurate or distorted information in the documents and information submitted by the potential acquirer. This requirement also applies to the assessment of the founders when the applicant submits documents for the issuance of preliminary permission to establish a bank.</p> <p>According to Article 25 of the BL, the CBU has the right to apply measures and sanctions to the direct or indirect owner of substantial ownership, including the BO, who:</p> <ul style="list-style-type: none"> <li>• does not meet the requirements of the legislation on banks and banking activities;</li> <li>• has a negative impact on the bank, which may jeopardize the stable financial condition of the bank;</li> <li>• did not provide information about the identity of the BO</li> </ul> <p>The CBU may apply separately or in combination the following measures and sanctions:</p> <ul style="list-style-type: none"> <li>• suspends the voting rights, the requirements to convene and hold an extraordinary general meeting of shareholders, to put items on the agenda, to nominate candidates for members of the Supervisory Board and the Management Board of the bank and to receive part of the bank's profit in the form of dividends;</li> <li>• make a decision on the sale of the bank's shares by persons whose voting rights have been suspended;</li> <li>• revokes the issued preliminary permission to purchase the bank's shares.</li> </ul> <p>Shareholders with substantial ownership must sell their shares within three months from the date of withdrawal of the preliminary authorization to purchase the bank's shares.</p>
<b>EC4</b>	The supervisor obtains from banks, through periodic reporting or on-site examinations, the names and holdings of all significant shareholders or those that exert controlling

	influence, including the identities of beneficial owners of shares being held by nominees, custodians and through vehicles that might be used to disguise ownership.
Description and findings re EC4	<p>Pursuant to Article 61 of the CBL, the CBU has the right to exercise supervisory functions:</p> <ul style="list-style-type: none"> <li>• request and verify reports, as well as other documents, require clarification of information received from credit institutions, persons related to them, payment institutions, payment system operators, currency exchanges, credit bureaus, as well as banking groups, persons carrying out services and operations outsourced by banks, and associations (unions) of credit institutions;</li> <li>• inspect (verify) credit institutions, payment institutions, payment system operators, currency exchanges, credit bureaus, persons carrying out services and operations outsourced by banks, as well as persons subject to consolidated supervision;</li> <li>• to establish for credit institutions and credit bureaus the forms of reporting and the methodology for its preparation, the frequency and deadlines for its submission.</li> </ul> <p>Banks submit monthly reports to the CBU on the shareholders and ownership structure of the bank. The report contains information about each shareholder of the bank owning one or more percent of the share in the authorized capital of the bank, as well as the structure of the bank's ownership from the shareholder to the BO. In addition, banks are required to submit to the Central Bank a complete register of their shareholders on a quarterly basis.</p> <p>During supervisory files reviews, assessors received information indicating that the CBU collects information on the BOs both for local and foreign-owned banks.</p>
<b>EC5</b>	The supervisor has the power to take appropriate action to modify, reverse or otherwise address a change of control that has taken place without the necessary notification to, or approval from, the supervisor.
Description and findings re EC5	<p>The CBU has the power to take actions if a transfer of ownership occurs without the required notification to or approval from the CBU.</p> <p>According to Article 22 of the BL, transactions for the acquisition of bank shares concluded without prior permission for the acquisition are considered invalid.</p> <p>In the event of acquisition of the bank's shares in violation of the BL requirements, established by parts one and four of the article, 24 of the BL from the date of conclusion of such transaction, the owner of the shares shall not be entitled to vote at the general meeting of shareholders, to demand the convocation and holding of an extraordinary general meeting of shareholders, to put issues on the agenda, to nominate candidates for members of the supervisory board and the management board of the bank, as well as to receive part of the bank's profit in the form of dividends.</p> <p>In addition, in accordance with BL Article 25, the CBU has the right to apply measures and sanctions to the direct or indirect owner of substantial ownership, including the BO, who:</p> <ul style="list-style-type: none"> <li>• does not meet the requirements of the legislation on banks and banking activities;</li> <li>• has a negative impact on the bank, which may jeopardize the stable financial condition of the bank;</li> <li>• did not provide information about the identity of the</li> </ul>

	<p>beneficial owner.</p> <p>The CBU has the right to apply measures and sanctions to shareholders who have significant ownership as a result of concerted activities without obtaining prior permission to purchase the bank's shares.</p>
<b>EC6</b>	Laws, regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder or a party that has a controlling interest.
Description and findings re EC6	According to Article 27 of the BL, the direct and indirect owner of a substantial holding, including the BO, must notify the CBU of the circumstances that may affect the assessment of the shareholder's compliance with the requirements of the legislation on banks and banking activities, within five working days from the date of occurrence of such circumstances.
<b>Assessment of Principle 6</b>	<b>Largely Compliant</b>
Comments	<p>The Licensing Department is responsible for assessing proposed changes in bank ownership. In the case of a transfer of the bank's shares, prior approval is required. The BL requires individuals and legal entities or persons acting jointly to obtain prior permission from the CBU before acquiring, directly or indirectly, a share in the authorized capital of a bank. The process established within CBU is like licensing, as valuation of the proposed acquisition proceeds in almost the same way.</p> <p>CBU has the right to refuse to issue a preliminary permit for the acquisition.</p> <p>Banks submit monthly reports to the CBU on the shareholders and ownership structure of the bank. The report contains information about each shareholder of the bank owning one or more percent of the share in the authorized capital of the bank, as well as the structure of the bank's ownership from the shareholder to the BO. In addition, banks are required to submit to the CBU a complete register of their shareholders on a quarterly basis.</p> <p>Assessors were provided with recent examples of acquisition. It has been noted that the acquirer provides the business plan to describe the business model of the bank after the acquisition. However, the evaluation of expected/foreseen bank's activities after transfer of control does not provide a detailed explanation of how the bank's activities will be continued after the transfer will occur.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>The BL gives the CBU sufficient authority to approve or reject applications for major acquisitions and to impose prudential conditions on those acquisitions; however, the evaluation of the expected/foreseen bank's business model after the transfer of control does not provide a detailed explanation of how the bank's activities will change after the mentioned transfer.</li> </ul> <p>Recommendations:</p> <ul style="list-style-type: none"> <li>It is recommended to strengthen the evaluation of the envisaged bank's business model after transfer of control occurs through criteria consistent with those applied in ongoing supervision.</li> </ul>
<b>Principle 7</b>	<b>Major acquisitions.</b> The supervisor has the power to: (i) approve or reject (or recommend to the responsible authority the approval or rejection of) and impose prudential conditions on major acquisitions or investments by a bank (including the

	establishment of cross-border operations), against prescribed criteria; and (ii) determine that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.
<b>Essential criteria</b>	
<b>EC1</b>	<p>Laws or regulations clearly define:</p> <p>(a) what types and amounts (absolute and/or in relation to a bank's capital) of acquisitions and investments need prior supervisory approval; and</p> <p>(b) cases for which notification after the acquisition or investment is sufficient. Such cases are primarily activities closely related to banking and where the investment is small relative to the bank's capital.</p>
Description and findings re EC1	<p>According to Art 22 of the BL, banks are required to obtain prior permission before acquiring, directly or indirectly, shares in another bank. Also, in order to increase the share in the authorized capital of another bank, banks are required to obtain prior permission).</p> <p>In addition, according to Art 7 of the BL, banks are prohibited from creating legal entities and (or) acquiring shares in the authorized capitals) of legal entities, with the below exceptions pertaining to financial sector entities:</p> <ul style="list-style-type: none"> <li>• legal entities carrying out on a professional basis credit, insurance and leasing operations;</li> <li>• legal entities that are part of the infrastructure of the financial market or provide information and consulting services to banks;</li> <li>• legal entities carrying out professional activities in the securities market;</li> <li>• subsidiaries of a bank abroad, created for the purpose of issuing and placing securities under the guarantee of this bank;</li> <li>• legal entities whose exclusive activity is collection;</li> <li>• legal entities that provide services to ensure interaction between participants in settlements on banking transactions, including settlements on transactions with bank cards;</li> <li>• stock and currency exchanges;</li> <li>• credit bureaus;</li> <li>• joint stock companies on the secondary securities market in the amount of not more than twenty percent of the placed shares listed on the stock exchange.</li> </ul> <p>Bank's acquisitions of shares in the authorized capital of a legal entity shall not exceed <b>fifteen percent</b> of the bank's Tier 1 capital. Moreover, the aggregate level of such shares should not exceed <b>fifty percent</b> of the bank's Tier 1 capital.</p> <p>If the bank's ownership exceeds the prescribed thresholds, the bank is obliged to sell the exceeding investment within one year.</p> <p>A bank is prohibited from participating in the authorized capital of a legal entity owning one or more percent of the authorized capital of this bank.</p> <p>At the same time, Article 28 of the Law establishes that banks are required to obtain prior permission from the CBU to purchase their own shares. The amount of own shares acquired by the bank may not exceed ten percent of the authorized capital of the bank.</p>

	<p>In addition, according to Article 31 of the BL, banks, with the permission of the CBU, may open subsidiary banks abroad and establish branches, participate in the capital of banks, including the creation of foreign banks, in the following cases:</p> <ul style="list-style-type: none"> <li>• the existence of an agreement on the exchange of information between the CBU and the banking supervisory authority of the host country;</li> <li>• the legislation of the host country and the methodology of its application do not prevent the CBU from performing supervisory functions over a subsidiary bank, a branch of the bank;</li> <li>• the management and financial condition of the bank are sufficient for the planned activities carried out through a subsidiary bank, branch;</li> <li>• compliance and growth of prudential standards and compliance of the bank with other requirements of the legislation on banks and banking activities.</li> </ul> <p>At the same time, Regulation "On the requirements for the acquisition and possession of real estate and other property, as well as the acquisition of shares or shares in the authorized capital of legal entities by commercial banks" (reg. 3441, 08.06.2023), determines the requirements for the acquisition and possession of <b>real estate and other property</b>. Banks can acquire and own real estate and other assets necessary for the conduct of banking activities. However, the total value of real estate and other property necessary for the implementation of the bank's activities or unused may not exceed the regulatory capital.</p> <p>Banks must take temporary possession of unused real estate and other assets and take measures to sell them or decide on their use within three years.</p> <p>Moreover, in accordance with Article 313 of the Civil Code of the Republic of Uzbekistan, a creditor's right (claim) arising from an obligation may be transferred to another person through a transaction (assignment of claims) or transferred by operation of law. The transfer of a creditor's rights to another person does not require the debtor's consent unless otherwise provided by law or contract. Based on the above, the current legislation permits banks to acquire loan portfolios from other banks.</p> <p>The BL does not establish a requirement for obtaining approval from the CBU for such transactions. At the same time, the purchase and sale of banking portfolios are monitored and assessed by the CBU through regular prudential reports submitted by banks. Furthermore, information regarding the transfer of claims on loans from one bank to another is recorded in the State Credit Information Registry.</p>
<b>EC2</b>	Laws or regulations provide criteria by which to judge individual bank proposals for acquisitions and investments.
Description and findings re EC2	<p>According to paragraph 42 of the Regulation "On the Procedure and Conditions for Issuing a Permit for Banking Activities" (reg. No 3252 dated June 30, 2020), the mandatory requirements and conditions for obtaining permission for a bank to acquire shares in another bank include the stable financial condition of the bank, as well as compliance with prudential standards as a result of the acquisition. The requirements of this paragraph shall also apply to cases of acquisition by banks of their own shares. In addition, Article 7 of the BL prohibits banks from creating legal entities and/or acquiring shares or shares in the authorized funds (authorized capital) of legal entities.</p> <p>Regulations also stipulate the details required to be submitted by banks.</p>



	Investments outside the financial sectors are prohibited. Investment in financial sector entities within the prudential limits (15 and 50 percent) are allowed and not subject to notification; moreover, there are no criteria, other than the prudential limit, to assess such investments.
<b>EC3</b>	The supervisor determines that any new acquisitions and investments will not expose the bank to undue risks or hinder effective supervision, and (where appropriate) that they will not hinder effective implementation of corrective measures in the future. <sup>22</sup> The supervisor can prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. In making this assessment, the supervisor considers the effectiveness of supervision in the host country and its own ability to exercise supervision on a consolidated basis.
Description and findings re EC3	<p>As mentioned in EC1, banks, with the permission of the CBU may open subsidiary banks abroad and create branches, participate in the capital of banks, including the creation of foreign banks, in the following cases (BL Article 31):</p> <ul style="list-style-type: none"> <li>• the existence of an agreement on the exchange of information between the Central Bank and the banking supervisory authority of the host country;</li> <li>• the legislation of the host country and the methodology of its application do not prevent the Central Bank from performing supervisory functions over a subsidiary bank, a branch of the bank;</li> <li>• the management and financial condition of the bank are sufficient for the planned activities carried out through a subsidiary bank, branch;</li> <li>• compliance and growth of prudential standards and compliance of the bank with other requirements of the legislation on banks and banking activities.</li> </ul> <p>In addition, according to paragraph 144 of the Regulation "On the Procedure and Conditions for Admission to Banking Activities" (reg. No 3252 dated June 30, 2020), the CBU may refuse a bank to open a subsidiary bank abroad or create a branch, or participate in the bank's capital, including the creation of a foreign bank, if the bank fails to comply with the conditions specified in Article 31 of the Law "On Banks and Banking Activities", and if the CBU determines that:</p> <ul style="list-style-type: none"> <li>• the host country does not have sufficient and effective banking supervision, including on a consolidated basis;</li> <li>• there is no possibility of effective cooperation with the supervisory authorities of the host country, including the possibility of exchanging information.</li> </ul> <p>The investment portfolio of a commercial bank (investments in securities intended for sale, or investments in dependent economic companies and subsidiaries, in debt securities held until their maturity) should be classified on the basis of the following factors and a provision should be created to cover possible losses in the established amount:</p> <ul style="list-style-type: none"> <li>• investments that have not brought income to a commercial bank within the last one year - as "unsatisfactory";</li> </ul>

<sup>22</sup> The supervisor may consider whether the acquisition or investment creates obstacles to the orderly resolution of the bank.

	<ul style="list-style-type: none"> <li>• investments that have not brought income to a commercial bank within the last two years - as "doubtful";</li> <li>• Investments that have not brought income to a commercial bank within the last three years are considered "hopeless".</li> </ul> <p>The RRM describes the duties of the head of the risk management unit is to prohibit decisions (including investments) of the bank's management board and committees leading to violations of the bank's risk appetite limits or risk limits and immediately inform the supervisory board thereof.</p>
<b>EC4</b>	The supervisor determines that the bank has, from the outset, adequate financial, managerial and organisational resources to manage the acquisition/investment.
Description and findings re EC4	<p>The curator receives a monthly and quarterly reports with the investment made by banks. The CBU pointed out that based on the data obtained, curators analyze the entire structure of the banking group and affiliates and prepare reports. The report verifies the compliance with large exposure and related party limits (see CP 19 and CP 20) as well as the structure of financing of the parent company.</p> <p>The assessors found some evidence that the CBU analyzes the activities of the banks' investment committee.</p>
<b>EC5</b>	The supervisor is aware of the risks that non-banking activities can pose to a bank and has the means to take action to mitigate those risks. The supervisor considers the ability of the bank to manage these risks prior to permitting investment in non-banking activities.
Description and findings re EC5	<p>According to the Article 7 of BL, investments in non-banking activities are prohibited.</p> <p>A bank is also prohibited from participating in the authorized capital of a legal entity owning one or more percent of the authorized capital of this bank.</p>
<b>EC6</b>	The supervisor reviews major acquisitions or investments by other entities in the banking group to determine that these do not expose the bank to any undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future. Where necessary, the supervisor is able to effectively address the risks to the bank arising from such acquisitions or investments.
Description and findings re EC6	<p>Information on banks' investments, as well as information on transactions with related parties, is provided on a monthly basis to the CBU and is analyzed by curators. In addition, on a quarterly basis, banks also provide a report with institutional changes.</p> <p>Curators collected both monthly and quarterly reports, and financial reports. Based on the data obtained, curators analyze the entire structure of the banking group and affiliates and prepare reports.</p> <p>Banks are obliged on a monthly basis to report on the investments made. For this purpose, there is a specifically dedicated reporting template within the framework of the package of supervisory reporting. Banks' curators review and evaluate banks' investments by performing off-site supervision. The evaluation of investment policies, as well as the performance of the Investment Committee of the bank is being assessed during on-site inspections. Samples of on-site reports provided evidence of such investigations to assessors. Prohibitions and restrictions on banks' investments (BL Article 7), apply only on individual level. In the lack of prudential limits on a consolidated level pertaining to major investments, the CBU might not be able to constrain</p>

	acquisitions or investments made by entities other than banks belonging to the banking group, which could nevertheless expose the bank to any undue risks or hinder effective supervision.
<b>Assessment of Principle 7</b>	<b>Largely Compliant</b>
Comments	<p>The allowed investments are prescribed in the BL. Banks are prohibited from making an investment in non-financial activities. Allowed investments are restricted by limits: at entity level such an investment shall not exceed fifteen percent of the Tier1 capital) and at an aggregated level, such investments shall not exceed fifty percent of the Tier 1 capital.</p> <p>Finding:</p> <ul style="list-style-type: none"> <li>• The CBU does not require ex-ante or ex-post notification of acquisitions up to 15 percent of the bank's total Tier 1 capital and collects only quantitative information through regular prudential reporting. The required information may not be sufficient to assess whether the acquisition poses undue risks to the bank or not.</li> <li>• In the lack of prudential limits on consolidates level pertaining to major investments, the CBU might not be able to constrain acquisitions or investments made by entities (other than banks) belonging to the banking group which could nevertheless expose the bank to any undue risks or hinder effective supervision</li> </ul> <p>Recommendation:</p> <ul style="list-style-type: none"> <li>• Implement a timely notification containing qualitative information about investments, and the bank's ability to manage it.</li> <li>• Reviews major acquisitions or investments by other entities in the banking group to determine that these do not expose the bank to any undue risks or hinder effective supervision.</li> </ul>
<b>Principle 8</b>	<b>Supervisory approach.</b> <sup>23</sup> An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become non-viable.
<b>Essential criteria</b>	
<b>EC1</b>	<p>The supervisor uses a well defined methodology and processes to determine and assess on an ongoing basis the nature, impact and scope of the risks which banks:</p> <p>(a) are exposed to; and</p>

<sup>23</sup> Reference documents: BCBS, High-level considerations on proportionality, July 2022; BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022; BCBS, Frameworks for early supervisory intervention, March 2018; BCBS, Sound Practices: implications of fintech developments for banks and bank supervisors, February 2018; BCBS, Guidelines for identifying and dealing with weak banks, July 2015; (SRP10), (SRP20), (SCO50).

	<p>(b) present to the safety and soundness of the banking system (including implications for and interlinkages with financial system stability).</p> <p>The methodology and processes address (among other things): banks' group structure (including risks posed by entities in the wider group); risks around banks' business models, including business model sustainability;<sup>24</sup> banks' risk profile with a forward-looking view;<sup>25</sup> their internal control environment; and their resolvability. The methodology permits relevant comparisons between banks, and the nature, frequency and intensity of supervision reflect the outcome of this analysis.</p>
Description and findings re EC1	<p><b>The CBU has been transitioning from compliance to risk-based supervision.</b> It adopted a new methodology and processes to conduct off-site risk assessment of banks: the GRBS. The risk-based supervision methodology was piloted on 4 banks in 2023. It has been tested with 14 banks in 2024. In 2025, the plan is to conduct risk-based supervision for the rest of the banks. The Guidelines mirror the European Central Bank methodology, but the risk assessment is currently conducted on an individual bank basis (no consolidated supervision) and its perimeter does not incorporate climate related financial risk yet.</p> <p>Article 45 of the BL requires the CBU to oversee:</p> <ul style="list-style-type: none"> <li>• the systems, strategies, procedures and mechanisms used by banks to comply with prudential requirements</li> <li>• risks to which banks are or may be exposed, ensuring that risks are prudently managed and covered by regulatory compliance mechanisms, as well as capital and liquidity</li> <li>• compliance of banks with risk management and corporate governance requirements</li> </ul> <p>Article 46 of the BL tasks the CBU with the review of the systems, strategies, procedures and mechanisms used by banks to comply with the requirements of banking and banking legislation, and to assess the existing and potential risks, including those risks posed by individual banks to the financial system.</p> <p><b>Guidelines for Risk-Based Supervision of Banks</b></p> <p>The Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025 instructed the CBU to adopt <b>risk-based supervision</b>. The CBU prepared GRBS which constitute its Supervisory Manual. This is a fundamental milestone in the processes to assess the nature, impact and scope of the risks which banks are exposed to and that banks present to the safety and soundness of the banking system. The guidelines describe the general approach, principles, methodology of risk-based supervision, the processes</p>

<sup>24</sup> The ultimate responsibility for designing and implementing sustainable business strategies lies with a bank's board.

<sup>25</sup> The time horizon for establishing a forward-looking view should appropriately reflect climate-related financial risks and emerging risks as needed.

	<p>and procedures for on-site and off-site supervision of banks operating in the territory of the Republic of Uzbekistan, as well as their subsidiaries and branches abroad.</p> <p>The CBU is cognizant of the challenges stemming from the new risk-oriented approach, which affects the intensity of supervision, the different use of resources, the <b>forward-looking view</b> to enable early identification of issues and necessary action to be taken in a timely manner, considering the “behavior” culture, management and business model of banks, as well as the broader characteristics of the economy and industry in which the bank operates.</p> <p>The assessors went through some selected chapters of the Guidelines.</p> <p><b>The Risk Assessment</b></p> <p>The assessment of a bank is crystallized in a rating which classifies the banks according to their risk profile. The curators score the various components of the risk profile, and a narrative briefly highlights the main factors influencing the assessment, the key shortcomings and their possible impact on the viability of the bank. Conclusions must be supported by evidence.</p> <p>Assessments are determined based on a combination of quantitative and qualitative indicators; factual data are combined with supervisory judgment in such a way that is not based solely on a “mechanistic” approach. The methodology is applied to ensure consistency of assessments through carefully designed constraints, while providing the necessary flexibility to reflect the uniqueness of each bank by justifying supervisory judgment in determining the final score.</p> <p>The main components are: (i) business model (see CP9, EC4), (ii) credit, market, operational risk, and interest rate risk in banking book (IRRBB); (iii) capital adequacy and liquidity, and (iv) Governance and Risk Management. All components are evaluated based of a four-point scale, with an even number aimed at avoiding the tendency to stick to “average” assessment.</p> <p>Risk profiles are evaluated by considering:</p> <ul style="list-style-type: none"> <li>• the inherent risk (‘gross risk’), intrinsically related to the bank’s activities, operations and products, which is evaluated in term of impact and probability, based on multiple quantitative indicators</li> <li>• the quality of the risk management, e.g. policies, process, staff, and internal control system</li> <li>• the net risk, e.g. those which remain after the application of internal control to the inherent risk</li> <li>• and the net risk direction which reflects a <b>forward-looking estimate</b> of the likely movement of net risk (improvement, stable, deterioration) over the next 12 months (time interval).</li> </ul>
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	<p>For the business model component, only inherent risk, net risk, and direction are evaluated; for the capital, and governance/risk management components only the quality of risk management, net risk, and the net risk direction are evaluated.</p> <p>There are three phases of assessment for each component: stage 1 which consists of gathering information from multiple sources; stage 2 provides an automatic assessment based on a set of pre-defined indicators and thresholds; and stage 3, which complements the limitations of the standardized and relatively simplified automated assessment carried out in the phase 2 and provides a more accurate picture of the inherent risk and the bank's quality of risk management.</p> <p>The final score is determined by moving from the simple average for the four components; the supervisor may then adjust this 'summary assessment' by <u>applying judgment</u> based on the knowledge of the bank, the comparison with peer group, the macro-environment, and the risk tolerance established by the supervisor. To limit possible significant discrepancies between the assessments of different banks, supervisors are allowed to only move by 1 step up and two steps down ('constrained judgment'). In exceptional circumstances, this rule can be disregarded if there is a properly documented justification.</p> <p>The nature, frequency and intensity of supervision reflects the outcome of this analysis. The CBU uses the risk profile for determining (i) the bank's supervision plan; (ii) the supervisory measures; (iii) the frequency and depth of information provided by banks.</p> <p>The establishment of higher prudential requirements depending on the score is contemplated by the Guidance but <u>not done</u> by the CBU, due to the lack of Pillar 2 methodology. This element has been weighted under CP16. However, as an outcome of the pilot exercise testing the new methodology, the CBU started requesting to the examined banks the preparation of the ICAAP, as well as some qualitative measures other than Pillar 2 Capital add-ons (for example, strengthening the risk appetite framework by introducing internal limits to the portfolio concentration)</p> <p><b>Comparison between banks</b></p> <p>Banks are divided into peer groups of "large state-owned banks", "state-owned banks", "medium-sized banks", "small banks", "retail banks". Supervisors should include comparisons with peer groups in the analysis of the business model, as they provide an idea of how the bank's performance compares to the industry, helping identify negative trends and deviations from the norm. Supervisors should consider whether the peer group is composed by homogenous banks. To this end, the supervisor may (i) use an indicative classification of banks by size and business model or (ii) create specialized groups of peer banks depending on the issue being studied. When creating groups, the supervisor may be guided by the following criteria: systemic/non-systemic nature (size, complexity, market share); ownership (state/private property) business model, (universal banking model, retail banking services, commercial banking/commercial finance). These tools contribute to the analysis of the bank's business model, and, therefore, they should be sufficiently flexible, allowing for a dynamic analysis of the bank evaluated against competitors selected based on various criteria.</p> <p>The assessors considered that the methodology can be improved in the following areas:</p>
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	<ul style="list-style-type: none"> <li>• <u>banks group structure</u>: The guidance does not address the procedures for consolidated supervision and there are no methodologies to understand and connect the risks posed by entities in the wider group. This is discussed and weighted under CP12.</li> <li>• <u>climate related financial risk</u>: The guidelines are silent on how to assess the impact that physical and transition risks can have on banks' risk profile through multiple channels (see EC4)</li> <li>• <u>resolvability</u>: because the CBU has not conducted a resolvability assessment of banks, which is particularly needed in relation to D-SIBs (including SOBs).</li> </ul> <p>The assessors examined the 3 <u>risk assessments conducted in 2023</u>; two private banks and a SOB. The assessors found them overall well structured. The CBU challenged the <b>sustainability of the business model</b>, due to the aggressive growth in retail lending and its potential repercussion on asset quality, provisioning and profitability (private bank). The CBU also challenged the low margins of an SOB lending portfolio to state owned enterprises, the lack of analysis on the efficiency of business lines, and the inadequate control on the implementation of the bank strategy. <b>Credit risk</b> was at the core of the assessment. In the case of the SOB, the CBU contested the issuance of new loans to cover previous day-past due (evergreening). Moreover, leveraging on a recent asset quality conducted by external consultants (one of the 'big four') in preparation for privatization, the CBU questioned the adequacy of the reserves. However, in this case, the CBU recommendations were 'soft', as they pertained mainly to governance elements (risk appetite, policy), without tackling the shortage in provisioning. The CBU also stresses <b>concentration risk</b> either in terms of business lines (car loans), or in relation to the top 20 borrowers. Both banks were recommended to prepare an internal capital adequacy assessment process (ICAAP). A point of improvement resides in the assessment of the corporate governance, since the two letters to the banks communicating these findings did not mention any deficiencies or shortfall in the supervisory board or management board; this has been weighted under CP14.</p> <p>The assessors also examined 1 draft risk assessment conducted in 2024 (see CP12).</p> <p><b>The reasoned judgment</b></p> <p>An essential ingredient of risk-based supervision is the reasoned judgment, because it enables the CBU to exert <b>supervisory discretion</b>. As mentioned under CP2, EC5, it can be used in the following contexts:</p> <ul style="list-style-type: none"> <li>• Licensing – assessment of the financial position and impeccable business reputation of direct and indirect founders and owners of a bank's shares, including BO, as well as when the CBU exercises regulatory and supervisory functions</li> <li>• Person acting in concert – determination of persons acting jointly in relation to bank</li> <li>• Related party transactions – identifying persons associated with the bank and detect instances where banks have applied 'more favorable terms' in the concerned transactions</li> </ul>
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	<ul style="list-style-type: none"> <li>• Risk Management and Internal Control – assessing the quality of the risk management and internal control system</li> <li>• Assets and Liabilities – assessment of assets and liabilities, including for their compliance with the CBU regulations on risk management</li> </ul> <p>The Regulation “<i>On the Procedure for the Formation and Use of a Reasoned Judgment by the Central Bank</i>”, approved by Resolution of the CBU Board No 34/3 (September 2023), establishes the rules regarding the formation, use, and procedures of reasoned judgment. Developed in accordance with Article 63 of the CBL, the reasoned judgment is based on information obtained from individuals and legal entities, international organizations, state authorities, including foreign supervisory authorities and organizations, other open sources and information. The data may include documents collected by the supervisory unit, photo, audio, and video materials, analysis of transactions and other relationships between related parties, analysis of the market value of the bank’s assets and liabilities, and opinions and explanations provided by the employees or other person related to banks about risk management and internal control systems. The CBU can request information or explanations from the banks or its direct and indirect founders and shareholders, setting a deadline for their submission. If they do not provide the requested information and/or explanations within the specified timeframe, it is considered that the information and/or explanations are not available.</p> <p>The draft conclusion based on the reasoned judgment prepared by the supervisory unit is sent to the bank and its beneficial owners; they should submit their motivated response within ten business days from the notification. If they do not provide a response, they are considered to agree with the draft conclusion of the reasoned judgment.</p> <p>The conclusion based on the reasoned judgment, along with the response received by the bank (if provided), is submitted to the Banking Supervision Committee for discussion. <b>A representative from the banks may be invited to the meeting of the Banking Supervision Committee.</b> The conclusion should include:</p> <ul style="list-style-type: none"> <li>• reasoned <u>facts</u> regarding the issue under consideration</li> <li>• analysis of the <u>data and information</u></li> <li>• <u>logical basis</u> for the necessity of making a decision based on the reasoned judgment</li> <li>• analysis of the <u>consequences</u> of the decision based on the reasoned judgment (if necessary)</li> <li>• other information deemed important by the supervisory unit.</li> </ul> <p>Based on the results of the review, the Banking Supervision Committee decides whether to apply the reasoned judgment or to reject it due to the lack of sufficient justifications. Banks and beneficial owners can appeal to the CBU’s Appeal Board or to the court within ten days from the notification. The CBU’s Appeal Board reviews the appeal within fifteen days and notifies the applicant of the decision in writing. Based on the results of reviewing the appeal, the CBU can:</p>
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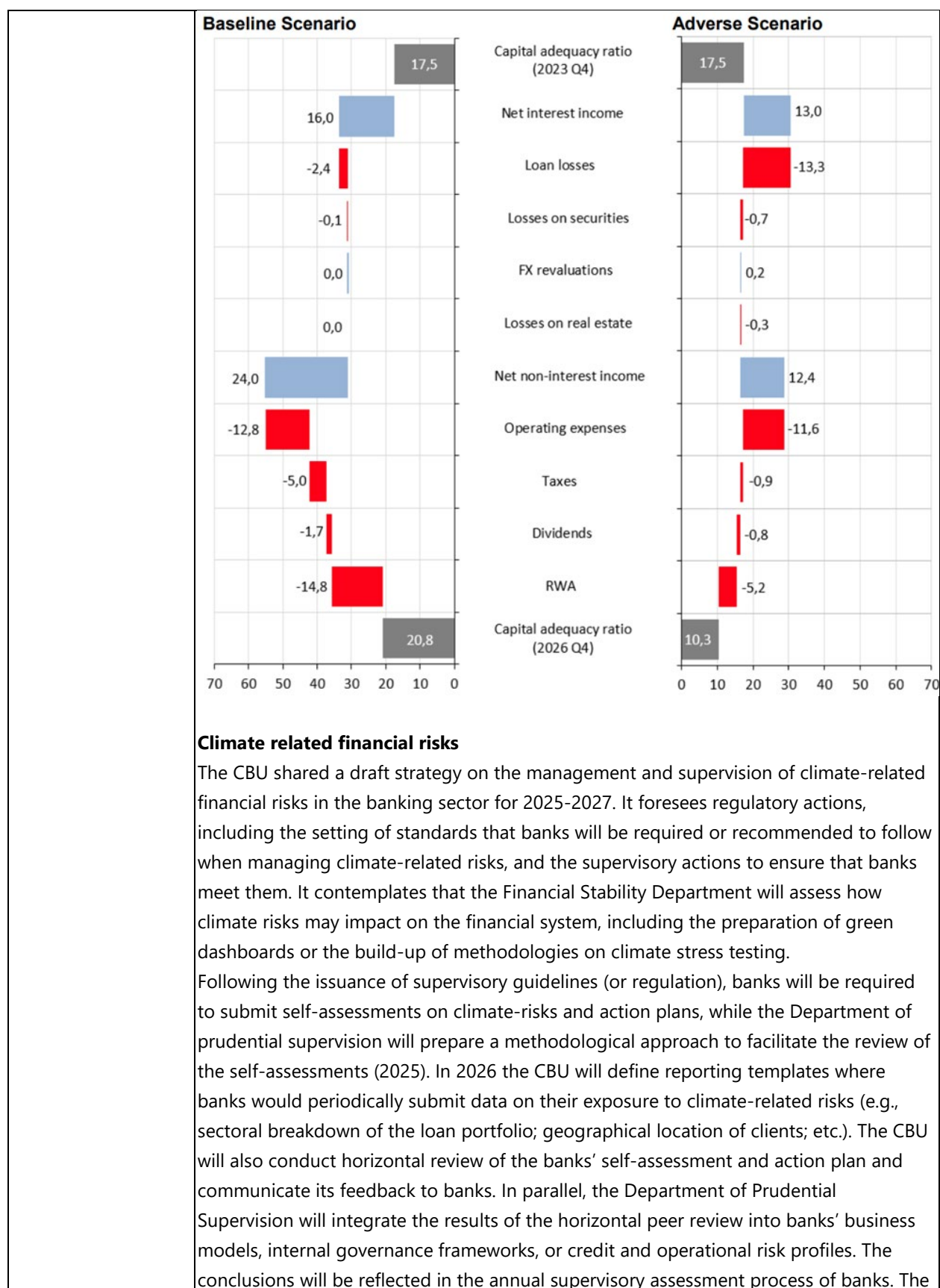


	<ul style="list-style-type: none"> <li>• reject the appeal and leave the decision of the Bank Supervision Committee unchanged</li> <li>• satisfy the appeal and cancel the decision of the Bank Supervision Committee</li> </ul> <p>The CBU's Appeal Board may involve the applicant in the review of the appeal at its initiative or at the request of the applicant. Filing an appeal to the CBU's Appeal Board or a complaint to the court regarding the decision to apply the reasoned judgment does not suspend the execution of the decision of the Banking Supervision Committee. Based on the decision of the Banking Supervision Committee regarding the application of a reasoned judgment, the CBU has the right to establish supervisory measures and apply measures and sanctions in accordance with the procedures established by law.</p> <p>In 2023 the CBU exerted its reasoned judgment 6 times; in 2024 3 times.</p> <p>The assessors examined 4 cases of reasoned judgments. In 2 cases the CBU challenged the 'economic interdependency' among borrowers, re-determined the 'group of connected clients' and sanctioned banks for the breach of large exposure limits (see CP 19). In one case, deficiencies in the reporting of large exposure were used to challenge risk management and internal control. In another case, the CBU challenged the RWA calculation for certain exposures to corporates.</p> <p>As stated under CP2, <b>the motivated judgment</b> is the result of <b>robust procedures</b>, based on principles of <b>legality, validity, objectivity and a uniform approach</b>. It anchors supervisory discretion to facts. The CBU can exert its "reasoned judgment" in the five areas provided by the CBU Law Article 63: i) licensing, ii) person acting in concert, iii) related party transactions, iv) risk management and v) internal controls, asset and liability (article 63); when qualifying of a bank as a parent bank of member of a group (BL Article 48 consolidated supervision). Moreover, it should be noted that CBU Law article 63 enables the CBU to exert reasoned judgment '<i>when the Central Bank exercises regulatory and supervisory functions</i>'. This permitted the CBU to progressively expand its discretion to other areas: for example, when qualifying a bank as a D-SIB (see CP 8), or when assessing economic interdependencies in relation to the definition of '<i>group of interconnected borrowers</i>' (see CP 19). Going forward, the reasoned judgment should be expanded to the determination of capital and liquidity that banks should hold in excess of the minimum to account for risks that are not covered, or not fully covered, by the Basel Pillar 1 framework (e.g. sovereign, IRRBB). Supervisory judgment will be the main driver of the Pillar 2 framework.</p>
<b>EC2</b>	<p>The supervisor, in conjunction with relevant authorities where appropriate, uses a process to assess and identify which banks are systemically important in a domestic context. Supervisors publicly disclose information that provides an outline of the process employed to assess and determine systemic importance. The supervisor conducts these assessments sufficiently regularly to ensure they reflect the current state of the domestic financial system.</p>
Description and findings re EC2	<p>The CBU Regulation No 4/13 "<i>On the Procedure for Determining the Systemic Importance of Banks</i>", approved by the CBU Board the 18<sup>th</sup> of February 2023, defines systemically</p>

	<p>important bank as '<i>a bank whose operations are critical to the stability of the banking system</i>'. It also establishes the criteria for identifying D-SIBs. During the assessment, the CBU publicly disclosed the list of banks classified as D-SIBs, as well as information that provides an outline of the process employed to assess and determine systemic importance. The assessment is conducted quarterly.</p> <p>To identify a D-SIBs, the CBU should consider the negative impact of its insolvency on the overall stability of the banking system and focus on the following criteria:</p> <ul style="list-style-type: none"> <li>• <b>size</b> (there are threshold on assets, loan and leasing commitments, and trade finances)</li> <li>• <b>interconnectedness</b> with other participants in the banking system, measured as share of bank's assets in/liabilities towards other banks located in the territory of the Republic of Uzbekistan to the total assets in/liabilities towards other banks located in the territory of the Republic of Uzbekistan</li> <li>• <b>substitutability</b>/financial institution infrastructure, based on: <ul style="list-style-type: none"> <li>a) the share of the volume and number of payments and transfers executed by a bank through the Real-Time Gross Settlement (RTGS) and Fast Payment System (FPS) over the last 12 months as compared to the total volume and number of payments and transfers executed in RTGS and FPS by all banks located in the territory of the Republic of Uzbekistan</li> <li>b) the share of loans allocated by a bank across certain economic sectors in the total volume of loans allocated by all banks across the same economic sectors (industry, agriculture; transport and communications; construction; trade and public catering; material-technical supply and sales; housing and communal services; individuals), excluding loans granted to other banks</li> <li>c) share of individual deposits in the bank in the total volume of individual deposits in all banks</li> <li>d) share of legal entities' deposits in the bank in the total volume of legal entities' deposits in all banks</li> <li>e) an indicator representing the volume of the bank's financial services (loans and deposits) and the number of service points (branches, mini-banks, bank service offices, ATMs, and off-bank retail cash desks)</li> </ul> </li> <li>• <b>complexity</b>, measured as the share of the bank's cross-border (international) obligations in the total volume of cross-border obligations of all banks in the Republic of Uzbekistan</li> </ul>
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	<p>Indicators for each bank are standardized (value from 0 to 1), compared with those of other banks, and weighted as below.</p> <table><tr><th>Criteria</th><th>№</th><th>Indicator</th><th>Weight factor</th><th>Aggregated weight factor</th></tr><tr><td>Size</td><td>1</td><td>Assets and off-balance sheet liabilities</td><td>30 %</td><td>30%</td></tr><tr><td rowspan="2">Interconnectedness</td><td>2</td><td>Interbank assets</td><td>8 %</td><td rowspan="2">23 %</td></tr><tr><td>3</td><td>Interbank liabilities</td><td>15 %</td></tr><tr><td rowspan="5">substitutability/ financial institution infrastructure</td><td>4</td><td>Domestic payments and transfers</td><td>4 %</td><td rowspan="5">37 %</td></tr><tr><td>5</td><td>Loan portfolio by economic sectors</td><td>4 %</td></tr><tr><td>6</td><td>Retail deposits</td><td>15 %</td></tr><tr><td>7</td><td>Deposits of legal entity</td><td>7 %</td></tr><tr><td>8</td><td>Bank's service points</td><td>7 %</td></tr><tr><td>Complexity</td><td>9</td><td>Cross-border liabilities</td><td>10 %</td><td>10%</td></tr></table> <p>Information to conduct this assessment is provided by the relevant departments to the CBU's Financial Stability Department of Banks with the necessary data for calculations every quarter. The Financial Stability Department submits the calculation results for the following year to the Banking Supervision Committee by November 1 of the reporting year, based on the results of the last four consecutive quarters. A bank that has been designated as D-SIBs systemically important for three out of the last four quarters and/or for the last two quarters by Banking Supervision Committee is designated as D-SIBs. The Banking Supervision Committee may also use <b>reasoned judgment</b> in designating a bank as D-SIB, based on pre-defined criteria. Starting from the end of 2024, the Financial Stability Department will conduct this assessment, but the decision will continue to be taken by the Banking Supervision Committee.</p> <p>The CBU identified 7 D-SIBs under this assessment, 6 based on standard indicators and 1 based on motivated judgment. For each D-SIB, 1 supervisor (curator) has been appointed from among the heads and deputy heads of Department of Prudential Supervision with several years of supervisory experience, and 1 assistant has been assigned to these supervisors. This makes it possible to concentrate supervisory resources on a proportional basis on D-SIBs.</p> <p>There are plans to implement capital buffer for D-SIBs</p>	Criteria	№	Indicator	Weight factor	Aggregated weight factor	Size	1	Assets and off-balance sheet liabilities	30 %	30%	Interconnectedness	2	Interbank assets	8 %	23 %	3	Interbank liabilities	15 %	substitutability/ financial institution infrastructure	4	Domestic payments and transfers	4 %	37 %	5	Loan portfolio by economic sectors	4 %	6	Retail deposits	15 %	7	Deposits of legal entity	7 %	8	Bank's service points	7 %	Complexity	9	Cross-border liabilities	10 %	10%
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Complexity	9	Cross-border liabilities	10 %	10%																																					
EC3	The supervisor assesses banks' compliance with prudential regulations and other legal requirements.																																								
Description and findings re EC3	<p>The CBU assesses banks' compliance with prudential standards, regulatory requirements and other legal requirements by analyzing supervisory reporting, interacting with banks, and conducting on-site inspections.</p> <p>Based on the regulatory reporting provided by banks, a 'Summary Report' is produced: it collects all supervisory information from the data submitted by banks in *.xlsx format. It contains a table which automatically calculates bank's prudential standards and identifies those banks that violate these established prudential standards.</p> <p>Moreover, to assess compliance also with other legal requirements, the CBU interacts with banks to obtain information about their activities, organization, and internal</p>																																								

	<p>processes. Such interaction could take place daily for certain requirements (foreign exchange position) and monthly or quarterly for others, also based on the frequency of the supervisory reporting (capital adequacy, liquidity ratios, large exposure limits). Information on banks that have violated prudential requirements is submitted for discussion to the Banking Supervision Committee for its appropriate decision.</p> <p>The framework provides an adequate legal basis to support this assessment. Banks are obliged to comply with prudential standards established by the CBU (Article 38 of the BL) and with requirements for internal control and risk management (Article 42 of the BL). Banks are also obliged to provide the CBU with the information necessary to assess their compliance with the prudential requirements (BL, Article 45). The CBU has the right to receive and check reports, as well as other documents, demand clarification on information received from banks, related persons and persons subject to its supervision, as well as persons performing services and operations outsourced by the bank; check the activities of banks, and outsourced, as well as persons subject to consolidated supervision; use information systems and a database of banks (BL Article 50).</p>
<b>EC4</b>	<p>The supervisor considers the macroeconomic environment, climate-related financial risks and emerging risks in its risk assessment of banks. The supervisor also considers cross-sectoral developments, for example in non-bank financial institutions, through frequent contact with their regulators.</p>
Description and findings re EC4	<p>The macroeconomic environment is considered through the macroprudential stress testing conducted by the Financial Stability Department whose outcome (bank by bank) are communicated to the Department of Prudential Supervision. <b>Climate-related financial risks are not yet integrated in the supervisory assessment.</b> Non-bank financial institutions are not material in Uzbekistan.</p> <p><b>Macro-prudential Stress testing</b></p> <p>The Financial Stability Department conducts macroprudential stress testing twice a year, in conjunction with the publication of the Financial Stability Report. The assessors examined the macroprudential stress testing conducted in 2023 and 2024. The baseline scenario is designed as the continuation of current economic trends. The adverse scenario (time horizon 3 years) models economic downturns experienced by similar countries, considering both internal and external shocks with low probability but severe impact on the banking sector (geopolitical tensions, heightened global recession risks, diminished domestic and external demand, and increased volatility in the international financial system).</p> <p>While in the 2023 adverse scenario banks CAR remains above minimum (13.6 percent), in 2024 it would drop below the minimum (10.4 percent).</p>



	<p>full integration of Climate risks into supervisory activity is envisaged in 2027, including with potential on-site inspection (i.e., by reviewing credit files and verifying whether banks are gathering relevant sustainability data from their clients, etc.). With the support of technical assistance, the Financial Stability Department aims also to conduct climate risk stress testing on both physical and transition risk.</p> <p>The CBU has already created a dashboard to monitor climate change and assess its impact on financial stability. This panel consists of data on the results of economic activities that affect climate change, financial indicators of greening processes, and information on the scale of risks associated with climate change. Moreover, 8 banks, according to the CBU self-assessment, have developed ESG Guidelines.</p> <p><b>Banks in Uzbekistan are vulnerable to physical and transition risk.</b> Uzbekistan is at risk of hydrometeorological hazards and natural disasters, which primarily affect the agricultural sector, through seasonal flooding and periods of drought. Droughts, high temperatures, heat waves, heavy precipitation, mudflows, floods, and avalanches are the <b>main physical risk drivers</b> (<a href="#">World Bank Portal</a>). Moreover, Uzbekistan is one of the most energy-and resource-intensive countries in the world. With this resource-intensive economic model, the expected rapid population and economic growth will drive a significant growth in emissions, placing excessive strains on key resources and ecosystems. In 2018, Uzbekistan ratified the Paris Agreement and submitted its National Determined Contribution (NDC) to the United Nations to reduce GHGs per unit of GDP by 10 percent by 2030 from the 2010 baseline. At the United Nations Climate Change Conference (COP26) in 2021, Uzbekistan increased its commitment to 35 percent (see, World Bank, Country Climate and Development Report. Nov. 2023). The government has been implementing decarbonization measures, especially in the power sector, which accounted for 74 percent of GHG emissions in Uzbekistan in 2019 (World Bank, Country Climate and Development Report, November 2023). This makes banks vulnerable also to transition risk.</p> <p><b>Non-Bank financial institutions (NBFI)</b></p> <p>The CBU expressed the view that NBFIs have limited impact on the stability of the overall financial system. As of July 1, 2024, the ratio of NBFI assets, including the assets of the Mortgage Refinancing Company of Uzbekistan, microfinance organizations, pawnshops and insurance companies, to the total financial system was only 2.86%.</p>
<b>EC5</b>	<p>The supervisor, in conjunction with other relevant authorities, identifies, monitors and assesses:</p> <ul style="list-style-type: none"> <li>(a) the build-up and transmission of risks, trends and concentrations within and across the banking system as a whole;</li> <li>(b) any emerging or system-wide risks which could impact banks and the banking system as a whole; and</li> </ul>

	<p>(c) common behaviors by banks (e.g. procyclical actions), interlinkages and interconnections that may adversely affect the stability of the banking system, including implications for financial system stability.</p> <p>The supervisor incorporates this analysis into its assessment of banks and addresses proactively any serious threat to the stability of the banking system. The supervisor communicates any significant trends or emerging risks to other relevant authorities with responsibilities for financial system stability.</p>
Description and findings re EC5	<p>As regards the <b>buildup of risk</b>, the CBU noted an increasing debt burden among the population, the accumulation of risk in mortgage lending, and concentration risk in the car loans segment. Recent measures adopted by the CBU have contributed to curb retail lending growth. Another risk pertains to the foreign-currency denominated loans (42.9 percent of total loans in Q2 2024): a recent decision by the Banking Supervisory Committee requires banks to only lend in FX to legal entities with income in the same currency as the loan, but unhedged FX exposures may have built up before this decision.</p> <p><b>Population's debt burden</b></p> <p>The population's debt burden is significantly increasing, and this can make people more vulnerable to income and other adverse shocks. Concerns are expressed in the last two Financial Stability Reports (October 2023 and October 2024), even though the CBU's prudential measures curbed the growth rate in mortgage loans, car loans and microloans (see CP 16). Loans to households account for around one third of total loans, of which mortgages account for 13 percent.</p> <p><b>Mortgage lending</b></p> <p>According to the Financial Stability Report (October 2023), the real estate market has been experiencing a significant imbalance between supply and demand that has the potential to inflate a price bubble. In the first half of 2023 the <b>gap between market housing prices and their fundamental values was quantified at 36 percent</b> (28 percent (first half of 2024). Individuals lacking official income can still qualify for mortgage loans, based on their unofficial income (see CP 17).</p> <p>In 2023 and 2024 the Financial Stability Department conducted a stress test to assess the potential impact of house price shocks on the banking system. It assumed declines of 20, 30, and 40 percent in house prices. Details can be found in the FSR (October 2023 and October 2024) available in the CBU website. In the most adverse scenarios, a substantial portion of the mortgage loans may lack adequate collateral.</p> <p>Stress testing was also conducted in relation to car loans: a fall in asset prices will cause the quality of bank assets to deteriorate.</p> <p>The CBU tightened capital requirements to account for LTV (see CP 16) and introduced other measures to mitigate credit risk (see CP 17).</p>

	<p><b>Car Loans</b></p> <p>In recent years, car loan growth has notably outpaced other loan categories. This trend poses a potential risk of significant loan losses for banks, if car prices were to plummet. According to the FSR (October 2023), <b>the surge in car loan growth rates has been spurred by banks' relaxed lending standards</b>. Cars are becoming attractive as investment options, leading to increased speculative activities. Decreases in car values or unexpected reductions in borrowers' incomes could lead to a deterioration in loan repayment behaviors and significant losses in bank portfolios. In response to these threats, the CBU has not only tightened capital requirements on car loans (see CP 16), but also introduced a concentration limit of 25 percent on car loans against the bank's asset portfolio (2023). Such measures seem effective, as they reduced the growth of car loan (see FSR October 2024).</p> <p>The CBU change has provided evidence on how it is incorporating this analysis into its assessment of banks and addressing proactively threat to the stability of the banking system. For example, the concentration limit of 25 percent will force one bank to change its business model.</p> <p><b>Transmission of risk, interlinkages and interconnections</b></p> <p>Contagion risk is assessed within the macro stress test, by verifying if the default of one or more banks, triggered by various shocks, negatively affects other banks due to the interconnected financial relationships within the banking system. In 2023 two distinct approaches we used:</p> <ul style="list-style-type: none"> <li>the first approach considers the losses from bank defaults as being linked to banks' capital. The lower the failing bank's CAR, the greater the proportional losses incurred by banks that have financial connections with it.. In this approach, the default of banks with a CAR below 13 percent has a minimal negative effect on the overall banking system. Furthermore, the default of such banks does not hinder other banks from meeting their minimum capital requirements.</li> <li>the second approach assumes these losses are not recoverable at all. In this approach, the default of banks with a CAR below 13 percent could lead to two additional banks failing to meet their minimum capital requirements. However, since these affected banks have negligible or no liabilities to other banks, their inability to meet the CAR does not pose a significant risk to the broader banking system. Additionally, the relatively small share of interbank liabilities in the total assets suggests a low level of interconnectedness among banks.</li> </ul>
<b>EC6</b>	<p>Drawing on information provided by the bank and other domestic authorities, the supervisor, in conjunction with the resolution authority, assesses the bank's resolvability (where appropriate) having regard to the bank's risk profile and systemic importance. When bank-specific barriers to orderly resolution are identified, the supervisor requires, banks to adopt appropriate measures, where necessary, such as changes to business strategies, managerial, operational and ownership structures, and internal procedures. Any such measures consider their effect on the soundness and stability of the bank's ongoing business.</p>
Description and findings re EC6	<p>The CBU has not assessed banks' resolvability yet.</p>



	<p>The <u>draft</u> law "<i>On Resolution and Liquidation of Banks</i>" identified the CBU as the Authority for the resolution and liquidation of banks. It requires <b>the CBU to develop and annually review resolution plans for D-SIBs</b>; the CBU can also develop, and review based on predefined timeline, resolution plans for banks other than D-SIB which perform critical functions.</p> <p>The CBU pointed out that draft law also envisages bank's resolution plan, empowering the CBU, if it identifies obstacles to the resolution, to require the bank to develop an action plan within a deadline for its implementation. If the action plan is deemed not sufficient, the CBU may impose further actions to the banks, such as limiting risk, asset sales, simplifying the ownership, amending the charter to remove obstacles to the use of write-off and conversion tools.</p>
<b>EC7</b>	<p>The supervisor has a clear framework or process (e.g. identification of risk and early intervention) for handling banks in the build-up to and during times of stress, such that any decisions to require or undertake recovery or resolution actions are made in a timely manner.</p>
Description and findings re EC7	<p>The framework for handling banks in the build-up to and during times of stress is incapsulated in several provisions of the BL, even though at the time of the assessment a Resolution Law has not been approved by Parliament yet.</p> <p>Firstly, there are recovery plans requirements provided by BL article 49. These requirements are detailed un CP15, EC13.</p> <p>Moreover, the framework for handling banks in the build-up to and during times of stress is covered by the BL Articles 51 (supervisory measures), 52 (Interim management) and 77 (revocation of banking license). All these measures are described under CP11.</p> <p>The CBU highlighted that the draft law "<i>On Resolution and Liquidation of Banks</i>" will enable the CBU Board of Directors to decide to start the <b>resolution process</b> if all the following conditions are present:</p> <ul style="list-style-type: none"> <li>• the bank is insolvent or there is a high probability of bank's insolvency</li> <li>• the measures taken by the bank, the banking group and (or) the bank's shareholders, as well as the measures taken by the CBU have not eliminated the high probability of bank's insolvency and will not achieve such a result within six months</li> <li>• the bank is a D-SIB or one or more of the goals of reorganization cannot be achieved by compulsory liquidation.</li> </ul> <p>The draft Law also envisages several circumstances under which <b>a bank is considered insolvent</b> or with a high probability of insolvency (for example, inability to pay customer claims within two days; liabilities exceeding assets; capital adequacy ratios and capital reduced by fifty percent or more of the minimum amount established by the CBU; presence of any other circumstances that threaten the integrity of the funds entrusted to the bank by depositors and creditors).</p>

	<p>The draft Law envisages various resolution tools (transfer of assets and liabilities; creation of a bridge bank; bail-in) which the CBU can use jointly or separately.</p> <p>The CBU has not started the preparation of resolution plan for D-SIBs.</p>
<b>EC8</b>	Where the supervisor becomes aware of banks restructuring their activities to avoid regulatory perimeter, the supervisor takes appropriate steps to address this. Where the supervisor becomes aware of bank-like activities being performed fully or partially outside the regulatory perimeter, the supervisor takes appropriate steps to draw the matter to the attention of the responsible authority to address regulatory arbitrage.
Description and findings re EC8	<p>The CBU staff underscored that banks are not entitled to carry out financial transactions not specified in their license (BL Article 5) and that activities carried out without a license are considered illegal and entail liability; income stemming from such activities is withdrawn and appropriated by the State budget (BL Article 15).</p> <p>Moreover, Article 33 of the RPAMS, the CBU has the power to restrict and/or prohibit the implementation of certain financial transactions or the expansion of the bank's infrastructure for up to six months in cases of:</p> <ul style="list-style-type: none"> <li>• violation of the requirements of the legislation on the implementation of financial transactions</li> <li>• implementation of prohibited or restricted activities by banks</li> <li>• violation of prudential standards by the bank.</li> </ul> <p>If the CBU becomes aware of activities that are carried out in whole or in part outside the regulated area, the CBU has the right to transfer this information to another competent state body.</p>
<b>Assessment of Principle 8</b>	<b>Largely Compliant</b>
Comments	<p>The recent adoption of the GRBS (2023) represents a milestone in the transition from compliance to a risk-based approach. Based on the review of the risk assessment conducted in 2023 and 2024, the application of the new methodology led to a comprehensive view of the bank under scrutiny, capturing also interactions among risk (for example, business model and credit risk). However, the <b>guideline does not incorporate climate-related financial risks</b>, while banks in Uzbekistan are vulnerable to physical and transition risk.</p> <p>The full implementation of risk-based supervision methodology to the entire banking system poses challenges to the CBU. Even though the Department of Prudential Supervision is well equipped, curators are being asked to adjust the automatic score (moving one notch up or two down) to provide a more accurate picture and forward-looking view of the bank's inherent risk and the quality of its risk management. In 2024 there were 13 changes in the automatic rating during the assessment of risk profile. As the score affects the intensity of supervision, it is important to ensure that adjustments are subject to a rigorous <b>quality assurance process</b>, especially if curators modify the peer groups, as the homogeneity of the business models is a precondition for comparison. The CBU claimed that adjustments to the automated ratings are subject to</p>

	<p>quality review by the Risk Analysis Division; however, it did not provide the assessors with robust evidence of such a process (for example, evidence of the Risk Analysis Division challenging the motivations adopted by the curators to move the automatic score one notch up or two notches down; horizontal analysis and score benchmarking overview to ensure homogeneity in such motivation and 'equal treatment' of banks etc.). The CBU has identified 7 D-SIBs and during the assessment has publicly disclosed information that outlines the process employed to assess and determine systemic importance. The CBU has been incorporating the macroeconomic environment in the banks' risk assessment to identify problems requiring timely actions. For example, it tightened capital requirements in response to the buildup of risk in consumer lending.</p> <p><b>The CBU has not conducted a resolvability assessment of D-SIBs</b> and it has not issued a Regulation on recovery plans. The framework for handling banks in times of stress will be completed by the Law '<i>On Resolution and Liquidation of Banks</i>'.</p> <p>Finding</p> <ul style="list-style-type: none"> <li>• The Guideline for risk-based supervision does not incorporate climate related financial risk yet, although banks in Uzbekistan are vulnerable to physical and transition risk.</li> <li>• In 2024, there were 13 changes in the automatic rating during the assessment of banks' risk profile (out of 14 banks examined), but the scrutiny of each upgrading and downgrading has not been as intense as required given that this a new methodology.</li> <li>• The CBU has not conducted a resolvability assessment of D-SIBs.</li> </ul> <p>Recommendations</p> <p>The CBU should:</p> <ul style="list-style-type: none"> <li>• Integrate climate-related financial risks in the risk-based supervisory approach by:             <ol style="list-style-type: none"> <li>a) issuing guidelines for effective management of climate related financial risk by banks (BCBS, 2022)</li> <li>b) conducting, or requiring banks to conduct, a climate risk sensitivity analysis; and</li> <li>c) identifying outlier banks and adopting targeted measures (for example, more frequent reporting, periodic disclosure, transition plans) for those outliers.</li> </ol> </li> <li>• Consider setting up a quality assurance unit to ensure that the adjustments to the automatic ratings made by the curators are subject to systematic horizontal scrutiny</li> <li>• Conduct a resolvability assessment for D-SIBs</li> </ul>
<b>Principle 9</b>	<p><b>Supervisory techniques and tools.</b><sup>26</sup> The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, considering the risk profile and systemic importance of banks.</p>

<sup>26</sup> Reference document: BCBS, High-level considerations on proportionality, July 2022.

<b>Essential criteria</b>	
<b>EC1</b>	<p>The supervisor employs an appropriate mix of on-site and off-site supervision to evaluate the condition of banks, their risk profile, their internal control environment and the corrective measures necessary to address supervisory concerns. The specific mix between on-site and off-site supervision may be determined by the particular conditions and circumstances of the country and the bank. The supervisor regularly assesses the quality, effectiveness and integration of its on-site and off-site functions and amends its approach, as needed.</p>
Description and findings re EC1	<p>The CBU deploys a combination of off-site supervision and on-site inspections for evaluating the banks' risk profile and internal control environment.</p> <p><b>Off-site supervision</b></p> <p>The Department of Prudential Supervision of Banks (42 staff) deals with off-site supervision of banking activities, risk assessments and the application of sanctions. Supervisory functions are performed with different frequency:</p> <ul style="list-style-type: none"> <li>• daily monitoring of compliance with prudential standards, change in balance sheet items and quality of the loan portfolio;</li> <li>• weekly/monthly control over the completeness of the creation of reserves, problem loans, large borrowers and monitoring of early warning indicators;</li> <li>• quarterly study of internal audit/risk management reports and stress tests conducted by the bank; and</li> <li>• annual analysis of the audited financial statements and annual risk assessment.</li> </ul> <p>These activities can lead to various results: reports commenting on changes in banks' balance sheet items; requests for explanation to banks; requests to conduct an unscheduled thematic inspection; reports to the Banking Supervision Committee (and, through it, even to the CBU Board of Directors) to require the implementation by the bank of an action plan (for example, to reduce problem loans, or create/increase reserves, bring a large exposure within the prudential limit etc.).</p> <p>The Department of Prudential Supervision of Banks created an <b>institutional profile for each bank</b>, which is updated every four months (the CBU is considering updating it every 6 months). During the assessment, the CBU staff presented an institutional profile for one bank and illustrated its main components to the assessors. The institutional profile consists of several excel sheets, each of them includes, in a concise form, multiple information pertaining to the bank's ownership structure, the governance (management and supervisory board members), the risk management (with the resume of each staff employed in the risk management unit), business model (for example, network of branches and customers, business lines), results of past inspections, and significant changes in banking, products, services. The assessors were positively impressed by the quantity and quality of information collected in the institutional profile, which is a valuable and comprehensive tool for the conduct of offsite supervision.</p> <p><u>Curator</u></p> <p>A key role in the off-site supervision is played by the '<b>curator</b>' who is the CBU representative in the supervised entity. The curator analyzes the financial condition of banks, monitors compliance with regulatory legal acts and prudential requirements, and, when preparing the individual supervisory program (see EC2) proposes inspections. He/she receives information on the agenda of the meetings of the banks' Management Board and Supervisory Board (Resolution of the CBU Board No 2/5 of January 29, 2022)</p>

	<p>and, depending on the topics, might decide to attend them as an observer (without voting rights) or being responsible for the results and decisions taken by the bodies in which he participated. During the meetings, the curator cannot ask questions, but he could gather information of the dynamic of the debate around key decisions. The curator can also access the Board/Committee document package. The curator is obliged to inform the Banking Supervision Committee about non-compliance by the bank with the regulation, prudential standards, late submission/failure to submit reports or information necessary for supervision or other unlawful incidents. The curator is also obliged to observe professional secrecy.</p> <p>The role of the curator is neither formalized in the Law nor in a binding public regulation. There is no cooling-off period before the curator can be hired by the bank that he/she supervises. Considering the critical role that the curator plays in the off-site supervision cycle, the multiple interactions he/she has with the bank, including through the participation in meetings of the Supervisory and the Management Board, the CBU should formalize this role. It should also introduce a cooling-off period before the curator could be hired by a bank.</p> <p><b>On-site Inspections</b></p> <p>The Inspection Department carries out on-site supervision. Staff is specialized per risk: two divisions are responsible for corporate and retail risk, respectively; one division is in charge of liquidity risk; one is responsible for operational risk; another for AML/CFT risk; and another carries out inspections at the request of law enforcement agencies. The frequency and scope of inspections are determined by the CBU without the consent from and notification to public authorities, as well as based on the principle of proportionality, systemic importance, specifics, scale, and complexity of the bank's activities (CBU Law, Article 46). The procedures for inspection are also determined by the CBU independently (CBU Law, Article 66).</p> <p>The transition from 'rule based' to 'risk-based' supervision is changing the on-site approach, by shifting from comprehensive to targeted inspections. The focus on targeted inspections started already some years ago and will presumably be increased by the new supervisory approach.</p> <p>The CBU Regulation No 2217/2011 "<i>On the procedure for conducting inspections of commercial banks and their branches by the Central Bank of the Republic of Uzbekistan</i>" has been updated and it envisages (i) comprehensive inspections (overall assessment of banks); (ii) targeted inspections (verification on individual issues); and (iii) off-site control (based on the analysis of reports submitted by banks to the CBU). On site inspections focus on the assessment of the financial conditions of the bank, the risks inherent in banking activities, the compliance with economic standards, and verification of the reliability and correctness of accounting calculations and reporting (Reg. n. 2711/2011). In August 2024, the CBU Board approved Resolution No 28/2 '<i>Minimum Requirements for Inspections in Banks, based on the Risk-Based Supervision Guidelines</i>'. The new Regulation introduces a risk-based approach in the on-site supervision and requires the assessment of:</p> <ul style="list-style-type: none"> <li>• the business model – process for developing strategy, new products and services, and the competitive environment;</li> <li>• credit risk – policies and procedures, activities of the credit committees, loan portfolio (migration and vintage analysis), system for assessing the</li> </ul>
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	<p>creditworthiness of borrowers, the monitoring system and problem asset management, the role of internal audit, and stress testing;</p> <ul style="list-style-type: none"> <li>• operational risk – policies, procedures, limits and risk appetite, IT risk, measures developed for emergencies, stress testing, and compliance risk;</li> <li>• market risk – policies, procedures, securities portfolios, foreign exchange risk, stress testing;</li> <li>• capital – prudential requirements, risk weighted assets, ICAAP, stress testing;</li> <li>• liquidity – policies, procedures, prudential requirements, early warning systems, internal audit.</li> </ul> <p>According to the Article 15 of the Regulation <i>'On the procedure for inspections of banks and their branch'</i>, the duration of each inspection should not exceed 30 calendar days; if necessary, it can be extended for up to 30 calendar days (an unlimited number of times) with permission from the Deputy Chairman in charge of the Inspection Department. Before the end of the inspection, the team draws up a report and gives it to the bank for consideration; after that, the report is discussed in detail with the bank's management; then it is signed by the chairman of the Board and chief accountant. If necessary, the bank's management can attach its comments to the report. In case of refusal of the bank's management to sign the report, an explanatory note is provided indicating their justifications and objections. The report is submitted to the Special Working Group, consisting of seven people: Deputy Chairman of the CBU, Director and Deputy Director of the Inspection Department, Director and 3 employees of the Prudential Supervision Department (the composition and members of the group can be changed based on the issues and types of inspections). Once the inspection report has been agreed with the Special Working Group, it is forwarded to the Prudential Supervision Department for further action.</p> <p>The assessors went through 5 onsite inspection reports; only one of them was carried out under the new methodology. There is room for improving the efficacy of on-site inspections. On the positive side, then assessors noted that inspectors challenged the quality of the information submitted to the off-site supervision; the inadequate staff of the risk management unit (understaffed by 1/3); the fact the risk management had not properly alerted the Supervisory Board about a breach of an internal limit set up in the risk appetite; and the non-eligibility of a subordinate debt in the Tier 2; and the lack of a policy for the management of operational risk. Nevertheless, the assessment of corporate governance has not been carried out in the reports examined and such a risk profile is not mentioned in the Resolution approved in August 2024 (<i>'Minimum Requirements for Inspections in Banks, based on the Risk-Based Supervision Guidelines'</i>). The CBU acknowledged it and pointed out that the work plan for the first half of 2025 provides for amendments to this regulation to include the assessment of banks' corporate governance.</p> <p>In addition, notwithstanding the number of resources in the team (9 staff), the number of loans examined (370 in one case and 270 in another case; mostly corporates) appears</p>
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	<p>relatively high as compared to the duration of the inspection (30 days). The CBU clarified that it strengthened the process's efficiency, by conducting the sampling of the portfolio before visiting the bank. The assessors took note of this improvement, but still consider 30 days as not sufficient, also in view of the fact that the reports shared assessed also other risk profiles (liquidity, market, operational, risk management), and not only credit risk. It would be opportune to amend the regulation such that on-site inspections can exceed 30 days if needed. The CBU showed responsiveness to the suggestion and underscored that the above Regulation is under review and, in its draft revised version, does not provide for any limitations on the duration of inspections.</p> <p>The on-site inspection carried out based on the new methodology appeared more effective. It was targeted on the functioning of the credit scoring system of the bank and challenged the excessive human intervention (override).</p> <p><b>Integration of on-site and off-site functions</b></p> <p>The Department of Prudential Supervision assesses the quality and efficiency of its functions on a continuous basis and, in case of it identifies areas requiring improvement, it includes these into its annual Work Plan (for example, amendments to the Supervision Manual, Regulations, or modernization and automation of processes).</p> <p>In May 2024, the Resolution of the Board of the Central Bank No 17/10 approved the internal procedure for the <i>Organization, conduct and consideration of the results of inspections of persons subject to supervision by the Central Bank</i>. This procedure determines the relation between the supervisory units of the CBU in the organization, conduct and consideration of the results of inspections. According to this document, before the beginning of the new year, the structural units of the CBU, based on the results of off-site supervision, submit their proposals to the Banking Supervision Committee for inclusion in the annual Supervision Inspection Plan for the next year.</p>
<b>EC2</b>	<p>The supervisor has a coherent process for planning and executing on-site and off-site activities. There are policies and processes to ensure that such activities are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs, and that there is effective coordination and information-sharing between the on-site and off-site functions.</p>
Description and findings re EC2	<p><b>The Supervisory program</b></p> <p>As stated under CP2, EC8, the CBU annually approves a <b>program of prudential supervision</b> (BL Article 47) which includes:</p> <ul style="list-style-type: none"> <li>• banks that according to the stress test results show significant financial stability risks or possible non-compliance with prudential requirements;</li> <li>• D-SIBs; and</li> <li>• banks requiring additional supervision.</li> </ul> <p>The supervision program contains (i) the procedure for the exercise of supervisory functions and allocation of resources; (ii) the procedures for identifying banks subject to additional supervision and measures necessary for its implementation; (iii) the <b>inspection plan</b>.</p>

	<p>The <b>supervision program is approved by the Banking Supervisory Committee</b> (see CP2, EC4). It is a detailed work program for each bank, reflecting the supervisory measures within the planning horizon. It prioritizes supervision activities based on the assessment of the bank's risk profile. It includes all oversight activities planned for the supervisory cycle and defines the objectives, responsible oversight bodies, timelines, and resources required to carry out the planned activities. The supervision plan builds on and consolidates the supervisory activities planned for each bank and provides an overview of the allocation of resources in various areas within these banks. It is a tool for assessing the effectiveness of the allocation of resources within the risk-based approach.</p> <p>After completing the assessment of the bank's risk profile, the curator develops an <u>individual supervisory plan</u>, which determines the intensity of supervision based on the risk profile and systemic importance of the bank. The important points of the individual plans are subsequently considered by the Banking Supervisory Committee for their inclusion in the overall supervisory program.</p> <p>When preparing the individual supervision plan, curators are guided by the <b>supervisory interaction matrix</b>. The matrix details the frequency (every 3/2 years, annual, semiannual, quarterly, monthly) within which supervisory activities should take place, depending on the bank's categories (update of the institutional review, assessment of systemic importance, update of supervisory indicators, stress testing, comprehensive/targeted inspections, meetings with heads of internal control functions or chairmen of board's committees). Along with the results of the annual risk assessment, other factors may be considered in the planning process, like emerging topics or incidents that may draw particular attention to certain activities or risks. It may also be necessary to pay attention to activities or risks that may deserve supervisory scrutiny at banking system level (for example, thematic review; see EC4).</p> <p>The assessors examined the last supervisory plan (for 2024). It focuses on:</p> <ul style="list-style-type: none"> <li>• Credit risk – assessment of asset quality and reserves, vintage and migration analysis, 50 largest borrowers, household debt burden, assessment of stress tests conducted by banks;</li> <li>• Liquidity risk - conducting a stress test and analyzing the stress test conducted by banks;</li> <li>• Financial stability indicators – compliance with prudential requirements;</li> <li>• Risk-based supervision – expanding the new methodology for risk assessment to other selected banks, conducting calculations on a quarterly basis to identify systemically important banks;</li> <li>• Financial statements – daily monitoring on open currency position.</li> </ul> <p><b>Inspection plan</b></p> <p>The decision to include a bank in the inspection plan is taken by the Banking Supervisory Committee based on the proposals advanced by the Department of Prudential Supervision (and the Financial Monitoring Department for the AML topic), as well as</p>
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	<p>considering, among other things, qualitative factors, including those related to economic and financial conditions both domestically and internationally, which may have consequences for the bank. The list of banks subject to inspection may be revised in the event of significant market and external changes, including those changes in a particular bank that were not detected at the time of initial preparation of the annual inspection plan.</p> <p><b>Coordination and information-sharing between on-site and off-site supervision</b> As mentioned under EC2, the internal procedure for the '<i>Organization, conduct and consideration of the results of inspections (checks) of persons subject to supervision by the Central Bank</i>' regulates the relations and document flow between the Departments of Prudential Supervision of banks and the Inspections Departments. Off-site assessment of the financial conditions and stability of banks is mainly done by quantitative indicators by the Department of Prudential Supervision of Banks. In case of insufficient information to assess the qualitative parameters of the bank, the rating given by the qualitative parameters is used as a basis for on-site inspections by the Inspection Department. The CBU supervision process involves interaction between off-site supervision and inspection teams on an ongoing basis, throughout the supervisory cycle.</p>
<b>EC3</b>	<p>The supervisor uses a range of information to regularly review and assess the safety and soundness of banks and the stability of the banking system, the evaluation of material risks, and the identification of necessary corrective and supervisory actions. This includes information such as prudential reports, statistical returns, information on a bank's related entities and publicly available information. The information received on banks is used by supervisors to form a holistic view and understanding of their risk profile. The supervisor determines that information provided by banks is reliable<sup>27</sup> and obtains, as necessary, additional information on banks and their related entities.</p>
Description and findings re EC3	<p>The CBU uses a variety of information to regularly review and assess the safety and soundness of banks and the stability of the banking system: balance sheets, prudential reports, credit registry information, results of stress testing, banks reports, annual financial statements, internal audit reports, external auditor's reports, management letters, and monthly statistical reports (on deposits, loans, interest rates, currencies) received by specialists of the Department of Statistics and Research. To form a holistic view and understanding of a banks' risk profile, a crucial role is played by the curator (see EC1).</p> <p>The CBU assesses that the information provided by banks is reliable through (i) technical checks, automatically incorporated in the system that receives supervisory reporting; (ii) assessments by the curator of the consistency between financial statements and regulatory reporting; and (iii) data quality checks conducted during on site examinations.</p>
<b>EC4</b>	<p>The supervisor uses a variety of tools to regularly review and assess the safety and soundness of banks and the stability of the banking system, including:</p> <p>(a) analysis of financial statements and accounts;</p>

<sup>27</sup> Refer to Principle 10 (BCP40.23).

	<p>(b) business model analysis;</p> <p>(c) horizontal peer reviews;</p> <p>(d) analysis of corporate governance, including risk management and internal control systems;</p> <p>(e) reviews of the outcome of stress tests undertaken by the banks; and</p> <p>(f) assessments of the adequacy of banks' capital and liquidity levels under adverse economic scenarios, which may include conducting supervisory stress tests on individual banks or on a system-wide basis.</p> <p>The supervisor uses its analysis to determine follow-up work required, if any.</p>
Description and findings re EC4	<p>The CBU uses various tools to assess the safety and soundness of banks and the stability of the banking system.</p> <p>(a) <b>Analysis of financial statements and accounts</b></p> <p>The Prudential Supervision Department analyzes banks' financial statements, balance sheet indicators and prudential reports for all banks. It also assesses compliance with regulatory requirements. The curators prepare reports on this analysis.</p> <p>(b) <b>Business model analysis</b></p> <p>The GRBS envisages the assessment of the business model as a separate component. The CBU acknowledges the key importance of banks profitability as the main source of capital formation and cushion against future unforeseeable losses. It also recognizes that this forward-looking tool should not lead supervisors to decide how banks should 'make money', but rather challenging the business model under 2 aspects:</p> <ul style="list-style-type: none"> <li>• <u>Viability</u>, e.g., the bank's ability to generate acceptable returns over the next 12 months; and</li> <li>• <u>Sustainability</u>, e.g., the bank's ability to bring an acceptable profit during the future period of 1 to 3 years based on its strategic plans and financial forecasts.</li> </ul> <p>The assessment is carried out in three stages:</p> <ul style="list-style-type: none"> <li>• <u>Collection of information</u>: this is the starting point to build an overview of the bank's business model and determine its "essential" areas of activity (identification of material business lines, geography, products, pricing, strategy). Banks are grouped according to their business models (as well as size, complexity, risk profile, and ownership) and comparison with peers are done in stages 2 and 3. A 'DuPont' analysis is conducted to decompose the profitability drivers and understand the contribution of each element to the change to the return on equity (ROE).</li> <li>• <u>Automatic Rating</u>: this stage automatically assigns a rating to a bank based on a limited list of key indicators and related thresholds (ROE, net interest margins adjusted for loan losses provisioning, and cost to income ratio).</li> <li>• <u>Supervisor Assessment</u>: the supervisor completes the business model analysis based on reasoned judgment, using additional and relevant information and assessments designed to complement the limitations of the standardized and</li> </ul>

	<p>relatively simplified automated rating generated under Phase 2 (for example, swot analysis, external and internal dependencies, strength of the franchising, trend of operational costs, changes in profitability, inefficient sale channels, business environment, projected financial performance execution capacity). The Supervisor forms a forward-looking opinion on the viability and sustainability of a bank, <b>making a judgment about potential risks and vulnerabilities of a bank's business model</b>. Then he/she adjusts the rating considering qualitative information (positioning in comparison with similar organizations, reputation with customers, track record of the bank in the implementation of strategic projects). The assessors went through several risk assessments and found that the CBU challenged the sustainability of the business model.</p> <p>(c) <b>Horizontal peer reviews</b></p> <p>The CBU pointed out that it conducts horizontal reviews regularly, at least once a quarter. Topics are selected based on the dynamics of the main indicators and the macroeconomic situation. For example, one of the most recent horizontal reviews was the analysis of mortgage loans (see CP8, EC5). The assessors went through an anonymized version of this peer review. It was noted that as of January 2024, <i>43 percent of the mortgage credit portfolio was held by individuals without official wage</i> and that there were cases where <i>microloans</i> were used for mortgage payment (see CP 19).</p> <p>d) <b>Analysis of corporate governance, including risk management and internal control systems</b></p> <p>The analysis of corporate governance does not clearly transpire from the on-site inspections examined. It neither emerged in the off-site risk assessment conducted in 2023. Improvements are instead visible in the new risk assessment conducted in 2024. The analysis of risk management (see CP 15) is instead more evident.</p> <p>Chapters 4 and 5 of the BL provide, respectively, corporate governance and risk management requirements which are detailed under CP14 and CP15. Article 42 of the BL prescribes internal control requirements (see CP26). The Guideline for risk-based supervision envisages the evaluation of corporate governance and risk management as a separate component of the bank's risk assessment, in addition to the areas of risk management and internal control pertaining to specific risks (i.e. credit, market, operational, liquidity, etc.). This assessment is based on a questionnaire (about 30 yes/no questions) related to the:</p> <ul style="list-style-type: none"> <li>• Board - size, composition, qualification (including independent members), selection process, set up of Committees, functioning (approval of risk appetite, business plan, risk management strategy etc.), and corporate value and standards</li> <li>• Senior Management – organization, duties and responsibilities, remuneration system, turnover</li> <li>• Risk Management – independence, resources, access to the Board/Committees, reporting, compliance function</li> </ul>
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	<ul style="list-style-type: none"> <li>• Internal audit – audit plan, resources, report to board/audit committee</li> <li>• External audit – selection process, implementation of recommendations</li> <li>• Disclosure – timely, clear and accurate publication of information of corporate governance</li> </ul> <p>The questionnaire produces an automatic score based on the number of ‘no’ questions. Then the supervisor focuses on topics that can chose from a predefined list (for example, shareholders evaluation, assessment of the supervisory board, organizational structure, risk management, compliance, risk appetite, data and reporting). At the end of the assessment, the supervisor should adjust the score by increasing it by a maximum of 1 point or lowering it by a maximum of 2 points.</p> <p>(e) <b>Reviews of the outcome of stress tests undertaken by the banks</b></p> <p>As detailed under CP15, EC14, the CBU RRM establishes <b>requirements for banks to conduct stress tests at least once a quarter</b>. The assessors considered that this frequency is too high to generate meaningful results (see CP 15). Banks send the results of stress tests to the Prudential Supervision Department. Curators use the results of stress tests when assessing the risk profile of banks. The RRM indicates some general conditions that banks should consider when designing scenarios on credit, market and liquidity stress tests (Article 16-19) and requires banks to use stress test results in the strategic and budget planning, including capital and liquidity, as well as in the development of policy and risk management processes. The Guidelines on Risk Based Supervision (par. 54) points out that banks, when developing their own stress tests, can demonstrate to the CBU how they use their results for risk management and capital adequacy assessment purposes (see CP15, EC14). The Prudential Supervision Department reviews stress tests carried out by banks and in case of deficiencies discussions are held with banks.</p> <p>The CBU highlighted that in 2018 the state of stress tests by banks was studied at a meeting of the CBU Board with the participation of banks (24.11.2018 No37/9). Moreover, in 2020, the risk management work, including stress tests, was assessed. The assessors found evidence that recommendations were sent to two banks to change the heads of risk management (see CP15); all banks were required to develop stress testing scenarios based on their risk profile and approve the decision of the bank's supervisory board to conduct reverse stress testing by January 15, 2021 on the impact of non-repayment of restructured loans on liquidity and capital adequacy due to the pandemic (26.11.2020 No26/9).</p> <p>(f) <b>Assessments of the adequacy of banks’ capital and liquidity levels under adverse economic scenarios</b></p> <p>The Department of Prudential Supervision of Banks conducts supervisory stress tests annually. In 2022 the results of credit risk stress testing and the possible impact on capital adequacy were considered at the meeting of the CBU Board (Resolution No21/1 of 24.09.2022). Banks were requested to analyze the issues and elaborate on the</p>
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	measures taken. In 2023, a liquidity risk stress test was carried out due to the observed outflow of deposits; however, the assessors found the scenario not adequately severe (this has been weighted under see CP 24).
<b>EC5</b>	Based on the information provided by banks and its own analysis, the supervisor communicates its findings to banks as appropriate and requires them to take action to mitigate any particular vulnerabilities that have the potential to affect their safety and soundness or the stability of the banking system (including implications for and interlinkages with financial system stability).
Description and findings re EC5	At least twice a year, vulnerabilities are discussed at a meeting of the CBU Board with the participation of banks. For example, in 2021 the CBU Board of Directors sent 71 letters to banks communicating findings pertaining to credit risk (including asset classification and provisioning), liquidity risk, capital adequacy, prudential requirements, risk profile, restrictions to dividend distribution (see CP8).
<b>EC6</b>	The supervisor evaluates the work of the bank's internal audit function (including those that are outsourced or co-sourced) and determines whether, and to what extent, it may rely on the internal auditors' work to identify areas of potential risk.
Description and findings re EC6	<p>The CBU provided evidence of the assessment of the internal audit function. In 2022, then off-site supervision assessed unsatisfactory the activities of the internal audit of a bank, due to the failure to complete tasks required by the CBU (monitoring the reliability of the financial statement). As a result, an on-site inspection was conducted and found further deficiencies (inconsistencies between audit plan and audit services, qualification of audit employed not reassessed annually by the banks). The CBU applied sanctions to the bank and instructed it to consider disciplinary measures to certain employees.</p> <p>The internal audit function must be agreed with the CBU at licensing stage (EC5). Regulation "On Requirements for Internal Audit of Commercial Banks" (No 3302/2021 establishes requirements on internal audit (see CP26). The Guidelines on risk-based supervision envisage the assessment of the internal audit function as part of the corporate governance analysis (see EC4, point d). Moreover, several questions on the internal audit function are included in the analysis on the effectiveness of controls related to various risk profiles. In addition, during comprehensive inspection the Inspection Department assesses the independence of the Internal Audit Department, the quality and completeness of the reports submitted to the bank's supervisory boards and relevant committee; checks the structure, completeness and implementation of the annual audit plan, as well as the activities of the audit unit.</p>
<b>EC7</b>	The supervisor engages sufficiently frequently with the bank's board, non-executive board members and senior and middle management (including heads of individual business units and control functions) to develop an understanding of and assess matters such as strategy, group structure, corporate governance, performance, capital adequacy, liquidity, asset quality, risk management systems and internal controls. Where necessary, the supervisor challenges the bank's board and senior management on the assumptions made in setting strategies and business models.
Description and findings re EC7	Pursuant to Article 45 of the BL the ' <i>CBU interacts with banks in order to obtain information about their activities, organization and internal processes to assess the adequacy of banks' capital to the profile of their risks</i> '.

	Both during on-site inspections and as part of off-site surveillance, the CBU engages with the banks on various issues of concern. As detailed under EC1, curators participate as an observer in meetings of the supervisory board and, if necessary, other collegial bodies. Moreover, to assess the business model, the curator meets with senior and middle management, including the heads of business lines. During the onsite inspections, the interaction with senior and middle management, heads of individual business units and control functions becomes more frequent, considering the exchange of documentation, request of written explanations, and the meetings held with managers and employees of the banks. However, the assessors did not find sufficient evidence of engagement with non-executive board members.
<b>EC8</b>	The supervisor communicates to the bank the findings of its on- and off-site supervisory analyses in a timely manner by means of written reports or through discussions or meetings with the bank's management. The supervisor meets with the bank's senior management and the board to discuss the results of supervisory examinations and the external audits, as appropriate. The supervisor also meets separately with the bank's independent board members and the external auditor, as necessary.
Description and findings re EC8	<p>As mentioned under EC5, in 2024, the Banking Supervision Committee sent 71 letters communicating findings from off-site supervision; 33 of them were sent to SOBs. 40 were addressed to the Chairmen of the Management Boards.</p> <p>The Banking Supervision Committee prevented 22 banks from distributing dividends; in 14 cases, this was due to the level of authorized capital that as of November 1, 2024, was below the new minimum capital (UZS 500bn) that is required to be in place by January 2025 based on the BL. According to the CBU, 9 of these 14 banks should be able to reach the new minimum capital by retaining earnings; 5 will need to pursue a capital increase. If these banks were unsuccessful, the CBU is considering a forced transformation in microfinance banks, a new category envisaged by a draft law under Parliament's discussion, even though these 4 banks' business models are not focused on microfinance activities. Microfinance banks' minimum capital requirement is lower (UZS 50bn), but the maximum deposits they can collect would be UZS 200bn (in line with maximum guarantees amount by the Deposit Insurance Fund). Therefore these 4 banks would need to reduce their current deposit to this level, should they be unsuccessful in raising capital.</p> <p>The inspection reports are drawn up in three copies, each of which is signed by the head and members of the inspection team, managers and the chief accountant of the audited bank. The inspection reports are submitted to banks for the development of an action plan. Moreover, the result of the risk assessment is also communicated to the banks through a letter sent to the chairmen of the Supervisory Boards and the Management Boards, which includes the main conclusions, requirements, and recommendations regarding the components of the risk profile. The assessors examined 3 letters sent in 2023. However, the assessors did not find sufficient evidence of separate meetings with independent directors.</p> <p>The CBU pointed out that it regularly holds meetings with audit companies, including to discuss issues of common interest (see CP27, EC8).</p>

<b>EC9</b>	The supervisor undertakes appropriate and timely follow-up activities to check that banks have addressed supervisory concerns or implemented requirements communicated to them. This includes early escalation to the appropriate level of the supervisory authority and to the bank's board if action points are not addressed in an adequate or timely manner.
Description and findings re EC9	<p>The CBU showed evidence that it follows up on its findings; for example, in 2024 an action plan requested from a bank for breaching the large exposure limit was followed by a fine imposed on the bank due to non-fulfillment of the tasks set in the action plan. Moreover, dividends restrictions were prorogated to several banks, due to their possible inability to meet the new minimum authorized capital. These actions are described under CP11, EC4.</p> <p>When the CBU requests a bank to adopt an action plan (see CP11), then the follow up activities are generally appropriate and timely, with the CBU tracking open findings. However, a system enabling the CBU to systematically track open findings with banks (beyond the action plan) is lacking. The institutional profile contains information on sanctions applied to banks, but not on open findings.</p>
<b>EC10</b>	The supervisor requires banks to notify it in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments, including breaches of legal or prudential requirements.
Description and findings re EC10	<p>Several provisions of the BL below require banks' notification to the CBU. They are described below. Nevertheless, the details below are not necessarily sufficient for this EC, which requires, instead of a list, a comprehensive power. Therefore, the assessors recommend that the CBU seeks a mandatory notification requirement for all substantive changes in a bank's activities, structure, and overall condition, or as soon as they become aware of any material adverse developments.</p> <p><u>Insolvency</u></p> <p>BL Article 77 requires the bank's Board to immediately notify the CBU in cases of the bank's insolvency or risk of inability to meet the customers' claims.</p> <p><u>Change in the composition of shareholders</u></p> <p>Articles 26 of the BL obliges direct or indirect owners of substantial ownership, including the BO, to notify the CBU (and the bank) within ten days in writing, including electronic form, in the following cases:</p> <ol style="list-style-type: none"> <li>1) execution of a transaction for which preliminary permission was obtained to purchase the bank's shares;</li> <li>2) increase of the stake of shares above the threshold indicated by BL Article 22 (5, 20, 50, above 50 percent), acquired with prior permission;</li> <li>3) deciding on the alienation or reduction of substantial ownership in the authorized capital of the bank, as a result of which the substantial ownership will be less than fifty, twenty or five percent, respectively;</li> </ol>

	<p>4) receipt by a person of bank's shares in the amount established by Article 22 (5, 20, 50, above 50 percent) under circumstances beyond his control.</p> <p>In the cases provided for by n. 1) to 4), the <u>bank shall also notify the CBU</u> in writing, including in electronic form, within one day from the date of receipt of the notification from the direct or indirect owner of substantial ownership.</p> <p><u>Shareholders' agreement</u></p> <p>According to Article 27 of the BL, the CBU must be notified of any agreement related to:</p> <ul style="list-style-type: none"> <li>• coordinated exercise of the voting rights at general shareholders meetings of the bank or at the legal persons controlling the bank;</li> <li>• coordinated activities of members of the management body of the bank or legal persons controlling the bank;</li> <li>• exercise of the right to nominate a majority of members of the Management or Supervisory Board of the bank or legal persons controlling the bank.</li> </ul> <p><u>Change of circumstances affecting suitability of substantial shareholder</u></p> <p>In addition, the direct and indirect owner of substantial ownership, including the BO, must notify the CBU of the circumstances that may affect the assessment of the shareholder's compliance with the BL requirements, within five working days from the date of such circumstances.</p> <p><u>Representative office, closure of subsidiary/branch abroad, divestment of share of a foreign bank</u></p> <p>If a bank decides to open a representative office, close a subsidiary, representative office or branch abroad, as well as sell shares of a foreign bank, the bank is obliged to notify the CBU within thirty days from the date of such decision and provide information on the impact of this decision on its financial stability (BL Article 31).</p> <p><u>Related party limits</u></p> <p>The Regulation "<i>On the maximum amount of risk per borrower, including persons related to the bank or a group of related borrowers</i>" No 3283/2020 establishes that if the bank notifies the CBU that a borrower, which was not considered a related party at the time of the transaction, subsequently becomes a related party, the consequent increase in the bank's exposure leading to a breach of the prudential requirements (see CP 20) is not considered a breach of the prudential requirement, as long as the notification is done within 10 days and the bank has undertaken actions to comply with the terms of the prudential regulation.</p> <p><u>Breaching of capital requirements</u></p> <p>Banks which do not meet capital requirements prescribed by the Regulation "<i>On Requirements for the Adequacy of Capital of Commercial Banks</i>" No. 2693/2015 must develop an action plan to ensure compliance with capital requirements and submit it to the CBU for consideration within 30 days from the breaches.</p>
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	<p>Banks are also obliged to notify the CBU if a director no longer meets the suitability requirements (See CP14, EC8).</p> <p>The Regulation on information protection in automated banking systems of commercial banks No. 3224/2020 introduced also the duty to notify the CBU in written or electronic form about any incident pertaining to the breach of confidentiality, integrity, right of access to information, and violation of the technological process (par. 32); moreover, banks which detect viruses should inform the CBU about the origin and type (par. 82).</p>
<b>EC11</b>	<p>The supervisor may use independent third parties, including external experts, but it cannot outsource its prudential responsibilities to third parties. Where third parties are used, the supervisor:</p> <ul style="list-style-type: none"> <li>(a) clearly defines and documents their roles and responsibilities, including the scope of work where they are appointed to conduct supervisory tasks;</li> <li>(b) assesses their suitability for the designated task(s), the quality of their work and whether their output can be relied upon to the degree intended;</li> <li>(c) ensures that they are subject to appropriate confidentiality restrictions;</li> <li>(d) considers the biases that may influence them; and</li> <li>(e) requires that they promptly bring to its attention any material shortcomings identified during the course of any work undertaken by them for supervisory purposes.</li> </ul>
Description and findings re EC11	<p>BL Article 45 enables the CBU to use external experts, but the CBU never made use of this provision.</p>
<b>EC12</b>	<p>The supervisor has an adequate information system which facilitates the processing, monitoring and analysis of prudential information. The system aids the identification of areas requiring follow-up action.</p>
Description and findings re EC12	<p>The CBU uses supervisory reporting, databases of the State Register of Credit Information and the Information Repository of the Banking System (ICBS) to process, monitor and analyze prudential information. Data from information systems helps to identify areas for follow-up. As pointed out under CP2, EC5, the CBU Board approved a roadmap for the implementation of SupTech, to reach <b>automation of supervisory reporting</b> (see also CP10).</p>
<b>Additional criterion</b>	
<b>AC1</b>	<p>The supervisor has a framework for periodic independent reviews, for example by an internal audit function, internal risk function or third-party assessor, of the adequacy and effectiveness of the range of its available supervisory tools and the effectiveness of their use and makes changes as appropriate. The supervisory approach should be reviewed at periodic intervals and improved as necessary to ensure it remains effective and fit for purpose.</p>
Description and findings re AC1	<p>The CBU highlighted that its Internal Audit function conducts periodic independent verification and stressed that Article 16 of the CBU Law envisages that the internal audit of CBU activities is carried out by the Internal Audit Service, which is accountable to the Audit Committee. The Audit Committee consists of three members, including one independent member. The powers and regulations of the Audit Committee, its legal status, and the requirements for its members are determined by the CBU Board.</p>

	However, Internal Audit has never assessed the adequacy and effectiveness of the range of its available supervisory tools and the effectiveness of their use. This AC has not been considered in the score.
<b>Assessment of Principle 9</b>	<b>Materially Non-Compliant</b>
Comments	<p>The CBU deploys a combination of off-site supervision and on-site inspections for evaluating the banks' risk profile and internal control environment. The institutional profile for each bank is a valuable source of information and the curator plays a key role in the off-site supervision. However, considering that the curator has multiple interactions with banks, including attendance of board meetings, this role should be formalized (do's and don'ts) as it could lead to reputational risk for the CBU. There is room for improving on-site inspections efficacy. Most inspections (80 percent) are conducted within the 30-day limit envisaged by the internal regulation, but this stretches resources and might affect the robustness of the credit file review, even though the CBU explained that the sampling takes place before the visits. Moreover, the perimeter of the visit does not extend to corporate governance. Off-site engagement with non-executive board members and separate meetings with independent directors should be expanded.</p> <p>Findings</p> <ol style="list-style-type: none"> <li>1. The role of the curator is neither formalized in the Law nor in a binding public regulation. There is no cooling-off period before the curator could be hired by the bank that he/she supervises.</li> <li>2. The assessors did not find sufficient evidence of separate meetings held by the CBU with independent directors.</li> <li>3. A system enabling the CBU to systematically track open findings (beyond the case in which an action plan has been requested) is lacking.</li> <li>4. There is no general duty by banks to notify it in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments.</li> <li>5. There is room for improving the on-site inspections effectiveness: most inspections (80 percent) are conducted within the 30-day limit set by the internal regulation and this strict timeline may constrict the ability to conduct a thorough credit file review considering the large number of corporate exposures examined.</li> <li>6. The on-site and off-site assessment of corporate governance is not systematically included in the reports shared (one out four cases) and such a risk profile is even not mentioned by the new Resolution '<i>Minimum Requirements for Inspections in Banks, based on the Risk-Based Supervision Guidelines</i>' (August 2024).</li> </ol> <p>Recommendations:</p> <ul style="list-style-type: none"> <li>• Formalize the role of the curator (do's and don't) in a binding regulation and introduce a cooling off period before the curator could be hired by the banks that he/she supervises</li> <li>• Enhance the off-site engagement with non-executive and independent board members</li> <li>• Systematically track open findings in the bank's institutional profile</li> </ul>

	<ul style="list-style-type: none"> <li>• Seek a mandatory notification requirement for all substantive changes in an institution's activities, structure, and overall condition, or as soon as they become aware of any material adverse developments</li> <li>• Amend Article 15 of the Regulation '<i>On the procedure for inspections of banks and their branch</i>' and extend the inspection period to a more reasonable timeline (60-90 days)</li> <li>• Enhance the off-site supervision of corporate governance and amend the Resolution '<i>Minimum Requirements for Inspections in Banks, based on the Risk-Based Supervision Guidelines</i>' (August 2024) to expand the scope of on-site supervision to banks' corporate governance.</li> </ul>
<b>Principle 10</b>	<b>Supervisory reporting.</b> <sup>28</sup> The supervisor collects, reviews and analyses prudential reports and statistical returns <sup>29</sup> from banks on both a solo and a consolidated basis, and independently verifies these reports through either on-site examinations or use of external experts.
<b>Essential criteria</b>	
<b>EC1</b>	The supervisor has the power to require banks to submit information, on both a solo and a consolidated basis, on their financial condition, performance and risk exposures, on demand and at regular intervals. These reports provide information such as on- and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, risk concentrations (including by economic sector, geography and currency), asset quality, loan loss provisioning, related party transactions, interest rate risk, market risk and information that allows for the assessment of the materiality of climate-related financial risks and emerging risks to banks.
Description and findings re EC1	<p>Article 50 of the BL establishes that, in order to carry out supervisory functions, the CBU has the right to receive and verify reports, as well as other documents. Banks submit financial and supervisory reports to the CBU; they prepare and submit to the CBU reports on their activities in the forms, in the manner and terms established by the CBU (BL Article 71). Banks organize and maintain accounts in accordance with the internal accounting policy developed based on rules established by the CBU. Banks are obliged to provide different types of data on a daily, monthly, and quarterly basis.</p> <p>Resolution of the Board of the Central Bank No 31/5 dated December 25, 2021, adopted the recommendations on banking reporting which establish the forms (tables) for reporting and provide guidelines for their completion. These Recommendations apply to the completion and submission of the following reporting forms:</p> <ul style="list-style-type: none"> <li>• "Financial Reports of Commercial Banks on Banking Supervision", consisting of 24 tables, which are divided into 3 blocks (block 1 - Liquidity Analysis, Block 2 - Calculation of the Bank's Regulatory Capital, Block 3 - Other Reports);</li> </ul>

<sup>28</sup> Reference documents: BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022; BCBS, Sound Practices: implications of fintech developments for banks and bank supervisors, February 2018; BCBS, Principles for effective risk data aggregation and risk reporting, January 2013; BCBS, Principles for the supervision of financial conglomerates, September 2012.

<sup>29</sup> In the context of this Principle, "prudential reports and statistical returns" are distinct from and in addition to required accounting reports. The former are addressed by this Principle, and the latter are addressed in Principle 27 (BCP40.61).

	<ul style="list-style-type: none"> <li>• "Breakdowns of Balance Sheet Accounts to Financial Statements of Commercial Banks on Banking Supervision", consisting of 10 tables.</li> </ul> <p>The reporting forms are provided in accordance with the requirements of regulatory legal acts and include on- and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, significant positions, risk concentrations (including by economic sector, geography and currency), asset quality, loan loss reserves, related-party transactions, interest rate risk, market risk and other information. The supervisors have the right to request explanations (clarifications) regarding reporting and other information about banks' activities. In addition, the Prudential Supervision Department daily receives banks' balances and information on FX positions, sent through the BTS (Discovery System).</p> <p>Pursuant to BL Article 71, at the request of the CBU, banks provide consolidated, periodic and one-time reports. For supervision purposes the information is collected only on a solo basis. By law, consolidated reporting is provided '<i>at the request of the CBU</i>' but this is not part of the basic supervisory reporting package</p> <p>The CBU has developed a draft "Strategy for the management and supervision of financial risks associated with climate change in the banking sector for 2024-2027". As this strategy foresees to create standards to manage risks associated with climate change and integrate them into the supervisory framework, there is a need to adjust and expand supervisory reporting and analytical framework, which currently does not cover climate related financial risks.</p> <p>Within the existing supervisory framework, the CBU, if necessary, requests additional information in unspecified forms and terms. This practice is used for a more in-depth analysis and assessment of the risk profile of banks. These requests allow the CBU to timely respond to unforeseen and unexpected situations.</p> <p>Banks' representatives underscored that ad-hoc requests put additional burden on banks. In addition, this information is usually provided in an unstructured form, via emails or other less secure channels. The CBU should improve the data quality, validity checks and data safety for the ad-hoc data transfers and structure ad-hoc data transfers with a secure channel.</p>
<b>EC2</b>	<p>The supervisor provides reporting instructions that clearly describe the standards to be used in preparing supervisory reports. Such standards are based on accounting principles and rules that are widely accepted internationally.</p>
Description and findings re EC2	<p>According to the information received during the mission, the adopted Recommendations on banking reporting specify data from the financial reporting that must be provided by banks on a periodic basis through automated information systems. This data is used to calculate quantitative indicators.</p> <p>These reports are submitted in accordance with the requirements of the regulatory legal acts, namely (see also CP27):</p> <ul style="list-style-type: none"> <li>• Regulation "<i>On Requirements for the Accounting Policy and Financial Statements of Commercial Banks</i>" (RAFS) which defines the development and</li> </ul>

	<p>implementation of the accounting policy of commercial banks, as well as the requirements for the financial statements of banks and</p> <ul style="list-style-type: none"> <li>• “Chart of Accounts for Accounting in Commercial Banks” (Reg. No. 3336 dated November 26, 2021) defines a unified methodological framework for the organization and maintenance of accounting in commercial banks.</li> </ul> <p>Pursuant to BL Article 70, ‘banks organize and maintain accounts in accordance with the internal accounting policy developed based on the rule established by the CBU’. Banks can apply international financial reporting standards (IFRS). As pointed out under CP27, banks prepare financial statements according to IFRS. CBU has not clarified the main differences between IFRS and accounting policies under RAFS.</p>
<b>EC3</b>	<p>The supervisor requires banks to have sound governance structures and control processes for methodologies that produce valuations. The measurement of fair values maximises the use of relevant and reliable inputs which are consistently applied for risk management and reporting purposes. The valuation framework and control procedures are subject to adequate independent validation and verification, either internally or by an external expert. The supervisor assesses whether the valuation used for regulatory purposes is reliable and prudent. Where the supervisor determines that valuations are not sufficiently prudent, the supervisor requires the bank to adjust its reporting for capital adequacy or regulatory reporting purposes.</p>
Description and findings re EC3	<p>The supervisor requires banks to have sound governance structures and control processes for methodologies that produce valuations.</p> <p>Pursuant to BL Article 71, banks are responsible for the integrity and reliability of reports and other information submitted to the CBU.</p> <p>According to the RRM statements, banks are required to maintain an internal control system that is consistent with the banks’ strategy, size, level of complexity of bank operations. Internal control is a process that is embedded in daily activities carried out by authorized bodies of the bank, structural units, and all employees. The correctness of reports is checked monthly, comparing them with the balance sheet data provided directly through the ISBS system. After verification, the reports are submitted to the analysis and risk departments. Reports are additionally audited by internal and external auditors (internal compliance) following the requirements stated by RRM.</p> <p>The reliability of supervisory reports as well as data quality are also checked within the framework of comprehensive or thematic on-site inspections. The key objectives of such inspections are to assess how the accounting function is organized; the process of documents management; evaluate compliance with accounting rules and standards; verify the accuracy of accounting and reporting and decide on their reliability.</p> <p>The CBU pointed out that when assessing banks' risk profiles, it verifies the reliability of fair value assessments of assets. Assets may be evaluated either using the cost approach (amortized cost) or at market value, depending on the bank's accounting policies. In prudential reporting, government securities are valued at nominal value due to the absence of a yield curve. Investments are recorded at nominal value, net of provisions established for potential losses. Loans and leases are reported at their remaining principal</p>

	<p>amount, net of provisions created for them (i.e., not at amortized cost), while accrued interest on loans is recorded separately. The CBU also stressed that the Regulation "On Internal Audit Requirements in Commercial Banks" (Reg. No. 3302, dated May 7, 2021) establishes requirements for the internal evaluation of a bank's activities by the internal audit service (see CP 26). Additionally, external audits verify financial statements for compliance with the bank's accounting policies, the correctness of prudential ratio calculations, and other aspects. If an assessment is not sufficiently justified, the CBU highlighted that it has the right to adjust reporting in accordance with capital adequacy requirements or regulatory reporting standards.</p> <p>Nevertheless, the assessors examined the supervisory reporting of over the counter (OTC) derivatives as at 1.1.24 and 7.1.24 and found that this contains only information on the notional value of derivatives e.g. the fair value is missing.</p>
<b>EC4</b>	The supervisor collects and analyses information from banks at a frequency commensurate with the nature of the information requested and the risk profile and systemic importance of the bank.
Description and findings re EC4	<p>There is no differentiation regarding the bank's complexity, size, or risk profile. All banks are subject to the same set of standardized prudential reporting.</p> <p>Staff of the Prudential Supervision Department perform several supervisory functions with different frequency:</p> <ul style="list-style-type: none"> <li>• daily monitor of compliance with prudential requirements, assess changes of balance sheet positions, monitor quality of the loan portfolio;</li> <li>• weekly/monthly control over the completeness of reserves, monitor forborne positions, evaluate changes of NPL portfolio, assess large borrowers and large depositors, monitor banks' investments and changes in shareholders' structure;</li> <li>• quarterly investigate internal audit reports, assess information regarding risk management, analyze results of banks' stress tests.</li> </ul>
<b>EC5</b>	To make meaningful comparisons between banks, the supervisor collects data from all banks and all relevant entities covered by consolidated supervision on a comparable basis and for the same dates (stock data) and periods (flow data).
Description and findings re EC5	<p>Periodic reporting is provided on a daily, monthly, or quarterly basis, with deadlines specified by relevant regulatory acts. It should be noted that reports are collected from all banks with the same frequency, therefore the CBU can make compilations and comparisons between banks. During the mission CBU staff demonstrated analytical tools and dashboards (created by using Power BI and other advanced analytical tools), which are used for analytical purposes, by employing all data available in the systems.</p> <p>The CBU has the right to set prudential standards for banking groups, however, consolidated supervision is not in place (see CP12); there is no obligation for banks to provide supervisory reporting on consolidated basis, accordingly, consolidated prudential requirements have not been set.</p>

EC6	<p>The supervisor has the power to request and receive any relevant information from banks, as well as any entities in the wider group, irrespective of their activities, where the supervisor believes that it is:</p> <ul style="list-style-type: none"> <li>(a) material to the condition of the bank;</li> <li>(b) material to the assessment of the risks of the bank; or</li> <li>(c) needed to support resolution planning.</li> </ul> <p>This includes, but is not limited to, internal management information, corporate governance information, transactions with the wider group (e.g. any non-bank entities) and related party transactions.</p>
Description and findings re EC6	<p>The CBU pointed out that, to exercise its supervisory functions, BL Article 50 enables it to:</p> <ul style="list-style-type: none"> <li>• receive and check reports, as well as other documents, demand clarification of information received from banks, <b>related parties</b> and <b>persons subject to its supervision</b>, as well as persons performing services and operations outsourced by the bank.</li> <li>• check the activities of banks, persons providing services and operations outsourced by the bank, as well as <b>persons subject to consolidated supervision</b>.</li> </ul> <p>The CBU also highlighted that, according to the BL Article 51, the CBU has the right to require banks or <b>banking groups</b> to take immediate action in case, among others, it has identified risks affecting the activities . . . of the bank or banking group. The CBU has the right to demand from the bank or banking group to improve corporate governance, risk management, internal controls or a recovery plan.</p> <p>Nevertheless, the mentioned provisions on the BL focus on the banking group, related party and person subject to consolidated supervision, but do not include the wider group, e.g. entities in the wider group, irrespective of their activities.</p> <p>The CBU also underscored that the CBU Law (Article 55) enables it to have a constant exchange of relevant statistical information with The Government of the Republic of Uzbekistan to carry out its functions. The government, public authorities and administrations of the Republic of Uzbekistan should provide the CBU with the economic information necessary for the performance of its functions. Thus, the CBU, if necessary, requests relevant information from the State Tax Committee, the Bureau of Compulsory Enforcement under the General Prosecutor's Office, and also uses information from the Agency of Statistics. However, these provisions do not enable the CBU to request any relevant information from entities in the wider group, irrespective of their activities.</p> <p>Within the existing framework of banking supervision, the CBU, if necessary, requests additional information in unspecified forms and terms. Often additional information is requested to perform assessment of the banks' risk profile (RBS).</p> <p>There are other examples when additional information is requested:</p>

	<ul style="list-style-type: none"> <li>• in the event of unexpected and uncertain conditions (i.e. Covid);</li> <li>• while geopolitical crises or tensions occurred;</li> <li>• additional explanations or more granular data required.</li> </ul> <p>There are cases while additional information is requested from a single institution, but most often information is collected system wide.</p> <p>One of the more recent examples is when the CBU asked banks to provide information about their assets held in Russian roubles or placed in Russian bank accounts after the conflict in Ukraine and some Russian banks came under sanctions.</p>
<b>EC7</b>	<p>The supervisor has a means of enforcing compliance with the requirement that the information be submitted on a timely and accurate basis. The supervisor determines the appropriate level of the bank's senior management that is responsible for the accuracy of supervisory returns, imposes sanctions for misreporting and persistent errors, and requires that inaccurate information be amended.</p>
Description and findings re EC7	<p>Article 51 of this Regulation stipulates that if the actions or inaction of the bank's managers have led to a failure to submit reports or failure to submit them within the prescribed time limit, or these reports are unreliable, the CBU may demand early termination of the powers of the members of the bank's Supervisory Board, replacement of one or more members of the bank's board, as well as key employees, or their removal from office for up to six months.</p> <p>Commercial banks submit financial statements to the CBU, which are checked for compliance. In case of deficiencies, poor quality of the report or delay in submission, the function/unit responsible for data collection has the right to propose to the Banking Supervision Committee to consider imposing penalties or a fine.</p> <p>The assessors were provided with the resolution of the Banking Supervision Committee with a decision to apply penalties to banks as a result of incorrect and inaccurate regulatory reporting.</p>
<b>EC8</b>	<p>The supervisor utilises policies and procedures to determine the validity and integrity of supervisory information. This includes a programme for the periodic verification of supervisory returns either by the supervisor's own staff or by external experts.</p>
Description and findings re EC8	<p>All reports submitted by the banks are checked for correctness. Such verification is carried out by the Division of Financial Reporting, coordinated within the off-site Prudential Supervision Department, which is responsible for data collection and verification.</p> <p>The set of technical checks is being implemented when data obtained in monthly and quarterly package is compared with the reports submitted daily directly through the ISBS system. At the same time, the reporting forms contain checking formulas, which, if possible, notify about the inconsistency of the entered data. If errors are identified at this stage, banks are obliged to resubmit reports after corrections or adjustments have been made.</p> <p>Over the past few years, the number of such "technical" errors identified by the Division of Financial Reporting has decreased significantly and remains low. 'Curators' also check</p>



	<p>the supervisory reports by applying in-depth analysis. The identified inaccuracies must be corrected, and reports should be resubmitted.</p> <p>The CBU is transforming its' internal processes related to data collection, processing, and analysis. The Board of the CBU has approved a roadmap for the implementation of SupTech, developed jointly with the World Bank. Within the framework of the roadmap, it is planned to implement 5 projects, including the project on automation of supervisory reporting.</p>
<b>EC9</b>	The supervisor has a process in place to periodically review the information collected to determine that it satisfies a supervisory need.
Description and findings re EC9	<p>Together with KPMG's international consultants, a unified data model has been developed, in which supervisory reports are split into initial granular data, and verification rules have been developed for each data unit. A data quality control solution has been developed and will be implemented during the second phase of the Project. The processes for the entire data management have been developed and is stepping into implementation stage. According to the Terms of Reference, work is underway to select a vendor (supplier) for the second stage of the project namely <i>Implementation of an automated reporting system in the CBU</i>. The introduction of this system will keep data models updated.</p> <p>In addition, supervisory reports are being improved and adjusted on an annual basis, taking into account changes in banking legislation and based on the proposals provided by Prudential Supervision Department. All changes made are reviewed by the experts and approved by the Board of the CBU. This process ensures that set of required supervisory reporting is updated and aligned with the actual requirements and standards, which contributes to more effective supervision.</p>
<b>Assessment of Principle 10</b>	<b>Materially Non-Compliant</b>
Comments	<p>Findings:</p> <ul style="list-style-type: none"> <li>• The CBU collects prudential reports and statistical returns on solo basis, but not on a consolidated basis.</li> <li>• The CBU requests ad hoc information in an unstructured form, via emails or other less secure channels.</li> <li>• Supervisory reporting relies on CBU Recommendations which are based on internal accounting policy, instead of accounting principles and rules that are widely accepted internationally.</li> <li>• The CBU does not collect information that allows for the assessment of the materiality of climate-related financial risks.</li> <li>• Even though the CBU regularly reviews and adjusts data packages, all banks despite their size and business model are obliged to provide the same data (and the same number of data points). Therefore, the CBU has not properly shifted its approach on reporting to risk-based supervision (i.e. tailor-made in essence), leveraging on the principle of proportionality.</li> <li>• Based on the information shared, the supervisory reporting on OTC derivatives is limited to the notional amount and does not incorporate the fair value.</li> </ul>

	<ul style="list-style-type: none"> <li>The CBU does not seem to have the power to request relevant information from any entities in the wider group, irrespective of their activities.</li> </ul> <p>Recommendations:</p> <ul style="list-style-type: none"> <li>The CBU should: <ul style="list-style-type: none"> <li>collect prudential reports and statistical returns also on a consolidated basis;</li> <li>improve the data quality, validity checks and data safety for the ad-hoc data transfers and structure ad-hoc data transfers with a secure channel;</li> <li>reformulate its recommendation on supervisory reporting to base accounting principles and rules on those that are widely accepted internationally, instead of internal accounting policy;</li> <li>collect information on banks' exposure to climate-related financial risk;</li> <li>embed the proportionality principle in the supervisory reporting e.g. the implementation of the SupTech Project could help address the above finding</li> <li>The CBU should collect reporting on the fair value of OTC derivatives</li> </ul> </li> <li>The CBU should be enabled to request relevant information to any entities in the wider group, irrespective of their activities, when this information is material to the condition of the bank or to the assessment of the risks of the bank; or needed to support resolution planning.</li> </ul>
<b>Principle 11</b>	<b>Corrective and sanctioning powers of supervisors.</b> <sup>30</sup> The supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools, that it can apply at its discretion, to bring about timely corrective actions. This includes the ability to revoke the banking license or to recommend its revocation.
<b>Essential criteria</b>	
<b>EC1</b>	The supervisor raises supervisory concerns with the bank's management or, where appropriate, the bank's board, at an early stage, and requires that these concerns be addressed in a timely manner. Where the supervisor requires the bank to take significant corrective actions, these are addressed in a written document to the bank's board. The supervisor requires the bank to submit regular written progress reports, and it checks that corrective actions are completed satisfactorily. The supervisor follows through conclusively and in a timely manner on matters that are identified.
Description and findings re EC1	The regulatory framework for corrective and sanctioning power of the CBU, enshrined in the CBL Law and BL, as well as in the CBU Regulation on the Procedure for Applying Measure and Sanctions Against Banks and Non-Bank Credit Organization No. 3492/24 (RPAMS), enables the CBU to raise concerns

<sup>30</sup> Reference document: BCBS, Parallel-owned banking structures, January 2003.

	<ul style="list-style-type: none"> <li>• at early stage (up to twelve months before a possible violation takes places);</li> <li>• in written form (for example, in an instruction letter);</li> <li>• at an appropriate level of the supervised entity (e.g. Chairman of the Board); and</li> <li>• through supervisory tools that permit follow-up (for example, by requiring the development of a plan of measures to eliminate violations).</li> </ul> <p>The relevant provisions of the Laws are enunciated below:</p> <ul style="list-style-type: none"> <li>• Article 61 of the CBU Law enables the CBU to send binding orders to banks to eliminate violations identified in their activities</li> <li>• Article 63 of the CBU Law confers to the CBU the right to <b>apply measures and sanctions</b> to banks, direct and indirect shareholders, including BO, members of the supervisory board and management board, as well as key personnel</li> <li>• Article 51 of the BL (<i>Supervisory measures</i>) enables the CBU to require banks or banking groups to take <b>immediate action</b> in cases of: (i) inconsistency of the activities with the requirements of the legislation on banks and banking activities; (ii) presence of information based on the <b>reasoned judgment</b> about the <i>possible violation</i> of the requirements of the legislation on banks and banking activities <i>within the next twelve months</i>; (iii) identification of <i>risks</i> affecting the activities and (or) information security and cyber security of the bank or banking group (see EC2)</li> <li>• Article 53 of the BL empowers the CBU to apply measures and sanctions not only against the bank, but also <b>members of the supervisory board and the board, as well as key personnel</b>. It also introduces a risk-based approach by indicating the criteria that CBU should follow when applying measures and sanctions (see EC5)</li> <li>• Articles 54-59 that classify the <b>violation as gross, serious, and minor</b> and identify measures and sanctions for each of the three categories.</li> <li>• RPAMS, which, among other things, laid down the <b>procedural rules</b> for the application of measures and sanctions by the CBU; provides for the <b>appeal</b> procedure, and envisages ad hoc measures, like the <b>instruction letter</b>, the development of <b>plan of measure to eliminate violations</b>, and other restrictions (to dividend distribution, expansion of bank's infrastructure) and measures (convening shareholders meeting; see EC4).</li> </ul>
<b>EC2</b>	<p>The supervisor uses an appropriate range of supervisory tools<sup>31</sup> in a timely manner when, in the supervisor's judgment, a bank is not complying with laws, regulations or supervisory actions, is engaged in unsafe or unsound practices or in activities that could</p>

<sup>31</sup> Refer to Principle 1, essential criterion 1 (BCP40.5).

	pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened.
Description and findings re EC2	<p>The CBU uses an appropriate range of supervisory tools when banks do not comply with laws and regulations or engage in unsafe or unsound practices. The assessors were provided with evidence of such use, <u>including vis a vis SOCBs</u>.</p> <p>The range of supervisory tools at the CBU disposal is ample and enables it to act in a timely manner, e.g. in presence of information that, based on its '<i>reasoned judgment</i>' could lead to <i>possible violation within the next twelve months</i> of the requirements of the BL (BL, Article 51). The CBU has the right to demand to a bank (or banking group) the following measures:</p> <ul style="list-style-type: none"> <li>• ensuring and maintaining prudential capital in excess of the requirements set by the CBU</li> <li>• improving corporate governance, risk management, internal controls or a recovery plan</li> <li>• submitting an action plan to ensure the compliance with the requirements of the legislation on banks and banking activities</li> <li>• implementing financial recovery measures, including changing the structure of assets, reducing costs, reorganizing the bank, closing a branch or other divisions</li> <li>• applying individual provisioning requirements</li> <li>• comply with the restriction and/or prohibition on the implementation of certain financial transactions and the expansion of the infrastructure entailing risks of significant deterioration in stability</li> <li>• reducing the risk inherent in the activities, services, financial transactions and internal systems</li> <li>• directing net profit to increase the authorized capital</li> <li>• restricting and/or prohibiting payment of dividends and interest on subordinated debts to shareholders or holders of additional capital instruments</li> <li>• restricting and/or prohibiting the payment of remuneration to employees in case of non-compliance or possible non-compliance with capital requirements because of this payment</li> <li>• limiting the interest rate on deposits</li> <li>• additional reporting</li> <li>• executing instructions to eliminate deficiencies in ensuring information security and cyber security (Instruction letter)</li> <li>• maintaining the minimum amount of liquid assets necessary for uninterrupted payments, an appropriate structure of financial sources and the balance of assets and liabilities in terms of maturity to avoid liquidity problems</li> <li>• holding an extraordinary general meeting of shareholders, convened by the supervisory board, to consider issues determined by the CBU, including increasing the capital. If the board fails to comply with this requirement, the CBU has the right to convene an extraordinary general meeting of shareholders and determine the agenda</li> </ul>

	<ul style="list-style-type: none"> <li>• early termination of powers or replacement of one or more members of the supervisory board, suspension or replacement of one or more members of the management board, as well as key personnel of the bank (removal power)</li> <li>• preparation of an action plan for restructuring the debt of several or all creditors</li> <li>• additional disclosure of information</li> <li>• fulfillment of other instructions of the CBU</li> </ul> <p>When applying measures and sanctions, the CBU uses a broad range of information and documents obtained during off-site and on-site supervision; external audit reports; documents of state bodies, including prosecutor's office and judicial bodies; appeals of consumers; documents or information provided by banks. When considering the application of measures and sanctions, the owner or manager of the bank, and its representatives of this organization, may participate in the meeting of the Banking Supervision Committee.</p> <p>Some of the measures mentioned by Articles 51 of the BL are detailed by the RPAMS and described under EC4.</p>
<b>EC3</b>	The supervisor uses its powers to act where a bank falls below established regulatory threshold requirements, including prescribed regulatory ratios or measurements. The supervisor intervenes at an early stage to require a bank to take action to prevent it from breaching its regulatory threshold requirements. Laws or regulations guard against the supervisor unduly delaying appropriate corrective actions, without limiting the supervisor's discretion to act.
Description and findings re EC3	<p>As stated under EC1 and EC2, the CBU has and uses the power to intervene at an early stage, requiring banks to take immediate actions before prudential requirements are breached, or weaknesses become irreparable.</p> <p>Several provisions in the BL and in the regulatory framework guard the CBU against unduly delaying appropriate corrective actions, without limiting the supervisor's discretion to act. For example:</p> <ul style="list-style-type: none"> <li>• BL Article 39 (restrictions to profits distribution)</li> <li>• BL Article 51 (supervisory measures),</li> <li>• BL Article 75 (notification by the external auditors to the CBU)</li> <li>• RPAMS (i) Article 32 that enables the CBU to impose restrictions and bans on paying dividends and (or) interest on subordinated debts to banks when, among other cases, there is a possibility of breaching prudential norms due to distribution (see EC 4); (ii) Article 33, that empowers the CBU to limit and/or prohibit the payment of dividends and/or interest on subordinated liabilities in cases where the share of problem assets in total assets amounts to ten percent or more</li> <li>• RAQP (i) Article 4 which may serve as grounds for the CBU to declare the qualification of the banks' executive management as non-compliant or the internal control insufficient, when the share of problem assets exceed ten percent of total assets;</li> </ul>
<b>EC4</b>	The supervisor uses a broad range of possible measures to address, at an early stage, such scenarios as described in essential criterion 2 above (BCP40.26(2)). These measures

	<p>include the ability to impose sanctions expeditiously or require a bank to take timely corrective action. In practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking license.</p>
Description and findings re EC4	<p>The CBU uses a broad range of measures. The assessors were able to examine:</p> <ul style="list-style-type: none"> <li>• dividend restrictions adopted vis a vis 22 banks. For 14 banks, the ban was adopted by a Banking Supervisory Committee Resolution in May 2024 and was justified by the probability that these will not meet the new minimum capital (BN 500 UZS) in force by January 2025 (see CP9, EC 8)</li> <li>• restriction of credit operations (August 2021), preventing 4 state owned banks from issuing new loans, in amounts exceeding the sum of repaid loans, until the share of non-performing loans (NPL) reached the level of 5 percent</li> <li>• statistical information on sanctions (see table under CP5) for incorrect reporting (liquidity, large exposure and prudential limits), applied to state owned banks, foreign banks and other domestic banks.</li> <li>• request to change the structure of banking assets, including reduction of investments which do not bring income</li> <li>• Prohibition to attract deposits, including from banks, exceeding 5 percent of the liabilities</li> <li>• removal power of a board member of state-owned banks</li> <li>• revocation of 2 banking licenses (see below)</li> </ul> <p>Measures are applied in accordance with the <b>gravity of the situation</b>. BL Article 53 requires the CBU to consider the level of risk, nature, scale of violations and their consequences; the systematic nature and duration of violations; the impact of violations on the financial condition; the ability to correct the situation as a result of the applied measures and (or) sanctions; the reasons for the occurrence of the identified violations and (or) risks; the efficiency (effectiveness) of previously applied measures and sanctions; the independent adoption of measures to eliminate violations by the bank, a direct and indirect shareholder, including the BO, a member of the supervisory board and the board, key personnel of the bank.</p> <p>The RPAMS describes the following measures.</p> <p><b>Instruction letter</b></p> <p>The CBU may send instruction letters to banks to eliminate violations identified in their activities. In the instruction letter, the CBU indicates to the bank, its owner and (or) the</p>

	<p>executive the requirements of the legal documents that have been violated and the deadlines for eliminating the violations, which should not exceed one year. The CBU can require:</p> <ul style="list-style-type: none"> <li>• elimination of violations or deficiencies that did not directly affect the financial condition of a bank, but may lead to deterioration of the financial condition in the future or threaten the interests of depositors and creditors</li> <li>• elimination of violation of prudential regulations</li> <li>• reduction of interest, non-interest, or operating costs</li> <li>• setting the highest values of interest rates for funds collected</li> <li>• elimination of deficiencies identified in the reports</li> <li>• providing relevant documents and information</li> <li>• conducting a mandatory audit</li> <li>• elimination of violations of legal requirements on AML/CFT</li> <li>• elimination of violation of the CBU requirements on information security risk management, currency regulation, cash transactions and cash register work, or other violations provided for by law.</li> <li>• elimination of violations of the rights and interests of bank's consumers</li> <li>• reduce individual or aggregated risks, existing or likely to occur</li> </ul> <p>The bank must submit a response indicating the deadline for taking measures to eliminate the identified violations within the period specified in the instruction letter. In case of minor violations, the CBU may issue a <b>written warning</b> about the application of measures and sanctions. When the bank or the owner does not eliminate the deficiencies/violations within the specified period, the CBU will take other measures and considers the application of sanctions.</p> <p>So, if the required elimination from the bank is minor, the curator can consider the response letter sent by the bank. If the violation is serious, the CBU may send a team of inspectors to check the actions taken by the banks. If the violation is gross, the relevant officials of the CBU will discuss the issue with the Committee on Banking Supervision, and the Deputy Chairman of the CBU confirms the expediency of the action taken. EC5 elaborates on the distinction between minor, serious and gross violations.</p> <p><b>Action plan of measures to eliminate violations</b></p> <p>In case of violation of the legal requirements related to regulation of currency, organization of cash circulation and cash operations, AML/CFT, as well as <u>prudential regulations</u>, the CBU may require the development of a plan of measures to eliminate violations. The bank shall submit the plan to the CBU within the period specified by the decision of the Banking Supervisory Committee. The plan should indicate the measures aimed at eliminating violations and (or) preventing them in the future, deadlines for implementation and responsible executives. The plan of measures is approved by the chairman of the management board.</p>
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	<p>In case of violation of at least one of the bank's CAR, the bank must submit to the CBU a plan of measures to maintain and restore the level of its capital within 10 days from the violation. When the bank violates the open currency position limits five times in a row or a total of ten times in the reporting month, it must submit within 7 days from the day of the violation a plan of measures. The CBU assesses the plan of measures in terms of <b>validity, completeness, and effectiveness</b>. It may send its objections to the plan within 15 working days. The bank is obliged to submit a new plan within 10 working days, eliminating the shortcomings. The CBU can consider the application of other measures and sanctions, if the bank does not submit the plan within the period specified by the CBU; or does not submit a new plan within 10 working days from the date of receipt of objections by the CBU; or does not perform, or perform properly, the measures specified in the action plan.</p> <p>For example, as of January 1, 2024, a bank has been inspected and a violation of the requirements on the maximum amount of risk per borrower, a group of related borrowers, including related persons of the bank, was detected. The bank's management and supervisory boards were instructed to develop an action plan. On April 29, 2024, a fine was imposed on the bank due to non-fulfillment of the tasks set in the action plan.</p> <p><b>Restriction or ban to dividends distribution or payment of interest on subordinated debt</b></p> <p>BL Article 39 prevents a bank from distributing dividends (as well as remuneration to members of the Supervisory Board, Management Board and employees) in cases, among others, of non-compliance with prudential requirements established by the CBU or their violation due to this distribution.</p> <p>Moreover, the RPAMS Article 32 confers to the CBU the right to restrict and/or ban payment of dividends and/or interest on subordinated debts to banks for a period of up to six months in the following cases:</p> <ul style="list-style-type: none"> <li>• when the prudential norms are not in accordance with the requirements set by the CBU or when there is a possibility of a violation of prudential norm violation as a result of this distribution</li> <li>• when the bank becomes insolvent, or signs of insolvency arise as a result of this distribution or interest payment</li> <li>• when reserves are not formed within the established requirements to cover possible losses on assets</li> <li>• when there are signs of macroeconomic and systemic financial crisis in the country</li> <li>• when the value of the bank's net assets is less than the sum of its charter capital and reserves</li> </ul> <p>If the bank does not ensure the implementation of the CBU decision, the CBU has the right to apply other measures and sanctions against this bank.</p> <p><b>Restriction and or prohibition from carrying out certain financial operations or expansion of banks' infrastructure</b></p>
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	<p>The CBU may limit and/or prohibit the implementation of certain financial operations or the expansion of the bank's infrastructure for a period of up to six months in the following cases:</p> <ul style="list-style-type: none"> <li>• violation of the legal requirements on the (i) implementation of financial transactions (BL article 5), (ii) set up of legal entities, and (iii) acquisition of share in the of legal entities (BL article 7)</li> <li>• when the share of problem assets in total assets is ten percent or more;</li> <li>• when banks engage in prohibited or restricted activities</li> <li>• when the CBU instruction letter is not fulfilled within the specified period</li> <li>• if the bank's risk management or corporate governance systems do not meet the requirements of the RRM or the RCG</li> <li>• when the legal requirements on currency regulation or on AML/CFT are violated three or more times in one year</li> <li>• if the bank violates the mandatory monthly reserve requirements three times in a row or five or more times in one year</li> <li>• when the terms of transactions with the CCBU, including repo and swap transactions, are violated</li> <li>• when sanctions are applied by foreign countries and (or) international organizations that are likely to cause financial losses</li> <li>• if the bank's balance in the CBU representative account is 0 or negative</li> <li>• when the rights and legal interests of consumers of financial services are violated</li> <li>• in case of transactions with related party are contrary to the law</li> <li>• when prudential regulations are violated by the bank.</li> </ul> <p>When the CBU limits or prohibits currency transactions, it suspends the relevant transactions with this bank in the interbank currency market until the expiration of this decision. No later than the next business day after receiving the CBU decision, a bank must abstain from executing the prohibited transaction or expanding its infrastructure; the bank fulfills its obligations under the agreements concluded with clients until the day of receiving the CBU decision. The bank shall provide information to the CBU about the status of implementation of this decision in the manner, terms and volumes specified by the CBU decision. If the bank does not ensure the implementation of the decision, the CBU has the right to apply other measures and sanctions.</p> <p><b>Convening the bank's general meeting of shareholders</b></p> <p>If the CBU decision to restrict and/or prohibit the implementation of certain financial transactions or the expansion of the bank's infrastructure is not executed by the bank and the bank's prudential regulations are not fulfilled, the bank's supervisory board shall call an extraordinary general meeting. The CBU has the right to demand consideration of issues, including increasing the capital to the amount that can ensure financial stability. The supervisory board shall convene a general meeting within the period specified in the CBU decision and inform the CBU of the time, place and agenda of the meeting. A CBU representative can participate in the general meeting. If the CBU decision is not</p>
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	<p>implemented, the CBU has the right to call an extraordinary general meeting of the bank's shareholders and set the agenda. Within ten working days after the general meeting of shareholders, the bank shall send an extract from the minutes to the CBU. A financial resolution plan, a capitalization program, a reorganization plan, a plan of measures to eliminate violations, or other measures may be attached to the minutes. If a positive decision is not taken on the issues determined by the CBU, or on the issue of increasing the bank's capital to the amount that can ensure the financial stability, the CBU can apply other measures and sanctions.</p> <p><b>Removal power</b></p> <p>If the actions or inaction of the bank's executives lead to the following violations by the bank, the CBU may terminate the powers of the members of the bank's supervisory board before their term, replace one or more members of the bank's management board, as well as key employees, or remove them from their positions for up to six months. The CBU has this right when:</p> <ul style="list-style-type: none"> <li>• the plan of measures approved by the bank for the elimination of the violation is not carried out within the specified periods</li> <li>• the requirements specified by the CBU written warning are not fulfilled</li> <li>• the request to hold an extraordinary general meeting of bank shareholders is not fulfilled</li> <li>• the CBU decisions to limit the payment of dividends or prohibit certain operations are not fulfilled</li> <li>• reports are not submitted to the CBU or are not submitted on time, or when they contain incorrect (illegal) information</li> <li>• incorrect information is provided to an CBU employee authorized to investigate, or document, information written explanations about the bank's activities, related party transactions are not provided during the investigation</li> <li>• one or more of the bank's capital ratios or liquidity ratios decrease for more than six months below the minimum amount set by the CBU to eighty percent or less;</li> <li>• the bank is unable to pay the customer's claims within three days</li> <li>• bank's loss for the current year exceeds 25% of the regulatory capital or 5% of the bank's regulatory capital in three consecutive quarters.</li> </ul> <p>Members of the bank's management board were found to be non-compliant with the CBU requirements due to excessive share of problem loans, and a demand was made to terminate the employment contract. Moreover, by the decision of the Banking Supervision Committee in connection with non-compliance and chronic non-compliance with prudential standards, as well as other shortcomings, the shareholders of a bank were required to appoint a new supervisory board.</p>
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	<p><b>Interim management</b></p> <p>Pursuant to Article 52 of the BL, If the measures taken by the CBU to replace one or more members of the supervisory board or the board of directors of a bank (see CP 14, EC) are considered insufficient, the CBU has the right to:</p> <ul style="list-style-type: none"> <li>• work temporarily (twelve months, extendable in exceptional cases) with the supervisory board and the board of the bank</li> <li>• temporarily replace the members of the bank's supervisory board and board</li> <li>• appoint one or more interim bank managers.</li> </ul> <p>The interim manager must comply with the fit and proper criteria (Article 36 of the BL). A person who is a shareholder, borrower, creditor, or related person of the bank cannot be appointed as a temporary manager. The CBU has the exclusive right to appoint and dismiss an interim manager, to determine his powers in accordance with the bank's statute and the BL. In cases determined by the CBU, the actions of the interim manager must be previously agreed with the CBU. Actions taken without prior approval are considered invalid. The interim manager shall submit to the CBU reports on the financial condition of the bank and the measures taken within the limits of his powers, within the time frame established by the CBU, as well as a final report on the work done. The CBU can oblige the interim manager to take measures in accordance with the BL, including on calling an extraordinary general meeting of the bank's shareholders and require a capital increase.</p> <p><b>Revocation of banking license</b></p> <p>Pursuant to Article 77 of the BL, the CBU has the right to revoke a license in the following cases:</p> <ul style="list-style-type: none"> <li>• if the bank has not started to carry out banking activities within twelve months after receiving the license, has directly renounced it or does not carry out financial transactions for more than three months</li> <li>• failure of the bank to comply with the conditions for granting a license</li> <li>• the bank has committed one of the gross violations specified in Article 54 of this Law (see EC5);</li> <li>• if the bank incurs or may incur losses exceeding ten percent of the regulatory capital in each of three consecutive quarters or fifty percent of the regulatory capital, regardless of the time period</li> <li>• termination of the bank's activities because of reorganization</li> <li>• adoption by the general meeting of shareholders of a decision on voluntary liquidation of the bank</li> <li>• revocation of the license by the home supervisor, for a subsidiary created by a bank in the Republic of Uzbekistan</li> <li>• onset of insolvency (e.g. bank unable to pay the clients' claims within fifteen days; liabilities exceeding assets; other circumstances that threaten the safety of funds entrusted by depositors and creditors). The bank's board shall immediately notify the CBU in cases of the occurrence</li> </ul>
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	<p>of the bank's insolvency or the risk of the bank's inability to satisfy client's claims.</p> <p>The resolution of the CBU on revocation of the license decision is taken by the CBU Board of Director upon proposal by the Banking Supervisory Committee. It comes into force from the moment of its adoption, and it is handed over to the management of the bank against receipt on the day of its adoption. Information on the revocation of the bank's license is subject to publication in the media, and on the official website of the CBU, within one day from the date of adoption of this resolution. From the moment of adoption of the resolution, the bank is prohibited from carrying out activities permitted to banks in accordance with this Law, with the exception of actions related to the liquidation of the bank.</p> <p><u>Revocation of banking license.</u></p> <p>The license for the right to carry out banking activities was revoked for 2 banks (2020-2022). The reason for the revocation of the license of the banks were:</p> <ul style="list-style-type: none"> <li>• breach of prudential liquidity requirements (in one case due to excessive real estate investment)</li> <li>• violation of large exposure limit</li> <li>• lack of sufficient reserves against possible losses</li> <li>• failure to comply with the CBU instructions eliminate gross violations</li> <li>• financial statement violating accounting rules and not reflecting the actual financial position of the bank</li> <li>• repeated commission of a similar violation after the imposition of a fine by the CBU for serious violations</li> </ul> <p>losses exceeding fifty percent of the regulatory capital</p>
<b>EC5</b>	<p>The supervisor applies sanctions not only to the bank but, when and if necessary, also to management and/or the board, or relevant individuals. The supervisor has the power to apply corrective measures and sanctioning measures simultaneously, including financial penalties.</p>
Description and findings re EC5	<p><b>Sanction to relevant individuals</b></p> <p>Article 25 of the BL empowers the CBU to apply measures and sanctions against the <b>direct or indirect owner of substantial ownership</b>, including the BO, who:</p> <ul style="list-style-type: none"> <li>• does not comply with the requirements of the legislation on banks and banking activities</li> <li>• has a negative impact on the bank, which can jeopardize the stable financial condition of the bank</li> <li>• did not provide information about the identity of the BO.</li> </ul> <p>The CBU can also apply measures and sanctions to <b>shareholders who have substantial ownership</b> as a result of agreed activities without obtaining prior permission to acquire the bank's shares.</p> <p>In these cases, the CBU shall apply, separately or in aggregate, the following measures and sanctions:</p>

	<ul style="list-style-type: none"> <li>• suspends the right to vote, call and hold an extraordinary meeting of shareholders, introduce topic into the agenda, nominate candidates for members of the supervisory or management board and receive dividends</li> <li>• order to sell the shares by persons whose voting rights have been suspended</li> <li>• revokes preliminary permission for the acquisition of the bank shares.</li> </ul> <p>Substantial shareholders must sell their shares within three months from the date of withdrawal of the preliminary permission to acquire the bank shares. Persons against whom these measures and sanctions have been applied are not entitled to directly or indirectly own shares of any bank.</p> <p><b>Sanctions to members of the supervisory board, management board, and key personnel</b></p> <p>In addition to the removal power described under EC5, the CBU has the right to apply (measures and) sanctions not only to bank, but also <b>members of the supervisory board, the management board</b>, as well as <b>key personnel</b> of the bank who are responsible for gross, serious, or minor violations (BL, Article 53).</p> <p>Violations are classified as gross, serious, and minor.</p> <p><b>Gross violations include:</b></p> <ul style="list-style-type: none"> <li>• obtaining a license and permissive documents using forged documents</li> <li>• taking actions without obtaining CBU prior permission documents</li> <li>• failure to comply with the CBU instructions on the elimination of gross violations</li> <li>• non-fulfillment of the requirements specified in Article 39 of BL (restriction of the distribution of profits)</li> <li>• reduction of the CAR to eighty or less percent of the minimum value set by the CBU for a period exceeding six months</li> <li>• lack of sufficient reserves against possible losses</li> <li>• carrying out financial transactions not provided for by the license</li> <li>• carrying out activities prohibited or restricted by BL</li> <li>• conclusion of transactions with the provision of more favorable conditions of advantage to a related party</li> <li>• distortion of accounting data and not reflecting the real financial condition of the bank or banking group</li> <li>• failure to provide the auditing organization with financial statements and other financial information required for the audit of the bank</li> <li>• obstruction of the CBU supervisory functions</li> <li>• violation of the rights and legitimate interests of consumers of banking services</li> <li>• failure to provide, untimely provision or submission to the CBU of distorted or incomplete information, which prevents the assessment of the solvency or liquidity of the bank or banking group</li> <li>• non-disclosure of information about the BO</li> <li>• deficiencies in the risk management and internal control that threaten the solvency or lead to losses of the bank</li> </ul>
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	<ul style="list-style-type: none"> <li>• non-compliance with the CBU requirements of capital buffer by D-SIBs</li> <li>• violation of restrictions and/or prohibitions on the implementation of certain financial transactions by the bank or opening branches</li> <li>• failure to submit a plan to restore the financial position of the bank</li> <li>• non-compliance by members of the supervisory or management board, as well as key personnel with the impeccable business reputation requirement, or experience, knowledge and skills requirements laid down by BL Article 36</li> <li>• violation of the requirements of the legislation on bank secrecy, as well as AML/CFT legislation, or cyber threat or cybersecurity incident</li> <li>• serious violation committed repeatedly within five years after the imposition of a fine by the CBU</li> </ul> <p>For committing gross violations, the CBU has the right to:</p> <ul style="list-style-type: none"> <li>• collect a fine not exceeding <u>two times</u> the income received from financial transactions carried out in violation of the BL, if it is possible to quantify these incomes, or <u>five percent</u> of the net profit of the previous financial year, or <u>one percent</u> of the total capital of the bank</li> <li>• apply to the bank one or more measures specified in part two of the BL Article 51</li> <li>• revoke the license</li> <li>• collect a fine from a member of the supervisory board, management board or key personnel of the bank in an amount not exceeding one hundred percent of the remuneration received for the year preceding the month of the application of the fine;</li> <li>• publish a message on violations, measures and sanctions applied to violators in the media.</li> </ul> <p><b>Serious violations include:</b></p> <ul style="list-style-type: none"> <li>• non-compliance with prudential standards (except from the minimum amount of the authorized capital);</li> <li>• reduction of the CAR to eighty or less percent of the minimum value set by the CBU, within a period not exceeding six months</li> <li>• untimely payments by banks</li> <li>• restructuring of loans to borrowers with an unstable financial position</li> <li>• failure by the members of the supervisory or management board to comply with the CBU requirement to inform the general meeting of shareholders the identified violations</li> <li>• failure by the members of the supervisory or management board or key personnel to comply with the corporate governance and remuneration policies;</li> <li>• violation of the rules of accounting and reporting of the bank</li> <li>• a minor violation committed repeatedly within three years after the CBU imposed a fine for a similar violation.</li> </ul> <p>For serious violations, the CBU has the right to:</p> <ul style="list-style-type: none"> <li>• collect a fine from the bank in an amount not exceeding <u>one and a half times</u> the income received from financial transactions carried out in violation of the BL, if it</li> </ul>
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is possible to quantify these incomes, or two percent of the bank's net profit of the previous financial year, or 0.5 percent of the total capital of the bank;

- apply to the bank one or more measures specified in part two of the BL Article 51
- collect a fine from a member of the supervisory board, management board or key personnel in an amount not exceeding seventy-five percent of the remuneration received for the year preceding the month of the application of the fine;
- publish a message on violations, measures and sanctions applied to violators in the media.
- in cases of late execution of payments by banks, the CBU has the right to impose a fine in an amount equal to the amount that was not paid through the fault of the bank.

### Minor violations

Minor violations include inconsistencies with the requirements of the legislation on banks and banking activities, which are not gross or serious. For minor violations, the CBU has the right to:

- collect a fine from the bank in an amount not exceeding the amount of income received from financial transactions carried out in violation of the BL, if it is possible to quantify these incomes, or one percent of the net profit received by the bank for the previous financial year, or 0.1 percent of the total capital of the bank;
- apply to the bank one or more measures specified in part two of the BL Article 51;
- collect a fine from a member of the supervisory or management board or key personnel of the bank in an amount not exceeding fifty percent of the remuneration received for the year preceding the month of the application of the fine;
- send the offender a written warning about the application of measures and sanctions to him.

The below table details violations and fines in the last 5 years

№	Measures taken	Total measures taken									
		2020		2021		2022		2023		2024 (as of 01.09.2024)	
		Quantity	Of this, the amount of the fine (million soums)	Quantity	Of this, the amount of the fine (million soums)	Quantity	Of this, the amount of the fine (million soums)	Quantity	Of this, the amount of the fine (million soums)	Quantity	Of this, the amount of the fine (million soums)
	<b>Altogether</b>	<b>63</b>	<b>8 142</b>	<b>79</b>	<b>3 847</b>	<b>69</b>	<b>4 170</b>	<b>41</b>	<b>3 174</b>	<b>51</b>	<b>7 810</b>
1	Banks	60	8 075	75	3 654	56	3 770	37	2 924	46	7 577
2	Way	3	67	4	193	13	400	4	250	5	233

	<p><b>The <i>Ne bis in idem</i> Principle</b></p> <p>Pursuant to Article 67 of the CBU Law, the CBU '<i>has the right to apply <u>several measures and (or) sanctions for the same violation simultaneously or sequentially</u></i>'. The CBU explained that the goal of this provision is to push banks to comply, as soon as possible, with the requirement provided by the law, avoiding that a breach persists over time. For example, a bank could be sanctioned more than one time for the same breach of a certain prudential requirement, until it does restore compliance with the said prudential requirement. However, the assessors noted that this provision could lead to the <b>violation of the <i>ne bis in idem</i> principle</b> that prohibits double punishment for the same offense.</p> <p>The second sentence of this EC, introduced in April 2024, requires that Supervisor has the power to apply corrective measures and sanctioning measures simultaneously, because they serve different purposes: corrective measures aim to prevent breach or restore compliance with prudential requirements; sanctions, including financial penalties, aim to punish. By contrast, the formulation of BL Article 67 entails that the CBU apply '<i>several . . . sanctions for the same violation</i>' e.g. the same punitive response for the same breach.</p>
<b>EC6</b>	<p>The supervisor exercises its power to take corrective actions, including ring-fencing the bank from the actions of parent companies, subsidiaries, parallel-owned banking structures and other related entities in matters that could impair the safety and soundness of the bank or the banking system.</p>
Description and findings re EC6	<p>There are no specific provisions in the law or regulations regarding 'ring fencing' by the CBU of a bank in Uzbekistan. However, the CBU:</p> <ul style="list-style-type: none"> <li>• might ban dividend distributions from an Uzbek bank to its foreign parent companies (see EC4);</li> <li>• challenges the price of shared services, stop the payment and asked to reverse payment (the assessors were provided with two cases)</li> </ul> <p>While the CBU may not have formal powers specifically defined as "powers for ring fencing", it would be well within its legal competence to take a decision, if the circumstances so warrant, to prohibit a bank from remitting any funds outside the country, if the CBU determines it to be necessary in the interest of safety and soundness of the financial system A bank receiving such a 'instruction letter' with a prohibitory order shall also be legally bound to comply with it. If that were to be the case, the objective of 'ring fencing' would be amply achieved in such a scenario.</p> <p>Notwithstanding the foregoing generic powers of the CBU which might help it achieve the objective of ring fencing, incorporating a specific provision in the law to empower the CBU to invoke 'ring fencing' of any bank in Uzbekistan is recommended, given the presence of 7 foreign banks</p>



<b>EC7</b>	<p>Laws, regulations or the supervisor establish a clear policy on whether imposed sanctions are made a matter of public knowledge and, in that case, what to disclose and when. The decision to publish sanctions or corrective measures applied to banks and individuals (eg senior managers, board members, directors, officers and other employees) may be subject to confidentiality considerations and it must not jeopardise other supervisory objectives or prejudice another case pending before the supervisor. While transparency of enforcement measures is encouraged, the decision to disclose sanctions can be made on a case by case basis, depending on their seriousness and the frequency of their occurrence, among other considerations.</p>
Description and findings re EC7	<p>CBL Article 69 (<i>Communication Policy</i>) requires the CBU to ensure the transparency of the banking system, to publish and regularly update on its official website information pertaining, among other things, to measures and sanctions taken.</p> <p>Moreover, Chapter 2 of the RPAMS requires the CBU to publish on its official website, by the 10th of each month, statistics on the measures and sanctions applied during the previous month. In case of gross or serious violations committed by banks, the CBU has the right to publish in the mass media the name of the violating bank, the violations committed, the measures and sanctions applied to the violators.</p> <p>The CBU shall send a copy of the decision on the application of measures and sanctions to the bank, the bank's owner and (or) manager within three working days. The person(s) who are dissatisfied with the CBU decision, within thirty days from the date of receipt of the decision, can submit a written appeal to the CBU Appeal Board or appeal to the court in the manner and time specified by the law. The CBU Appeal Board shall consider the appeal within fifteen days and will notify the applicant of the hearing date. The CBU can refuse to satisfy the appeal or satisfy the appeal and cancel the decision of the Banking Supervisory Committee, notifying the applicant of the decision within three days (Chapter 2, RPAMS).</p> <p>The CBU noted that when publishing data, confidentiality and its potential impact on the financial market situation are considered.</p>
<b>EC8</b>	<p>The supervisor cooperates and collaborates with relevant authorities in deciding when and how to effect the orderly resolution of a problem bank (which could include closure, assisting in restructuring, or merger with a stronger institution).</p>
Description and findings re EC8	<p>The CBU pointed out that draft law "On Resolution and Liquidation of Banks", under consideration by the Legislative Chamber of the Oliy Majlis of the Republic of Uzbekistan, enables the CBU to cooperate and exchange information with state bodies and organizations, as well as with foreign regulatory bodies, to exercise its powers to rehabilitate and liquidate banks.</p> <p>The draft Law envisages that the CBU notifies the Deposit Guarantee Agency, the Ministry of Economy and Finance, the Financial Stability Board, the Central Securities Depository, and the payment systems of which the bank is a member of any decision related to the bank's resolution. The CBU would also inform the relevant foreign supervisory authority about the resolution of a subsidiary bank operating in the Republic of Uzbekistan, as well as on each decision on the compulsory liquidation of this subsidiary bank. Coordination with the Deposit Guarantee Agency is also contemplated</p>

	by the draft Law before any decision leading to the payment of guaranteed deposits is taken.
<b>EC9</b>	Where appropriate, when taking formal corrective action in relation to a bank, the supervisor informs the supervisor of related non-bank financial entities of its actions and coordinates its actions with them.
Description and findings re EC9	The CBU pointed out that, being the supervisor responsible for microfinance institutions and pawnshops, there is no need to inform other supervisory authorities on corrective actions taken in relation to a bank. However, the CBU should inform NAPP as well, in case insurance companies belong to the same group of the sanctioned bank. This duty of information should be provided by the MOU.
<b>Assessment of Principle 11</b>	<b>Largely Compliant</b>
Comments	<p>The regulatory framework for corrective and sanctioning enables the CBU to raise concerns at an early stage, e.g. in presence of information that, based on its '<i>reasoned judgment</i>', could lead to <i>possible violation within the next twelve months</i> of the requirements provided by the BL.</p> <p>Supervisory concerns can be addressed at an appropriate level (e.g. Chairman of the Board) and the CBU's arsenal of corrective measures and sanctions is broad. The CBU has also demonstrated to the assessors that it does not hesitate to apply these measures to state owned banks. Measures are applied in accordance with the gravity of the situation. Violations are classified as gross, serious, and minor. The CBU can apply measures and sanctions also to members of the supervisory and management board, key personnel, as well as direct or indirect owner of substantial ownership, including the BO. The CBU publishes on its official website statistics on the measures and sanctions applied.</p> <p>However, the cooperation and collaboration with relevant authorities (Deposit Guarantee Agency, the Ministry of Economy and Finance, the Financial Stability Board, the Central Securities Depository) in deciding when and how to effect the orderly resolution of a problem bank, is not in place until draft law "On Resolution and Liquidation of Banks" is approved and implemented</p> <p>The recent new Regulation on the procedure for applying measures and sanctions against banks and non-bank financial institution (2024) laid down the <b>procedural rules</b> for the application of measures and sanctions by the Banking Supervisory Committee, including its '<i>reasoned judgment</i>', and provides for the <b>appeal</b> procedure. Finally, assessors have some concern related to the potential violation of the <i>ne bis in idem</i> Principle (CBL Article 67).</p> <p>Finding</p> <ul style="list-style-type: none"> <li>The cooperation and collaboration with relevant authorities (Deposit Guarantee Agency, the Ministry of Economy and Finance, the Financial Stability Board, the Central Securities Depository) in deciding when and how to effect the orderly resolution of a problem bank, is not in place until draft law "On Resolution and Liquidation of Banks" is approved and implemented</li> </ul>

	<ul style="list-style-type: none"> <li>• CBL Article 67 could lead to the violation of the <i>ne bis in idem</i> principle, that prohibits double punishment for the same offence (International Covenant on Civil and Political Rights; Article 14.7).</li> </ul> <p>Recommendation:</p> <ul style="list-style-type: none"> <li>• Once the draft law "On Resolution and Liquidation of Banks" is approved by the Parliament, put in place a robust cooperation and collaboration with relevant authorities (Deposit Guarantee Agency, the Ministry of Economy and Finance, the Financial Stability Board, the Central Securities Depository) in deciding when and how to effect the orderly resolution of a problem bank</li> <li>• Reconsider the application of the CBL Article 67, to avoid violation of the <i>ne bis in idem</i> principle.</li> </ul>
<b>Principle 12</b>	<b>Consolidated supervision.</b> <sup>32</sup> The supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.
<b>Essential criteria</b>	
<b>EC1</b>	The supervisor understands the overall structure of the banking group and is familiar with all the material activities (including non-banking activities) conducted by entities in the wider group, whether domestic or cross-border. The supervisor understands and assesses how group-wide risks are managed and takes action when risks arising from the banking group and other entities in the wider group, in particular contagion and reputational risks, may jeopardize the safety and soundness of the bank and the banking system.
Description and findings re EC1	<p>BL Article 3 defines 'banking group' as an association of financial institutions, which is not a legal entity, in which the parent bank controls other financial institutions.</p> <p>BL Article 48 empowers the CBU to exercise consolidated supervision of banks in the following cases:</p> <ul style="list-style-type: none"> <li>• the creation of a banking group;</li> <li>• determination of the bank as a parent bank or a member of the banking group by <b>reasoned judgment</b>.</li> </ul> <p>A bank can be a member of only one banking group.</p> <p>To organize effective interaction, exchange information and establish effective supervision on a consolidated basis, the CBU has the right to conclude written agreements on interaction and cooperation with banking supervision authorities of other countries, observing the procedure for using secrets, personal data and confidential information protected by the laws of countries.</p>

<sup>32</sup> Reference documents: BCBS, Principles for the supervision of financial conglomerates, September 2012; BCBS, Home-host information sharing for effective Basel II implementation, June 2006; BCBS, The supervision of cross-border banking, October 1996; BCBS, Principles for the supervision of banks' foreign establishments, May 1983; BCBS, Consolidated supervision of banks' international activities, March 1979; (SCO10).

	<p>The specifics of consolidated supervision of banks are established by the Central Bank.</p> <p>Article 61 of the BL delegate the CBU to establish the procedure for determining the boundaries (perimeter) and methods of consolidation.</p> <p>The Strategy for Reforming the Banking System 2020-2025 identified a regulation on consolidated supervision as one of the deliverables by the CBU to be issued by end 2022. However, the CBU has not issued this regulation to date.</p> <p>During the meetings, it emerged that the CBU has mapped 19 banking groups by analyzing ownership structures and identifying relationships among banks, their shareholders, and subsidiaries. Such a mapping was shared with the assessors. It contains also corporates within the wider group. Nevertheless, there is neither an assessment on how group-wide risks are managed nor are actions taken when risks arising from the banking group and other entities in the wider group may jeopardize the safety and soundness of the bank and the banking system. Technical assistance was requested from the World Bank and SECO to advance consolidated supervision.</p>
<b>EC2</b>	The supervisor imposes prudential standards and collects and analyses financial and other information on a consolidated basis for the banking group, covering areas such as capital adequacy, liquidity, large exposures, exposures to related parties, lending limits and group structure.
Description and findings re EC2	BL Article 38 requires banking group to comply with prudential standards established by the CBU. Nevertheless, the CBU has not yet developed capital adequacy standards for banking groups that align with international standards, nor does it apply liquidity standards to the whole group. The same holds true for large exposure and other prudential standards, which are applied on solo level. Supervisory reporting on minimum prudential standards is also on solo level. There is reporting on related party (see CP20), but this is not enough to enable the CBU to analyze financial and other information on a consolidated basis for the banking group.
<b>EC3</b>	The supervisor reviews whether the oversight of a bank's foreign operations by management (of the parent bank or head office and, where relevant, the holding company) is adequate having regard to their risk profile and systemic importance. The supervisor determines that parent banks have unimpeded access to all material information from their foreign branches and subsidiaries. The supervisor also determines that banks' policies and processes require the local management of any cross-border operations to have the necessary expertise to manage those operations in a safe and sound manner, and in compliance with supervisory and regulatory requirements. The home supervisor considers the effectiveness of supervision conducted in the host countries in which its banks have material operations.
Description and findings re EC3	Only one domestic bank, a D-SIB, has a subsidiary abroad. An intergovernmental agreement between the CBU and the host supervisor regulates the cooperation (see CP 13) in the field of banking supervision. The head office of the parent bank regularly receives reports on the prudential standards of the subsidiary bank. Also, if necessary, the head office may request other information.
<b>EC4</b>	The home supervisor visits the foreign offices of the bank periodically. The location and frequency of these visits are determined by the risk profile and systemic importance of the bank's foreign operations. The supervisor meets the host supervisors during these

	visits. The supervisor has a policy for assessing whether it needs to conduct on-site examinations of a bank's foreign operations or require additional reporting, and it has the power and resources to take those actions as and when appropriate.
Description and findings re EC4	<p>CBL Article 61 confers to the CBU the right to inspect persons subject to consolidated supervision to carry out supervisory functions.</p> <p>Until 2016, the Inspection Department of the CBU organized field inspections over the activities of the subsidiary of the current D-SIBs. Since 2017, such inspections have not been carried out, since the ratio of the subsidiary's asset to the parent company assets is about 3% and the subsidiary conducts a limited list of operations, which corresponds to a universal license (it does not attract retail deposits).</p> <p>In 2022, employees of the CBU Prudential Supervision Department organized a meeting with the subsidiary and met the host supervisors.</p> <p>Once a year, the parent company conducts an audit of a subsidiary and sends it to the CBU bank.</p>
<b>EC5</b>	The supervisor reviews the main activities of parent companies and of companies affiliated with the parent companies that have a material impact on the safety and soundness of the bank and takes appropriate supervisory action.
Description and findings re EC5	The assessors examined a draft risk assessment made by the CBU of the parent company. The CBU challenged the business model (insufficient analysis of the main business lines); the high concentration risk (single names); credit risk (problem loans in state program); market risk (lack of limit in the risk appetite); operational risk (lack of a business continuity plan); liquidity risk (deposit concentration and lack of contingency funding plan). However, there was no evidence of supervisory review of companies affiliated with the parent companies that have a material impact on the safety and soundness of the bank.
<b>EC6</b>	<p>The supervisor limits the range of activities the consolidated group may conduct and the locations in which activities can be conducted (including the closing of foreign offices) if it determines that:</p> <ul style="list-style-type: none"> <li>(a) the safety and soundness of the bank is compromised because the activities expose it to excessive risk and/or are not properly managed;</li> <li>(b) the supervision by other domestic authorities is not adequate relative to the risks the activities present; and/or</li> <li>(c) the exercise of effective supervision on a consolidated basis is hindered.</li> </ul>
Description and findings re EC6	The CBU highlighted that it instructed banks to limit foreign transaction with Russian banks, to improve the counterparty screening system and cross-border transactions, the introduction of the right to unilaterally cancel agreements in case of undesirable activities of the client in order not to fall under violations of international sanctions requirements. It also instructed banks to establish limits on one counterparty-bank in foreign currency and the total volume of investments in financial institutions of each country. More information is provided under CP 21.

<b>EC7</b>	In addition to supervising on a consolidated basis, the responsible supervisor supervises individual banks in the group. The responsible supervisor supervises each bank on a solo basis and understands its relationship with other members of the group. <sup>33</sup>
Description and findings re EC7	CBU conduct supervision on individual level.
<b>Additional criterion</b>	
<b>AC1</b>	For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for senior management of parent companies.
Description and findings re AC1	Fit and proper standard are prescribed for banks but not for the parent company (BL Article 38).
<b>Assessment of Principle 12</b>	<b>Materially Non-Compliant</b>
Comments	<p>Despite it being identified as a priority area by the strategy for reforming the banking sector, the CBU has not prioritized consolidated supervision. The CBU highlighted that it focused on transition to risk-based supervision on a solo level.</p> <p>The CBU has not issued a Regulation to establish the specifics of consolidated supervision (article 48 BL) and perimeter and methods of consolidation (Article 61). The CBU has recently mapped 19 banking groups, but prudential requirements apply on an individual level and supervisory reporting does not allow the CBU to receive information on a consolidated basis for the banking group.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>• Prudential requirements apply only on an individual bank level.</li> <li>• The Strategy for Reforming the Banking system (2020-2025) identifies consolidated supervision as a priority area for regulatory and supervisory enhancement, but the CBU has not issued a regulation on consolidated supervision so far.</li> <li>• The CBU does not assess how group-wide risks are managed and if entities in the wider group may jeopardize the safety and soundness of the bank and the banking system.</li> <li>• The CBU is working on completing the mapping of the banking groups. The CBU has requested technical assistance on consolidated supervision.</li> </ul> <p>Recommendations:</p> <p>Accelerate implementation of consolidated supervision, with focus on:</p> <ul style="list-style-type: none"> <li>• Definition and identification of banking groups (mapping, describing the perimeter of consolidation);</li> <li>• Development of consolidated reporting;</li> <li>• Prudential requirements should be set at the consolidated level;</li> <li>• Enhancing the internal supervisory manual and procedures (i.e. GRBS);</li> <li>• Enhancing coordination and information sharing.</li> </ul>

<sup>33</sup> Refer to Principle 16, additional criterion 2 (BCP40.38).

	<ul style="list-style-type: none"> <li>Assessing how group-wide risks are managed and if entities in the wider group may jeopardize the safety and soundness of the bank and the banking system.</li> </ul> <p>A clear deadline to implement the framework should be established.</p>
<b>Principle 13</b>	<b>Home-host relationships.</b> <sup>34</sup> Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.
<b>Essential criteria</b>	
<b>EC1</b>	The home supervisor establishes bank-specific supervisory colleges for banking groups with material cross-border operations to enhance its effective oversight, considering the risk profile and systemic importance of the banking group and the corresponding needs of its supervisors. In its broadest sense, the host supervisor which has a relevant subsidiary or a significant branch in its jurisdiction and a shared interest in the effective supervisory oversight of the banking group is included in the college. The structure of the college reflects: (i) the nature of the banking group, including its scale, structure and complexity, and its significance in host jurisdictions; and (ii) the opportunity to enhance mutual trust and meet the needs and responsibilities of both home and host supervisors.
Description and findings re EC1	<p>Uzbekistan's banks mainly operate in the local market. There is only one bank with a subsidiary abroad. The assets of that bank are not significant, neither to the parent bank's size nor to the market of the host country. Therefore, the CBU is mostly operating as a host authority rather than a home authority.</p> <p>There is an Agreement signed with the host authority. The agreement allows authorities to exchange information on all supervisory matters, including the exchange of confidential information. To ensure cooperation under the Agreement, parties are obliged to exchange and keep updated contact lists. However, a <b>supervisory college has not been established</b>.</p> <p>Assets of subsidiaries established by foreign banks and operating in the local market account for about 10% of the total assets of the entire banking system. There are subsidiaries which are significant in size and recognized as a D-SIBs.</p> <p>The assessors were informed that in order to obtain information on the risks to which the members of the banking group might be exposed as a result of significant intra-group transactions between the parent and subsidiary, the CBU interacts with other regulatory authorities, including insurance supervisors and supervisors for securities market sectors. However, as stated under CP3, the cooperation with the NAPP, which is responsible for insurance and capital markets, is not formalized in an MOU. Meetings</p>

<sup>34</sup> Reference documents: Financial Stability Board (FSB), Key attributes of effective resolution regimes for financial institutions, October 2014; BCBS, Principles for effective supervisory colleges, June 2014; BCBS, Home-host information sharing for effective Basel II implementation, June 2006; BCBS, High-level principles for the cross-border implementation of the New Accord, August 2003; BCBS, Shell banks and booking offices, January 2003; BCBS, The supervision of cross-border banking, October 1996; BCBS, Information flows between banking supervisory authorities, April 1990; BCBS, Principles for the supervision of banks' foreign establishments, May 1983.

	and information sharing are irregular, which may raise the risk that supervision and information exchange might be insufficient and ineffective, potentially delaying the implementation of measures applied to companies whose activities might have unfavorable consequences on banks and banking group.
<b>EC2</b>	<p>Home and host supervisors share appropriate information on a timely basis in line with their respective roles and responsibilities, both bilaterally and through colleges. This includes information on:</p> <ul style="list-style-type: none"> <li>(a) the material risks (including those arising from the respective macroeconomic environments) and risk management practices of the banking group; and</li> <li>(b) the supervisors' assessments of the safety and soundness of the relevant entity under their jurisdiction.</li> </ul> <p>Informal or formal arrangements (such as memoranda of understanding and confidentiality agreements) are in place to enable the timely exchange of confidential information.</p>
Description and findings re EC2	<p>The Agreements and MoUs foresee that authorities exchange appropriate information in a timely manner, in line with their respective roles and responsibilities. The CBU maintains cooperation within the scope of the signed agreements. However, the cooperation and collaboration among home and host authorities have not been tested in times of crisis when the institutions have to react and take joint decisions under critical circumstances and time pressure.</p> <p>MoUs and Agreements are mostly used in cases of banks' licensing and acquisition (CP5, CP6) as it is stated in the regulation that a document confirming the permission to establish or acquire a bank is one of the preconditions to start the process. It is also stated in the regulation that while considering an application for a preliminary permit to establish a bank, the CBU takes into account:</p> <ul style="list-style-type: none"> <li>• the existence of an agreement on the exchange of information between the CBU and the banking supervision body of the founder - a foreign bank;</li> <li>• information and opinions of the competent authorities of the non-resident's country of origin.</li> </ul> <p>Also, according to paragraph 61 of the Regulation, if the potential buyer is a non-resident legal entity, the CBU considers the prudential requirements of the foreign country, to the extent the CBU considers these as equivalent to national requirements. The CBU has the right and takes into account the assessment of the financial solvency of the potential recipient received from the banking supervisory authority in the foreign country.</p>
<b>EC3</b>	Home and host supervisors coordinate and plan supervisory activities or undertake collaborative work if common areas of interest are identified to improve the effectiveness and efficiency of supervision of cross-border banking groups.
Description and findings re EC3	As noted in EC1 and EC2 although a supervisory college is not established, the Agreement with the host country for the one bank with a subsidiary abroad is in place. Therefore, the home and the host authority may initiate and organize meetings to discuss and resolve issues related to the supervision of supervised entities, as well as



	<p>issues related to the application of this Agreement. To ensure cooperation under the above Agreement, the parties exchange lists of contact persons.</p> <p>In 2022, during a visit to the supervised entity, staff of the Department of Prudential Supervision organized a meeting at the premises of the subsidiary.</p> <p>The subsidiary of the Uzbek bank is not systemically important in the host country. It is supervised by the Banking Supervision Service in the host country, whose specialists have been in contact with the staff of the Department of Prudential Supervision.</p>
<b>EC4</b>	<p>The home supervisor develops an agreed communication strategy with the relevant host supervisors. The scope and nature of the strategy reflects the risk profile and systemic importance of the cross-border operations of the banking group. Home and host supervisors also agree on the communication of views and outcomes of joint activities and college meetings to banks, where appropriate, to ensure the consistency of messages on group-wide issues.</p>
Description and findings re EC4	<p>On May 20, 2022, the CBU signed an Agreement with the host countries' authority in the field of banking supervision.</p> <p>As the college is not established, the communication strategy is not practiced yet. For example, if there is intension to proceed with the on-site inspection in the foreign subsidiary, the home supervisor informs the host supervisor in advance (usually, at least 25 working days before the planned date of inspection) about the intention to conduct the inspection.</p> <p>The supervisory authorities inform each other, in accordance with the procedure provided for in the Agreement, of the financial recovery measures developed for the cross-border institution and the parent supervised institution. If indicated, the parties cooperate in the implementation of insolvency (bankruptcy) proceedings of a cross-border institution and a parent supervised organization. If necessary, the parties could organize meetings to discuss and resolve issues related to the supervision of the entities.</p> <p>Although the process of communication has been agreed among home and host supervisors, cooperation mostly takes place on an ad-hoc basis.</p>
<b>EC5</b>	<p>Where appropriate, given the banking group's risk profile and systemic importance, the home supervisor, working with its national resolution authorities, develops a framework for cross-border crisis cooperation and coordination among the relevant home and host authorities. The relevant authorities share information on crisis preparations from an early stage, subject to rules on confidentiality, in a way that does not materially compromise the prospect of a successful resolution.</p>
Description and findings re EC5	<p>The Resolution Authority has not been established as the draft Law "On Resolution and Liquidation of Banks" has been under the adoption procedure. Currently, this document is under consideration by the Legislative Chamber of the Oliy Majlis of the Republic of Uzbekistan.</p> <p>This draft law applies to banks, banking groups and holding companies that own a controlling interest in a bank. The rules applicable to banks also apply to banking groups and holding companies that own a controlling interest in a bank. According to this draft law, the CBU will be obliged to cooperate and exchange information not only with state</p>

	<p>bodies and organizations, but also with foreign regulatory bodies in order to exercise its powers to rehabilitate and liquidate banks.</p> <p>The CBU exchanges confidential information with foreign authorities under the following conditions:</p> <ul style="list-style-type: none"> <li>• the information exchanged is subject to the confidentiality requirements and standards;</li> <li>• the exchange of information is necessary for the effective implementation of the powers of the CBU or foreign authorized bodies.</li> </ul> <p>Confidential information received from foreign authorities may be disclosed by the CBU to third parties only if the following conditions are met:</p> <ul style="list-style-type: none"> <li>• the foreign body from which the confidential information was received has consented to the disclosure of this information;</li> <li>• confidential information is disclosed for the purposes for which the consent of the foreign authority was obtained.</li> </ul> <p>At the same time, the CBU actively cooperates with other supervisory authorities, in particular in the areas of activity of D-SIBs and banking groups with international activities. Within the framework of this cooperation, structures and systems for crisis management are being developed, especially for cross-border banking groups. Thus, taking into account the fact that there is one D-SIB in Uzbekistan with foreign capital, paragraph 6 of the MoU between the authorities, signed on September 10, 2021, provides a clause on crisis management, which describes interaction and coordination between national crisis management authorities. This memorandum provides a platform for the exchange of information between the supervisory authorities of the two countries in the event of a potential crisis, while respecting confidentiality rules.</p>
<b>EC6</b>	<p>Where appropriate, given the banking group's risk profile and systemic importance, the home supervisor, working with its national resolution authorities and relevant host authorities, develops a group resolution plan. The relevant authorities share any information necessary for the development and maintenance of a credible resolution plan. Supervisors also notify and consult relevant authorities and supervisors (both home and host) promptly when taking any recovery and resolution measures.</p>
Description and findings re EC6	<p>The CBU has developed a draft law "On Resolution and Liquidation of Banks". Currently, this document is under consideration by the Legislative Chamber of the Oliy Majlis of the Republic of Uzbekistan.</p> <p>According to the provisions stated in the draft law, the CBU will cooperate and exchange information not only with state bodies and organizations, but also with foreign regulatory bodies in order to exercise its powers to rehabilitate and liquidate banks.</p> <p>At the same time, the CBU notifies the supervisory authority of the relevant state of decisions related to the resolution or liquidation of a foreign bank operating in the territory of the Republic of Uzbekistan.</p>

<b>EC7</b>	The host supervisor's national laws or regulations require that the cross-border operations of foreign banks are subject to prudential, inspection and regulatory reporting requirements similar to those for domestic banks.
Description and findings re EC7	<p>In accordance with Articles 45 and 46 of the BL, the CBU provides prudential supervision over the activities of banks in compliance with the requirements of the legislation on banks and banking activities in order to prevent and reduce specific risks of banking activities.</p> <p>The CBU shall review the systems, strategies, procedures and mechanisms used by banks to comply with the requirements of the legislation on banks and banking activities, as well as assess the existing and potential risks of banks, including the risks posed by individual banks to the banking (financial) system.</p> <p>It should be noted that prudential, inspection and regulatory reporting requirements imposed on local banks are similarly applied to foreign banks.</p> <p>Pursuant to Article 48 of the BL, in order to organize effective interaction, exchange of information and establish effective supervision on a consolidated basis, the CBU has the right to conclude written agreements on interaction and cooperation with the banking supervision authorities (if any) of other countries, observing the procedure for the use of secrets, personal data and confidential information protected by the laws of the countries.</p> <p>At the same time, according to Article 50 of this Law, the CBU, in order to exercise supervisory functions, has the right to inspect the activities of banks.</p>
<b>EC8</b>	The home supervisor is given on-site access to local offices and subsidiaries of a banking group to facilitate its assessment of the group's safety and soundness and compliance with customer due diligence requirements. The home supervisor informs host supervisors of intended visits to local offices and subsidiaries of banking groups.
Description and findings re EC8	<p>In 2022, the CBU signed an Agreement with the host countries' authority. It states that the supervisory authority of the home country, if it does not contradict with the legislation of the host country, has the right to inspect cross-border institutions located in the host country. The supervisory authority of the home country shall notify the supervisory authority of the host country in advance (at least 25 business days before the planned inspection) of the intention to conduct the inspection.</p> <p>The supervisory authorities shall inform each other, in accordance with the procedure provided for in the Agreement, of the financial recovery measures developed for the cross-border institution and the parent supervised institution. The parties cooperate in the implementation of insolvency (bankruptcy) proceedings of a cross-border institution and a parent supervised organization.</p> <p>If necessary, the parties can organize meetings to discuss and resolve issues related to the supervision of supervised organizations - members of banking groups and bank holding companies, as well as issues related to the application of this Agreement. To ensure cooperation under this Agreement, the parties exchange lists of contact persons.</p>

	<p>In connection with the process of issuing permission (consent) and licensing, the home country authority provides the CBU with supervisory information on the risk management, internal audit and control system, including in relation to the risks of the cross-border establishment of the parent bank being created.</p> <p>Within the framework of the relevant MoUs, the supervisory authorities of home countries have the right to conduct inspections in the subsidiaries operating in Uzbekistan.</p>
<b>EC9</b>	The host supervisor supervises booking offices in a manner consistent with internationally agreed standards. The supervisor does not permit shell banks or the continued operation of shell banks.
Description and findings re EC9	<p>Pursuant to the Articles 45 and 46 of the BL, the CBU provides prudential supervision over the activities of the host subsidiary to prevent and reduce risks of banking activities. The CBU reviews the systems, strategies, procedures and mechanisms used by banks to comply with the requirements of the legislation on banks and banking activities, as well as assesses the existing and potential risks of banks, including the risks posed by individual banks to the banking system. It should be noted that prudential requirements imposed on local banks are similarly applied to foreign subsidiaries.</p> <p>Foreign subsidiaries in Uzbekistan are not shell banks.</p>
<b>EC10</b>	A supervisor that takes action based on information received from, or that is consequential for the work of, another supervisor consults that supervisor, to the extent possible, before taking such action.
Description and findings re EC10	<p>In accordance with Article 68 of the CBL the CBU maintains cooperation and exchanges information with international organizations, central banks and other bodies of banking supervision and monetary policy of foreign states.</p> <p>The CBU has the right to conclude cooperation agreements with national and foreign authorities in the implementation of supervisory functions, including the exchange of confidential information.</p>
<b>Assessment of Principle 13</b>	<b>Compliant</b>
Comments	<p>The CBU is mostly operating as a host authority rather than a home authority. There is only one Uzbek bank with a subsidiary abroad, whose assets are neither significant to the parent bank's size nor to the market of the host country. Considering the limited cross border operation, a supervisory college has not been established; an MoU with host country authority is signed.</p> <p>The assets of subsidiaries established by foreign banks and operating in the local market account for about 10 percent of the total assets of the entire banking system. There are subsidiaries which are quite significant and are recognized as D-SIBs. The establishment of colleges is the responsibility of the home authority; nevertheless, the CBU, as host supervisor with shared interest in the effective supervisory oversight of the banking group, has not adequately engaged with home supervisor to gain comprehensive information on the wider group risks or the parent company risks. For example, the assessors are aware that a supervisory college exists in relation to the biggest subsidiaries operating in Uzbekistan (about 7 percent of total assets); since the CBU has not invited to join such a college, it could formalize a request to the home supervisor in order to be able to join the college.</p>

	<p>Finding</p> <ul style="list-style-type: none"> <li>While the establishment of colleges is the responsibility of the home authority, the CBU, as host supervisor with shared interest in the effective supervisory oversight of the banking group, has not adequately engaged with the home supervisor to gain comprehensive information on the wider group risks or the parent company risks.</li> </ul> <p>Recommendations:</p> <ul style="list-style-type: none"> <li>Consider formalizing a request to the home supervisor of biggest subsidiaries operating in Uzbekistan to be invited to the existing supervisory college</li> </ul>
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## B. Prudential Regulations and Requirements

<b>Principle 14</b>	<b>Corporate governance.</b> <sup>35</sup> The supervisor determines that banks have robust corporate governance policies and processes covering, for example, corporate culture and values, strategic direction and oversight, group and organisational structure, the control environment, the suitability assessment process, the responsibilities of the banks' boards and senior management, and compensation practices. These policies and processes are commensurate with the risk profile and systemic importance of the bank.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor establish the responsibilities of a bank's board and senior management with respect to corporate governance to ensure there is effective control over the bank's entire business. The supervisor provides guidance to banks on expectations for sound corporate governance.
Description and findings re EC1	<p>The legal framework for banks' corporate governance is spread across several laws and regulations. Basic provisions on the roles of shareholders, the supervisory board, and the management board are defined by the JSC. The requirements are more descriptive in the second layer regulation. Article 75 of the JSC lists the competencies of the supervisory board of a joint-stock company (the law applies to banks, as they can operate as joint stock companies only).</p> <p>Article 33 of the BL stipulates that the bank's management bodies are the general meeting of shareholders, the supervisory board and the management board of the bank. The bank is obliged to develop and approve a corporate governance policy, as well as a clearly defined organizational structure of corporate governance that defines:</p> <ul style="list-style-type: none"> <li>areas of responsibility;</li> </ul>

<sup>35</sup> Reference documents: BCBS, High-level considerations on proportionality, July 2022; FSB, Strengthening governance frameworks to mitigate misconduct risk: a toolkit for firms and supervisors, April 2018; FSB, Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices, March 2018; BCBS, Corporate governance principles for banks, July 2015; FSB, Guidance on supervisory interaction with financial institutions on risk culture: a framework for assessing risk culture, April 2014; FSB, Principles for Sound Compensation Practices, April 2009.

	<ul style="list-style-type: none"> <li>• procedures for identifying, managing, monitoring and informing about the risks to which the bank is exposed or may be exposed (scenarios of simulating a crisis situation);</li> <li>• procedures for assessing liquidity and capital adequacy to cover the risks to which the bank is exposed;</li> <li>• appropriate internal controls, including accounting procedures;</li> <li>• remuneration policies and practices that promote and are consistent with prudent and effective risk management.</li> </ul> <p>Same Article of the BL foresees that the organizational structure of corporate governance, procedures and mechanisms must be comprehensive and consistent with the nature, scale and complexity of the risks inherent in the business model and activities carried out by the bank. Internal control should ensure at least the management and risk assessment functions are in place and compliance with internal audit requirements.</p> <p><b>Supervisory Board</b></p> <p>Article 34 of the BL describes the competence of the bank's supervisory board, in addition to that provided by the JSC, includes:</p> <ul style="list-style-type: none"> <li>• approval and control over the implementation of strategic goals, corporate governance policy, and other internal policies of the bank, including identifying, managing, monitoring and reporting risks, maintaining the bank's capital adequacy;</li> <li>• control over the creation of reserves against possible losses on assets, as well as ensuring that the capital and general reserves of the bank are maintained at a sufficient level;</li> <li>• approval of the procedure for preventing and resolving conflicts of interest;</li> <li>• approval of plans to restore the financial position of the bank;</li> <li>• control over the management board of the bank;</li> <li>• control over the execution of the adopted business plan of the bank, as well as quarterly hearing of the report of the bank's board on the results of the bank's activities;</li> <li>• organizing the work of the bank's internal audit service, as well as assessing the bank management compliance with the bank strategies and policies based on quarterly reports of the bank's internal audit service;</li> <li>• monitoring and periodically evaluating the effectiveness of the business management system, including the principles of bank management, and taking appropriate measures to eliminate the identified deficiencies;</li> <li>• submitting at least once a year to the general meeting of shareholders a report on the supervisory and control activities carried out;</li> <li>• approving annual financial statements and ensuring the integrity of the accounting and financial reporting systems;</li> <li>• ensuring compliance with prudential requirements established by the CBU.</li> </ul> <p>The number of members of the bank's supervisory board must be an odd number, but not less than five people, regardless of the number of shareholders. Members of the supervisory board must comply with the requirements for their independence of</p>
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	<p>judgment. According to the Decree of the President (No. PD-300, September 11, 2023), independent members in supervisory boards should comprise at least 50 percent of members by the end of 2025.</p> <p>According to the Article 76.1 of the JST an <b>independent member</b> of the supervisory board, among other, <b>may not be</b>:</p> <ul style="list-style-type: none"> <li>• a person who is an employee of a government body or a state enterprise;</li> <li>• a person who has worked in the company for the last three years;</li> <li>• a shareholder (directly or indirectly) owning five or more percent of the company's voting shares;</li> <li>• an employee of an audit organization who has provided auditing services during the last three years;</li> <li>• a person who has been a member of the supervisory board of the company for six consecutive years;</li> <li>• a person who does not meet the requirements established by the bank's charter or documents approved by decisions of the general meeting of shareholders.</li> </ul> <p>The Chairman of the Supervisory Board is responsible for managing and ensuring the effectiveness of the board's activities and fostering trustful relationships among board members. During board meetings, the chairman must ensure decisions are made based on an independent exchange of opinions, critical views, creative approaches, and thorough analysis of comprehensive information.</p> <p>The CBU RCG provides more granular requirements regarding the functions and responsibilities of the supervisory and the management boards of a bank.</p> <p><b>Management Board</b></p> <p>Article 35 of the BL obliges bank's management board to:</p> <ul style="list-style-type: none"> <li>• implement strategic goals, corporate governance policy, other internal policies of the bank, including those aimed at identifying, managing, monitoring and communicating risks, maintaining capital adequacy at the proper level;</li> <li>• ensure an appropriate and transparent organizational structure of the bank's management, including the distribution of powers and responsibilities between the bank's employees within its powers;</li> <li>• exercise control over the activities of the bank's employees;</li> <li>• implement the annual business plan of the bank, as well as periodically submit to the general meeting of shareholders and the supervisory board a report on the work done and measures applied;</li> <li>• perform other duties provided for by the bank's charter and the legislation on banks and banking activities.</li> </ul> <p>The management board of the bank is accountable to the general meeting of shareholders and the supervisory board of the bank.</p>
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	<p>Article 47 of the RCG states that the management board is the executive body of the bank, responsible for the operational management of the bank's activities in accordance with the strategy and management system approved by the bank's supervisory board. It assumes full responsibility for the bank's activities.</p> <p>Management board is required to:</p> <ul style="list-style-type: none"> <li>• implement the tasks specified in the bank's strategic objectives, business plan, and corporate governance policy;</li> <li>• establish and periodically check the effectiveness of a monitoring system to ensure adherence to the policies, procedures, and job descriptions approved by the board at all organizational levels;</li> <li>• set up reliable information systems to ensure the proper preparation and timely submission of important information for management decision-making;</li> <li>• ensure timely submission to the board of reports that reflect the actual results of financial and other activities, enabling the assessment of the performance of the business plan and the bank's strategy;</li> <li>• promptly inform the supervisory board about any deterioration in the bank's financial condition or the risk of such deterioration, changes in the business plan, strategic objectives, risk management strategy, and risk appetite, breaches of risk limits and prudential requirements, internal control errors, and legal or regulatory issues;</li> <li>• ensure an appropriate and transparent organizational structure for managing the bank, as well as the distribution of powers and responsibilities among bank employees within their competence;</li> <li>• oversee the activities of bank employees;</li> <li>• develop procedures for hiring, dismissing, rotating, and promoting employees, including management members and other key employees unless otherwise specified in the bank's charter, and retaining qualified staff, as well as taking measures against employees who violate their duties and ethical standards;</li> <li>• fulfill other obligations specified in the bank's charter and legislative documents.</li> </ul> <p>The management board is responsible for the proper execution of delegated duties.</p>
<b>EC2</b>	<p>The supervisor regularly conducts comprehensive evaluations of a bank's corporate governance policies and practices, and their implementation, and determines that the bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance. The supervisor requires banks to correct deficiencies in a timely manner.</p>
Description and findings re EC2	<p>The RCG defines requirements for the effective corporate governance in banks, which is based on:</p> <ol style="list-style-type: none"> <li>1. clear distribution of powers and responsibilities stated in the internal documents;</li> <li>2. adequate level of accountability;</li> </ol>



3. distribution of powers between the bank's management bodies and (or) structural structures;
4. management bodies should be composed by highly qualified representatives, aware of their powers and responsibilities, demonstrating a high level of business ethics by performing their duties.

Since 2023 the GRBS introduced the evaluation of corporate governance and risk management as a separate component of the bank's risk assessment. This methodology is based on a questionnaire (about 30 yes/no questions) related to the board, senior management, risk management function, internal and external audit, and disclosure.

The questionnaire produces an automatic score based on the number of 'no' questions. At the end of the assessment, the supervisor ('curator') may adjust the score by increasing it by 1 notch or lowering it by 2 notches.

The Guideline foresees that the assessment of bank's corporate governance should be appropriate to the size, complexity, structure, risk profile and business model of the bank, since less complex smaller banks usually have less complex management structures. While large, complex or higher-risk banks are expected to adopt more enhanced corporate governance structures. The assessment consists of three stages:

1. Information/data collection (described in the Guidelines Chapter 12.2)
2. Automatic score (performed by assessment of questionnaires)

**Table 52. Automatic evaluation of overall management and management based on the number of "No" responses**

Number of "No" answers	Automatic assessment			
	Hard (1)	Complies with (2)	Weak (3)	Does not comply with (4)
< 4				
4-6				
7-9				
≥ 10				

Supervisory assessment (supervisory judgement).

The evaluation provides a comprehensive overview of the various aspects of the bank's overall management and governance. It is carried out in relation to three main aspects with a focus on risk control:

- (i) the bank's internal governance structure (including key control functions such as risk management, internal audit, compliance);
- (ii) the bank's overall risk management framework and risk culture;
- (iii) the bank's risk infrastructure, internal data and reporting.

Although introduced by the GRBS earlier, the assessment of corporate governance has not been properly deployed yet. The assessors were provided with one example (out of four risk assessments) where supervisors challenged: the number of independent members within the supervisory board; the lack of a Risk Committee; the Risk Management Unit was under the responsibility of the management board, but not the supervisory board; the Chief Risk Officer has no veto power.

	<p>During on-site inspections, the inspectors review the minutes of meetings of the supervisory board, the minutes of audit and other committees of the bank, as well as internal audit reports, investigate information obtained after off-site evaluation.</p> <p>However, it is necessary to develop a more holistic view of banks' corporate governance and conduct more comprehensive assessments of the implementation of banks' corporate governance policies, processes, and practices especially during on-site inspections, particularly focusing on the effectiveness of the supervisory board (and its committees), as they are the key of corporate governance and control functions.</p>
<b>EC3</b>	<p>The supervisor determines that board membership comprises individuals with a balance of skills, diversity and expertise, who collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the bank. Board membership includes a sufficient number of experienced independent directors.<sup>36</sup> Board members are qualified (individually and collectively) for their positions, effective and exercise their "duty of care" and "duty of loyalty".<sup>37</sup></p>
Description and findings re EC3	<p>Members of the bank's supervisory board must comply with the requirements for the independence of judgments. A person may not be elected as a member of the supervisory board, or the elected person shall be deprived of the right to be a member of the supervisory board if:</p> <ol style="list-style-type: none"> <li>1. a person is or intends to become a member of the supervisory board of two or more banks, except when these banks belong to the same banking group;</li> <li>2. the powers of the person were terminated at the request of the CBU.</li> </ol> <p>In accordance with BL Article 36, members of the supervisory board and the management board, as well as key personnel of the bank, should proceed through <b>Fit-and-Proper</b> evaluation, i.e. must have an impeccable business reputation, the experience, knowledge and skills necessary to ensure effective risk management of the bank, making informed decisions within their powers. The CBU interviews candidates.</p> <p>The bank is obliged to ensure that members of the supervisory board and management board, as well as key personnel of the bank, <b>constantly comply with the requirements</b> of the legislation on banks and banking activities. The CBU approves the candidatures of persons nominated as members of the supervisory board, the management board and key personnel of the bank before they start their duties.</p>

<sup>36</sup> Independent director refers to a non-executive member of the board who does not have any management responsibilities within the bank and is not under any other undue influence, internal or external, political or ownership, that would impede the board member's exercise of objective judgment.

<sup>37</sup> The Committee defines: (i) "duty of care" as the duty of board members to decide and act on an informed and prudent basis with respect to the bank. This is often interpreted as requiring board members to approach the affairs of the company the same way that a "prudent person" would approach his or her own affairs; and (ii) "duty of loyalty" as the duty of board members to act in good faith in the interest of the company. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and shareholders.

	<p>As it is stated by Article 3 of the RCG, members of the supervisory board and the management board must demonstrate responsibility and enthusiasm, serve in good faith, performing their activities with a sense of responsibility.</p> <p><b>Loyalty of</b> members of the supervisory board and the management board includes:</p> <ul style="list-style-type: none"> <li>• disclosure of all existing and potential conflicts of interest related to them;</li> <li>• not to use his/her official position for personal purposes;</li> <li>• non-participation in decision-making in the presence of a conflict of interest which prevents the full performance of the member's obligations in the interests of the bank.</li> </ul> <p>While assessing the bank's supervisory board (according to the methodology, provided in the Guidelines), supervisors proceed with:</p> <ul style="list-style-type: none"> <li>• 9 enhanced questions to investigate general responsibilities;</li> <li>• 5 questions on qualifications and composition;;</li> <li>• 13 related to the structure and practices;</li> <li>• 4 to investigate on remuneration</li> <li>• 3 to investigate conflicts of interest.</li> </ul> <p>The CBU pointed out that it assesses the governance structure and the appropriateness of the processes for nominating and appointing board members in the context of the RBS and during on-site inspections (see EC2): nevertheless, as pointed in CP9 and EC1, the assessors did not find adequate evidence of implementation.</p>
<b>EC4</b>	<p>The supervisor determines that governance structures and processes for nominating and appointing board members are appropriate for the bank. Boards regularly assess the performance of the board as a whole, its committees and individual board members (including their ongoing suitability). Board membership is regularly renewed to refresh skills and independence. Commensurate with the bank's risk profile and systemic importance, board structures include audit, risk, compensation and other board committees with experienced, independent directors.</p>
Description and findings re EC 4	<p>As stated in Article 34 of the BL, members of the supervisory board must promote reasonable corporate governance of the bank and, in the performance of their powers and duties, take into account the legitimate interests of the bank, its depositors and shareholders, as well as ensure effective cooperation between the bank and the CBU.</p> <p>In line with the banking sector strategy that identified the improvements in SOB corporate governance as one priority, several SOB boards were recently renewed to bring in independent members. To reach the goal of 'more than half' independent members in each state-owned enterprise, including each state-owned bank, the state as shareholder appointed 25 directors (out of 32) from abroad, to mitigate the risk of political interference in the board decision-making process.</p> <p>The candidates for supervisory or management board are obliged to follow the <b>Fit-and-Proper procedure and get the permission from CBU prior</b> starting their duties. In accordance with Article 36 of the BL, members of the supervisory board and the</p>

	<p>management board, as well as key staff of the bank, must have an impeccable business reputation, have the experience, knowledge and skills necessary to ensure effective risk management of the bank, making informed decisions within their powers. The bank is obliged to ensure that members of the supervisory board and management board, as well as key personnel of the bank, constantly comply with the requirements of the legislation on banks and banking activities.</p> <p>In addition, according to the RCG Article 8, the number of members of the supervisory board and its composition should be based on the scale and nature of the bank's activities, its goals and development strategies, as well as ensure the following:</p> <ul style="list-style-type: none"> <li>• the ability to hold meetings of the supervisory board on a periodic basis (at least once a quarter), which makes it possible to make decisions in the presence of a quorum;</li> <li>• possess collective experience and knowledge necessary for effective management and decision-making.</li> </ul> <p>Regulation states that the supervisory board may create special committees, namely, the audit committee, the risk management committee, the remuneration committee, as well as others. Article 16 of the RCG stipulates that the Audit Committee is mandatory, regardless of the size and complexity of the bank.</p> <p>The main task of the established committees is to scrutinize the issues within its competence, to develop proposals and recommendations thereon, and to assist the supervisory board by performing its' oversight functions. Committees must include at least three members of the supervisory board. A committee may not consist of the same group of members constituting another committee of the council, nor may one member chair different committees at the same time.</p> <p><b>Audit Committee</b></p> <p>RCG Article 16 determines that for effective organization of the internal control system, the board <b>must</b> establish an audit committee. The majority of the committee members should not be related parties to the bank, except for their membership in the board. The chairman of the audit committee should not be the board chairman. As any other member of the Committee, the Chairman should not be a bank's related party, except for his/her membership in the board</p> <p>The main tasks of the audit committee are as follows:</p> <ul style="list-style-type: none"> <li>• participating in the development and approval process of financial reporting and internal audit policies;</li> <li>• monitoring the submission, completeness, and reliability of supervisory, financial, and other reports;</li> <li>• preparing information for board meetings and submitting reports to the board on issues within its authority;</li> <li>• monitoring the interaction between the bank's internal and external auditors;</li> <li>• considering the appointment (dismissal) of the head of the internal audit service and submitting proposals to the board;</li> </ul>
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	<ul style="list-style-type: none"> <li>• reviewing quarterly reports of the internal audit service and submitting them to the board;</li> <li>• evaluating the effectiveness and appropriateness of the bank's internal control system and internal audit activities to ensure their efficiency, reviewing the internal audit inspection plan and its periodicity, participating in the assessment of how well the head of the internal audit service is fulfilling their duties and responsibilities, and providing their opinions;</li> <li>• meeting with the head of the internal audit service at least once a quarter to discuss issues related to the internal audit service's activities;</li> <li>• assisting the board in evaluating proposals from external auditors, providing recommendations for the selection of external auditors;</li> <li>• making recommendations to the board regarding the maximum fees payable for the services of external auditors and the terms of the contracts with them, including their termination;</li> <li>• assisting the board in developing technical tasks for external auditors;</li> <li>• receiving internal and external audit reports and ensuring that discrepancies and deficiencies identified by these audits, as well as by other supervisory units, regarding legislative documents, bank policies, and internal regulations, are promptly addressed by the bank's management;</li> <li>• reviewing external audit reports and conclusions and submitting them to the board;</li> <li>• making recommendations to the board regarding the replacement of unsatisfactory external auditors;</li> <li>• reviewing the transparency and adequacy and accuracy of disclosed information;</li> <li>• preparing a report on its activities;</li> <li>• performing other tasks assigned by the board.</li> </ul> <p><b>Risk Management Committee</b></p> <p>RCG Article 19 states that for the effective management of risks in the bank, the board <b>may</b> establish a risk management committee. The majority of the members of the committee (if established) should not be related parties to the bank, except for their membership on the board. The chair of the risk management committee should not be the chair of the board. If the chair of the Risk Management Committee is also a member of one of the bank's governing bodies or is considered a key employee, then he/she would be deemed a related party. However, if he/she serves solely as the chair of the Risk Management Committee and do not hold any other governance or key position, he/she would not be classified as a related party</p> <p>The main duties of the risk management committee include:</p> <ul style="list-style-type: none"> <li>• reviewing documents related to risk management and internal control, including the organizational structure for risk management, risk management strategy and policy, conflict of interest prevention policy, and code of conduct, and providing recommendations to the board on the risk management system;</li> <li>• supervising the development, adherence, and timely updating of the risk appetite and risk management policies by the management and the structural unit responsible for risk management;</li> </ul>
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	<ul style="list-style-type: none"> <li>periodically reviewing the risk assessment methods developed and implemented by the bank, including stress-testing techniques;</li> <li>determining the structure and format of risk-related information (reports) presented to the board and the terms for their submission;</li> <li>providing proposals to the board on measures to reduce risks and take timely actions when the bank's risk profile is not aligned with the approved risk appetite or is expected to exceed it;</li> <li>assessing the alignment of the bank's compensation system with its risk appetite;</li> <li>accepting reports on existing and potential risks in the bank, submitted by the structural unit responsible for risk management, at least once every quarter, and taking actions to mitigate risks;</li> <li>assessing the independence of employees responsible for risk management from other structural units involved in senior management and risk-taking;</li> <li>participating in or providing opinions during the performance evaluation of heads of structural units responsible for risk management;</li> <li>preparing quarterly reports on its activities;</li> <li>performing other tasks assigned by the board.</li> </ul> <p>In line with the proportionality principle and the risk-based approach, the assessors are of the view that the Risk Committee should be made mandatory for D-SIBs.</p> <p><b>Remuneration Committee</b></p> <p>RCG Article 23 states that to assist the board and provide recommendations on ensuring that the internal remuneration system aligns with the bank's risk-taking levels, long-term strategy implementation, risk appetite, financial results, internal control system, legislative requirements, and internal normative documents, a remuneration committee <b>may</b> be established.</p> <p>The main duties of the remuneration committee include:</p> <ul style="list-style-type: none"> <li>participating in the development of the remuneration policy for board and management members, as well as key personnel, and reviewing it at least once a year;</li> <li>monitoring the implementation and execution of the remuneration policy and various incentive programs;</li> <li>monitoring the implementation of decisions related to remuneration and compensation;</li> <li>developing performance evaluation criteria for determining remuneration payments to board and management members, as well as key personnel, taking into account their responsibilities and respective risk-taking levels;</li> <li>conducting preliminary assessments of the annual performance of board and management members, as well as key personnel, based on criteria reflected in the remuneration policy, as well as analyzing the achievement of long-term goals and objectives by these individuals, if this task is assigned by the board;</li> <li>evaluating the compliance of the remuneration and compensation system with internal documents;</li> <li>performing other tasks assigned by the board.</li> </ul>
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	<p>The CBU determines if governance structures and processes for nominating and appointing board members are appropriate for the bank by evaluating the effectiveness of the corporate governance, by performing banks' risk assessments and during the on-site inspections (see EC2). In addition, curators participate as observers in boards' and committees meetings, therefore their observations provide input to the corporate governance assessment.</p>
<b>EC5</b>	<p>The supervisor determines that the bank's board approves and oversees implementation of the bank's strategic direction, risk appetite and strategy, and related policies, establishes and communicates corporate culture and values (e.g. through a code of conduct),<sup>38</sup> and establishes conflicts of interest policies and a strong control environment.</p>
Description and findings re EC5	<p><b>Strategic Goals</b></p> <p>According to Article 34 of the BL, the duties of the supervisory board include approval and control over the implementation of strategic goals, corporate governance policy, the procedure for preventing and resolving conflicts of interest, other internal policies of the bank, including the identification, management, monitoring, and communication of risks, maintaining the bank's capital adequacy.</p> <p><b>Risk Appetite</b></p> <p>As it is described in the RRM, the risk appetite of the bank is an aggregate value of all significant risks, which the bank is ready to accept by achieving its strategic objectives. The risk appetite should be determined in the banks' Risk Appetite Statement and approved by the Supervisory Board.</p> <p>The Risk Appetite Statement must comply with the bank's strategy, business plan and budget planning, as well as internal documents and should include:</p> <ul style="list-style-type: none"> <li>• key assumptions used in the risk appetite development process;</li> <li>• procedures for approval of risk limits.</li> </ul> <p><b>Conflicts of Interest and Corporate Culture</b></p> <p>According to Article 33 of the RCG, to ensure compliance with legislative requirements, the board must develop and implement a policy for preventing and resolving conflicts of interest, establish procedures for its implementation, and monitor its execution. It is also stated that banks must develop and implement mandatory measures to prevent corruption, to implement rules of ethical behavior and prevent conflicts of interest.</p> <p>Article 37 of the mentioned Regulation stipulates that in order to create a unified corporate culture, the board must adopt a code of ethics of the bank, which includes corporate values and standards on the basis of which the bank's activities are carried out legally and in accordance with the rules of ethics, and ensure compliance with the rules established therein by all employees, including the bank's management bodies.</p>

<sup>38</sup> This includes whistleblowing policies and procedures that protect employees from reprisals or other detrimental treatment.

	<p><b>Supervision</b></p> <p>Within the existing framework (see EC2), topics related to implementation of strategic goals, risk appetite and proper risk appetite statement; conflicts of interest and corporate culture are being assessed under Block 'D' of the RBS. The assessors were provided with examples while during risk assessment the CBU challenged: the lack of control in the implementation of banks' strategy; deficiencies were found in risk appetite statements.</p> <p>In addition, during on-site visits, inspectors consider the limits of risk appetite, their expediency and threshold values.</p>
<b>EC6</b>	<p>The supervisor determines that the bank's board, except where required otherwise by laws or regulations:</p> <ul style="list-style-type: none"> <li>(a) has established fit and proper standards in selecting senior management and heads of the control functions;</li> <li>(b) has developed effective processes to allocate authority, responsibility and accountability within the bank;</li> <li>(c) maintains plans for succession; and</li> <li>(d) actively and critically oversees senior management's execution of board strategies, including monitoring the performance of senior management and heads of the control functions against the standards established for them.</li> </ul>
Description and findings re EC6	<p>As it is described in EC2 and EC5, by conducting risk-based assessment of the bank, supervisors also:</p> <ol style="list-style-type: none"> <li>1. evaluate the establishment of fit and proper standards for senior management and heads of control functions;</li> <li>2. oversee senior management's execution of board strategies, including monitoring the performance of senior management and heads of the control functions against the standards established for them;</li> <li>3. evaluate the suitability of the processes being developed and implemented.</li> </ol> <p>There is requirement for the allocation of responsibility by the board and assessment of member performance based on their responsibility. There is no requirement to maintain succession plans</p>
<b>EC7</b>	<p>The supervisor determines that the bank's board actively oversees the design and operation of the bank's compensation system and that it has appropriate incentives, which are aligned with prudent risk-taking and effective in addressing misconduct that potentially results in losses. The compensation system and related performance standards, policies and procedures are non-discriminatory and consistent with long-term objectives and financial soundness of the bank and are rectified if there are deficiencies.</p>
Description and findings re EC7	<p>The main tasks of the Remuneration Committee are broadly described in the EC4. Remuneration paid to members of the supervisory board must be approved by a decision of the general meeting of shareholders. To ensure that risks are properly considered, the risk management unit and the compliance control service are involved in the development of the remuneration system.</p>



	<p>Pursuant to RCG Article 27, the remuneration system should be in accordance with the bank's business plan, bank development strategy, goal and bank risk management policy, as well as measures aimed at preventing conflicts of interest, as well as limiting the acceptance of high-level risks.</p> <p>The remuneration system should be properly documented in the bank's internal policy and should include at least the following:</p> <ol style="list-style-type: none"> <li>1. permanent and variable compensations and incentive payments;</li> <li>2. the maximum amount of compensation and incentive payments;</li> <li>3. criteria for evaluating the work of members of the Board and the Management Board and key personnel;</li> <li>4. the procedure and terms for the payment of bonuses.</li> </ol> <p>During the banks' risk assessment (see EC 2), the supervisor should determine that the bank's board oversees the design and operation of the bank's compensation system. Supervisors should investigate if the compensation system and related performance standards are consistent with long-term objectives and financial soundness of the bank. Within the existing framework, the topics are evaluated under Blocks 'B' and 'D' of the RBS.</p>
<b>EC8</b>	<p>The supervisor determines that the bank's board and senior management know and understand the bank's operational structure and its risks, including those arising from the use of structures that impede transparency (eg special-purpose or related structures). The supervisor determines that risks are effectively managed and mitigated, where appropriate.</p>
Description and findings re EC8	<p>According to Article 95 of the CBU <i>Regulation on 'Procedure and Conditions of Authorization of Banking Activities' No. 3252</i>, a person nominated as a member of the supervisory board and the management board of a bank must demonstrate a good understanding of the bank's activities and the risks to which the bank is exposed. The experience, skills, and knowledge of the members of the supervisory board and the management board should collectively cover all areas where the bank is active to ensure effective and prudent management of the bank.</p> <p>Article 5 of the RCG stipulates that the members of the Supervisory Board are required to be aware of the risks inherent in banking activities, as well as to constantly improve their knowledge and skills in the field of banking and finance. In addition, Article 10 of this Regulation foresees that in the performance of its duties and obligations, the supervisory board must rely on internal control and risk management systems and exercise effective control over its activities.</p> <p>By performing banks' risk assessment (see EC2), the supervisor determines that the bank's board and senior management know and understand the bank's operational structure and its risks.</p> <p>To investigate the topic, questions like such should be answered:</p>

	<p><i>Do the members of the supervisory board, individually and jointly, have the knowledge, expertise, independence, access to information and influence necessary to ensure proper supervision, question management decisions and carry out their tasks at the bank?</i></p> <p><i>To what extent does the management system provide the bank's management board with the information necessary for effective management of the bank and monitoring of the actions of the bank's employees?</i></p>
<b>EC9</b>	Laws, regulations or the supervisor require banks to notify the supervisor or publicly disclose as soon as they become aware of any material and bona fide information that may negatively affect the fitness and propriety of a bank's board member or a member of the senior management.
Description and findings re EC9	<p>According to the BL, banks must timely notify the CBU of any significant changes in their activities, structure and general condition, or of any significant negative events, including violations of legal or prudential requirements, as soon as banks become aware of them.</p> <p>RCG requires members of the management board to refrain from actions that may lead to a conflict of interest, as well as to immediately inform the supervisory board of the occurrence of a conflict of interest and take measures to eliminate it.</p> <p>Moreover, Article 81 of the Regulation on the Procedure and Conditions for Admission to Banking Activities (Reg. No. 3252 dated June 30, 2020), obliges banks to constantly reassess the compliance of managers with the requirements of the law. Article 82 of the above Regulation states that if the results of the revaluation carried out by the bank in accordance with Article 81 show that the director no longer meets the requirements of this regulation, the bank shall inform the CBU in writing within 3 working days from the date of detection of the non-compliance and take measures to eliminate the shortcoming.</p>
<b>EC10</b>	The supervisor has the power to require changes in the composition of the bank's board if it believes that any individuals are not fulfilling their duties related to the satisfaction of these criteria.
Description and findings re EC10	<p>Article 34 of the BL stipulates that the powers of members of the supervisory board may be terminated early at the request of the CBU.</p> <p>Regulation on LIC establishes specific criteria (fit and proper) that must be met by the founders and potential acquirers, members of the supervisory board and the management board, as well as key personnel.</p> <p>In turn, the CBU put forward a requirement for banks with a state-owned share to change the composition of the members of the supervisory board, to increase the number of independent members.</p> <p>Assessors were provided with several cases where the CBU recommended or required the removal or replacement of one or more board members, as well as key personnel. For example, the Resolution of the Banking Supervision Committee No 181/4 dated</p>

	January 9, 2020, established requirements for changing the composition of the supervisory board and newly approved composition to be implemented.
<b>Assessment of Principle 14</b>	<b>Largely Compliant</b>
Comments	<p>The CBU has a comprehensive regulation covering the corporate governance arrangements in banks and banking groups. The supervisory framework is tailored to the size, complexity, structure, risk profile and business model of the bank. Large, complex, or higher-risk banks are expected to adopt enhanced corporate governance structures. Bank's board is requested to approve and oversees implementation of the bank's strategic direction, risk appetite and strategy; establish and communicate corporate culture and values; ensure compliance with legislative requirements; develop and implement a policy for preventing and resolving conflicts of interest.</p> <p>The assessment of corporate governance as autonomous risk profile in the context of risk-based supervision was introduced in 2023. Since then, supervisors are expected to evaluate the corporate governance and risk management as a separate component of the bank's risk assessment. This should be done on an annual basis according to the methodology stated in the GRBS. Nevertheless, the assessors did not find robust evidence of this assessment in the document shared by the CBU.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>• The CBU recently strengthened the RCG; however, some shortcomings have not yet been addressed. There is no requirement for a succession plan; the Risk Committee is not mandatory for D-SIBs</li> <li>• The off-site risk assessment of corporate governance has recently been introduced in the supervisory manual, but not fully tested in the pilot phase, based on the document shared with the assessors (only one out of four risk assessments). Moreover, the new methodology for on-site inspection does not mention corporate governance (the assessors take note that a draft amendment to the methodology envisages such an extension).</li> </ul> <p>Recommendations:</p> <ul style="list-style-type: none"> <li>• The RCG should consider requirements for the board to develop succession plans and the requirement for D-SiBs to mandatory set the Risk Committee</li> <li>• The CBU should consider structurally embedding the corporate governance assessment in the off-site and on-site risk assessment</li> </ul>
<b>Principle 15</b>	<b>Risk management process.</b> <sup>39</sup> The supervisor determines that banks have a comprehensive risk management process (including effective board and senior

<sup>39</sup> Reference documents: BCBS, High-level considerations on proportionality, July 2022; BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022; BCBS, Stress testing principles, October 2018; BCBS, Sound Practices: implications of fintech developments for banks and bank supervisors, February 2018; BCBS, Identification and management of step-in risk, October 2017; BCBS, Corporate governance principles for banks, July 2015; BCBS, Supervisory guidance for managing risks associated with the settlement of foreign exchange transactions, February 2013; BCBS, Principles for effective risk data aggregation and risk reporting, January 2013; BCBS, Principles for the supervision of financial conglomerates, September 2012; FSB, Guidance on supervisory interaction with financial institutions on risk culture: a framework for assessing risk culture, April 2014.

	management oversight) to identify, measure, evaluate, monitor, report and control or mitigate all material risks <sup>40</sup> (which can include risks related to digitalisation, climate-related financial risks and emerging risks) on a timely basis and to assess the adequacy of their capital, their liquidity and the sustainability of their business models in relation to their risk profile and market and macroeconomic conditions. This extends to the development and review of contingency arrangements (including robust and credible recovery plans where warranted) that consider the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank. <sup>41</sup>
<b>Essential criteria</b>	
<b>EC1</b>	<p>The supervisor determines that banks have appropriate risk management strategies that have been approved by the bank's board, and that the board establishes an effective risk appetite statement and framework to define the level of risk the bank is willing to assume or tolerate. The supervisor also determines that the board ensures that:</p> <ul style="list-style-type: none"> <li>(a) a sound risk culture is established throughout the bank, to promote the development and execution of its strategy;</li> <li>(b) policies and processes are developed for risk-taking that are consistent with the risk management strategy and the established risk appetite;</li> <li>(c) uncertainties attached to risk measurement are recognized;</li> <li>(d) appropriate limits are established that are consistent with the bank's risk appetite, risk profile, capital strength and liquidity needs. These limits are understood by, and regularly communicated to, relevant staff; and</li> <li>(e) senior managers take the steps necessary to monitor and control all material risks consistent with the approved strategies and risk appetite.</li> </ul>
Description and findings re EC1	<p>Article 42 of the BL foresees that the bank and the banking group are obliged to comply with the requirements established by the CBU for internal control and the risk management system. The requirements, among other, anticipate that the supervisory board is obliged to control compliance with the limits established in the internal documents and oversee the effectiveness of banks' risk management process.</p> <p>Banking law delegates to the supervisor the task of establishing the secondary regulation of risk management and internal control standards and enables it to carry out the assessment of compliance with these requirements.</p> <p>In April 2023 the CBU issued the RRM. The purpose of the regulation is to determine the requirements for the establishment of effective risk management and internal control</p>

<sup>40</sup> To some extent, the precise requirements may vary from risk type to risk type (Principles 15 to 25) as reflected by the underlying reference documents.

<sup>41</sup> While in this and other principles the supervisor is required to determine that banks' risk management policies and processes are being adhered to, the responsibility for ensuring adherence remains with a bank's board and senior management.

	<p>systems. In January 2025 the Ministry of Justice registered an amendment to RRM which improves the regulatory framework; these amendments will become effective the 21th of April 2025.</p> <p>The RRM Chapter 2 requires banks to establish a risk management system, which comprise:</p> <ul style="list-style-type: none"> <li>• the organizational structure of risk management;</li> <li>• risk management culture;</li> <li>• internal documents and management tools;</li> <li>• information system for risk management and reporting.</li> </ul> <p>The RRM Article 3 states that risk management system should ensure:</p> <ul style="list-style-type: none"> <li>• clear distribution of tasks, preventing potential conflicts of interest;</li> <li>• clear separation of duties by building a system of three lines of defense;</li> <li>• that all material risks to which bank is exposed are timely identified, assessed and properly measured;</li> <li>• that there are tools and systems in place for proper risk monitoring, reporting, control and mitigation;</li> <li>• reasonable pricing of bank's products is implemented;</li> <li>• completeness and proper documentation of risk management processes.</li> </ul> <p>To ensure proper functioning of the risk management system, the supervisory board, among other, approves: organizational structure; risk-appetite statement; credit policy; risks management policies, covering all material risks (liquidity, market, operational and compliance); policy of introducing new banking products; stress-test procedure.</p> <p><b>Sound risk culture</b></p> <p>Article 24 of the RRM foresees that the management board is responsible for creating a risk management culture and to ensure that the following must be taken:</p> <ul style="list-style-type: none"> <li>• staff should be properly informed about its role in risk management;</li> <li>• responsibilities of each unit should be clearly defined;</li> <li>• continuous communication of bank's corporate values should be in place;</li> <li>• standards for qualification and competence should be expressed;</li> <li>• staff should be aware about the code of ethics;</li> <li>• properly organized internal and external communication system should exist;</li> <li>• conducting training to ensure the awareness of new and/or emerging risks.</li> </ul> <p><b>Policies and processes</b></p> <p>Article 29 of the RRM envisages that for effectively organized risk management system, the supervisory board should approve risk management policies, covering all material risks, as well as approving risk limits for each material risk and the measures to be taken in the event of a breach.</p>
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	<p><b>Uncertainties attached to risk measurement</b></p> <p>Article 29 of the RRM foresees detailed discussion of transactions or actions that may lead to a violation of risk limits, statement of risk appetite, risk management policy(s). In case a bank's risk profile does not correspond to the approved risk appetite or it is expected that it will not comply with it, the board is empowered to take the necessary measures to reduce or eliminate risks. Nonetheless, there is no explicit requirement that uncertainties attached to risk measurement are recognized by the board.</p> <p><b>Limits established</b></p> <p>Articles 10-11 of the RRM require that banks' Risk Appetite Statement should include procedures and processes for approving risk limits and procedure of notification in cases of risk limits breaches should be determined. The bank's risk appetite statement should define three limits:</p> <ul style="list-style-type: none"> <li>• low level that does not require mitigation of risks;</li> <li>• medium level, requiring a reduction in the risk level;</li> <li>• unacceptably high level, requiring risk mitigation.</li> </ul> <p>To minimize a bank's propensity to take significant risks, quantitative limits should be set on all risk types. Risk limits should be determined based on the size and complexity of the bank's operations and aligned with the bank's risk appetite.</p> <p><b>Senior manager's monitor and control</b></p> <p>According to the RRM Article 31, the management board is responsible for ensuring effective implementation of the risk management system, in accordance with the risk appetite statement, risk management policy and other internal document approved by the supervisory board.</p> <p><b>Supervision</b></p> <p>From 2023 the CBU introduced regular assessments of bank's risk profile. The methodology for the assessment is described in the GRBS (see CP8 EC1). This supervisory manual sets out a range of modalities, which states that supervisors must assess the implementation of risk management through a comprehensive and structured analysis that includes an assessment of inherent risk and quality of risk management implementation. The annual risk assessment of banks covers corporate governance and risk management.</p> <p>Inputs to assess risk management include minutes of banks' supervisory and management boards; minutes of committees (if established); documents, adopted by boards and committees (including risk appetite statements and risks policies); banks' organigrams; descriptions of functions; information about experience, skills recently obtained by the members of the board and key personnel, other.</p>
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	<p>In addition, by performing on-going supervision, curators may participate in the boards' and committees' meetings, therefore some observations from here are used to complement assessments.</p> <p>The CBU conducted a thematic review in several banks to assess how effectively the supervisory board organized the risk management system, and more generally on the status of the implementation by banks of the RRM.</p> <p>Until August 2024 the on-site inspections were carried out following CAMEL methodology which only partially covers assessment of risk management and corporate governance. Therefore, during on-site inspection only certain topics (mostly regarding the management of material risks) were covered.</p> <p>The assessors examined three risk assessments conducted in 2023, and one conducted in 2024. The findings and observations regarding the assessment of risk management system were as follows: established risk management and internal control processes usually only partially comply with the RRM provisions; doubts were raised on independence of the risk management function; restricted powers of the Chief Risk Officer (CRO) were found. The assessors found evidence that the CBU challenged the lack of limits in the risk appetite (for example, on car loans, on loans to individual without official income, on operational risk, on market risk).</p>
<b>EC2</b>	<p>The supervisor requires banks to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks.<sup>42</sup> The supervisor determines that these processes are adequate:</p> <ul style="list-style-type: none"> <li>(a) to provide a comprehensive bank-wide view of risk across all material risk types;</li> <li>(b) for the risk profile and systemic importance of the bank;</li> <li>(c) to assess risks arising from the macroeconomic environment affecting the markets in which the bank operates and to incorporate such assessments into the bank's risk management process; and</li> <li>(d) to assess risks that could materialize over longer time horizons (including risks related to digitalization, climate-related financial risks and emerging risks). Where appropriate, banks use scenario analysis as a tool.</li> </ul>
Description and findings re EC2	<p>The RRM requires banks to identify, measure, monitor and control all material risks.</p> <p><b>All material risks</b></p> <p>In the RRM version published in April 2023, material risk included only credit risk, liquidity risk, market risk, operational risk and compliance risk; in the updated version, registered by the MoJ in January 2025, country risk and IRRBB were included among material risks. Moreover, the CBU draft strategy on the management and supervision of climate-related financial risks in the banking sector for 2025-2027 (see CP8, EC4) foresees the setting of</p>

<sup>42</sup> This includes, where relevant, risks not directly addressed in the subsequent principles, such as reputational, step-in and strategic risks.

	<p>standards that banks will be required or recommended to follow when managing climate-related risks.</p> <p>The implementation of the process of identifying, measuring, monitoring and controlling risk must be supported by:</p> <ul style="list-style-type: none"> <li>• timely management information system; and</li> <li>• accurate and informative reports regarding financial condition, functional activity performance, and banks' risk exposure.</li> </ul> <p>To assess banks' risk profile, the CBU collects an extensive package of information (see EC1), which, among other, includes risk policies and risk appetite statements, and quarterly stress test conducted by banks (see CP9, EC4, let e). Supervisors examine and evaluate the quality of the documents provided; assess the completeness and depth of the statements.</p> <p>In addition, the adequacy of financial risk management processes (such as credit, liquidity, market, operational) is being assessed during on-site inspections. The assessors were provided with four on-site inspections reports; in each of them the CBU had observations and recommendations regarding adequacy of risk management process; completeness of risk policies and statements.</p> <p>After the RBS assessment will be completed (December 2024) and findings summarized, the CBU is going to issue a letter to express supervisors' expectations for risk management more specifically.</p>
<b>EC3</b>	<p>The supervisor determines that risk management strategies, policies, processes and limits are properly documented and aligned with the bank's risk appetite statement and framework; regularly reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market and macroeconomic conditions; and communicated within the bank. The supervisor determines that adequate procedures are in place for breaches of risk limits and significant deviations from established policies, ensuring they receive prompt attention and authorisation from the appropriate level of management and the bank's board (where necessary) and are adequately followed up with proportionate and timely remedial action.</p>
Description and findings re EC3	<p>Article 3 of the RRM foresees that bank's risk management system must ensure the completeness and documentation for risk management processes.</p> <p>The CBU emphasized that banks' documents (i.e. strategies, risk statements, risk management policies) are developed and approved in accordance with the minimum requirements set by the CBU. All banks on a yearly basis provide the CBU with relevant internal documents, such as risk management policies, risk appetite statements, documents with approved limits, procedures for limit breaches and other (considering size and complexity of the institution).</p> <p>The policies and procedures are being evaluated both during on-going (i.e. off-site) supervision, when assessing banks' risk profile, and on-site inspections. After the set of obtained documents is being evaluated, in case shortcomings or deficiencies are determined, the CBU communicates with banks by letters requesting the necessary adjustments and/or eliminating identified deficiencies.</p>



	<p>Assessors were provided with some examples of letters/notifications sent to the banks, that proves the CBUs' attitude to challenge banks' risk management policies and processes.</p> <p>As regard internal limits, RRM Article 35 confers to the head of the risk management unit a veto power on key decisions of the management board and other executive bodies, if the implementation of such decisions will lead to violation of the established risk appetite or approved limits on risks. Moreover, in case of a significant increase in the level of risks and the need to take urgent measures, the head of the risk management should immediately request the management board to convene an extraordinary meeting of the supervisory board or risk management committee (if established).</p> <p>The CBU provided the assessors with evidence that it challenged two banks during on-site examinations, due to the breach of internal limit not being escalated by the risk management function to the supervisory board.</p>
<b>EC4</b>	<p>The supervisor determines that the bank's board and senior management obtain sufficient information on and understand the nature and level of risk being taken by the bank and how this risk relates to adequate levels of capital and liquidity. The supervisor also determines that the board and senior management regularly review and understand the implications and limitations (including the risk measurement uncertainties) of the risk management information that they receive.</p>
Description and findings re EC4	<p>The RRM requires the supervisory board and management board to understand the inherent risks in the bank's business activities, including:</p> <ol style="list-style-type: none"> <li>1. ensuring that policies, strategies, and risk management framework are evaluated and updated at least once a year, also in the event that there is a significant change in factors affecting the bank's business activities, risk exposure, and/or risk profile and impact on the bank's capital and liquidity.</li> <li>2. ensuring that risk management information system is in place: <ul style="list-style-type: none"> <li>• the availability of necessary information is accurate, complete, informative, timely, and reliable so that it can be used by the supervisory board, management board and units related to the implementation of risk management in order to assess, monitor, and mitigate the risks faced by the bank;</li> <li>• effectiveness of risk management implementation, including risk management policies and procedures as well as risk limits; and</li> <li>• the availability of necessary information related to the achievement of the targets determined by the Bank in line with the bank's risk management policies and strategies.</li> </ul> </li> </ol> <p>To perform the assessment of banks' risk profile, supervisors obtain banks' internal information, including risk policies, management information, internal reports, dashboards, reports on limit breaches, By assessing this information, the curator determines if the bank's board and senior management obtain sufficient information and understand the nature and level of risk being taken and the measures to mitigate risks applied.</p>

	<p>For example, in Uzbekistan, credit risk is recognized as the most significant risk in the banking sector. RRM stipulates that the credit policy must be prepared as a separate document. Accordingly, the risk management requirements provided by RRM for this risk are considerably wider compared to other risks. By assessing all documents mentioned in CP17 EC3, the curator can assess whether the information provided to the management bodies is appropriate and sufficient. Similar assessment is being carried out for other documents obtained to determine the banks' risk profile.</p>
<b>EC5</b>	<p>The supervisor determines that banks have an appropriate internal process for assessing their overall capital and liquidity adequacy and the sustainability of their business models in relation to their risk appetite, risk profile<sup>43</sup> and forward-looking business strategies. The supervisor reviews and evaluates banks' internal capital and liquidity adequacy assessments and strategies.</p>
Description and findings re EC5	<p>Article 29 of the RRM states that to ensure risk management, the supervisory board, among other things, should determine internal capital adequacy assessment processes (ICAAP). Requirements for ICAAP implementation are described in Chapter 7, Paragraph 6 of the RRM.</p> <p>Nevertheless, according to the RRM, requirements to implement ICAAP are not mandatory (<i>'the bank's board may introduce internal processes for assessing capital adequacy'</i>) banks are allowed to decide on any other internal approach to assess capital (and liquidity) adequacy.</p> <p>In practice, to assess the overall capital adequacy, banks use more simplified approaches. Sources of capital are planned to ensure that the level of capital adequacy is consistent with the banks' business model and risk profile. Internal capital adequacy assessment processes consider the bank's strategic goals and their relationship with macroeconomic factors. Such a simplified approach is aligned with the proportionality principle; however, the assessors consider that D-SIBs should be requested to prepare ICAAP.</p> <p>To ensure the efficiency of internal capital adequacy assessment processes, the supervisory board approves banks' capitalization plan, which includes:</p> <ul style="list-style-type: none"> <li>• description of the capital planning process and the tasks of the relevant structural units in it;</li> <li>• the methods used by the bank to meet capital requirements;</li> <li>• limits for capital levels and capital ratios;</li> <li>• measures to be taken in the event of unforeseen events, including in terms of capital decrease.</li> </ul> <p>Based on the capitalization plan, the bank sets limits on the level of capital adequacy, considering the bank's risk profile, risk appetite, the quality of the risk management system, strategic goals and the economic situation in the country.</p>

<sup>43</sup> Banks should include climate-related financial risks assessed as material over relevant time horizons, including in their stress testing programmes where appropriate.

	<p>Given that ICAAP is one of the most advanced, forward-looking methods to assess banks' overall capital adequacy and the sustainability of its' business models in relation to bank's risk appetite and risk profile, implementation of the ICAAP as a mandatory process for D-SIB should be considered by the CBU.</p> <p>The CBU routinely assesses liquidity as part of ongoing off-site supervision. A variety of liquidity ratios are assessed by the CBU to determine the adequacy of liquidity and buffers over prudential minimum (see also CP24). Moreover, liquidity assessment is mandatory for all full scope on-site inspections. The supervisors constantly monitor and assess banks' liquidity.</p> <p>Considering the importance of ICAAP, it is recommended to develop guidelines for the ICAAP to be followed by D-SIBs.</p>
<b>EC6</b>	<p>Where banks use models to measure components of risk, the supervisor determines that the following conditions are met:</p> <ul style="list-style-type: none"> <li>(a) banks comply with supervisory standards on the use of models;</li> <li>(b) the banks' boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use; and</li> <li>(c) banks perform regular and independent validation and testing of the models.</li> </ul> <p>In addition, the supervisor assesses whether the model outputs appear reasonable as a reflection of the risks assumed.</p>
Description and findings re EC6	<p>Currently, all banks use a standardized approach for measuring risks established by the CBU and, therefore, models are not used for calculating capital requirements. However, banks use internal models for other purposes (e.g., customer solvency assessment, stress testing).</p> <p>The recent amendment to the RRM, registered by the MOJ in January 2025, required the risk management division to regularly assess the reliability and effectiveness of the bank's internal models (back testing), designed to identify, measure, monitor, and control risks, as well as to conduct stress tests. While this amendment goes in the right direction, the assessors could not find evidence that the CBU determines that banks perform regular and independent validation and testing of the models. In the similar vein, no evidence was found about the CBU determination that that the banks' boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use.</p>
<b>EC7</b>	<p>The supervisor determines that banks have information systems that are adequate (both under normal circumstances and in periods of stress) for measuring, assessing and reporting on the size, composition and quality of exposures on a bank-wide basis across all risk types, products and counterparties. The supervisor also determines that these reports reflect the bank's risk profile and capital and liquidity needs, and that they are provided on a timely basis to the bank's board and senior management in a form suitable for their use.</p>

Description and findings re EC7	<p>According to Article 40 of the RRM, banks are obliged to introduce a risk management information system that allows collecting and summarizing information from all areas of banking activities; to reliably assess risks and prepare risk reports. The risk management information system should correspond to the nature, scale and level of complexity of banking operations and ensure the following:</p> <ul style="list-style-type: none"> <li>• truthfulness of the information;</li> <li>• completeness and</li> <li>• timely submission.</li> </ul> <p>At the same time, the Regulation on Liquidity (see CP 24) foresees that each bank, depending on the size and complexity of its operations, must have an information system that implements effective control of banks' liquidity position. Information systems must be timely and fully meet managements' needs under business as usual and stressed conditions.</p> <p>Supervisors assess the quality of risk management information system by performing banks' risk assessment. The GRBS provide a detailed methodology on how management information systems (MIS) should be assessed. The MIS is being evaluated by assessing all material risks (see respective CPs). Assessment of MIS suitability and effectiveness is also performed while assessing banks' management and corporate governance. The supervisors determine that reports provided within the MIS reflect the bank's risk profile, capital and liquidity needs. It has to be effective in the process of identifying, measuring, monitoring, and controlling all material risks.</p> <p>During the on-site inspections, the CBU also assesses the completeness and effectiveness of developed and implemented systems, verify if the systems support the proper monitor and control of risks, and identify limits breaches. The assessors observed evidence that the CBU verifies during on-site inspections the reliability of the risk management reporting.</p>
<b>EC8</b>	<p>The supervisor determines that banks develop and maintain appropriate risk data aggregation and reporting capabilities commensurate with the risk profile and systemic importance of the bank. The supervisor also determines that the board and senior management review and approve the bank's risk data aggregation and risk reporting framework, and that they ensure that adequate resources are deployed to support these efforts.</p>
Description and findings re EC8	<p>The supervisors determine that banks develop and maintain appropriate risk data aggregation and reporting capabilities. Data quality and proper data aggregation topics are subject to on-site reviews. The assessors were provided with some on-site inspection reports where deficiencies in the calculation of liquidity and capital indicators were identified. To eliminate shortcomings, banks proceed with internal investigations, in some cases data aggregation errors in banking systems were identified. No evidence was found about the CBU's determination of the board and senior management review and approval of the bank's risk data aggregation and risk reporting framework.</p>
<b>EC9</b>	<p>The supervisor determines that banks have adequate policies and processes to ensure that the banks' boards and senior management understand the risks inherent in new</p>

	products, <sup>44</sup> material modifications to existing products, and major management initiatives (such as changes in systems, processes, business models and major acquisitions). The supervisor determines that the bank's board and senior management monitor and manage these risks on an ongoing basis. The supervisor also determines that the bank's policies and processes require the undertaking of any major activities of this nature to be approved by the board or a specific committee of the board.
Description and findings re EC9	<p>Article 8 of the RRM foresees that for the effective organization of risk management, the Supervisory Board must approve the bank's policy on the introduction of new products. When introducing a new product, it is necessary to assess:</p> <ul style="list-style-type: none"> <li>• economic feasibility of the new product;</li> <li>• compliance with the requirements (both specified by the regulator and set internally);</li> <li>• risks associated with new product and their impact on bank's risk profile;</li> <li>• ability to monitor and manage associated risks;</li> <li>• how the price of the new product corresponds to pricing policy;</li> <li>• bank's readiness to introduce a new product (knowledge, staff, etc.).</li> </ul> <p>While considering the introduction of a new product and services, the RRM requires that the bank's risk management to be involved in the evaluation and decision-making process (RRM Article 35).</p> <p>The CBU informed that there is an informal practice where banks inform supervisory authorities in advance of their intentions to introduce a new product. There is an example where a supervisor prevented a bank from introducing a new product. For example, in Uzbekistan, FX lending to natural persons is prohibited, therefore bank decided to introduce FX lending to self-employed individuals. As in the essence it was prohibited activity, the CBU banned it, and the newly developed product was not allowed.</p>
<b>EC10</b>	The supervisor determines that banks have risk management functions covering all material risks with sufficient resources, independence, authority and access to the banks' boards to perform their duties effectively. The supervisor determines that their duties are clearly segregated from risk-taking functions in the bank and that they report on risk exposures directly to the board and senior management. The supervisor also determines that the risk management function is subject to regular review by the internal audit function.
Description and findings re EC10	<p>Requirements for the banks' risk management function are described in Chapter 5, Paragraph 4 of the RRM. The supervisory board must ensure that there is a risk management unit supervised and/or headed by a head of risk management with sufficient authority, independence, and resources, interacting with the supervisory board.</p> <p>The risk management unit is responsible for:</p>

<sup>44</sup> New products include those developed by the bank or by a third party and purchased or distributed by the bank.

	<ul style="list-style-type: none"> <li>• development of a risk management system, including policies, procedures, risk appetite strategy;</li> <li>• identification of significant current and potential risks;</li> <li>• participation in preparation of opinions on the risks associated with new banking services prior to their introduction;</li> <li>• risk assessment and determination of the aggregated level(s) of risk appetite;</li> <li>• monitoring compliance with risk appetite levels;</li> <li>• development of early warning indicators and systems;</li> <li>• evaluating the effectiveness of pricing policy;</li> <li>• providing the opinion on proposed new banking products prior to their introduction;</li> <li>• reporting to the management board, the risk management committee, and the supervisory board.</li> </ul> <p>The risk management system shall provide for separation of the risk management and internal control functions from the bank's operations by means of three lines of defense system (RRM Article 30).</p> <p>To ensure the independence of the risk management, RRM Article 30 requires that:</p> <ul style="list-style-type: none"> <li>• the unit reports directly to the supervisory board and the risk management committee (if established);</li> <li>• the head is appointed by and accountable to the supervisory board</li> <li>• the amount of remuneration of managers and employees of the unit does not depend on the performance of the business lines responsible for the provision of banking services; at the same time, remuneration may depend on the overall financial condition of the bank;</li> <li>• situations in which bank management and other executives put pressure on managers and employees of this unit must be prevented;</li> <li>• managers of the unit should be able to directly discuss the state of risks in the bank with the supervisory board without notifying the management board;</li> <li>• number and qualification level of employees should ensure the fulfillment of the tasks and objectives of the RRM;</li> <li>• managers and employees are not allowed to participate in revenue-generating banking activities, nor are they allowed to serve on committees and various working groups unrelated to the department's operations, nor are they allowed to hold other positions at the same time;</li> <li>• hiring, dismissal and incentives for these employees are carried out by the Chairman of the board on the recommendations of the heads of the unit;</li> <li>• the unit should have full access to the information necessary to perform its duties.</li> </ul> <p>The Regulation of Internal Audit (RIA) requires the internal audit unit to assess the effectiveness of the risk management system (Article 19). When assessing the risk management system, internal audit unit should evaluate at least the following components (RIA Article 20):</p>
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	<ul style="list-style-type: none"> <li>the risk management unit, in particular its decisions and their compliance with the established functions and correct functioning of the risk management system (credit risk, liquidity risk, market risk, operational risk, compliance risk and others);</li> <li>the risk appetite of the bank and compliance of bank's activities to the risk appetite</li> <li>the effectiveness of the internal procedure for informing the CBU, the supervisory and management board of the Bank, about issues and decisions taken within the framework of risk management, as well as major risks</li> <li>adequacy of risk management systems and processes to identify, measure, assess, control, respond to and report on risks</li> <li>integrity of information systems used in the framework of risk management, including accuracy, reliability and completeness of data</li> <li>risk assessment methodologies and models, including verification of the consistency of approaches and reliability of data used in these models.</li> </ul> <p>The assessors were provided with an example of internal audit of the risk management function</p>
<b>EC11</b>	The supervisor requires larger and more complex banks to have a dedicated risk management unit overseen by a chief risk officer (CRO) or equivalent function. If the CRO of a bank is removed from their position for any reason, this should be done with the prior approval of the board and generally should be disclosed publicly. The bank should also discuss the reasons for such removal with its supervisor.
Description and findings re EC11	<p>According to Article 30 of the RRM, regardless of the size and systemic importance of the bank, the board is obligated to establish a risk management unit as a structural unit responsible for managing risks and ensure their independence. The heads of this unit are appointed by the supervisory board and are accountable to the supervisory board.</p> <p>In the original version of the RRM, there was no requirement for the removal of the CRO to be notified to the CBU; in the revised version, Banks must notify the Central Bank within five days if the CRO employment contract is terminated, specifying the grounds and reasons (par. 35-1). There is an example where the CRO was removed according to the CBU's decision.</p> <p>One point of improvement, also in the new RRM, is the requirement to publicly disclose the CRO's removal, still not addressed.</p>
<b>EC12</b>	The supervisor issues standards related to, in particular, credit risk, market risk, liquidity risk, interest rate risk in the banking book, operational risk and large exposures.
Description and findings re EC12	Regulation "On Requirements for the Risk Management System in Banks and Banking Groups" (RRM) determines requirements for managing credit, market, operational, liquidity and compliance risk. RRM is supplemented by the set of regulations issued by the CBU related to credit risk, market risk, liquidity risk, operational risk, large exposure and, with the recent amendments, also IRRBB, country risk and operational resilience (see connected CPs).

<b>EC13</b>	The supervisor requires banks to have appropriate contingency arrangements, as an integral part of their risk management process, to address risks that may materialise and actions to be taken in stress conditions (including those that will pose a serious risk to their viability). If warranted by its risk profile and systemic importance, the contingency arrangements include robust and credible recovery plans that consider the specific circumstances of the bank. The supervisor, working with resolution authorities as appropriate, assesses the adequacy of banks' contingency arrangements given their risk profile and systemic importance (including reviewing any recovery plans) and their likely feasibility during periods of stress. The supervisor seeks improvements if deficiencies are identified.
Description and findings re EC13	<p><b>Recovery plans</b></p> <p>Pursuant to Article 49 of the BL, at the request of the CBU, banks develop and submit a recovery plan, containing measures to restore financial health in the event of its deterioration. A bank must update the recovery plan annually or after changes in the bank's organizational structure, operations or financial position that may affect the recovery plan. The bank's recovery plan should reflect the impact of macroeconomic and financial crisis scenarios on the bank's activities, including systemic events and risks for the bank. It should also include a list of measures and indicators that determine the positions under which appropriate decisions should be made. The CBU, within three months from the bank's submission, reviews the recovery plan, assessing:</p> <ul style="list-style-type: none"> <li>• preservation and (or) restoration of the financial position while implementing the measures specified in the recovery plan;</li> <li>• ability to quickly and effectively implement the measures outlined in the recovery plan in the context of a financial crisis and reduce negative impacts on the banking and financial system.</li> </ul> <p>If the recovery plan does not meet the above criteria, the CBU can require the bank to: (i) revise the recovery plan; (ii) make changes and additions to it; (iii) change activities to eliminate recovery deficiencies or obstacles to its implementation; (iv) reduce the risk profile; (v) recapitalize the bank; (vi) revise the strategy; (vii) change the organizational structure or risk management.</p> <p>The parent bank of a banking group should develop a banking group recovery plan that includes measures taken at the group level to restore its financial position after a deterioration. The banking group recovery plan must comply with the requirements of the banking and banking legislation.</p> <p>BL Article 49 delegated the CBU to establish the requirements for the content and updating, the procedure for submitting and evaluating the bank recovery plan; however, the <b>CBU has not issued a Regulation on recovery plans</b>. Banks have not submitted recovery plans to the CBU.</p> <p>At the same time, Article 21 of the RRM stipulates that based on the results of the stress testing, the bank must develop an emergency funding plan to foresee measures to be taken in case of liquidity shortfalls.</p>



	<p>In addition to the above, the amendments to the RRM registered by the MOJ (January 2025) stipulates that internal procedures for managing operational risk should include a plan to ensure the continuity and restoration of the bank's activities (see CP25, EC5). This plan is aimed at maintaining the bank's operational activity in the event of extraordinary and unforeseen operational interruptions.</p> <p>Although the existing regulation describes different requirements for banks' restoration, supervisors generally obtain restoration plans, emergency finding plans or plans for banks capitalization.</p> <p>The assessors were provided with some examples of business continuity plans; however, no evidence was provided about the CBU's assessment of them (see CP25).</p> <p>As stated under CP24, EC6, the CBU assesses liquidity contingency funding plans once a year, prior to assessing the bank's risk profile. The assessment of this plan is incorporated into the overall liquidity risk assessment.</p>
<b>EC14</b>	<p>The supervisor requires banks to have forward-looking stress testing programmes covering all material risks commensurate with their risk profile and systemic importance as an integral part of their risk management process. At a minimum, banks' stress testing programmes cover credit risk, market risk, interest rate risk in the banking book, liquidity risk, country and transfer risk, operational risk and significant risk concentrations. The supervisor regularly assesses a bank's stress testing programme and determines that it captures all material sources of risk and adopts plausible adverse scenarios. The supervisor also determines that the bank integrates the results into its decision-making, risk management processes (including contingency arrangements) and the assessment of its capital and liquidity levels. The supervisor requires corrective action if material deficiencies are identified in a bank's stress testing programme or if the results of stress tests are not adequately considered in the bank's decision-making process. Where appropriate, the scope of the supervisor's assessment includes the extent to which the stress testing programme:</p> <ul style="list-style-type: none"> <li>(a) promotes risk identification and control on a bank-wide basis;</li> <li>(b) adopts suitably severe assumptions and seeks to address feedback effects and system-wide interaction between risks;</li> <li>(c) benefits from the active involvement of the board and senior management; and</li> <li>(d) is appropriately documented and regularly maintained and updated.</li> </ul>
Description and findings re EC14	<p>The RRM Article 14 states that stress testing should be done to complement the risk measurement system by estimating the potential loss of the bank in unusual and/or stressed market conditions by using scenarios to see the sensitivity of the bank's performance to changes in risk factors and identifying influences that can have significant impact on the bank's portfolios. To implement stress-tests banks must prepare and approve procedures which must include:</p> <ul style="list-style-type: none"> <li>1. list of risks that are subject to stress testing;</li> <li>2. methodology and tools for stress testing of credit, liquidity, market and operational risks;</li> </ul>

	<ol style="list-style-type: none"> <li>3. dedicated unit to perform stress-test;</li> <li>4. management information procedure.</li> </ol> <p>In developing scenarios and assumptions of stress testing, banks are guided by the following:</p> <ol style="list-style-type: none"> <li>1. scenarios must include all significant risks to which the bank is potentially exposed;</li> <li>2. the bank shall consider the relationship of various types of risks; takes a conservative approach in determining the assumptions of stress testing;</li> <li>3. consider severe changes in market conditions, such as: lack of access to capital markets; reduction in the cost of energy; depreciation of the national currency; real estate market crisis; change in rates; agricultural crisis; rising inflation expectations; increasing unemployment and lower incomes; decrease in market value of assets.</li> </ol> <p>According to the RRM the stress tests must be carried out <b>on a quarterly basis</b> for credit, market, liquidity and operational risk. The results of the stress test as well as proposed actions to minimize the negative impact, are communicated and discussed with the senior management of the bank and the units involved in the liquidity risk management process. The supervisory board shall integrate the results of the stress testing process into the strategic and budget planning process of the bank. The results of stress testing shall be used to establish internal limits. The supervisory board shall consider the results of stress testing in the process of maintaining capital and liquidity adequacy in the event of unforeseen circumstances.</p> <p>Banks provides CBU with the models, scenarios, and the results of stress tests. If supervisors find any deficiency, they may require banks to revise stress tests and improve stress testing programs or improve the usage of the outputs in the risk management and corporate governance.</p> <p>The CBU challenged banks' stress tests of banks conducted without proper consideration of the risk profile and sent an instruction to banks with a requirement to develop and approve stress test scenarios for the next year.</p> <p>The assessors noted that requiring to all banks to run stress tests every quarter credit, market, liquidity and operational risk might not be fully risk-based and could even affect the quality, comprehensiveness, and meaningfulness of a such complex exercise. The CBU agreed and the revised RRM has reduced the frequency of the stress test to annual (par. 15).</p>
<b>EC15</b>	The supervisor assesses whether banks appropriately account for risks (including liquidity impacts) in their internal pricing, performance measurement and new product approval process for all significant business activities.
Description and findings re EC15	According to Article 22 of the RRM the risk management system in the bank should ensure reasonable pricing of the bank's products, taking into account the level of risks and costs assumed.

	<p>The On-Site Inspection Department periodically conducts inspections on banks' pricing models, to assess if banks have proper mechanisms in place for internal pricing and performance evaluation, and whether new activities and products have been reviewed and approved by the supervisory board and management board.</p>
<b>Assessment of Principle 15</b>	<b>Largely Compliant</b>
Comments	<p>The CBU has issued (April 2023) a regulation regarding the implementation of risk management that set out its expectations for banks to have a comprehensive risk management process (including effective board and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. The recent framework appears to be adequate for the currently defined material risk areas (credit, liquidity, market, operational and compliance).</p> <p>During, the mission the assessors were provided with the amendments to the RRM released for consultation. The amendments were registered by the MOJ (January 2025) and will become effective by April 2025. They improve the regulatory framework by: i) expanding the risk coverage to IRRBB, country risk' and operational resilience related risk (see concerned CPs); (ii) requiring board's approval for large exposures (see CP 17, EC6); (iii) introducing new duties for the risk management units, namely back testing of internal models (see EC6 of this CP) and avoidance of reliance on external ratings (see CP16, EC3); (iv) and providing for mandatory notification to the CBU of the CRO removal (see EC 11 of this CP)</p> <p>It is worth mentioning that the amendments to the RRM do not foresee the introduction of risks related to digitalization or climate-related financial risks. However, the CBU shared a draft strategy on climate related financial risks.</p> <p>The CBU introduced regular assessments of banks' risk profile. The methodology for the assessment is described in the GRBS. This supervisory manual sets out a range of modalities, where supervisors must assess the implementation of risk management through a comprehensive and structured analysis that includes an assessment of inherent risk and quality of risk management implementation. The annual risk assessment of a bank should cover corporate governance and the risk management.</p> <p><b>Findings</b></p> <ul style="list-style-type: none"> <li>the CBU has not issued a regulation to determine content, updating and procedure for submitting recovery plans.</li> <li>the CBU has introduced '<i>Requirements for internal capital adequacy assessment procedures</i>' (RRM article 67-71, but they are optional for all banks, regardless of size and domestic systemic importance</li> <li>notwithstanding the recent amendments to the RRM, the assessors could not find evidence that the CBU determines that (i) banks perform regular and</li> </ul>

	<p>independent validation and testing of the models (ii) the banks' boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use.</p> <ul style="list-style-type: none"> <li>the revised RRM does not contain requirement to publicly disclose the CRO's removal</li> </ul> <p><b>Recommendations:</b> The CBU should:</p> <ul style="list-style-type: none"> <li>Introduce a regulation for the preparation and submission of recovery plans.</li> <li>make mandatory for D-SIBs <i>Requirements for internal capital adequacy assessment procedures</i></li> <li>determine that (i) banks perform regular and independent validation and testing of the models, and (ii) the banks' boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use</li> <li>introduce the requirement to publicly disclose the CRO's removal</li> </ul>
<b>Principle 16</b>	<b>Capital adequacy.</b> <sup>45</sup> The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken and presented by a bank in the context of the markets and macroeconomic conditions in which it operates. <sup>46</sup> The supervisor defines the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, capital requirements are not less stringent than the applicable Basel standards.
<b>Essential criteria</b>	
<b>EC 1</b>	Laws, regulations or the supervisor require banks to calculate and consistently observe prescribed capital requirements, including thresholds with reference to which a bank might be subject to supervisory action. Laws, regulations or the supervisor define the qualifying components of capital, ensuring that emphasis is given to those elements of capital permanently available to absorb losses on a going concern basis.
Description and findings re EC1	<p>Banks are required by Law to calculate and consistently observe prescribed capital requirements.</p> <p>CBL Article 61 empowers the CBU to establish '<i>the procedure for calculating permissible value of prudential standards</i>'. BL makes banks' board accountable for maintaining capital adequacy at the proper level (Article 35) and obliges banks to comply with the capital adequacy prudential standards, the calculation procedure, and the permissible values determined by the CBU (Article 38).</p>

<sup>45</sup> Reference documents: BCBS, High-level considerations on proportionality, July 2022; BCBS, Guiding principles for the operationalization of a sectoral countercyclical capital buffer, November 2019; (SCO10), (SCO30), (CAP10), (CAP30), (CAP50), (CAP99), (RBC20), (RBC30), (RBC40), (LEV10), (LEV20), (LEV30), (SRP10), (SRP20).

<sup>46</sup> Implementation of the Basel Framework is not a prerequisite for compliance with the Core Principles. Compliance with the Basel Framework capital adequacy regimes is only required of those jurisdictions that have declared that they have voluntarily implemented it.

	<p><b>Capital Adequacy Requirements</b></p> <p>Uzbekistan transitioned to Basel III and banks operate under the credit risk standardized approach, market risk standardized approach, and operational risk basic indicator approach (BIA). Capital Adequacy Requirements are higher than that prescribed by the Basel Framework. Considering also the Capital Conservation Buffer of 3 percent of RWA, which is subsumed into the total capital requirement, they are set at the below level:</p> <ul style="list-style-type: none"> <li>• <math>K1 = RC / TRWA</math> – Regulatory Capital to Total Risk Weighted Assets is <b>13 percent</b></li> <li>• <math>K2 = Tier\ I / TRWA</math> – Tier 1 Capital to Total Risk Weighted Assets is <b>10 percent</b></li> <li>• <math>K3 = CET\ 1 / TRWA</math> – CET 1 Capital to Total Risk Weighted Assets is <b>8 percent</b></li> </ul> <p>As at 1.1.24, the banking system CAR stood at 17.5 percent (versus a minimum requirement of 13 percent).</p> <p><b>Qualifying components of capital</b></p> <p>The Regulation on Capital Adequacy Requirement for Commercial Banks No. 2693/2025 (RCAR) defines the <b>qualifying components of capital</b> (Chapter 3 '<i>The structure of capital</i>'). Regulatory capital comprises the sum of Tier 1 and Tier 2 capital. The distribution of Tier I and 2 capital is equal, with each comprising 50% (until December 2022, <i>Tier II capital was limited to 25 percent</i>). Tier I capital consists of Common Equity Tier I (CET 1) and additional Tier I capital (AT1).</p> <p>The assessors examined the various components of capital and found that some characteristics are missing for the inclusion of (i) common shares in CET1, (ii) instruments in AT1, and (iii) obligations in Tier II. Nonetheless, the CBU shared a <u>draft amendment to the RCAC</u> to address these and other deficiencies. The amendment will strengthen some eligibility criteria and expand the regulation adjustment. Below is an analysis of each component.</p> <p><b>Common Equity Tier 1</b></p> <p>CET 1 includes:</p> <p>a) fully paid <b>ordinary shares</b> or instruments equivalent to ordinary shares when establishing a bank other than a joint-stock company. Such instruments shall meet the following criteria:</p> <ul style="list-style-type: none"> <li>• when a bank is liquidated, the claim on these shares will be met after all other claims are met (claims of the depositors and other creditors of the bank, subordinated debt, preferential shares, etc.)</li> <li>• the owners shall have the right to receive a portion of the bank's remaining assets proportional to their shareholding, after all claims have been satisfied upon liquidation of the bank</li> <li>• the instruments must be perpetual and not subject to redemption, except in cases of repurchase as provided by legislative acts</li> <li>• upon its issue, the bank should not intend to buy or repay these shares, and legal &amp; contractual requirements should not have such provisions</li> </ul>
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	<ul style="list-style-type: none"> <li>the shares shall not be guaranteed or secured by the issuer or any related parties, and in the event of the bank's liquidation, no contract shall alter their payment order (subordination).</li> </ul> <p>The assessors compared these features with the <i>Basel Framework paragraph 10.8</i> and found that the <u>full alignment</u> with the capital framework requires modification in the <u>distribution</u> features: the level of distributions should not be in any way tied or linked to the amount paid in at issuance; there should not be circumstances under which the distributions are obligatory; there should not be preferential distribution). As regards the criterion that the issuing bank cannot directly or indirectly fund the instrument or the purchase of it, the CBU pointed out that such requirement is directly covered by the BL Article 13.</p> <p>The other CET 1 components are fully compliant with the Basel framework and include: (i) Share premium, (ii) Retained earnings (loss), and (iii) minority interests. Moreover, banks can include in CET 1 a revaluation reserve developed from retained earnings to cover its liabilities in cases of dramatic depreciation of the national currency.</p> <p><b>Additional Tier I</b></p> <p>Additional Tier I capital includes:</p> <p>a) fully paid non-cumulative perpetual preferred stock. Such shares:</p> <ul style="list-style-type: none"> <li>shall not have specific redemption date or conditions</li> <li>cannot be redeemed by the owner's request</li> <li>are satisfied after meeting the claims of bank's depositors, creditors and subordinated debt upon bank's liquidation</li> <li>should not be put as guarantee or collateral for other assets by the issuer or its affiliates</li> <li>have dividends that can be unpaid in accordance with the decision of the general meeting of shareholders</li> <li>dividends of the previous period can also be unpaid</li> <li>can be redeemed by the bank only after the CBU authorization, after at least than 10 years from the issuance and should be replaced with the same type of capital or with higher quality, providing that the bank's capital is higher than minimal capital requirements</li> </ul> <p>The assessors compared these features with the Basel Framework paragraph. 10.11 and found that also these criteria need <b>some integration for the inclusion as AT1</b>. Among them, it is worth mentioning:</p> <p>II. <b>dividend/coupon discretion</b> (cancellation of discretionary payments must not be an event of default,);</p> <p>III. the fact that <b>a related party</b> to the bank should not have purchased the instrument (BL Article 13 does not cover this requirement).</p> <p>Other AT1 components include: (i) Preferential share if the dividend rates do not vary due to the change in the rating of the banks (credit sensitive dividend feature); (ii) Share premium over preferential shares; and (ii) minority interests on Tier 1 capital instruments.</p>
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	<p>However, it should be noted that there are no AT1 instruments in circulation in Uzbekistan and, also in view of the proportionality and materiality principles, this finding has not been weighted for grading purposes.</p> <p><b>TIER 2</b></p> <p>Tier II capital includes:</p> <ul style="list-style-type: none"> <li>a) net profit for the current year. The Basel framework (par. 10.7) allows banks to include retained earnings (interim profit or loss) even in the CET1, but national authorities are recommended to consider appropriate audit, verification or review procedures.</li> <li>b) reserves created for standard loans (see CP 18) in the amount of not more than 1.25 percent of the amount of risk weighted assets (RWA) after deductions</li> <li>c) obligations of mixed type (instruments with the characteristics of equity and borrowed capital), up one third (1/3) of Tier I capital after deductions, if: <ul style="list-style-type: none"> <li>• they are fully paid; not backed with collateral; satisfied after all claims of the bank's depositors and other creditors are met upon bank's liquidation; can be redeemed with CBU prior consent; cover all the reserves of the bank and do not give right to declare the bank default;</li> <li>• payment of dividends (interest) may be delayed at the discretion of the issuer if the bank has not received income during the last 3 quarters, or if a decision has been made to not pay dividends (interest) on the preferred or common shares.</li> </ul> </li> </ul> <p>However, the assessors found that for the <b>redemption</b> of such obligations of mixed type under letter c), the RCAR only requires the prior consent of the CBU, while the Basel Framework (para. 10.16 n. 5) permits a bank to call these instruments as long as it replaces them with capital of the same or better quality and the replacement is done at conditions which are sustainable for the income capacity of the bank; or if the bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.</p> <p>A major deviation from the Basel Framework relates to <b>subordinated debts</b> (Chapter, Para. 13, letter d), as they can be included in the Tier 2 capital even though they do not meet the writing-off/conversion requirement (e.g. <i>written off or conversion into CET 1 upon the occurrence of a trigger event</i>; Basel Framework par. 10.16 n. 10). The CBU highlighted that draft RCAR will envisage this condition. In Uzbekistan subordinated debt must be raised from legal entities (no physical person). They are about 1/3 of the Tier 2.</p> <p>Moreover, Tier 2 can be composed of <b>revaluation reserves</b> capped at 45% of the difference between the assessed value of the assets and their original cost. It should be noted that revaluation reserves are just 0.4 percent of total capital.</p> <p>As regards <u>regulatory adjustments</u>, the following elements shall be deducted from Common Equity Tier 1 capital:</p> <ul style="list-style-type: none"> <li>• intangible assets with the exception of bank's software</li> </ul>
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	<ul style="list-style-type: none"> <li>sum of all investments to the non-consolidated group entities, including obligations, which form the capital of such entities. This excludes investments made <u>until December 1, 2023</u> to finance the launch of renewable (energy-saving) energy sources, including large solar and wind power plants, solar panels, and small photoelectric plants;</li> <li>investment in the capital of other banks.</li> </ul> <p>Breach of minimum capital adequacy requirements is a gross violation which triggers supervisory actions described under CP11, EC5.</p>
<b>EC2</b>	At least for internationally active banks, <sup>47</sup> the definition of capital, the risk coverage, the method of calculation and thresholds for the prescribed requirements are not lower than those established in the applicable Basel standards.
Description and findings re EC2	<p>There are no internationally active banks in Uzbekistan. There are 7 D-SIBs. As regards the definition of capital, see EC1.</p> <p><b>Risk Coverage</b></p> <p>Capital requirements cover credit, market, and operational risks. Capital requirements for operational risk are calculated under the old version of the Basel Framework, e.g. the basic approach (15 percent of the average sum of gross income of the bank for the last three years). The CBU is cognizant that this approach might lack a risk-based component (for example, if a bank was to experience a huge operational loss which reduces its income, paradoxically its capital requirement for operational risk diminishes, instead of increasing). Therefore, the CBU plans to move to the new <b>standardized approach for operational risk</b>; however, considering the <b>lack of a sufficient historical series on operational losses</b> (only one year is available) the CBU plans to apply only the business indicator component (BIC), without the Internal Loss Multiplier (ILM).</p> <p><b>Method of calculation</b></p> <p>RCAR Appendices I, II, III, IV, and V provide methods for risk weight calculation. The assessors compared them with the Basel Framework Standardized approach – Individual Exposures (CRE20) and found that two assets' classes deserve a slightly higher risk weight, even though the materiality of these exposure in the banks' portfolio is limited.</p> <ul style="list-style-type: none"> <li><u>Corporate bonds issued by mortgage refinancing companies.</u> They are risk weighted by 20 percent, instead of 40, 75 or 150 percent, depending on the bank's due diligence. There is one mortgage refinancing company (MRC) in</li> </ul>

<sup>47</sup> Capital adequacy requirements for internationally active banks should be applied on a fully consolidated basis, including any holding company that is the parent entity within a banking group. The framework will apply to all internationally active banks at every tier within a banking group, on a fully consolidated basis. As an alternative to full sub-consolidation, the application of this framework to the standalone bank (ie on a basis that does not consolidate assets and liabilities of subsidiaries) would achieve the same objective, providing the full book value of any investments in subsidiaries and significant minority-owned stakes is deducted from the bank's capital. Supervisors must also test that individual banks are adequately capitalised on a standalone basis.



	<p>Uzbekistan. It is subject to prudential standards and a level of supervision equivalent to those applied to banks; therefore, banks' exposure to the MRC could be considered as an '<i>exposure to financial institutions</i>' (Basel Framework, para. 20.40). Such exposure would then attract the same risk weight of exposures to banks incorporated in jurisdictions that allow the use of external ratings for regulatory purposes (Uzbekistan does allow it). Since the MRC is unrated, banks should apply the Standardized Credit Risk Assessment Approach (SCRA) and classify the MRC into one of three risk-weight buckets envisaged by Basel Framework para. 20.21 Table 7. The risk weight should then be 40, 75 or 150 percent, depending on the banks' assessment.</p> <ul style="list-style-type: none"> <li>• <u>Exposures to Microfinance Institutions (MFI)</u>. In 2023 the risk weight has been reduced from 100 percent to 75 percent. According to the CBU such a decision was motivated by the fact that the final borrower is a physical person or a SME (and hence similar to regulatory retail risk exposure). Although the Basel framework does not directly envisage a prudential treatment for banks' exposures to MFI, the assessors express the view that these exposures could be treated as exposures to '<u>other financial institutions</u>' (Basel Framework, par. 20.40). As MFI in Uzbekistan are not subject to prudential standards and a level of supervision equivalent to those applied to banks (including capital and liquidity requirements), these exposures should be treated as exposures to corporates, attracting a RWA of 100 percent. To be noted that at the date of the assessment banks' exposure to MFI is not material as it is equal to only 0.4 percent of total banks' exposure.</li> </ul> <p><b>Exposure to corporates</b></p> <p>With Board resolution 42/25 adopted in December 2023, loans to legal entities are risk weighted depending on the annual interest rate. RW varies from 100 percent to 200 percent. The Basel framework does not apply this criterion, because exposures to corporate risk are weighted based on the external rating. However, since the minimum level of RW (100) in Uzbekistan is equal to the prudential treatment that the Basel framework envisages for exposure to unrated corporates (100), the assessors considered such an approach prudent.</p> <p><b>Residential real estate exposures</b></p> <p>For residential real estate exposures, the RCAR provides a risk weighted regime that apparently is <u>more conservative</u> than that envisioned by the Basel Framework for '<i>regulatory real estate exposures</i>'; nevertheless, such a prudent approach is justified by the risk associated with the local residential real estate market. As indicated under CP8, EC5 the housing market in Uzbekistan is currently experiencing overvaluation, with housing prices on average 28 percent higher than the fundamental prices. <b>Multiple social programs, some involving subsidies, make it challenging for the CBU to</b></p>
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**assess the default experience and credit losses** associated with the exposures to the real estate market, as requested by the Basel Framework (para. 20.72).

The below tables show the difference between the domestic regime and the Basel Framework: in Uzbekistan the risk weight starts from 35 percent (instead of 20 percent) and could reach up to 150 percent (instead of 70 percent), depending not only on the **LTV**, but, from July 2024, also on the **DSTI**.

**Risk levels on loans to individuals for the purchase of a mortgage starting from July 1, 2024, in Uzbekistan**

Description		DSTI	
		$DSTI \leq 60\%$	$60\% < DSTI$ or impossible to determine DSTI
LTV	$LTV < 50\%$	35%	50%
	$50\% \leq LTV < 75\%$	50%	100%
	$75\% \leq LTV < 100\%$	100%	150%
	$100\% \leq LTV$	150%	150%

Risk weights for regulatory residential real estate exposures that are not materially dependent on cash flows generated by the property (Basel Framework)

Whole loan approach risk weights for regulatory residential real estate exposures that are not materially dependent on cash flows generated by the property

Table 11

	$LTV \leq 50\%$	$50\% < LTV \leq 60\%$	$60\% < LTV \leq 80\%$	$80\% < LTV \leq 90\%$	$90\% < LTV \leq 100\%$	$LTV > 100\%$
Risk weight	20%	25%	30%	40%	50%	70%

However, the CBU does not distinguish residential real estate exposures (i) *that are NOT 'materially dependent on cash flows generated by the property'* from those (ii) *that are*

	<p><i>"materially dependent on cash flows generated by the property" (Basel Framework para. 20.70).</i></p> <p>Banks <b>calculate the LTV</b> in accordance with Chapter 6 of the Regulation on the Conditions for Granting Mortgage Loans to Individuals No. 3269/2020. LTV is the ratio of the loan amount to the real estate collateral value, e.g. <i>'the price of real estate formed based on market prices, including future losses, and assessed by an appraisal organization or determined in another manner not prohibited by law'</i>. Collateral value should be updated <u>every three years</u> or when there are significant changes in the real estate market.</p> <p>The appraisal must be carried out in accordance with the procedure established by the <b>'Law about evaluation of activities'</b>. This Law:</p> <ol style="list-style-type: none"> <li>1. sets forth minimal requirements of <b>independence</b> for the <u>evaluation organization</u>, e.g. protecting it from interference by interested parties. It also requires a minimum number of appraisers with appropriate qualifications, the existence of the authorized fund, and an insurance policy (Art. 4).</li> <li>2. requires that the appraiser has a qualification certificate issued by an authorized body (Article 5) and prevent him/her from being founder/participant in more than one evaluation organization. It also identifies cases where the appraisal is not admissible due to <b>conflict of interest</b> between the client and the evaluation organization (Article 16),</li> <li>3. defines the <b>market value</b> as the most probable price in the conditions of competition in the open market, where the parties of the transaction act rationally and voluntarily in the direction of their interests, having all the necessary information (Article 7); and it requires, if a value different from the market value is determined, to specify the criteria for determining such a value and the reasons for rejecting the market value (Article 17).</li> <li>4. <i>identifies</i> the <b>evaluation standards</b> as the set of interrelated norms and rules, which determine concepts and principles of assessment; terms and definitions; requirements for value types; information requirements; assessment procedures; characteristics of the assessment methods; requirements for formalize the result (Article 9).</li> <li>5. Enunciates the <b>rights of evaluation organizations</b> (independent application of methods, use of the documents necessary for carrying out the evaluation, involve other evaluators and experts) <b>and their obligations</b> (compliance with legal requirements for assessment activities, ensure the confidentiality of information received from the customer, annual training courses (Article 14 and 15)).</li> <li>6. provides for mandatory requirements of the <b>contract of evaluation</b> (Article 13) and the <b>evaluation report</b> (Article 17). The evaluation report should indicate the standards, the data used and their sources, and the limits of application of the obtained result. The value of the evaluation has the nature of a recommendation.</li> </ol> <p><i>Notwithstanding these valuable requirements, the assessors could not find reference <b>to the 'prudent conservative evaluation criteria'</b> highlighted by the Basel framework, para. 20.75 letter b), e.g. 'to ensure that the value of the property is appraised in a prudently conservative manner, the valuation must exclude expectations on price increases and must be adjusted to take into account the potential for the current market price to be significantly above the value that would be sustainable over the life of the loan. National supervisors</i></p>
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	<p>should provide <b>guidance setting out prudent valuation criteria</b> where such guidance does not already exist under national law.</p> <p>Credible collateral valuations, including appraisals, are essential to the integrity of the residential real estate lending process. Deficiencies identified in valuations may be a basis for questioning the credibility of the appraisal or the valuation report integrity. The banks' use of third parties in the valuation review process does not diminish its responsibility to comply with applicable laws and regulations. In view of the warning raised the CBU's Financial Stability Department, which pointed out that the significant imbalance between the high demand - stimulated by preferential mortgage loans, government subsidies, and the migration process driven by geopolitical tension - and the constrained supply (Financial Stability Report 2023/1), the assessors expressed the view that banks should be recommended to request a revision of the evaluation to the appraiser, whenever the report appear to be based upon deficiencies or information that may affect the conclusion (for example, comparable properties not previously identified, property characteristics, or other information that may have been incorrectly reported or not previously considered)</p> <p><b>Car Loans</b></p> <p>In response to the rapid growth of car loans, the CBU recalibrated RWA that, from July 2024, depends not only on the LTV, but also the DSTI. However, doubts persist about the reliability of the DSTI, that could be higher than estimated, since 'buy now pay later' (BNPL) offered by dealers is underreported to the credit registry (see CP17). The collateral value of the vehicle is the price agreed upon in the collateral agreement.</p> <p><b>Risk levels for car loans allocated to individuals starting from July 1, 2024</b></p> <table><tr><th colspan="2" rowspan="2">Description</th><th colspan="2">Debt service to income of individuals (DSTI)</th></tr><tr><th>DSTI ≤ 60%</th><th>60% &lt; DSTI impossible to determine DSTI</th></tr><tr><td rowspan="2">LTV</td><td>LTV ≤ 75%</td><td>100%</td><td>150%</td></tr><tr><td>75% &lt; LTV</td><td>150%</td><td>200%</td></tr></table> <p>Finally, it should be also pointed out that CBU phased out a <b>green supporting factor</b>, which enabled banks, <i>until December 1, 2023</i>, to risk weight at 0 percent loans allocated to individuals and legal entities for launching renewable (energy-saving) energy sources, including large solar and wind power plants, solar panels, and small photoelectric plants. This practice was inconsistent with the Basel framework</p>	Description		Debt service to income of individuals (DSTI)		DSTI ≤ 60%	60% < DSTI impossible to determine DSTI	LTV	LTV ≤ 75%	100%	150%	75% < LTV	150%	200%
Description				Debt service to income of individuals (DSTI)										
		DSTI ≤ 60%	60% < DSTI impossible to determine DSTI											
LTV	LTV ≤ 75%	100%	150%											
	75% < LTV	150%	200%											
EC3	The supervisor has the power to impose a specific capital charge and/or limits on all material risk exposures, if warranted, including in respect of risks that the supervisor considers not to have been adequately transferred or mitigated through transactions (eg securitization transactions) entered into by the bank. Both on-balance sheet and off-balance sheet risks are included in the calculation of prescribed capital requirements.													
Description and findings re EC3	As indicated under CP1, EC3, the CBU has the ' <i>right to establish additional premiums to the values of liquidity and capital adequacy ratios for banks, banking groups and systemically important banks, to cover potential losses arising from maximum changes in risk factors</i> ' (Article 38 of the BL).													

	<p>Moreover, RCAR (Chapter 2) mandates the CBU to require the banks to increase the size of their regulatory capital in the following cases:</p> <ul style="list-style-type: none"> <li>• unsatisfactory financial situation that may lead to unsecured and unstable banking activity</li> <li>• unsatisfactory forecasts of bank's profits</li> <li>• high level of banking risks and off-balance items.</li> </ul> <p>The CBU may also require banks to ensure a higher capital adequacy coefficient based on the risks inherent in their activities, economic conditions, and financial position. Such risks include, but are not limited to, large amounts of NPLs, net losses, high asset growth, high risk of interest rate risk, or risk-based activities RCAR Chapter 7, para. 39).</p> <p>Banks in Uzbekistan do not use securitization, due to the underdevelopment of the securities market and the lack of regulatory legal acts on asset securitization.</p> <p>Off-balance sheet items are also included in the calculation of prescribed capital requirements, through the credit conversion factor mechanism (RCAP Chapter 5), whose values (100, 50 and 20 percent) are consistent with the Basel Framework.</p>
<b>EC4</b>	<p>The prescribed capital requirements reflect the risk profile and systemic importance of banks in the context of the markets and macroeconomic conditions in which they operate, constrain the build-up of leverage in banks and the banking sector, and reduce the risk of contagion. In assessing the adequacy of a bank's capital levels given its risk profile, the supervisor focuses, among other things, on:</p> <ol style="list-style-type: none"> <li>the potential loss absorbency of the instruments included in the bank's capital base;</li> <li>the appropriateness of risk weights as a proxy for the risk profile of its exposures;</li> <li>the adequacy of provisions and reserves to cover expected losses; and</li> <li>the quality of its risk management and controls.</li> </ol> <p>Consequently, capital requirements may vary from bank to bank to ensure that each bank is operating with the appropriate level of capital to support its risk profile. Laws, regulations or the supervisor in a particular jurisdiction may set higher overall capital adequacy standards than the applicable Basel requirements.</p>
Description and findings re EC4	<p>Capital requirements do not yet reflect the banks' risk profile and systemic importance as they are set at the same level for all banks. CBU has not developed and implemented a <b>Pillar 2 methodology</b> to calibrate capital add-ons to banks' risk profile.</p> <p>The only exception was a CBU board decision that, back in 2019, required an additional 100 basis points of capital to some banks identified as 'high risk' based on a stress test result. Such a decision was never updated and even today 10 banks are requested to hold a CAR of 14 percent.</p> <p>The CBU has been transitioning to risk-based supervision and will consider a Pillar 2 methodology at the next stage. It should also be noted that, although the CBU has</p>

	<p>developed and tested the methodology for identifying D-SIBs (see CP8, EC2), <b>it has not yet applied a systemic risk buffer to D-SIBs</b>. However, there is a plan to implement a capital buffer for D-SIBs.</p> <p>Adequacy of provisioning, appropriateness of RWA calculation, quality of risk management and control are assessed by the curators but not used to calibrate capital requirements to banks' risk profile.</p> <p>As stated under EC1, capital adequacy requirements are higher than the applicable Basel framework.</p>
EC5	<p>The use of banks' internal assessments of risk as inputs to the calculation of regulatory capital is approved by the supervisor. If the supervisor approves such use:</p> <ul style="list-style-type: none"> <li>(a) such assessments adhere to rigorous qualifying standards;</li> <li>(b) any cessation of such use or any material modification of the bank's processes and models for producing such internal assessments are subject to the approval of the supervisor;</li> <li>(c) the supervisor has the capacity to evaluate a bank's internal assessment process to determine that the relevant qualifying standards are met and that the bank's internal assessments can be relied upon as a reasonable reflection of the risks undertaken;</li> <li>(d) the supervisor has the power to impose conditions on its approvals if the supervisor considers it prudent to do so; and</li> <li>(e) if a bank does not continue to meet the qualifying standards or the conditions imposed by the supervisor on an ongoing basis, the supervisor has the power to revoke its approval.</li> </ul>
Description and findings re EC5	NA
<b>EC6</b>	<p>The supervisor has the power to require banks to adopt a forward-looking approach to capital management (including the conduct of appropriate stress testing). The supervisor has the power to require banks:</p> <ul style="list-style-type: none"> <li>(a) to set capital levels and manage available capital and planned capital expenditures in anticipation of possible business cycle effects, market conditions and changes in factors specific to the bank that could have an adverse effect; and</li> <li>(b) to have in place feasible contingency arrangements to maintain or strengthen capital positions in times of stress, as appropriate given the risk profile and systemic importance of the bank.</li> </ul>
Description and findings re EC6	<p>As stated under CP15, EC5, the RRM Chapter 6 introduces 'requirement for internal capital adequacy assessment procedures (Article 67-71), but it makes them as an <b>option</b> for all banks, regardless of their size and complexity (see CP15) . This Articles empowers the CBU to require banks to adopt a forward-looking approach to capital management (capital plan, business cycles, and contingency arrangements etc.). The CBU provided</p>

	<p><b>evidence of using this power:</b> as an outcome of the risk-assessment conducted, it recently required banks to prepare the ICAAP (see CP8, EC1), but it has not received it yet. Banks conduct internal stress testing.</p> <p>ICAAP should be developed based on the bank's strategy and should enable banks to continuously assess the adequacy of their capital level as compared to their risk profile.</p> <p>Bank should establish internal capital adequacy requirements considering risk profile, risk appetite, quality of risk management system, strategic objectives and the economic situation in the country. The RRM emphasizes the relation between strategic objectives and macroeconomic factors.</p> <p>RRM requires the banks' Supervisory Board to approve the capital plan, which includes:</p> <ul style="list-style-type: none"> <li>• a description of the capital planning process and the tasks of the relevant structural units in it</li> <li>• the methods used by the bank to meet capital requirements</li> <li>• all internal capital adequacy limits</li> <li>• measures to be taken in case of unforeseen events, including capital increases and decreases.</li> </ul> <p>However, considering that this regulation entered only recently into force, the concrete implementation of ICAAP has not started yet (CBU has not received yet the first ICAAP by banks)</p> <p>The RRM sets forth stress testing requirements (see CP15, EC14).</p> <p>Moreover, the Financial Stability Department has been monitoring the international experience with the use of CCyB to help maintain the supply of credit to the real economy during the materialization of financial vulnerabilities and to enhance the resilience of the overall banking system to cyclical systemic risks that accumulate during periods of excessive credit growth. The Department is also analyzing the experience of sectoral CCyB, determined based on the relevant risk exposure in the targeted segment (for example a buffer aimed at reducing vulnerabilities in the real estate market), which makes the CCyB for specific sectors more targeted and flexible than broad-based macroprudential tools.</p>
<b>EC7</b>	<p>Laws or regulations require, or the supervisor has the power to impose a simple, transparent, non-risk-based measure that captures all on- and off-balance sheet exposures to supplement risk-based capital requirements to constrain the build-up of leverage in banks and in the banking sector.</p>
Description and findings re EC7	<p>Along with the capital adequacy requirements, RCAR imposes banks to comply with the <b>leverage ratio</b>, defined as the ratio of Tier I capital to total assets. The leverage ratio is set up at <b>6%</b> (double that Basel Framework). Its computation includes in the denominator '<i>contingency accounts</i>' e.g. off balance sheet items, that are the main source of leverage and are generally converted through a 100 percent credit conversion factor, except for (i) derivatives (which are measured as per the "<i>initial exposure method</i>" used for capital adequacy purposes) and (ii) any commitments that are unconditionally</p>

	cancellable at any time by the bank without prior notice, shall attract a credit conversion factor of 10%
<b>Additional criteria</b>	
<b>AC1</b>	For non-internationally active banks, capital requirements, including the definition of capital, the risk coverage, the method of calculation, the scope of application and the capital required, are broadly consistent with the principles of the applicable Basel standards relevant to internationally active banks.
Description and findings re AC1	There are no internationally active banks in Uzbekistan. For definition of capital, the risk coverage, the method of calculation, the scope of application, see EC2.
<b>AC2</b>	The supervisor requires adequate distribution of capital within different entities of a banking group according to the allocation of risks. <sup>48</sup>
Description and findings re AC2	RRM requires the main bank of a banking group to prepare consolidated financial and supervisory reports and manage emerging risks based on these reports (Chapter 2). It also requires the risk management function of the main bank to analyze consolidated prudential norms and submit consolidated reports to the Supervisory Board, including the status of consolidated prudential norms and related risks. However, given the lack of a consolidated supervision regulation, there is no requirement of adequate distribution of capital within different entities of a banking group according to the allocation of risks
<b>AC3</b>	Laws or regulations permit the supervisor or relevant authorities to require banks to maintain additional capital (which may include sectoral capital requirements) in a form that can be released when system-wide risk crystallizes or dissipates.
Description and findings re AC3	The only buffer in place is CCB. D-SIBs buffer is not in place. A stated under EC6, the Financial Stability Department is working on the development of a methodology for calculating countercyclical capital buffer (CCyB).
<b>Assessment of Principle 16</b>	<b>Materially Non-Compliant</b>
Comments	<p>Uzbekistan transitioned to Basel III and the capital adequacy framework covers credit, market, and operational risks. Banks are required to observe higher capital requirements than the Basel Framework. Nevertheless, although the CBU declared that it voluntarily implemented Basel III, the assessors found that the capital definition is not fully aligned with the said Framework, and there are deviations in the credit risk weighted assets, albeit for minor exposures. There is no express requirement for a prudent evaluation of residential real estate (no expectations of price increase). Capital requirements do not yet reflect the banks' risk profile and systemic importance due to the lack of Pillar 2 methodology, and there is no capital buffer for the 7 D-SIBs.</p> <p>Findings</p> <ul style="list-style-type: none"> <li>The capital requirements are not calibrated to banks' risk profile and systemic importance</li> </ul> <p>The capital definition does not give enough emphasis to those elements of capital permanently available to absorb losses on a going concern basis. Criteria</p>

<sup>48</sup> Refer to Principle 12, essential criterion 7 (BCP40.28).



	<p>for the inclusion of common shares in CET1 (see <i>Basel Framework para. 10.8</i>) do not include distribution features (the level of distributions should not be in any way tied or linked to the amount paid in at issuance; there should not be circumstances under which the distributions are obligatory; there should not be preferential distribution). Moreover, Tier 2 subordinated debts do not meet written off or conversion into common equity requirements upon the occurrence of a trigger event.</p> <ul style="list-style-type: none"> <li>The credit RWA calculation deviates from the Basel framework, which the CBU claim to have implemented: <ul style="list-style-type: none"> <li>Corporate bonds issued by mortgage refinancing companies are risk weighted by 20 percent, instead of 40, 75 or 150 percent, depending on the banks' due diligence.</li> <li>Banks' exposure to MFI are risk weighted at 75 percent. As MFI are not subject to prudential standards and a level of supervision equivalent to that in place for banks, they should be treated as exposure to corporates and, since unrated, attract risk weighted 100 percent.</li> <li>CBU does not distinguish residential real exposures that <i>are NOT 'materially dependent on cash flows generated by the property'</i> from those that are <i>"materially dependent on cash flows generated by the property (Basel Framework para. 20.70)</i>. There is no express requirement for a <i>'prudent conservative evaluation criteria'</i> for residential real estate (e.g. no expectations on price increases).</li> </ul> </li> </ul> <p>Recommendation</p> <ul style="list-style-type: none"> <li>Adopt a Pillar 2 methodology to calibrate capital requirement to banks' risk profile</li> <li>Set a capital buffer for D-SIBs</li> <li>Align the capital definition to the Basel Framework by tightening the criteria for the inclusion of common shares in CET1, subordinated debts in the Tier II, in line with Basel framework para. 10.8; 10.11; and 10.16 number 10.</li> <li>Align the RWA calculation with the Basel framework by: <ul style="list-style-type: none"> <li>(i) increasing RWAs for banks' exposure to 'Corporate bonds issued by mortgage refinancing companies' from 20 to 40, 75 or 150 percent, depending on the banks' due diligence.</li> <li>(ii) Increase to 100 percent the risk weight for banks' exposure to MFIs;</li> <li>(iii) distinguishing RWAs for residential real exposures that <i>are NOT 'materially dependent on cash flows generated by the property'</i> from those that are <i>"materially dependent on cash flows generated by the property (Basel Framework para. 20.70); and</i></li> <li>(iv) introducing a requirement for <i>'prudent conservative evaluation criteria'</i> of residential real estate (e.g. no expectations on price increases).</li> </ul> </li> </ul>
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<b>Principle 17</b>	<b>Credit risk.</b> <sup>49</sup> The supervisor determines that banks have an adequate credit risk management process that considers their risk appetite, risk profile, market conditions, macroeconomic factors and forward-looking information. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk <sup>50</sup> (including counterparty credit risk <sup>51</sup> ) on a timely basis. The full credit life cycle is covered, including credit underwriting, credit evaluation and the ongoing management of the bank's loan and investment portfolios.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require banks to have sound credit risk management processes that provide a comprehensive bank-wide view of all credit risk exposures, including a robust methodology for the early identification and appropriate measurement of credit losses. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank, that they consider current and forward-looking market and macroeconomic factors, and that they result in prudent standards of underwriting, evaluation, administration, monitoring, measurement and control of credit risk.
Description and findings re EC1	RRM, Section 2, Chapter 7, §1 Article 42 requires banks to implement a <b>credit risk management system</b> that serves to identify, assess, monitor, control and mitigate credit risk. The credit risk management system should include: <ul style="list-style-type: none"> <li>• established risk appetite for credit risk</li> <li>• credit policy and credit risk management processes</li> <li>• credit decision making process</li> <li>• the process of classifying asset quality and making provisions for potential losses on assets (see CP18)</li> <li>• the procedure for identifying and dealing with troubled assets (see CP18)</li> <li>• credit risk stress testing procedure</li> <li>• internal capital adequacy assessment procedures, (if implemented)</li> <li>• credit risk reporting process.</li> </ul> <p>Moreover, the CBU Regulation on the Procedure for Classifying the Quality of Assets in Commercial Banks, Forming Reserves to Cover Potential Losses on Assets and Using these Reserve No. 2696 on July 14, 2015 (Regulation on Assets Quality and Provisioning, RAQP) sets forth criteria for assets quality classification and formation of reserves (see CP18).</p>

<sup>49</sup> Reference documents: BCBS, High-level considerations on proportionality, July 2022; BCBS, Guidance on credit risk and accounting for expected credit losses, December 2015; FSB, Principles for sound residential mortgage underwriting practices, April 2012; (CRE20), (CRE40), (CRE45), (CRE50), (CRE51), (CRE54), (MGN10), (MGN20).

<sup>50</sup> Credit risk may result from: on-balance sheet and off-balance sheet exposures, including loans and advances; investments; interbank lending; derivative transactions; securities financing transactions; and trading activities.

<sup>51</sup> Transactions that give rise to counterparty credit risk include: OTC derivatives, exchange-traded derivatives, long settlement transactions and securities financing transactions that are bilaterally or centrally cleared. Counterparty credit risk may result from (but is not limited to) transactions with banks, non-financial corporates and non-bank financial institutions.

	<p>The CBU assesses that the credit risk management system is consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank during (i) phase 3 of the credit risk off-site analysis (see below), and (ii) on site supervision.</p> <p><u>Off-site analysis</u></p> <p>The GRBS envisages three distinct but interrelated stages to assess credit risk:</p> <ul style="list-style-type: none"> <li>(i) gathering the information, during which the CBU determines the main sources of credit risk (identification of sub-portfolios, trends and quality of them, suitability of the bank's reserves, concentration)</li> <li>(ii) automatic rating based on a list of indicators and the corresponding threshold values (stock and flow on NPL ratio, top 10 borrowers, credit growth)</li> <li>(iii) supervisory assessment, in which the supervisor adjusts the automated rating obtained in Step 2, based on an opinion formed by using additional information to supplement the limitations of the standardized phase 2. This is done by assessing <b>credit policy, underwriting rules</b>, composition and external factors for each sub-portfolio, as well as <b>assessing the quality of a sample of loan</b> through files, minutes of the credit committee, financial situation of the borrower etc.</li> </ul> <p>The file verified by the assessors showed that the CBU challenged the aggressive portfolio credit growth, namely in the car loan segment, highlighting the lack of limit in the risk appetite, and warning the banks about the time lag between origination and deterioration of asset quality.</p> <p><u>On-site supervision</u></p> <p>The assessors found evidence that the onsite Department conducted inspections on the RRM implementation by banks (for example, set up and staffing of the risk management unit, coherence between credit risk policies and procedure and risk appetite etc.). Points of improvement were found in the inspections carried out under the old methodology (see CP9).</p> <p>The new '<i>Minimum requirements for inspection in banks based on Guidelines for Risk-Based Banking Supervision</i>' (August 2024; see CP 9, EC1) envisages that when inspecting the control system the following elements, among others, are examined:</p> <ul style="list-style-type: none"> <li>• <b>bank's credit risk management processes</b> - development of credit policy and procedures, definition and compliance with the limits on credit risk in the risk appetite statement, underwriting activity, credit committees and the lending decisions-making processes;</li> <li>• <b>credit documentation</b> - compliance with loan agreements, lending legislation and requirements established by internal bank documents;</li> <li>• <b>loan portfolio</b> - structure and segments of the loan portfolio, the quality of loans and their changes (migration, vintage analysis);</li> </ul>
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	<ul style="list-style-type: none"> <li>• <b>borrowers' creditworthiness assessment</b> - processes for assessing the financial stability of borrowers, methods for calculating the debt burden, internal procedures for analyzing the score.</li> </ul> <p>The inspection conducted under the new methodology was more forward looking, since it challenged the predictivity of the credit risk scoring, namely the need to reduce human intervention.</p>
<b>EC2</b>	<p>The supervisor determines that a bank's board approves and regularly reviews the credit risk management strategy and significant policies for identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating credit risk (including counterparty credit risk) and that these are consistent with the risk appetite set by the board. The supervisor also determines that the board oversees management in a way that ensures that these policies are implemented effectively and fully integrated into the bank's overall risk management process.</p>
Description and findings re EC2	<p>Every year the curator receives banks' credit risk policies approved and reviewed by the board and assesses that they are consistent with the risk appetite set by the board, also shared with the curator.</p> <p>Banks' supervisory board should approve the risk management policy covering the methodology for identifying each material risk (RRM, Chapter 3, par 8), as well as the credit policy (RRM, Section 2, Chapter 7, par. 48). The credit policy should be consistent with the risk appetite, because the latter should include multiple elements of the former.</p> <p><b>Credit Risk appetite</b></p> <p>Pursuant to RRM, Section 2, Chapter 7, §2, the bank's risk appetite statement should indicate the bank's <u>credit</u> risk appetite e.g. the credit risk that the bank is willing to accept to achieve its strategic objectives and business plan indicators. The credit risk appetite should include:</p> <ul style="list-style-type: none"> <li>• the largest share of loans in the bank's total assets</li> <li>• the maximum annual growth of the loan portfolio (in all currencies and in each currency segment)</li> <li>• the maximum risk per borrower, group of interrelated borrowers, and related party to the bank's Tier 1 capital</li> <li>• the largest share of loan product types in the bank's total loan portfolio</li> <li>• the largest share of problem assets in the bank's total loan portfolio and individual loan products.</li> </ul> <p>If credit risk approaches or breaches the risk appetite limits, the risk management unit shall notify the supervisory board, the management board and the risk management committee (if any) within one day at the latest and shall propose appropriate corrective measures to the supervisory board within five days. In two out of the 5 on-site inspections report examined by the assessors, it was found evidence that the CBU challenged the banks because, despite the breach on internal limits set up in the risk appetite, the risk management unit had not escalated the issue to the supervisory board.</p>

	<p>Moreover, draft annual risk assessment conducted in 2024 challenged the inconsistency between risk appetite metric and the bank's strategy.</p> <p><b>Board's oversight</b></p> <p>Article 34 of the BL requires the supervisory board to carry out supervision and control of the management board. This includes an oversight that credit risk policies are implemented effectively.</p> <p>The curator assesses that the board approves the risk appetite statement, which includes the <u>credit</u> risk appetite. The curators also verify that the supervisory board approves and periodically (at least annually) reviews other basic policy principles in relation to credit risk, in accordance with the requirements of the CBU Regulation.</p> <p>The CBU shared 2 examples of risk assessments whereby it <b>challenged banks in relation to the lack of updating of the underwriting policy.</b></p>
<b>EC3</b>	<p>The supervisor requires and regularly determines that such policies and processes establish an appropriate and properly controlled credit risk environment, including:</p> <ul style="list-style-type: none"> <li>(a) a well documented and effectively implemented strategy and sound policies and processes for assuming credit risk, without undue reliance on external credit assessments;</li> <li>(b) well defined criteria and policies and processes for: <ul style="list-style-type: none"> <li>(i) approving new exposures (including prudent underwriting standards), and ensuring a thorough understanding of the risk profile and characteristics of the borrowers (and in the case of securitisation exposures all features of securitisation transactions)<sup>52</sup> that would materially impact the performance of these exposures;</li> <li>(ii) renewing and refinancing existing exposures; and</li> <li>(iii) identifying the appropriate approval authority for the size and complexity of the exposures;</li> </ul> </li> <li>(c) effective credit administration policies and processes, including: continued analysis of a borrower's ability and willingness to make all payments associated with the contractual arrangements (including reviews of the performance of underlying assets, eg for securitisation exposures or project finance); monitoring of documentation, legal covenants, contractual requirements, collateral and other forms of credit risk mitigation; and an appropriate exposure grading or classification system;</li> </ul>

<sup>52</sup> Securitisation includes both traditional and synthetic securitisations (or similar structures that contain features common to both). Where appropriate, supervisors should provide guidance about whether a given transaction should be considered a securitisation.

	<p>(d) effective information systems for accurate and timely identification, aggregation and reporting of credit risk exposures to the bank's board and senior management on an ongoing basis;</p> <p>(e) prudent and appropriate credit limits consistent with the bank's risk appetite, risk profile and capital strength, which are understood by and regularly communicated to relevant staff;</p> <p>(f) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or board where necessary; and</p> <p>(g) effective controls (including in respect of the quality, reliability and relevance of data and in respect of validation procedures) around the use of models to identify and measure credit risk and set limits.</p>
Description and findings re EC3	<p>The RRM, Section 2, Chapter 7, §3 and §4 provides for the below requirements on <b>credit risk policies and processes</b>, as well as on the <b>control risk environments</b>.</p> <p><b>(a) Strategy and sound policies without undue reliance on external credit assessments</b></p> <p>Banks <b>credit policy</b> should describe the main areas of lending, including target areas of lending in the sector of economy, type of currency, collateral, term, type of granting and/or credit products.</p> <p>The amendments to the RRM, approved in January 2025 and effective in April 2025, require that banks, when assessing a counterparty's credit risk based on ratings from rating agencies, <b>must not rely solely on these ratings</b> but must also take independent and impartial measures to conduct a comprehensive evaluation of the counterparty's financial condition. In addition, the RAQP Article 21 undue relies on external rating released by external credit assessment institutions (ECAIs) recognized by the CBU for the classification of assets (correspondent accounts, interbank deposits and loans) placed in banks outside the territory of the Republic of Uzbekistan (see CP18).</p> <p><b>(b) Criteria and policies and processes for (i) approving new exposures, (ii) renewing and refinancing existing exposures (iii) identifying the appropriate approval authority</b></p> <p>For the <u>approval of new exposures</u>, banks should follow the general principles contained in the credit policy: assessment of the borrowers' creditworthiness and analysis of financial position, collateral and method for determining its value, requirements for approval uncollateralized loans, and principles for pricing credit products (RRM, Section 2, Chapter 7, par. 49). Banks' internal procedures should include, among others, a list of documents that borrowers must submit; transparent registration of loan applications; assessment of borrowers' solvency; analyze of financial position and ability to repay the loan including in currency; credit decision-making process e.g. granting loan or rejecting loan applications (RRM, Section 2, Chapter 7, par. 51).</p>

The Regulation on the allocation of mortgage loans to individuals No 3269/2020 requires banks to develop in their internal policies eligibility criteria for potential borrowers and to assess the repayment capacity by comparing borrower's income and expenses level with existing and future loan payments also based on the scoring system (Chapter 23, par. 24). Bank should also review the credit history to check the payment discipline of the potential borrower on current and previous loans and microloans, also from other banks and credit organizations, by obtaining information from the credit bureau or other official sources.

**The Regulation of the Debt Burden of Individual Borrowers** No 3205/2019 requires banks to calculate the borrower's debt burden. The DSTI is the ratio of the borrower's average monthly payments for all loans and microloans to the average monthly income of the borrower and co-borrowers. Until July 1<sup>st</sup>, 2024, the DSTI was limited to microloans (50 percent); from July 2024 the obligation **was extended to all loans to individuals and increased from 50 to 60 percent**; from January 1, 2025 it's reduced again to 50 percent. In addition, the sum of interest payments and other charges (excluding principal repayments and penalties for breach of contract) on a loan or microloan issued to individuals by a bank **should not exceed 0.3% per day of the outstanding principal balance of the loan or microloan**. Moreover, the sum of all payments, except the principal amount for a loan or microloan, including interest, brokerage fees, penalties (fines), and other liability measures should not exceed half of the loan amount per year. The below table summarize these requirements.

№	Measures	Current requirement	
		Until July 1, 2024 50%, for only microloans	From July 1, 2024 60%, for all type of loans (50%, From January 1, 2025)
1	Debt-Service-to-Income (DSTI) ratio		
2	Daily limit on interest payments in relation to the outstanding principal balance of a loan or microloan (excluding principal payments and penalties applied for failure to fulfill contract terms)	<b>0,3% per day</b>	
3	All payments on a loan or microloan, excluding the principal amount— including interest, intermediary fees, penalties, late fees, and other liability measures	must not exceed half of the loan amount <b>per year (50%)</b>	

An exemption is granted up to 15 percent of the total number of all loans and microloans issued by the bank to individuals.

Banks should calculate the DSTI average monthly payments using the information provided in the credit report by the **credit bureau** and other **official** sources, which must be up-to-date data (no more than 7 working days from the date of receipt).

	<p>However, the Regulation enables banks also to use information on the borrower's income in bank accounts of the last six months (<b>not official income</b>). As regards debt service capacity, the assessors were made aware that buy-now pay-later (bnpl) type of loans are underreported in the credit bureaus (according to the CBU, 488 dealers are captured); hence DSTI could be underestimated (the two major providers, that based on analysis conducted by KPMG account for approximately two-thirds of the total gross merchandise volume, are captured and provide information to the credit bureaus). Moreover, banks are excessively relying on unofficial income, which is less stable in nature: a thematic review conducted by the CBU showed that, as of January 2024, 43 percent of mortgages are granted to a homeowner with unofficial income (60 percent as of October 2023). It also pointed out cases where households used microloans (even from more than one bank) to repay the mortgages.</p> <p><u>Refinancing existing exposures.</u> For refinancing mortgages issued by other banks on more favorable terms, banks should follow the same rules as provided for mortgages. For exposures other than mortgages, an anomaly has been identified: RAQP par. 40 enables banks <i>to provide additional credit funds/resources on a current loan classified as 'standard' without a thorough risk analysis associated with possible losses</i> (for classification criteria see CP18).</p> <p>As regards the <u>approval authority</u>, the credit policy should also identify clear boundaries of allocation of responsibility between the head office of the bank and its branches and specifying criteria for setting lending limits when branches make independent decisions while granting loans. In addition, the policy should detail the organizational structure of the credit risk management system considering the distribution of tasks, authorities, responsibilities and the procedure for interaction between the participants of the risk management system. It should also indicate the frequency of meetings of the credit committee and the credentials of all people responsible for lending.</p> <p><b>(c) Credit administration</b></p> <p>Banks, to ensure timely debt repayment and identify problems at an early stage, should develop and put into practice a loan monitoring system on an individual and portfolio basis. Credit monitoring system includes: formation, maintenance, and review of the borrower's credit file (in electronic or paper form); monitoring of: the targeted use of the loan, the debtor's financial condition, the fulfillment of the repayment terms of the loan agreement, the compliance with other terms and conditions of the loan agreement, the availability, sufficiency and state the safety of collateral, as well as revaluation of its market (fair) value, the amount of credit risk and adequacy of provisions for expected credit losses.</p> <p><b>(d) Effective information systems</b></p> <p>RRM Chapter 6 par. 40 requires banks to implement an <b>information system</b> that enables collection and summary of information on all areas of banking activities, reliable</p>
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	<p>assessment of risks, and preparation of reports. An information system designed for risk management should be commensurate with the nature, scope, and level of complexity of banking operations and should ensure reliability of risk information, completeness and flexibility of information, timely generation and submission of reports.</p> <p>Moreover, the credit risk policy should incorporate:</p> <ul style="list-style-type: none"> <li>• credit risk monitoring requirements</li> <li>• credit risk reports submitted to the CBU and the procedure for verification of their accuracy</li> <li>• the procedure for information exchange between participants of the credit risk management process</li> <li>• system for prompt notification to the bank's management board of problems with debt repayment by the unit responsible for credit monitoring</li> </ul> <p>The form, periodicity and volume of <b>credit risk management reports</b> shall be established by the supervisory or management board of the bank. Credit risk reporting should include:</p> <ul style="list-style-type: none"> <li>• the level of credit portfolio concentration</li> <li>• the size and dynamics of the loan portfolio, including the dynamics of the volume of restructured, troubled and written-off assets</li> <li>• the level of credit risk, including cases of approaching or breaching the established credit risk limits</li> <li>• level and dynamics of risk for interrelated borrowers</li> <li>• the level and dynamics of provisions for potential losses</li> <li>• status of work done on troubled assets</li> <li>• the level and dynamics of the risk-adjusted loan portfolio</li> <li>• results of the credit risk stress test</li> </ul> <p><b>(e) Prudent and appropriate credit limits</b></p> <p>Within the framework established by the risk appetite (see EC2), the credit policy should establish: (i) the procedure for determining credit risk limits and (ii) the lending limits for the branches' credit decisions.</p> <p><b>(f) Exception tracking and reporting processes</b></p> <p>Pursuant to RRM Section 2, Chapter 7, par. 74, the credit risk reporting should include <i>level and dynamics of loans allocated outside the credit policy</i>.</p> <p>Moreover, the credit policy should also encompass:</p> <ul style="list-style-type: none"> <li>- frequency of the reporting by the credit committee to the management board of the bank</li> <li>- forms of reports prepared on credit risk control, procedure for their submission and periodicity.</li> </ul> <p><b>(g) Effective controls around the use of models</b></p> <p>Originally the RRM did not contain a provision relating to the control and the use of models. Although banks do not use models to calculate prudential requirements, they</p>
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	<p>do in relation to IFRS9 implementation and stress testing. However, the amendments to the RRM, registered by the MoJ in January 2025 and effective by April 2025, establish that the risk management division is required to regularly assess the reliability and effectiveness of the bank's internal models (back testing).</p> <p>The CBU determines that policies and processes establish an appropriate and properly controlled credit risk environment through the curator. The <b>curator annually receives from banks all approved policies related to credit risk management</b>, as well as the bank's risk appetite. In addition, risk management reports are provided on a quarterly basis, including an analysis of the work done and the results of stress tests, which allows for their assessment.</p> <p>During discussions with the mission counterparts, and based on the documents shared by the CBU it emerged that in some cases, banks relaxed underwriting standards in relation to:</p> <ul style="list-style-type: none"> <li>• car loans by supporting speculative activities;</li> <li>• mortgage loans granted also to individuals lacking official income.</li> </ul> <p>While the CBU has taken actions on car loans by introducing the concentration limits of 25 percent and challenging banks' aggressive credit strategy, no measure has been observed in relation to mortgages to individuals lacking official income.</p>
<b>EC4</b>	<p>The supervisor determines that banks have policies and processes to monitor the total indebtedness of obligors to which they extend credit and any risk factors that may result in default, including significant unhedged foreign exchange risk.</p>
Description and findings re EC4	<p>Due diligence requirements (RRM, Chapter 3) include assessment of borrowers' creditworthiness and analysis of their financial position. Even if not explicitly mentioned, the analysis of the 'financial position' should include total indebtedness.</p> <p>In addition, the Regulation on the allocation of mortgage loans to individuals No 3269/2020 states that <i>'when analyzing credit history, it is necessary <b>to check the payment discipline of the potential borrower on current and previous loans and microloans from this or other commercial banks and credit organization by obtaining information from the credit bureau or other official sources</b> (Chapter 4, Article 25).</i></p> <p>To monitor the total indebtedness of obligors, banks use the credit information exchange system which encompasses the State register of credit information of the CBU, as well as credit bureaus such as the "Credit information analytical center" (CIAC) and "Credit information services CRIF.</p> <p>In 2023, the CBU completed the modernization of the State Register of Credit Information's software, launching the exchange of information within the framework of the new system. A new modern analytical tool (Business Intelligence) facilitates in-depth data analysis, while additional software modules were introduced to ensure the automatic generation of reports and analytical data. This expansion broadened the possibilities for real risk assessment of the borrowers' total indebtedness by banks and the utilization of register data for analysis and statistics by the CBU.</p>

	<p>The CIAC gathers credit information on population and business entities (as of January 2024, the database contains information on 15.4 million subjects). According to the CBU Annual report, in 2023 the number of credit history inquiries obtained from the information base of the CIAC credit bureau nearly doubled and reached 506.4 thousand. The bureau offers more than 50 types of credit reports to banks and non-bank credit organizations.</p> <p>Nevertheless, there is room to better use the public good nature of the information provided in the credit registry: firstly, as stated under EC 2, bnpl is underreported to credit bureaus (see, CBU <a href="#">Debt Burden Analysis</a> 2022); second, it could be useful to conduct analysis on how the same borrower is classified by different banks and share some results with the banking system on anonymous basis.</p> <p><b>Unhedged currency risk</b></p> <p>Loans to individuals on foreign currency are banned.</p> <p>The Banking Supervision Committee adopted Decision No. 616/16 dated May 31, 2024. "On Loans Allocated to Entrepreneurs Without Formation of a Legal Entity (Individual Entrepreneurs)" which prevented banks from issuing loans in foreign currency to business entities who do not have foreign exchange earnings in the same currency. The assessors found evidence of one case in which the CBU challenged a bank due to the lack of credit policy in FX lending.</p>
<b>EC5</b>	The supervisor requires that banks make credit decisions free of conflicts of interest and on an arm's length basis.
Description and findings re EC5	<p>Article 8 of BL states that '<i>banks are independent in making decisions related to the implementation of financial transactions</i>'. It also prevents Government authorities and their officials from interfering in the activities of banks.</p> <p>Moreover, Article 44 of the BL prohibits banks from concluding transactions with related parties on more favorable terms than those provided to unrelated parties (see CP20).</p> <p>Nevertheless, lending by SOCBs to SOEs is exposed to conflict of interest and is not always done on commercial terms; this has been weighted under CP20.</p>
<b>EC6</b>	The supervisor requires that the credit policy prescribes that major credit risk exposures exceeding a certain amount or percentage of the bank's capital must be decided by the bank's board or senior management. The same requirement applies to credit risk exposures that are especially risky or are otherwise not aligned with the bank's core business activities.
Description and findings re EC6	<p>There are no requirements in the RRM that credit risk exposures exceeding a certain amount or percentage of the bank's capital, or that are especially risky or are otherwise not aligned with the bank's core business activities, must be decided by the bank's board or senior management.</p> <p><u>Large Transactions in the Joint-Stock Company Act</u></p> <p>The CBU contended that the requirement of this EC is covered by Article 84 of the Law "On Joint-Stock Companies and Protection of Shareholders' Rights" (<i>reg. No ZRU-370</i>,</p>

	<p><i>dated 06.05.2019</i>). This Article requires that the decision to enter into a <u>large transaction</u>, the subject of which is property, the book value or acquisition cost which is <b>from fifteen to fifty percent of the amount of the company's net assets</b>, shall be adopted by the members of the supervisory board unanimously. If the unanimity has not been achieved, then the supervisory board may propose this transaction to the approval of the general shareholders meeting. If the large transaction exceeds fifty percent of the size of the company's net assets, the decision is taken by the general shareholders meeting.</p> <p>The assessors expressed the view that 15 percent of the company's net assets is a high threshold and could make it possible that major credit risk exposures are not to be approved by the management or the supervisory board. The CBU underscored that the amendments to the RRM, already registered by the MoJ (January 2025), requires decisions on transactions related to large exposures must be made by the supervisory board. Nevertheless, the mentioned provision does not cover transactions that are especially risky or otherwise not aligned with the bank's core business activities. For this reason, the RRM has been re-drafted, and a new draft provision requires that the Supervisory Board approves loans that exceed specified thresholds which are tied to the bank's regulatory capital, in accordance with the bank's risk policy. The RRM amendment is in consultation as of the time of the assessment.</p>
<b>EC7</b>	The supervisor has full access to information in the credit and investment portfolios and to the bank officers involved in assuming, managing, controlling and reporting on credit risk.
Description and findings re EC7	As detailed under CP1, EC5, the CBU has full access to information in the credit and investment portfolios and to the bank officers (Article 61 of the CBL Law as well as Articles 41, 45, and 50 of the BL Law).
<b>Assessment of Principle 17</b>	<b>Largely Compliant</b>
Comment	<p>RRM has strengthened the prudential framework for credit risk, which remains the most important risk taken by banks in Uzbekistan. However, the below findings and recommendations should be considered.</p> <p>Findings</p> <p>Some banks were found to have loosen underwriting standards in retail lending:</p> <ul style="list-style-type: none"> <li>Although decreasing, the share of mortgages allocated to households without official income remains elevated (according to the CBU thematic review 43 percent in January 2024; 60 percent in October 2023), while residential real estate prices are not anchored to fundamental values (on average this discrepancy has been estimated by the CBU at 28 percent). Moreover, there are cases where microloans are used to repay the mortgage loan.</li> <li>The assessment of creditworthiness might underestimate the total indebtedness (DSTI) of obligors, since buy now pay later is underreported in the credit bureau.</li> <li>Car loans grew quickly, also due to some speculative activities in the secondary market; the recent concentration limit (25 percent of the loan portfolio) has constrained banks' risk appetite.</li> </ul>

	<ul style="list-style-type: none"> <li>• The RRM does not require that transactions that are especially risky or otherwise not aligned with the bank's core business activities are approved by the supervisory board or the senior management</li> <li>• For exposures other than mortgages, an anomaly has been identified: RAQP para. 40 enables banks to provide additional credit fund/resources on a current loan classified as 'standard' without a thorough risk analysis associated with possible losses.</li> </ul> <p>Recommendations</p> <ul style="list-style-type: none"> <li>• CBU should perform a closer oversight of mortgage loans, aiming at a further decrease in the share of mortgages granted to borrowers without official income. It should also apply measures to those banks that do not strictly monitor the adequate use of those loans.</li> <li>• For a proper assessment of the DSTI, CBU should ensure that all buy now pay later providers (e.g. car dealers) report their contract to the credit bureau.</li> <li>• CBU should amend RAQP and require banks to carry out a thorough risk analysis associated with possible losses when providing additional credit fund/resources on a loan, even when it is classified as 'standard' (Article 40).</li> <li>• CBU should also amend RRM and require that transactions that are especially risky or otherwise not aligned with the bank's core business activities are approved by the supervisory board or the senior management</li> </ul>
<b>Principle 18</b>	<b>Problem exposures, provisions and reserves.</b> <sup>53</sup> The supervisor determines that banks have adequate policies and processes for the early identification and management of problem exposures <sup>54</sup> and the maintenance of adequate provisions <sup>55</sup> and reserves. <sup>56</sup>
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require banks to formulate policies, processes and methodologies for grading, classifying and monitoring all credit exposures (including off-balance sheet and forborne exposures <sup>57</sup> ) and identifying and managing problem exposures. In addition, laws, regulations or the supervisor require regular reviews by banks of their credit exposures (at an individual level or at a portfolio level for credit exposures with homogeneous characteristics) to ensure appropriate exposure

<sup>53</sup> Reference documents: BCBS, Prudential treatment of problem assets – definitions of non-performing exposures and forbearance, April 2017; BCBS, Guidance on credit risk and accounting for expected credit losses, December 2015.

<sup>54</sup> For banks' internal risk management purposes, a problem exposure is an exposure for which there is reason to believe that all amounts due, including the principal and interest, may not be collected in accordance with the contractual terms of the agreement with the counterparty.

<sup>55</sup> Principle 18 covers all provisioning approaches (eg incurred loss models, expected credit loss models, calendar provisioning) that are used for prudential purposes. In some jurisdictions, cumulative provisions are referred to as loss allowances.

<sup>56</sup> Reserves for the purposes of this principle are "below the line" non-distributable appropriations of profit required by a supervisor in addition to provisions ("above the line" charges to profit).

<sup>57</sup> A forborne exposure is an exposure for which a bank's counterparty is experiencing financial difficulty in meeting its financial commitments and the bank grants a concession that it would not otherwise consider.

	classification, detection of deteriorating exposures and timely identification of problem exposures.
Description and findings re EC1	<p>The regulatory framework for problem exposures, provisions and reserves is enshrined in the BL, the RRM and the RAQP.</p> <p>BL requires banks to comply with CBU prudential requirements on, among others, asset classification and formation of reserves (Article 38), as well as internal control and risk management (Article 42).</p> <p>The RRM requires:</p> <ul style="list-style-type: none"> <li>• banks to implement a <b>credit risk management system</b> which should include, among others, <i>"the process of classifying asset quality and making provisions for potential losses on assets"</i> and <i>"the procedure for identifying and dealing with troubled assets"</i> (Chapter 7, §1, par. 42 requires);</li> <li>• the risk management unit to perform a <b>review of credit risk</b> including the practices to identify problem assets, classify them and provisioning to cover potential losses (Chapter 5, §4, par. 34);</li> <li>• <b>credit policy</b> to include requirements for problem loans identification (Chapter 7, §3, par. 50).</li> </ul> <p>The classification of exposures includes <b>off-balance</b> items, because</p> <ul style="list-style-type: none"> <li>• the credit risk management system should consider <b>off-balance</b> commitments exposed to credit risk such as unused credit lines, irrevocable commitments, other credit commitments, trade finance, letters of credit, guarantees (RRM Chapter 7, §1, par. 44);</li> <li>• the RAQP expands the definition of 'assets' to <b>off-balance sheet items</b> in respect of which there is a credit risk (Article 1).</li> </ul> <p>Chapter 2 of the RAQP classifies banks' assets (including also <u>investments</u>) into <b>5 categories</b>: "standard", "substandard", "unsatisfactory", "doubtful" and "loss", with the last 3 categories being <b>NPL</b>. RAQP does not mention <b>forborne exposures</b>, but its Chapter 4 regulates '<b>assets with revised terms</b>' (see EC9).</p> <p><b>Assets classification criteria</b></p> <p><u>Standards</u> are assets for which there is no doubt about the timely repayment of debts. If the borrower is:</p> <ul style="list-style-type: none"> <li>• a legal entity (or an individual engaged in entrepreneurial activity), it must be considered financially stable, have sufficient capital, a high level of profitability and sufficient cash inflow to meet all existing obligations, including its debt with the bank, have feasible strategic plans, the ability to compete in the market, produce good products and have a marketing plan for their products;</li> <li>• an individual, must have a stable source of income and a sufficient level of income to pay for the loan and interest received from the bank, a good credit history, that fulfils the timely payments and other obligations for all previously received loans.</li> </ul>

	<p>The collateral must be "well-secured". It must be notarized (if the legislation provides for notarization) and registered in accordance with the procedure established for the registration of relevant property transactions; an entry on the rights of a commercial bank to the pledged property must be reflected in the collateral register. In case of non-payment of the loan, the bank has the right to freely and without restrictions foreclose on its collateral. All documents submitted for security must be drawn up in accordance with the procedure established by law.</p> <p>There should be no problems with the return of "standard" assets. RAQP tolerates that borrower has <u>only one case of delay</u> in repayment on the principal or interests for up to 30 days in the last 180 days (Chapter 2, par. 10).</p> <p><u>Substandard</u></p> <p>Assets are classified as substandard when the borrower's financial condition is considered stable, but there are certain negative situations or trends that, if not addressed, could raise doubts about the successful implementation of the financed project or the borrower's ability to repay the asset on time.</p> <p>At least one of the following factors is present:</p> <ul style="list-style-type: none"> <li>• doubts regarding the financial condition or control over collateral;</li> <li>• insufficient information in the credit documents or no documents about collateral;</li> <li>• over the past 180 days, there have been several cases when the payment on the principal and/or interest was past due <b>up</b> to 30 days;</li> <li>• there is past due debt on the principal and/or interest not exceeding 90 days for <i>trusted assets</i> (those allocated without collateral to borrowers with constant cash inflow, good reputation and credit history), and between 31 and 90 days for secured assets.</li> </ul> <p><u>Unsatisfactory</u></p> <p>Assets is classified as unsatisfactory, if there is at least one of these factors:</p> <ul style="list-style-type: none"> <li>• the quality of the main sources of repayment are insufficient to pay the debt, necessitating the identification of additional sources of repayment, including the sale of pledged property and other fixed assets and the extension of the maturity;</li> <li>• the current financial position of the borrower or the projected inflow of his funds is not sufficient to repay the obligations;</li> <li>• insufficient level of the borrower's capital;</li> <li>• trends and forecasts regarding this industry are unstable;</li> <li>• the ratio of the bank's asset to the value of collateral exceeds the limit specified in the bank's internal documents (with the exception of trusted assets);</li> <li>• there is past due debt on the principal and/or interest, exceeding 91 days, but not more than 180 days (with the exception of debtors whose activities are seasonal).</li> </ul> <p><u>Doubtful</u></p>
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	<p>Assets are classified as "doubtful when, along with the characteristics inherent in assets categorized as "unsatisfactory", they have <i>additional weaknesses</i> that make the full return doubtful under existing conditions. Moreover, assets with a high probability of losses, but with some positive factors, can be kept as doubtful and their classification as "loss" postponed until further clarification of the circumstances.</p> <p>Assets are classified as doubtful, in case of at least one of the following factors:</p> <ul style="list-style-type: none"> <li>• there is at least one of the criteria for unsatisfactory assets, as well as some other negative characteristics (lack of easily realizable collateral on the market or the presence of unsecured assets or the declaration of bankruptcy of the borrower;</li> <li>• there is a possibility of partial repayment of the asset in the near future;</li> <li>• there is past due debt on the principal and (or) interest for a period, exceeding 181 days, but not more than 365 days.</li> </ul> <p><u>Loss</u></p> <p>Assets are classified as loss if that have not been returned, or there are factors or signs indicating that they cannot be returned or have such a low value that it is impractical to continue accounting for them as part of the balance sheet. This classification does not mean that the assets have absolutely no liquidation value. However, it is impractical for banks to continue to account for such assets in their balance sheets. A bank should attempt to liquidate it through the sale of pledged property or take measures to ensure its repayment.</p> <p>Assets are classified as loss in case of one of the following factors:</p> <ul style="list-style-type: none"> <li>• assets recovered from the collateral have not been sold within one year from the date of acceptance into the balance sheet by the bank;</li> <li>• the real estate and other assets are unusable and not necessary for the implementation of banking activities (excluding real estate and other assets collected as collateral) or have not been sold or used within three years;</li> <li>• there is overdue debt on the principal and (or) interest for 366 days or more.</li> </ul>
<b>EC2</b>	<p>Laws, regulations or the supervisor require banks to formulate policies, processes and methodologies for consistently establishing provisions and ensuring appropriate and robust provisioning levels.<sup>58</sup> In addition, laws, regulations or the supervisor require banks to formulate policies and processes for writing off problem exposures where recovery is unlikely or where the exposures have very little recovery value.</p>
Description and findings re EC2	<p><b>Provisioning level</b> (reserves) are determined by Article 36 of the RAQP as follows:</p> <ul style="list-style-type: none"> <li>• one percent when classified as "standard";</li> <li>• ten percent when classified as "substandard";</li> <li>• twenty-five percent when classified as "unsatisfactory";</li> <li>• fifty percent when classified as "doubtful";</li> </ul>

<sup>58</sup> Provisions are not limited to problem exposures. Depending on the relevant jurisdiction's accounting and prudential frameworks, provisions may be required for a wider range of exposures (eg all exposures, including performing exposures, under expected credit loss frameworks).



	<ul style="list-style-type: none"> <li>• one hundred percent when classified as "loss".</li> </ul> <p>Banks must form:</p> <ul style="list-style-type: none"> <li>• special reserves (RAQP Chapter 6, par. 36), e.g. mandatory reserves to cover for possible losses on assets classified as substandard, unsatisfactory, doubtful and loss. Reserves should be formed separately for each asset in the same currency in which the asset is formed;</li> <li>• reserves for standard assets to cater for possible losses that might arise because of all or any specific type of bank's activity. Reserves must be formed in national currency before the end of each month.</li> </ul> <p>In case of identification of factors and conditions indicating the probability of exceeding the amount of potential losses on the asset over the reserve created in accordance with the established norms, then larger deductions should be made to the reserve against possible losses (RAQP par. 37).</p> <p><b>IFRS 9</b></p> <p>The CBU has not issued a regulation to reconcile the prudential framework of assets classification with the accounting framework. As banks prepare their financial statements using IFRS standards (see CP 27), this creates a dual regime for reporting the quality of assets: for example, as of December 2023 the NPL ratio is 4.2 percent, while IFRS 9 Stage 3 loans stood at 7.8 percent. According to the CBU, most of the difference can be explained by the strict prudential write off rule, which requires banks to write off loans within three working days after they are classified as 'loss'(see below 'write off'); by contrast under IFRS 9, banks have more discretion on when to write off assets, as write off is connected to the lack of reasonable expectation of recovery (uncollectable loans IFRS 9, par. B 5.4.9). Similarly, in the lack of clarification by the CBU, the treatment of the shortfall/excess of IFRS 9 Expected Credit Loss as compared to prudential reserves is uncertain.</p> <p><b>Write off</b></p> <p>RAQP contains conservative provisions on write off of assets categorized as loss. Pursuant to RAQP Chapter 6, par, 38, an asset classified as 'loss' (365 days past due) should be reflected in off-balance sheet items within three working days and the corresponding special reserves should be reduced. The write-off of an asset does not exclude the fact that it can be paid in part or in full.</p> <p>RAQP Chapter 8 par. 51 stresses that the transfer of loss and accrued interest from the balance sheet accounts to the "off balance sheet" accounts does not mean the cancellation of debts and interest. Debt and interest should be reflected on off-balance sheet items for at least five years from the date of the transfer. A bank must take all necessary measures in accordance with the legislation to recover the principal debt and interest on these assets. It is also normal practice for banks to re-insert back into the</p>
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	<p>balance sheets exposures that have been written off but resumed payments. Banks continue to accrue interest on these off-balance sheet assets, which however does not inflate profit and loss as they have the obligation to create a provision for the same amount as the interests accrued.</p> <p>Banks must regularly, at least once a month, send a letter of claim to the borrower or his legal successor (if it is in the process of liquidation) about the presence of past due debt on the principal debt and accrued interest corresponding to the balances on off-balance sheet items, demanding repayment, along with an extract from off-balance sheet items confirming the presence of overdue debt. Non-receipt of these letters of claim does not release the borrower from obligations to repay the debt. A letter of claim and an account statement are the basis for a bank's appeal to the judicial authorities to recover overdue debts on the principal and accrued interest.</p> <p>The internal audit division and the senior management of a bank must inform the Board in writing quarterly about the measures taken to recover loss assets transferred to off-balance sheet items. Following the results of the financial year, the Board puts the issue of measures taken to recover the loss assets on the agenda of the annual general meeting of the bank's shareholders.</p> <p>If, despite all measures taken by the bank, the debt is not paid within five years after it was transferred to off-balance sheet accounts, or if the bank abandons this asset, then this asset can be written off based on the recommendation of the Board and the decision approved at the general meeting of shareholders.</p> <p>The conservative write off policy has reduced the coverage ratio (allowances to NPL) to 37 percent as of December 2023 (69 percent if written off loans and its associated provisions are considered).</p>
<b>EC3</b>	<p>The supervisor determines that the bank's board approves and regularly reviews significant policies for classifying exposures, determining provisions and managing problem exposures and write-offs. The supervisor also determines that the board oversees management in a way that ensures that these policies are implemented effectively and fully integrated into the bank's overall risk management process.</p>
Description and findings re EC3	<p>Banks' supervisory board is responsible for ensuring effective implementation of the risk management system (RRM, Chapter 5, §2 par. 28) which, in the context of credit risk, includes (i) the process of classifying asset quality and making provisions for potential losses, as well as (ii) the procedure for identifying and dealing with troubled assets (see EC1).</p> <p>RAQP Chapter 8, par. 49 assigns the banks' board and the senior management full responsibility for ensuring that a bank continuously maintains a sufficient level of reserves.</p>

	<p>The GRBS envisage the collection of banks' credit policy during data gathering (stage 1 of the risk assessment). The CBU pointed out that these credit policies are approved, submitted, and regularly checked by the curators who also control the timely introduction of appropriate amendments to these documents. In such a context, the CBU also determines that the banks' board oversees management to ensure full integration of these policies overall risk management process.</p> <p>The CBU stressed also that the curators monitor the creation of reserves and their trends according to a monthly supervisory report. In addition, during onsite inspections, supervisors verify the board's fulfillment of the requirements incorporated in this EC as well as the correctness of the creation of reserves. Based on the results of inspections, banks boards are instructed to ensure correct classification of assets, sufficiency of the formation of reserves, correct write-off of assets.</p> <p>From the on-site inspection reports examined there was evidence of the assessment that bank's Boards approve and regularly review policies on problem assets. However, based on meetings with the banks, there is variation among banks in the implementation of these policies.</p>
<b>EC4</b>	<p>The supervisor determines that banks have adequate and appropriate policies, processes, methodologies and organisational resources for establishing provisions and write-offs. The supervisor determines that policies, processes and methodologies for the measurement of provisions are appropriate to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations and, where relevant, include appropriate expectations about future credit losses based on reasonable and supportable information. The supervisor determines that banks' credit loss provisions and write-off methodologies and levels are subject to an effective review and validation process conducted by a function independent of the relevant risk-taking function.</p>
Description and findings re EC4	<p>The CBU pointed out that, as part of the supervisory process, it assesses whether <b>banks have adequate and appropriate policies</b>, processes and methodologies in place to classify assets and make allowances for possible losses. This includes verifying whether these policies and methodologies ensure that assets are provisioned and written off in a timely manner.</p> <p>The CBU also highlighted that the Inspection Department conducts regular inspections on banks' asset quality, classification and adequacy of reserves. Inspectors check whether banks' internal procedures comply with the law and assess whether proper processes are in place to ensure timely provisioning and write-off of assets. Inspectors also <b>examine a sample of individual loans</b> to verify that banks comply with asset classification rules and provision. They check whether these processes are in line with realistic expectations of repayment and asset recovery. In two out of five inspections examined, the assessors found evidence of reclassification of exposures and additional loan losses provisioning. Nevertheless, as stated under CP9, it was not possible to understand the sampling process; also, the duration of the inspections (22 business</p>

	<p>days), comprehensive in nature, does not seem to be consistent with the perimeter of the examination and the hundreds of corporate exposures examined.</p> <p>Upon completion of the inspections, <b>copies of the reports</b> are submitted to the Prudential Supervision Department for further analysis and supervisory action. The curators <b>monitor</b> the correctness of the reflection of problem assets and the formation of reserves and analyze <b>the impact of the recalculation on prudential capital standards</b>. The results of the analysis are submitted to the Banking Supervision Committee.</p> <p>These results are also discussed at meetings of the CBU Board, and banks are instructed to develop and implement action plans to strengthen financial stability, recover distressed assets, create reserves and write off of NPL.</p> <p>In addition, the CBU assesses whether the internal control system ensures compliance with all credit risk management policies and procedures. Particular attention is paid to the write-off of NPL, the rationale and the decision-making process that leads to it.</p> <p><b>Effective review and validation process</b></p> <p>In one of the four off-site risk assessments examined, the assessors found evidence that the CBU challenged the bank as the function on loan classification and reserve was assigned to the Department of loan collection.</p> <p>Moreover, the CBU highlighted that the Regulation "On Requirements for Internal Audit in Commercial Banks" reg. No 3302/2021 requires the Internal Audit Service to independently analyze and assess:</p> <ul style="list-style-type: none"> <li>• the effectiveness and correctness of the organization of internal control, risk management and corporate governance systems, considering the bank's risk profile;</li> <li>• compliance with legislative acts, including the prudential requirements, as well as internal documents of the bank;</li> <li>• timeliness of elimination of deficiencies identified by the CBU, other state bodies and external audit.</li> </ul> <p>Internal auditors check the correctness of the classification of assets, and the correctness of their reflection in prudential reporting. As stated under CP26, EC5, the CBU assesses the work of internal audit, and whether the auditor verifies the reliability of reporting systems. This includes an assessment of the validation of the provisioning methodology.</p>
<b>EC5</b>	<p>The supervisor determines that banks have adequate and appropriate policies, processes and organisational resources for:</p> <p>(a) reviewing and classifying exposures;</p>

	<p>(b) the early identification of deteriorating exposures;</p> <p>(c) ongoing oversight of problem exposures; and</p> <p>(d) collecting past due obligations.</p>
Description and findings re EC5	<p>The CBU pointed out that it determines that banks have adequate and appropriate policies, processes and organizational resources for dealing with problem exposures by assessing, during offsite and on-site supervision, that banks meet the RRM requirements.</p> <p>The CBU also highlighted that its Inspection Department pays special attention to the assessment of banks' systems of work with problem loans, debt collection processes and the availability of mechanisms for identifying loans that may become problematic. The results of these reviews are submitted to the Banking Supervision Committee for further consideration and decision-making. The CBU controls the implementation of its instructions and regularly assesses the progress and effectiveness of the measures taken.</p> <p>When the <b>share of non-performing assets exceeds ten percent of total assets</b>, this may serve as a basis for the CBU to determine that the qualifications of the executive management do not adhere to the requirements of the CBU, as well as to consider the oversight function of the Board insufficient.</p> <p>Similarly, when non-income-generating assets exceed seventy percent of total assets this serves as an indicator of the weakness of the bank's credit policy, loan allocation procedures and their management (RRM Chapter 1). The assessors noted that this share (70 percent) is too high.</p> <p>Banks should implement a <b>process for managing non-performing assets</b>, (RRM Chapter 5 Chapter 7, 5-§ par. 56) consisting of:</p> <ol style="list-style-type: none"> <li>1) early identification of borrowers with a likelihood of financial difficulties;</li> <li>2) revision of the terms and conditions of the agreement concluded with the borrower;</li> <li>3) implementation of measures to terminate relations with the borrower in case of debt collection in judicial or out-of-court procedure;</li> <li>4) management of the recovered property.</li> </ol> <p><b>(a) Reviewing and classifying exposures</b></p> <p>Exposures should be classified in line with RAQP.</p> <p>The Supervisory Board (RRM Chapter 8, 5-§, par. 57) should:</p> <ul style="list-style-type: none"> <li>• approve a policy for dealing with troubled assets;</li> <li>• quarterly examine the state of problem assets in the bank, analyze the causes and determine measures to reduce them;</li> <li>• define the responsibilities of the Management Board for dealing with problem assets and managing properties recovered from collateral.</li> </ul> <p>The Management Board should:</p>

	<ul style="list-style-type: none"> <li>• develop a policy for working with problem assets and submit it to the Supervisory Board for approval;</li> <li>• if necessary, approve the <b>strategic plan</b> for work with troubled assets;</li> <li>• quarterly report to the Supervisory Board on the status of troubled assets, the policy, and the implementation of the strategic plan;</li> <li>• decide on the management of troubled assets within the authority granted by the Supervisory Board;</li> <li>• revise the terms and conditions of the troubled asset;</li> <li>• decide on the management of foreclosed property within the authority given by the Supervisory Board;</li> <li>• define criteria for evaluating the performance of employees responsible for dealing with troubled assets and evaluate this process;</li> <li>• ensure the implementation of the necessary information systems for the management of troubled assets.</li> </ul> <p><b>(b) Early identification of deteriorating exposures</b></p> <p>Banks should approve a <b>troubled asset management policy</b> (RRM Chapter 8, 5-§, par. 62) which should consider:</p> <ul style="list-style-type: none"> <li>• classification of troubled assets;</li> <li>• procedure for <b>early identification of troubled assets</b>;</li> <li>• procedure for working with borrowers, criteria for transferring the loan to the structural unit specialized in working with troubled assets;</li> <li>• methods and tools to deal with problem assets, procedure for reviewing the terms of a problem asset, sale, write-off, foreclosure of collateral and recognition of the borrower as insolvent;</li> <li>• coordination procedure among structural subdivisions on work with problem assets, as well as interaction with organizations specialized in work with problem assets (if any);</li> <li>• lists and report on troubled assets;</li> <li>• procedure for assessing the efficiency of measures taken by the bank to manage problem assets.</li> </ul> <p><b>(c) Ongoing oversight of problem exposures</b></p> <p>Bank should establish a <b>separate structural unit specialized in working with troubled assets and ensure its impartiality and independence</b> (RRM, Chapter 7, 5-§. par. 59 and 60) The troubled asset business unit shall be:</p> <ul style="list-style-type: none"> <li>• separated from the structural units responsible for credit allocation and management;</li> <li>• accountable to a member of the management board who is not a member coordinating the activity of a business lines;</li> <li>• composed of a sufficient number of employees with adequate qualifications for the effective management of problem assets;</li> <li>• provided with the necessary software and hardware;</li> </ul>
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	<ul style="list-style-type: none"> <li>• rewarded, if any, with incentives not dependent on the profitability indicators of bank's loans, to avoid conflict of interest and negative effect on independence and impartiality (incentives may depend on the general financial conditions of the bank).</li> </ul> <p>The Unit should have the authority to request information to the structural subdivision. An employee who participated in the decision to allocate an asset within a structural unit shall not participate in the management of this troubled asset.</p> <p>The <b>troubled assets management unit</b> conducts borrower assessment; develops proposals for revising the terms and submitting them to the management board for approval; develops standardized solutions for managing problem assets and submits them to the approval of the management board; amends the contract of the troubled asset, the terms of which are being renegotiated, or participates in the conclusion of a new contract; <b>monitors the borrower's compliance with the renegotiated terms</b>; coordinate the activities of the bank's structural divisions in managing problem assets; develops or participates in the development of internal documents on problem asset management; develops criteria for selecting organizations specialized in work with troubled assets (if any), assesses their efficiency and compliance with the terms of the contract; prepares reports on management of problem assets and submits them to the bank's management; defines the terms and conditions for the information systems needed to manage troubled assets; develops or participates in the development of the bank's internal documents related to the process of reviewing asset conditions.</p> <p><u>Strategic Plan</u></p> <p>If banks' <b>problem assets exceed five percent of total assets</b> for the last 3 consecutive months, the bank should develop a <b>strategic plan</b> and establish specific goals and timelines for reducing problem assets (RRM Chapter 8, 5-§, par. 63). The strategic plan should be (i) approved by the board for a minimum of one year; (ii) delivered to the appropriate structural subdivisions of the bank; and (iii) submitted to the CBU within 15 days from the date of approval or amendment. The strategic plan must include:</p> <ul style="list-style-type: none"> <li>• reduction in the number of troubled assets and their size;</li> <li>• reduction in the amount of property recovered;</li> <li>• assessment of the bank's internal capabilities to reduce problem assets within the established timeframe;</li> <li>• assessment of external factors, including macroeconomic, legal, judicial and regulatory systems;</li> <li>• target volumes and ways to reduce problem assets in the loan portfolio segment;</li> <li>• measures taken based on the (segmented) loan portfolio.</li> </ul> <p>Beyond the requirements set out in the strategic plans, the CBU may require these banks to stop lending until the NPL ratios goes below 5 percent. As stated under CP11, four state owned banks were indeed prohibited from issuing new loans, in an amount exceeding the repaid loan, until the share of NPL is reduced below 5 percent.</p>
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	<p>(d) <b>Collecting past due obligations</b></p> <p>The CBU checks the existence <b>of specialized units for working with distressed assets in the head office and branches</b> of the bank, as well as the availability of software for monitoring such assets, and the organization of debt collection. Special attention is paid to the</p> <ul style="list-style-type: none"> <li>• <b>"Pre-collection"</b> - the bank should have clear criteria for the early identification of borrowers with potential problems, which should be spelled out in the bank's internal rules.</li> <li>• <b>"Soft collection"</b> - early intervention takes place, including working with borrowers who have already shown signs of problems, but who are still ready to cooperate with the bank.</li> <li>• <b>"Hard collection" stages</b> - measures to restructure debt or terminate relations with the borrower, using pre-trial collection methods, such as negotiations and sending written demands.</li> </ul> <p>If none of the previous methods bring results, the "Legal collection" stage begins, which includes the enforcement of debt through judicial procedures. <u>Collections</u> represent 20.3 percent of the total NPL reduction and reached UZS 24 trillion between 2020- H1 24. This amount suggests an efficient and active management of troubled exposures by banks, recently enhanced by RRM. When verifying the implementation of the RRM, the CBU assesses that banks have set up the required workout units.</p>
<b>EC6</b>	<p>The supervisor obtains information on a regular basis and in relevant detail or has full access to information concerning the classification of exposures, collateral and other risk mitigants, provisions and write-offs. The supervisor requires banks to have adequate documentation to support their classification and provisioning.</p>
Description and findings re EC6	<p>Banks submit supervisory reporting on asset quality and provisioning on a monthly basis. The report includes collateral.</p> <p>RAQP requires <b>banks prudential reports to reflect the real state of the quality of their assets</b> (Chapter 1, Article 1, par. 2). Unreliability of reporting is assessed as an attempt to mislead depositors, creditors and shareholders of a commercial bank, as well as the CBU and other interested parties, and is considered unsafe and unsound banking practices.</p> <p>CBU <b>has the right to request and verify reports</b>, as well as other documents, to demand clarification of information received from banks, related party banking groups, outsourcers, associations of banks (CBL Law Art. 61). This covers full access to information concerning the classification of exposures, collateral and other risk mitigants, provisions and write-offs.</p> <p>Moreover, in the course of on-site inspections, the CBU assesses and verifies the reliability of the information concerning the classification of exposures, collateral and other risk mitigants, provisions and write-offs.</p>



	As regards the documentation to support assets classification and provisioning, the RRM Article 58 requires the board to ensure the implementation of the necessary information systems for the management of troubled assets. The troubled assets management unit should be provided with the necessary software and hardware (RRM Article 60).
<b>EC7</b>	<p>The supervisor assesses whether banks' classification of exposures is appropriate and whether their determination of provisioning levels is adequate for prudential purposes. The supervisor evaluates banks' treatment of exposures with a view to identifying any material circumvention of the classification and provisioning standards (e.g. forbearance). If policies, processes or methodologies are inadequate, or if exposure classifications are inaccurate or provisions are deemed to be inadequate for prudential purposes (e.g. if the supervisor considers existing or anticipated deterioration in exposure quality to be of concern, or if the provisions do not fully reflect losses expected to be realised), the supervisor has the power to take appropriate action, for example through requiring the bank to:</p> <ul style="list-style-type: none"> <li>(a) revise its policies, processes or methodologies for classification and provisioning;</li> <li>(b) adjust its classifications of exposures;</li> <li>(c) increase its levels of provisioning, reserves or capital; or</li> <li>(d) if necessary, impose other remedial measures.</li> </ul> <p>Assessments supporting the supervisor's opinion in relation to this and other essential criteria under this principle may be conducted by external experts, with the supervisor reviewing the work of the external experts, including to determine the adequacy of the bank's policies, processes and methodologies for classifying exposures and determining provisions.</p>
Description and findings re EC7	<p>Pursuant to RAQP Chapter 6, par. 41, the CBU can require '<b>a more negative classification of certain assets</b>' in presence of at least one of the following factors:</p> <ul style="list-style-type: none"> <li>• deterioration of the general condition of the loan portfolio of a bank;</li> <li>• change or lack of sufficient analysis and research on the issuance of loans</li> <li>• actual losses incurred by a bank on loans issued in the same industry, sphere</li> <li>• concentration of large assets</li> <li>• unacceptable economic trends and conditions, in particular, a large concentration of borrowers in one or more industries or administrative-territorial unit</li> <li>• other circumstances revealed as a result of the analysis of the statements submitted by the bank, or <u>inspections</u> conducted by the CBU, concerning the financial situation of the borrower or the commercial bank itself.</li> </ul> <p>Classification of assets is an area where the CBU can exert reasoned judgment.</p> <p>The <b>CBU may require the revision of reserves</b> in the amount established by the requirements of the RAQP, and/or the formation of additional reserves.</p>

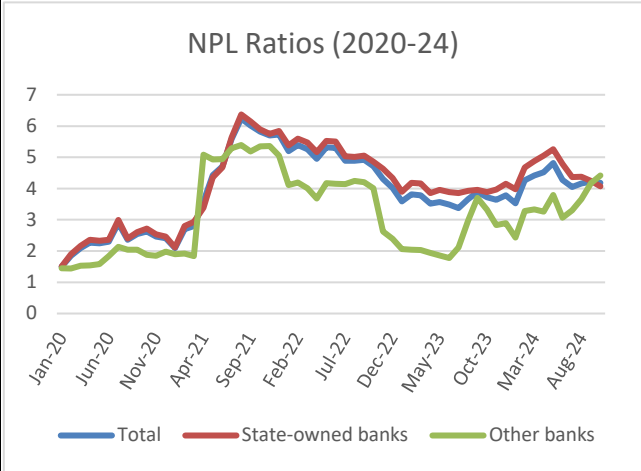
	<p>If classification is inaccurate or provisioning insufficient, the CBU may require the bank to review its policies, processes and methodologies. Problem loans issues are regularly discussed at the CBU Board meeting. If credit risk management systems are poorly organized, banks are instructed to review their credit policies and internal procedures to prevent further risks.</p> <p>The off-site supervision submit to the Inspection Department requests for additional checks on transactions that raise doubts on asset classification and provisioning. If the inspection reveals significant accounting deviations or incorrect asset classifications, the CBU may apply appropriate measures, including a ban to the allocation of loans (exceeding amounts of repaid loans) until the share of problem loans decreases to an acceptable level (5%).</p> <p>The assessors were provided with examples of asset reclassification and provisioning (2 on-site inspection report).</p>
<b>EC8</b>	<p>The supervisor requires banks to have appropriate mechanisms in place for regularly assessing the value of risk mitigants, including guarantees, credit derivatives and collateral. The valuation of collateral reflects the net realisable value, considering prevailing market conditions and the time required for realisation.</p>
Description and findings re EC8	<p>As stated under EC8, reserves are calculated after deducting the value of <b>high liquid collateral</b> from the total value of assets (RAQP Chapter 3). However, for provisioning purpose the CBU considers only the <u>most liquid collateral</u> eligible, which includes:</p> <ol style="list-style-type: none"> <li>1) pledge of government securities;</li> <li>2) foreign state governments and central banks' guarantee or a pledge of securities issued by them with a risk level of 0 percent when calculating the bank's capital adequacy;</li> <li>3) multilateral development banks' guarantee (World Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, European Investment Fund, Islamic Development Bank and Development Banks of the Council of Europe);</li> <li>4) deposits or certificates of deposit in the creditor bank.</li> </ol> <p>The most liquid collateral must meet the following requirements:</p> <ul style="list-style-type: none"> <li>• securities, bank deposits, certificates of deposit must have a validity period not less than the maturity of the corresponding asset;</li> <li>• for deposits, (i) the bank must have the unconditional right to control these funds and dispose of them; (ii) the deposit must be kept in the appropriate account, and a condition must be established in the agreement on the possibility of disposing the deposit in the event of non-repayment or default by the borrower, as well as on the possibility of the borrower to voluntarily send this deposit to repay the asset secured by it; (iii) the bank must take the necessary measures and establish control to prevent withdrawal of funds from the deposit before the asset repayment period.</li> </ul>

	<p>A <b>haircut</b> of 10 percent is prescribed on the most liquid collateral to cover currency mismatches between the assets and the guarantee.</p> <p>Other types of collateral (real estate, gold) are not eligible.</p> <p>As regard collateral valuation, see CP16, EC2</p>
<b>EC9</b>	<p>Laws, regulations or the supervisor establish criteria for an exposure to be:</p> <ul style="list-style-type: none"> <li>(a) identified as a problem exposure;</li> <li>(b) identified as non-performing (exposures where full repayment is unlikely or which are 90 days past due for a material amount, or defaulted exposures under either the Basel Framework or the applicable prudential regulation, or credit-impaired exposures according to the applicable accounting framework);</li> <li>(c) reclassified as performing (the counterparty does not have any material exposure more than 90 days past due, repayments have been made when due over a continuous repayment period, the counterparty's situation has improved so that full repayment of exposure is likely in accordance with the contractual terms, and the exposure is no longer defaulted or impaired); and</li> <li>(d) classified as a forborne exposure.</li> </ul>
Description and findings re EC9	<p>(a) <b>Problem exposures</b></p> <p>The RRM does not define problem exposures. It rather focuses on <i>troubled assets</i> (or distressed assets), for which it sets fourth requirements related to a policy and a specialized management unit (see EC5). Although the RRM does not define <i>troubled assets</i>, meetings with the CBU and banks confirmed that they can consider a synonym of problem exposures, e.g. exposure for which there is reason to believe that all amounts due, including the principal and interest, may not be collected in accordance with the contractual terms of the agreement with the counterparty.</p> <p>(b) <b>Non-performing exposures</b></p> <p><b>The criteria for identifying exposures as non-performing are too narrow.</b> As stated under EC2, non-performing assets include "unsatisfactory", "doubtful" and "loss" assets, but they do not include:</p> <ul style="list-style-type: none"> <li>• defaulted exposures; incidentally, <b>there is no definition of default</b> in the regulatory framework;</li> <li>• credit impaired under the applicable accounting framework e.g. IFRS 9 Stage 3 assets.</li> </ul> <p>'Unlikely to pay' (UTP) criteria are instead included in the "unsatisfactory" assets, since RAQP contemplates the sale of pledged property as source of repayment. The assessors became aware of poor practices in implementing the definitions of the UTP criteria. It is common for banks to report only under 90dpd, with some exceptions. Other poor practices, but more isolated, include manually changing the classification of the troubled exposures, and reporting as non performing only the amount that is overdue.</p>

	<p>(c) <b>Reclassification as performing</b></p> <p>RAQP Chapter 2, par. 14, 17 and 20 enable banks to reclassify as performing assets categorized as 'unsatisfactory', 'doubtful', or 'loss', <i>whose terms have not been revised</i> (see below (d) forborne exposures). These assets can be reclassified as:</p> <p>IV. standard, if the quality improves and there is no doubt about the timely repayment; or</p> <p>V. substandard, if the quality improves and the borrowers' financial condition is considered stable, but there are certain negative situations or trends that, if not addressed, could raise doubts about the successful implementation of the financed project or the borrower's ability to repay the asset on time.</p> <p>The above conditions do not satisfy all the requirements for an exposures to exit the non performing status. At minimum, a <b>'cure period' of at least three months is missing</b> (<i>'repayments have been made when due over a continuous repayment period'</i>).</p> <p>For <i>'assets with revised terms'</i> a cure period is instead prescribed to improve their classification <u>by one category</u>: such a period is (i) <i>'at least 3 consecutive repayments'</i> for assets categorized as unsatisfactory or doubtful; (ii) at least 6 months and not less than 10 percent of the principle for assets classified as loss.</p> <p>(d) <b>Forborne exposures</b></p> <p>RAQP does not define forborne exposure, but <b><i>'assets with revised terms'</i></b>. Nevertheless, RAQP neither defines a bank's <i>'concession'</i>, nor <i>'financial difficulty'</i> of the borrower. It contains a list of changes that are considered <i>'revised conditions'</i> but it does not capture all the concessions a bank might make to a borrower in financial difficulty (for example, it does not mention allowing the conversion of the debt into equity; easing the covenants). Moreover, several exceptions are contemplated by the RAQP, and they can obfuscate the classification of these exposures.</p> <p>According to RAQP Chapter 4, assets with revised terms are assets where at least one of the following conditions is changed:</p> <ul style="list-style-type: none"> <li>• lowering the interest rate, except in cases of decrease in the variable interest rate established by the contract;</li> <li>• reduction of the principal debt or partial cancellation of it, except for the reduction of the unused part of the asset;</li> <li>• refusal of part or all payments on interest and/or principal debt;</li> <li>• deferral or extension of the payment term for the main part of the asset and/or interest;</li> <li>• changing the type of collateral, except in cases of exclusion of collateral due to the partial repayment of the loan, as well as if the ratio asset to collateral does not exceed the limit specified in the internal documents of the bank;</li> <li>• capitalization of interest;</li> <li>• changing the borrower with the application of one or more conditions indicated above.</li> </ul>
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	<p>At the time of the revision, the borrower should not have past due debts on loans received from all banks, and its credit quality should belong to the category of "standard" or "substandard"; and past due days for payments under the revised agreement for the last 6 months should not exceed 60 days.</p> <p><b>The classification of the loan does not change, and assets are not classified as 'assets with revised terms'</b> in the event of:</p> <ul style="list-style-type: none"> <li>• reduction in the interest rate, if the interest rate on loans in national currency after the change is not lower than +2 percentage points of the CBU key rate;</li> <li>• changing the currency of the loan, converting a loan from foreign currency into national currency, and the interest rate is not lower than +2 percentage points of the CBU key rate;</li> <li>• extending the grace period up to 6 months: the interest rate on the original schedule must be fully paid; the grace period must not have expired; only one extension is admissible, and it should not exceed the original grace period.</li> </ul> <p>When classifying assets with revised terms, banks should consider: (i) the reasons for revising the terms, including the occurrence of factors that have a negative impact on the borrower's financial situation; (ii) the number of extensions of the repayment period to the same borrower; (iii) changes to the terms of the loan compared with the terms of the original agreement; (iv) the decrease in the interest rate below the market rate level; (v) change in collateral, or in the repayment period.</p> <p><b>The first revision of the terms of an asset does not change the previous classification in terms of quality</b> (at the same time, the asset cannot be classified in a better category). If the conditions of the asset are revised for the second time, the quality conditions of this asset must be one step lower than the category before the revision. If the conditions of an asset are revised three or more times, the quality of this asset is classified as "loss" and it cannot be reclassified to a better category.</p>
<b>EC10</b>	<p>The supervisor determines that the bank's board obtains timely and appropriate information on the condition of the bank's credit portfolio, including classification of exposures, the level of provisions and reserves, and major problem exposures. The information includes, at a minimum, summary results of the latest credit exposure review process, comparative trends in the overall quality of problem exposures, and measurements of any existing or anticipated deterioration in exposure quality and losses expected to be realised.</p>
Description and findings re EC10	<p>Banks Boards establish the form, periodicity and volume of credit risk management reports which should include, among others, the dynamics of the volume of restructured, troubled and written-off assets, the level and dynamics of provisions for potential losses, and the status of work done on troubled assets.</p> <p>Internal Audit also provides information on the status of problem assets, reserves and write-offs to the bank's management and, if necessary, the Supervisory Board. Internal Audit should also provide the Board with quarterly reports on the measures taken to</p>

	<p>work with bad assets. This data is also transferred to the curators for discussion with the CBU.</p> <p>Furthermore, the management board is also obliged to ensure regular submission of reports to the Supervisory Board on the state of risks in the bank, and cases of exceeding the acceptable level of risk.</p>
<b>EC11</b>	<p>The supervisor requires that valuation, classification and provisioning, at least for significant exposures, are conducted on an individual item basis. For this purpose, supervisors require banks to set an appropriate threshold for the purpose of identifying significant exposures and to regularly review the level of the threshold.</p>
Description and findings re EC11	<p>RAQP Chapter 3, par. 36.2 states that '<i>A special reserve must be formed <b>separately for each asset</b> in the same currency in which the asset is formed</i>'.</p>
<b>EC12</b>	<p>The supervisor regularly assesses any trends and concentrations in risk and risk build-up across the banking sector in relation to banks' problem exposures and considers any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss. The supervisor considers the adequacy of provisions and reserves at the bank and banking system level given this assessment.</p>
Description and findings re EC12	<p>The CBU regularly assesses the concentration and risk build-up across the banking sector in relation to banks' problem exposures. RAQP enables the CBU to revise the classification of assets in case, among others, of high concentration of large losses. The CBU has also the right to require the formation of additional reserves. On a monthly basis, the CBU analyzes the risk of concentration in banks' loan portfolios and in the system. Particular attention is paid to the assessment of the financial condition of the 50 largest borrowers (see CP 19). Moreover, the Financial Stability Department conducts analysis on the quality of car loans and mortgages (see CP9, EC5).</p> <p>The CBU considers the adequacy of provisions and reserves at the bank and banking system level. As indicated under EC2, the coverage ratio (provisioning to NPL) at banks system level has dropped to 37 percent as of December 2023. Two factors seem to have contributed to it:</p> <ul style="list-style-type: none"> <li>• the CBU Resolution n. 342/1 which prevented four SOBs from issuing new loans, in an amount exceeding the repaid loan, until the share of NPL is reduced below 5 percent. This resolution might have accelerated write-off by SOBs</li> <li>• the enforcement by the CBU, from the 2021 onwards, of the accelerated write-off rule (three working days within the classification of the loan in the loss category)</li> </ul> <p>The NPL ratio increased significantly during the pandemic (from 1.5 percent as of January 2020 to 6.2 percent in the summer of 2021). Since then, the NPL ratio steadily declined (4.2% as of October 2024) due to the strong loan growth observed over 2021-24 and the banks' efforts to address the NPL stock (through collection and write off). 79 percent of total NPLs as of August 2024 were corporate loans. SOBs have traditionally reported a higher NPL ratio than privately owned banks, due to poorly developed systems for credit risk assessment. While official NPL ratios remain moderate, the real levels of distressed assets is significantly higher and assessing their performance remains</p>

	<p>challenging for the CBU. Recent Asset Quality Reviews, prepared during the privatization of some SOBs, have confirmed that NPLs are underreported.</p> 
<b>Assessment of Principle 18</b>	<b>Materially Non-Compliant</b>
Comments	<p>The regulatory framework for 'problem exposures, provisions and reserves' is deficient.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>The criteria for an exposure to be defined as non-performing are too narrow. Non-performing exposures include "unsatisfactory", 'doubtful' and 'losses' but they do not expressly include (i) defaulted exposures (there is no definition of default in the regulatory framework) and (ii) credit impaired under the applicable accounting framework (IFRS 9 stage 3 assets are equal to 7.8 percent as of December 2023, while NPL stands at 4.2 percent)</li> <li>There is no definition of forbore exposures. 'Assets with revised terms' are not equivalent to forbore exposures, because RAQP (i) neglects the concept of 'financial difficulty' of the borrowers and (ii) the list of 'concessions' is closed, instead of being flexible to capture all the 'concessions' that a bank might make to a borrower in (for example, it does not mention allowing the conversion of the debt into equity, easing the covenants). Moreover: <ul style="list-style-type: none"> <li>the first revision of the terms of an asset does not change the previous classification in terms of quality;</li> <li>some exceptions obfuscate the true extent of banks' assets quality. For example, assets are <u>not</u> classified as 'assets with revised terms' in case of (a) reduction of interest rate on loans in national currency, when the interest rate, after the change, is not lower than 2 p.p. compared to the CBU key rate; (b) extension of the grace period up to 6 months. The process of reclassifying assets (other than those with revised terms) as performing is not stringent. A 'cure period' is missing, to demonstrate that repayments have been made when due over a continuous repayment period.</li> </ul> </li> </ul> <p>Recommendations</p>

	<ul style="list-style-type: none"> <li>• Expand the NPL definition in the RAQP to include defaulted borrowers and impaired credits (IFRS 9 Stage 3 assets).</li> <li>• Align the definition of 'assets with revised terms' to forbore exposures, namely by introducing the concept of 'financial difficulty' and 'concessions'.</li> <li>• Eliminate those exceptions that obfuscate the true extent of asset quality (first revisions of terms not impacting the classification, extension of the grace period up to 6 months, reduction of interest rate within a certain band for loans in national currency)</li> <li>• Adopt a more defined, rigid approach for the reclassification of assets from non-performing to performing (introduce a minimum 'cure period'), and from IFRS 9 Stage 2 and Stage 1.</li> </ul>
<b>Principle 19</b>	<b>Concentration risk and large exposure limits.</b> <sup>59</sup> The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis. Supervisors set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties. <sup>60</sup> At least for internationally active banks, large exposure requirements are not less stringent than the applicable Basel standard.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require banks to have policies and processes that provide a comprehensive bank-wide view of significant sources of concentration risk. <sup>61</sup> Exposures (including counterparty credit risk exposure) arising from off-balance sheet as well as on-balance sheet items included in both the banking book and trading book are captured. At least for internationally active banks, large exposure requirements are not less stringent than the applicable Basel standard.
Description and findings re EC1	<p>The prudential framework for concentration risk and large exposure limits is embedded in:</p> <ol style="list-style-type: none"> <li>1) Article 38 of the BL, which obliges banks to comply with prudential standards established by the CBU in relation, among others, to: <ul style="list-style-type: none"> <li>• the maximum amount of risk per borrower or a group of related borrowers</li> <li>• the maximum size of large credit risks and investments</li> </ul> </li> </ol>

<sup>59</sup> Reference documents: BCBS, High-level considerations on proportionality, July 2022; Joint Forum, Cross-sectoral review of group-wide identification and management of risk concentrations, April 2008; BCBS, Principles for the management of credit risk, September 2000; (LEX10), (LEX20), (LEX30), (LEX40).

<sup>60</sup> Connected counterparties may include natural persons as well as legal persons. Two or more natural or legal persons shall be deemed a group of connected counterparties if at least one of the following criteria is satisfied: (a) control relationship: one of the counterparties, directly or indirectly, has control over the other(s); or (b) economic interdependence: if one of the counterparties were to experience financial problems, the other(s), as a result, would also be likely to encounter financial difficulties.

<sup>61</sup> Concentration risk may result from credit, market and other risk where a bank is overly exposed to particular asset classes, products, collateral, currencies or funding sources, and is broader than exposures subject to large exposure requirements. Credit concentrations include exposures to: single counterparties (including collateral credit protection and other commitments provided); groups of connected counterparties; counterparties in the same industry, economic sector or geographic region; and counterparties whose financial performance is dependent on the same activity or commodity.



	<ul style="list-style-type: none"> <li>• concentration ratios by sector</li> </ul> <p>2) The RRM which requires</p> <ul style="list-style-type: none"> <li>• banks to conduct lending process within the framework of the <b>credit policy</b>, approved by the supervisory board. Such a credit policy should contain, among others, '<b>requirements for credit concentration</b>', including by credit products, industries, regions, type of collateral, currency and borrower group, to ensure diversification of credit risk' (RRM Chapter 3 par. 50).</li> <li>• that credit risk <b>reporting</b> includes information on the level of credit portfolio concentration (RRM Chapter 7 par. 74).</li> <li>• <b>risk appetite</b> includes some quantitative measures pertaining to concentration risk (for example, maximum amount of risk per borrower)</li> </ul> <p>3) The CBU <i>Regulation on the Maximum Amount of Risk for one Borrower, a Group of Interconnected borrowers, including Person Related to the Bank</i> No. 3283/2020 (hereafter, Regulation on Concentration Risk and Related Party, RCRRP), which sets up large exposure limits and defines '<i>group of related borrowers</i>' (see EC 6).</p> <p>Both the RRM and the RCRRP include <b>off balance sheet commitments exposed to credit risk</b> (unused credit lines, irrevocable commitments, other credit commitments, trade finance, letters of credit, guarantees) within the perimeter of the prudential framework. Even though RCRRP does not mention counterparty credit risk, it includes derivatives in the calculation of the exposure. RCRRP does not expressly mention the trading book, but it includes <b>investments</b> in the definition of risk, namely, <i>securities intended for sale</i> (Chapter 1, para. 2).</p> <p>As clarified under EC6, large exposure requirements are as stringent as the Basel Framework, even though there are no internationally active banks in Uzbekistan.</p>
<b>EC2</b>	The supervisor determines that a bank's information systems identify and aggregate on a timely basis exposures creating risk concentrations and large exposure to single counterparties or groups of connected counterparties and facilitate active management of such exposures <sup>62</sup> .
Description and findings re EC2	<p>Banks are obliged to identify the relationship between the debtors and the group of connected counterparties, monitor the changes in these groups, update the information, and reassess them at least once a year to correctly reflect them in the reports. Classification as a group of related borrowers (or the absence of relatedness) must be justified and documented (RCRRP, par. 14).</p> <p>The CBU assesses that a bank's information systems identify and aggregate on a timely basis exposures creating risk concentrations and large exposure during:</p>

<sup>62</sup> The measure of credit exposure for large exposures should reflect the maximum possible loss from counterparty failure (ie it should encompass actual and potential exposures as well as contingent liabilities). The risk weighting concept adopted in the Basel Framework should not be used in measuring credit exposure for this purpose, as its use for measuring credit concentrations could significantly underestimate potential losses.

	<ul style="list-style-type: none"> <li>• off-site supervision – when assessing the risk profile of banks, the CBU checks the availability of sufficient IT infrastructure that corresponds to the volume of operations and the risk profile of the bank.</li> <li>• on-site inspection - the inspection team assesses the quality of the process of identifying, monitoring, analyzing and controlling concentration risk and check the availability of internal systems to identify major risks their compliance with the limits set by the bank.</li> </ul> <p>The CBU also highlighted that the Internal Audit is obliged to check, among other things, the reliability, integrity and efficiency of information systems and to provide the CBU with information about major risks (CP 26).</p> <p>The assessors were provided with evidence on the CBU determination that a bank's information systems identify and aggregate on a timely basis exposures creating risk concentrations and large exposure to single counterparties or groups of connected counterparties (CBU reasoned judgments).</p>
<b>EC3</b>	<p>The supervisor determines that a bank's risk management policies and processes establish thresholds for acceptable concentrations of risk, reflecting the bank's risk appetite, risk profile and capital strength, which are understood by and regularly communicated to relevant staff. The supervisor also determines that the bank's policies and processes require all material concentrations to be regularly reviewed and reported to the bank's board.</p>
Description and findings re EC3	<p>The curator receives banks' policies and risk appetite annually and the curators assess the consistency between limits for concentration risks provided by the policies and the risk appetite statement. The assessors found adequate evidence that the CBU contested the concentration on corporate lending to a state-owned bank, as well the concentration on the car loan segment to a private bank. The CBU also challenged the lack of limit in the risk appetite on concentration risk.</p> <p>The bank's risk appetite statement should indicate some limits for acceptable concentration risks (RRM, Chapter 7, par 46):</p> <ul style="list-style-type: none"> <li>• the largest share of loans in the bank's total assets</li> <li>• maximum annual growth of the loan portfolio volume (in all currencies and in each currency segment)</li> <li>• the maximum amount of risk per borrower, group of connected counterparties (as well as persons related to the bank – see CP 20) to tier 1 capital</li> <li>• the largest share of loan product types in the bank's total loan portfolio</li> </ul> <p>If a credit risk approaches or breaches these limits, the risk management unit shall notify the supervisory board, management board and the risk management committee (if any) within one day at the latest and propose appropriate corrective measures to the supervisory board within five days.</p> <p><b>Communication of concentration limits to staff</b></p> <p>According to the RRM Chapter 3 paragraph 25, to ensure a culture of risk management:</p>

	<ul style="list-style-type: none"> <li>employees should be informed about their role in risk management, and their responsibility for complying with risk appetite and risk limits set by the bank</li> <li>constant communication should be made to employees on the bank's corporate values, standards, code of ethics and other relevant internal documents</li> </ul> <p>seminars and trainings for employees should be conducted to ensure that they understand significant risks and their tasks in managing these risks</p>
<b>EC4</b>	The supervisor regularly obtains information that enables concentrations within a bank's portfolio, including sectoral, geographical and currency exposures, to be reviewed.
Description and findings re EC4	<p>The CBU receives the following information:</p> <ul style="list-style-type: none"> <li>banks' supervisory reports <b>on a monthly basis</b>, which include information on concentrations in the loan portfolio, including by economic sectors and geographical distribution.</li> <li><b>nominative monthly report</b> risk for each borrower or group of connected borrowers (including party related to the bank (RCRRP, par. 38). Banks are obliged to indicate the relationship between debtors, map these groups and annually update information about them so that they are correctly reflected in the reports. Assignment to the group of related borrowers (or the absence of such a relationship) must be justified and documented.</li> </ul> <p>The curators can attend meetings of the board of directors and check that significant concentrations of risks are regularly reviewed and reported to the bank's board.</p> <p>In case of doubts about the reliability or completeness of the information, the supervisor may include these topics among those to be investigated in the next inspections. During on-site supervision, inspectors can challenge the economic interdependency among borrowers and check the completeness and usefulness of the banks' management information system.</p> <p>The CBU also analyzes the financial condition of the <b>50 largest borrowers of the entire banking system</b>. The assessors verified a standard template containing a detailed set of information for one largest borrower. It contains</p> <ul style="list-style-type: none"> <li>general information (location, year of establishment, founder, project capacity, core activity)</li> <li>the term of the loans and the repayment schedule</li> <li>prudential classification and reserve</li> <li>the analysis of the financial statements</li> <li>positive facts (growth, liquidity, cash flow, profitability)</li> <li>negative fact (depreciation of fixed assets, accumulation of past negative retained earnings)</li> <li>conclusion</li> </ul> <p>As of January 1, 2024, loans extended by to 50 large borrowers constituted <b>24%</b> (112 trillion UZS) of the loan portfolio of the banking system: within this, <b>70%</b> (77 trillion UZS) were attributed to SOEs and <b>30%</b> (35 trillion UZS) to <b>private sector</b>. Considering that <b>77%</b> of these loans (86 trillion UZS) were allocated in <b>foreign currency</b> and recognizing that currency depreciation can escalate the credit burden for borrowers and increase the</p>

risk of timely repayment, banks have instituted a practice of regular monitoring for **20 largest borrowers** (or groups of connected borrowers). Such analysis is conducted on a quarterly basis and the results are submitted to the banks' supervisory and management boards, as well as the CBU in the prescribed reporting form.

The CBU also receives monthly reports on the concentration of risks on deposits. It collects and analyzes monthly the concentration of funding, considering the 10 largest depositors of both individual commercial banks and the entire banking system (see CP 24). The top 10 depositors represent about 1/4 of the total deposit base, but this includes the Ministry of Finance and Economy (27 percent).

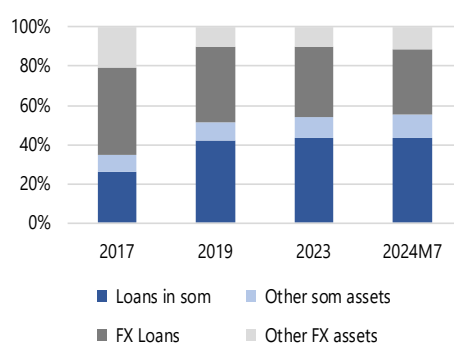
Other concentration factors relate to:

- Geography, as 46 percent of banks' loans are disbursed to borrowers which are resident in Tashkent city.
- Currency, since 44 percent of loans are granted in foreign currency (the majority of which in US \$)

Progress has been achieved with regards to de-dollarization of bank balance sheets. The currency composition of the balance sheet is roughly even between local currency and FX, an improvement since 2017 when the balance sheet was more FX-skewed

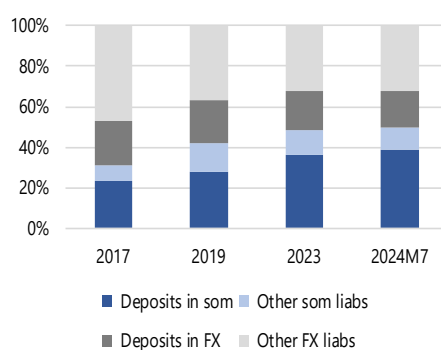
#### Assets by currency

(In percent of total)



#### Liabilities by currency

(In percent of total)



	<p>No significant concentration can be observed in relation to the economic sector (industry 28 percent; agriculture 10 percent, trade 7 percent, etc.)</p> <p style="text-align: center;"><b>Distribution of loan portfolio by sectors</b> 01.10.2023 01.10.2024</p> <table><thead><tr><th>Sector</th><th>01.10.2023</th><th>01.10.2024</th></tr></thead><tbody><tr><td>Other sectors</td><td>12%</td><td>11%</td></tr><tr><td>Individuals</td><td>31%</td><td>33%</td></tr><tr><td>Housing and communal services</td><td>1%</td><td>1%</td></tr><tr><td>Logistics and sales</td><td>1%</td><td>1%</td></tr><tr><td>Transport and communications</td><td>7%</td><td>7%</td></tr><tr><td>Trade and public services</td><td>7%</td><td>7%</td></tr><tr><td>Construction</td><td>3%</td><td>3%</td></tr><tr><td>Agriculture</td><td>10%</td><td>10%</td></tr><tr><td>Industry</td><td>20%</td><td>28%</td></tr></tbody></table> <p>Moreover, to prevent the concentration on <b>car loans</b>, the CBU introduced a limit of <b>25 percent</b> of the total loan portfolio of the bank. Banks that at the time of the decision exceeding this limit were prohibited from issuing new loans if they were not covered by repaid obligations on previously issued car loans. The implementation of this decision is monitored by monthly analysis of banks' loan portfolios by loan type. Following the introduction of this requirement (2023), banks reduced the concentration of their portfolio on car loans within the limit, expect from one bank which is currently under closer scrutiny by the CBU (given the high concentration on car loans, the bank is not adapting its business model to the new supervisory limit).</p> <p>Nevertheless, banks' direct and indirect exposure towards the sovereign, estimated during the assessment, is UZS 102 BN, equal to 16.6 percent of total assets and 102 percent of total capital. Given the lack of a Pillar 2 framework, this risk is not incorporated in the banks' risk assessment. The CBU should monitor, conduct stress tests and require banks to disclose this exposure.</p>	Sector	01.10.2023	01.10.2024	Other sectors	12%	11%	Individuals	31%	33%	Housing and communal services	1%	1%	Logistics and sales	1%	1%	Transport and communications	7%	7%	Trade and public services	7%	7%	Construction	3%	3%	Agriculture	10%	10%	Industry	20%	28%
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EC5	For credit exposure to single counterparties or groups of connected counterparties, laws or regulations explicitly define, or the supervisor has the power to define, a group of connected counterparties to reflect actual risk exposure. The supervisor may exercise discretion in applying this definition on a case by case basis.																														
Description and findings re EC5	<p>RCRRP Chapter 2 para. 2-16 defines the concept of a "group of related counterparties" based on <b>control</b> and/or <b>economic dependence</b>.</p> <p><u>Control</u> Borrowers are recognized as interrelated since control in the following cases:</p> <p>a) Between <b>legal</b> entities, if:</p>																														

	<ul style="list-style-type: none"> <li>• one legal entity, directly or indirectly, individually or as part of a group of jointly acting persons, owns or controls 20 percent or more of the authorized capital of another legal entity</li> <li>• one legal entity exercises control over another legal entity</li> <li>• legal entities are under the control of a third party or persons acting jointly with it</li> <li>• they have basically the same composition of participants (shareholders) or management bodies.</li> </ul> <p>b) Between <b>individuals</b> and <b>legal</b> entities, if:</p> <ul style="list-style-type: none"> <li>• an individual directly or indirectly, individually or as part of a group of joint actors, owns or controls 20 percent or more of the authorized capital of a legal entity</li> <li>• an individual exercises control over a legal entity</li> <li>• a natural person is a member of the supervisory board, management board or an official of a legal entity</li> <li>• an individual has the authority to manage another legal entity owning or controlling 20 percent or more of the authorized capital of the legal entity</li> <li>• an individual has the authority to manage another legal entity exercising control over the legal entity</li> <li>• an individual is a close relative of the individuals specified in this paragraph.</li> </ul> <p><u>Economic dependence</u></p> <p>Borrowers are considered related based on economic dependence if, in the event of financial difficulties, including insolvency or bankruptcy of one person from a group of related borrowers, there may be a negative impact on the financial condition of another borrower (borrowers) and the ability of full and timely repayment of obligations to the bank. Economic dependence is assessed as follows:</p> <ul style="list-style-type: none"> <li>• if the annual profit of one party received from the sale of products (goods, works, services) is 50% or more as a result of activities with the other party</li> <li>• if at least 50% of the products (goods, works, services) produced by one party are sold to the other party, and it is difficult to find another buyer for these products in the market</li> <li>• if one party secures the obligations of the other party to the bank by through a pledge, guarantee, surety or other obligations for full or partial compensation</li> <li>• if borrowers have a single source of debt repayment, in the absence of other sources for timely and full repayment of debt</li> <li>• if two or more parties have a common source of financing, and it is difficult to find a similar source (except for the cases of financing by state international development banks). The fact that the parties financed by the same bank does not indicate per se the presence of economic dependence</li> <li>• if more than 30% of the borrower's obligations to the bank are repaid at the expense of the other party (or parties)</li> <li>• if the borrower uses more than 30% of the loan funds provided by the bank to finance the other party (or parties) (except for ordinary commercial transactions, such two or more borrowers purchasing equipment from the same seller)</li> <li>• if an individual or legal entity has an obligation to the debtor, and non-fulfillment of this obligation causes the debtor to be unable to fully or timely</li> </ul>
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	<p>repay his obligations to the bank</p> <ul style="list-style-type: none"> <li>• if a person or persons who have relations with the debtors based on control provide a guarantee for the obligations of the debtor (debtors) to the bank</li> <li>• if the borrowers are bound by a joint venture agreement or other document providing for joint liability</li> <li>• if individuals are 'close relatives' (persons related to kinship or in-laws, i.e. parents, biological and step-brothers, sisters, spouse, children, including adopted children, grandparents, grandchildren, parents of spouses, birth or step brothers, sisters);</li> <li>• in any other cases of joint contractual liability of borrowers for obligations to the bank.</li> </ul> <p>If two or more debtors are economically dependent on one person, even if this person is not a bank client or debtor, the bank must recognize them as a group of connected borrowers (regardless of whether there is a relationship between these debtors). RCRRP states that if two or more debtors are interconnected only based of control by state administration bodies (local or foreign), as well as the Reconstruction and Development Fund of Uzbekistan or international development banks, and there is no economic relationship between these debtors, they are not considered interconnected borrowers. The exemption is consistent with Basel framework para. 30.32.</p> <p>If the amount of risk for one borrower is 5 percent or more of the first-tier capital of the bank, the bank should conduct related studies based on economic dependence.</p> <p>In addition, when determining the connection among borrowers based on control and/or economic dependency, banks use the criteria of international financial reporting standards, and these criteria should not contradict legal documents or should not include requirements that are lighter than those contained in the RCRRP. Banks may also consider additional criteria based on their reasoned judgment.</p> <p>RCRRP Chapter 3, par. 19 enables the CBU to exert <b>reasoned judgment (adequate discretion) in applying the definition of 'group of connected counterparties' on a case-by-case basis</b>. Between 2022 and 2023 The CBU exerted this judgment in 5 cases, and the assessors were provided with <b>evidence of concrete remapping on corporate group by the CBU</b>, challenging the breach of prudential limit.</p>
<b>EC6</b>	<p>Laws, regulations or the supervisor set prudent and appropriate requirements to control and constrain large credit exposures to a single counterparty or a group of connected counterparties. "Exposures" for this purpose include all claims and transactions (including those giving rise to counterparty credit risk exposure), whether on-balance sheet or off-balance sheet. The supervisor also determines that banks assess connectedness between counterparties through control relationships and economic interdependence based on objective and qualitative criteria. The supervisor determines that senior management monitors these limits and that they are not exceeded on a solo or consolidated basis.</p>
Description and findings re EC6	<p>RCRRP sets up the below limit to constrain large exposures:</p> <ul style="list-style-type: none"> <li>a) The maximum amount of risk for one borrower or a group of interconnected borrowers of the bank should not exceed 25% of the bank's first-tier capital.</li> </ul>

	<p>b) The maximum amount of risk for <u>unsecured (trust-based)</u> credit and factoring services for one debtor or a group of interconnected debtors of the bank must not exceed 5% of the bank's Tier 1 capital, except for risks arising in interbank operations, and these operations are subject to limit sub a)</p> <p>c) The total amount of all large risks (risks for one borrower or a group of interconnected borrowers, the total amount of which is 10% or more of the bank's Tier 1 capital) of the bank should not exceed 5 times of the bank's first-tier capital.</p> <p>Exposures include off balance items (see EC1).</p> <p>RCRRP para. 22 states that if the amount of risk per borrower, or a group of related borrowers, including persons related to the bank, exceeds the prudential limits, when calculating capital adequacy, the excess amount is deducted from the Tier 1 capital starting from the date of this report. In case of a violation, the curator transmits the information to the Banking Supervision Committee, which decides on the application of appropriate measures against the bank (warnings, fines) and requires the development of a plan to eliminate violations. For example, as of the reporting date of 1 March 2023, a bank violated prudential standards.</p> <p>The Department of Prudential Supervision of Banks calculates the maximum amount of risk for one borrower or a group of related borrowers. Moreover, when analyzing the TOP-50 borrowers of the banking system, the CBU forms groups of interrelated borrowers based on both control and economic interconnection. Based on the results of the analysis, violations of prudential standards were identified in several banks which were requested to rectify prudential information. In addition, fines and warning measures were applied to banks by as a result of on-site inspections identifying violation of the maximum amount of risk per borrower.</p>
<b>Additional criterion</b>	
<b>AC1</b>	<p>In respect of credit exposure to single counterparties or groups of connected counterparties, non-internationally active banks are required to adhere to the limits below:</p> <p>(a) 10% or more of a bank's Tier 1 capital is defined as a large exposure; and</p> <p>(b) 25% of a bank's Tier 1 capital is the limit for an individual large exposure to a private sector non-bank counterparty or a group of connected counterparties.</p> <p>Minor deviations from these limits may be acceptable, especially if they are explicitly temporary or related to very small or specialised banks.</p>
Description and findings re AC1	RCRRP defines 'large risk' as risks for one borrower or a group of interconnected borrowers, the total amount of which is 10% or more of the bank's Tier 1 capital. It also sets up the limits indicated under EC6.
<b>Assessment of Principle 19</b>	<b>Largely Compliant</b>
Comments	Banks are required to have policies and processes that provide a comprehensive view of significant sources of concentration risk. Monthly supervisory reports on concentration risk include information on the loan portfolio (economic sectors and geographical



	<p>distribution) and on single names. The CBU exerts discretion ('reasoned judgment') when applying the definition of 'group of connected borrowers' (5 cases in the last 2 years), remaps the corporate group, and challenges banks when the supervisory reporting is incorrect. The CBU regularly analyzes the financial condition of the 50 largest borrowers of the entire banking system and banks have been instructed to conduct regular monitoring of their 20 largest borrowers (or groups of connected borrowers). The CBU has also introduced a 25 percent limit for the car loans segment, which has provided the first positive result in curbing the growth of car loans.</p> <p>The CBU demonstrated that it monitors concentration risk not only in relation to the large exposure regime ('single name'), but also in relation to:</p> <ul style="list-style-type: none"> <li>• products (for example, by introducing the 25 percent limit on car loans),</li> <li>• top 50 borrowers (about 1/4 of the banking system portfolio)</li> <li>• geographical distribution (almost half of the loans are disbursed to borrower's resident in Tashkent city).</li> <li>• currencies (households cannot borrow in FX and legal entities should demonstrate they have income in the same currency they want to borrow in to be able to naturally hedge FX exposure)</li> <li>• deposit concentration (top ten depositor equal to 17.3 percent)</li> </ul> <p>One point of improvement relates to the banks' exposure to sovereign risk, which should include both investment (government bonds) and lending to state owned enterprises.</p> <p><b>Finding</b> Bank exposures to the sovereign, as estimated during the assessment is UZS 102 bn, equal to 16.6 percent of total assets and 102 percent of total capital. Given the lack of a Pillar 2 framework, this risk is not incorporated into the banks' risk assessment.</p> <p><b>Recommendation</b> The CBU should strictly monitor the sovereign-bank nexus, and incorporate stress test outcomes in the risk assessment</p>
<b>Principle 20</b>	<b>Transactions with related parties.</b> <sup>63</sup> To prevent abuses arising in transactions with related parties <sup>64</sup> and to address the risk of conflicts of interest, the supervisor requires

<sup>63</sup> Reference documents: BCBS, Corporate governance principles for banks, July 2015; BCBS, Principles for the management of credit risk, September 2000.

<sup>64</sup> Related parties can include: (a) the bank's subsidiaries and affiliates (including their subsidiaries, affiliates and special purpose entities) and any other party that the bank exerts control over or that exerts control over the bank; (b) the bank's major shareholders, including beneficial owners; (c) the bank's board members, senior management and key staff, corresponding persons in affiliated companies, and parties that can exert significant influence on board members or senior management; and (d) for the natural persons identified in (a) to (c), their direct and related interests and their close family members.

	banks to enter into any transactions with related parties on an arm's length basis; <sup>65</sup> monitor these transactions; take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor set out a comprehensive definition of "related parties" that should at least consider all of the elements detailed in footnote 60. The supervisor may exercise discretion in applying this definition on a case by case basis.
Description and findings re EC1	<p>BL article 24 defines 'persons related to the bank':</p> <ol style="list-style-type: none"> <li>1) members of the <b>management bodies</b> and <b>key personnel</b> of the bank</li> <li>2) individuals and or legal entities that, directly or indirectly, individually or acting in concert, have <b>significant ownership</b> in the bank, including the BO. If 'close relatives' of these individuals own or control a share in the capital of the bank, regardless of its size, then this share is considered to be in the possession and control of this person</li> <li>3) persons exercising <b>control</b> over another person or under the control of another person, or under the joint control of a third party</li> <li>4) legal entities in which the persons exercising control over the bank have substantial ownership</li> <li>5) persons associated with the persons specified in 2) to 4), including 'close relatives' of an individual, as well as legal entities in which individuals or their close relatives exercise control or own shares or are members of the management body</li> <li>6) persons through whom the transaction with the bank is carried out in the interests of the persons specified in 2) to 5), and who are considered to be under the influence of the persons specified in 2) to 6) through the existence of labor, civil or other relations determined by law</li> <li>7) other persons determined by the CBU based on <b>reasoned judgment</b>.</li> </ol> <p>RCRRP Article 17 defines 'persons related to the bank':</p> <ol style="list-style-type: none"> <li>1) members of the <b>supervisory board</b> and management, as well as <b>members of the committees</b> (<i>except for the committees not responsible for bank risk management</i>) who are not members of the bank's management bodies, as well as key employees of the bank</li> <li>2) individuals and (or) legal entities that directly or indirectly, individually or jointly as part of a group of individuals, have <b>decisive ownership</b> in the bank, including <b>BO</b></li> <li>3) natural persons who have authority to manage or control the legal entity that has decisive ownership in the bank's capital</li> </ol>

<sup>65</sup> Related party transactions include on-balance sheet and off-balance sheet credit exposures; dealings such as service contracts, asset purchases and sales, construction contracts and lease agreements; derivative transactions; borrowings; and write-offs. The term "transaction" should be interpreted broadly to incorporate not only transactions that are entered into with related parties but also situations in which an unrelated party (with whom a bank has an existing exposure) subsequently becomes a related party.

	<p>4) financial institutions belonging to the group of banks</p> <p>5) individuals and legal entities that have a decisive ownership in the capital of a financial institution belonging to the group of banks</p> <p>6) members of the supervisory board, management and key employees of the financial institution belonging to the group of banks</p> <p>7) a legal entity directly or indirectly owning at least 20% of capital of the parent bank as well as officials of this legal entity</p> <p>8) legal entity and its officials, if the bank directly or indirectly owns at least 20% of the capital of this legal entity</p> <p>9) a legal entity that directly or indirectly owns at least 20% of the capital of the legal entities exercising control over the bank</p> <p>10) persons exercising control over a legal entity that has significant ownership in the authorized capital of the bank</p> <p>11) persons associated with the persons specified in 2) to 10), including close relatives of an individual, as well as legal entities in which individuals or their close relatives exercise control, or own a share in the capital, or are members of the management body</p> <p>12) persons through whom a transaction with the bank is carried out in the interests of the persons specified in 2) to 11), and who are considered under the influence of the persons specified 2) to 11) due to the existence of labor, civil or other relations between these persons determined by legislative acts.</p> <p>In addition, persons who carry out a transaction with the bank in the interests of the above-mentioned persons are considered to act on behalf of a person related to the bank; those persons are:</p> <p>13) legal representatives of persons related to the bank</p> <p>14) persons who have the authority to act on behalf of a person related to the bank based on a transaction concluded with persons related to the bank</p> <p>15) persons who directly or indirectly transfer to persons related to the bank the profit received from the transaction</p> <p>16) persons who entered a transaction with the bank under the influence of the above-mentioned persons.</p> <p>The CBU may exercise discretion in applying this definition on a case-by-case basis because in this area the Banking Supervisory Committee can exert its <b>reasoned judgment. However, the CBU has rarely exerted this power.</b></p> <p>Although there is no definition of 'transaction', the prudential framework is not limited to credit exposures, but it includes service contracts, asset purchases and sales, as it can be inferred by the definition of '<i>more favorable terms</i>' provided by RCRRP (see EC2).</p> <p>An element for further reflection is the relationship between SOCBs and state-owned enterprises (SOE). Lending from SOCBs to SOEs is not considered a related party transaction and is not always done on commercial terms. While state-owned enterprises may not be subject to the related party limit, SOCBs' transactions with SOE should</p>
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	respect typical qualitative requirements of related party transactions. This includes ensuring that these transactions are conducted on an arms' length basis and avoid conflicts of interest. CBU should intensify supervision of SOCBs' exposures to related parties, including SOE.
<b>EC2</b>	Laws, regulations or the supervisor require that transactions with related parties are not undertaken on more favorable terms (eg in credit assessment, tenor, interest rates, fees, amortization schedules, requirements for collateral) than corresponding transactions with non-related counterparties. <sup>66</sup>
Description and findings re EC2	<p>Pursuant to Article 44 of the BL, banks are prohibited from concluding transactions with related persons to the bank or acting on behalf of such persons, in cases where such transactions are concluded on <b>more favorable terms</b> than those provided for persons not associated with the bank.</p> <p>Providing more favorable conditions means:</p> <ul style="list-style-type: none"> <li>• entry into a transaction with a person related to the bank or acting in the interests of such a person, into which, by its nature, purpose, characteristics and risk, the bank would not enter with other persons</li> <li>• receiving <b>remuneration</b> and charging a fee for the execution of a financial transaction lower or accepting collateral at a value higher than what is required from others.</li> </ul> <p>Moreover, RCRRP Article 24 prohibits banks from entering transaction with related party or with persons acting on their behalf in cases where the <b>contracts</b> are based on more favorable conditions than the contracts provided for persons not related to the bank.</p> <p>RCRRP clarifies that the provision of more favorable conditions includes:</p> <ul style="list-style-type: none"> <li>• concluding transactions that the bank does not enter into with persons unrelated to it due to high risk or other unfavorable circumstances</li> <li>• charging lower interest or brokerage fees compared to those charged to persons not related to the bank</li> <li>• mispricing of <u>services</u></li> <li>• extension of payment terms on preferential conditions compared to loans to persons not related to the bank</li> <li>• write-off of risks under more favorable conditions</li> <li>• purchase of assets at a higher price than market prices</li> <li>• sale of assets at prices lower than market prices</li> <li>• investing in the securities of persons related to the bank with low performance indicators or high-risk when it is possible to invest in the securities of other issuers</li> <li>• purchase of illiquid assets or acceptance of illiquid assets as a collateral from persons related to the bank</li> </ul> <p>The CBU can exert reasoned judgment and challenge the 'more favorable' terms; however, it has never done it.</p>

<sup>66</sup> Exceptions may be appropriate for certain transactions between entities within a banking group when the supervisor considers this to be consistent with sound group-wide risk management. An exception may also be appropriate for beneficial terms that are part of overall remuneration packages.

	Lending from SOCBs to SOEs is not always done on commercial terms.
<b>EC3</b>	The supervisor requires that transactions with related parties and the write-off of related party exposures exceeding specified amounts or otherwise posing special risks are subject to prior approval by the bank's board. The supervisor requires that board members with conflicts of interest are excluded from the approval process for granting and managing related party transactions.
Description and findings re EC3	<p>Pursuant to Article 44 of the BL, the bank may carry out transactions with persons related to it only <b>by decision of the bank's supervisory board</b> (BL art. 44). If a person becomes a related party after signing an agreement with the bank, the supervisory board, within thirty days from the day when the person became a related party, must approve this agreement or terminate it. A member of the supervisory board must not attend a meeting of the supervisory board, try to influence its decision on the transaction between the bank and him (or persons related to him).</p> <p>In addition, RCRRP Article 27 prevents a member of the supervisory board from participating in the discussion, or influencing in other ways the decision of the supervisory board concerning transactions concluded or to be concluded between the bank and:</p> <ol style="list-style-type: none"> <li>1) the member of the supervisory board himself</li> <li>2) close relatives of a member of the supervisory board</li> <li>3) any legal entity with decisive ownership or strong influence in the bank</li> <li>4) any person acting on behalf of the persons mentioned in 2) to 3)</li> </ol> <p>The decision of the supervisory board regarding any transaction with related party must contain full information on all relevant terms of the transaction (RCRRP Article 28), including the amount, the interest rate, information about the borrower's financial situation, expected timely repayment of the funds, and the collateral. Information on transactions of purchase and sale of bank assets must contain information confirming the value of assets (RCRRP Article 29).</p> <p>According to Article 24 of the RCRRP, the 'write off under more favorable conditions' could integrate the provision of 'more favorable terms' to related parties and, in accordance with paragraph 26 of the same Regulation, a decision of the bank's supervisory board is needed.</p>
<b>EC4</b>	The supervisor determines that banks have policies and processes to prevent persons benefiting from the transaction (and/or persons related to such a person) or who otherwise have a conflict of interest from being part of the process of granting and managing the related party transaction.
Description and findings re EC4	<p>RCG requires that members of the supervisory and management board should not participate in decision when they have conflict of interest (para. 3). Members of the supervisory board should avoid actions leading to a conflict of interest and immediately notify the board about conflict of interest and take measures to eliminate it (para. 5).</p> <p>In addition, the Supervisory Board Council should develop a <b>policy for the prevention and elimination of conflicts of interest</b> and monitor its implementation (para. 34). This policy should include:</p>

	<ul style="list-style-type: none"> <li>obligations of board members to avoid situations leading to conflict of interests or eliminate them where they arise</li> <li>definition of conflict of interests arising in the performance of the duties by the supervisory and management board and other employees (with examples of situations arising in the bank)</li> <li>restriction to the participation and voting rights of the members of the supervisory and management board in conflict of interest</li> <li>mechanisms to control and prevent conflicts of interest that have arisen or may arise with managers and other employees</li> <li>measures used in cases of conflict of interest and the procedure for its elimination;</li> <li>measures to be taken against managers and other employees if they do not provide information in the prescribed manner when there is a conflict of interest or there is a possibility of it.</li> </ul> <p>Banks should form a <b>database of conflicts of interest</b> and potential negative situations; periodic reports should be submitted to the board and management (para. 35).</p> <p>The assessors were provided with evidence of the CBU oversight on policies and processes on conflict of interest. For example, the CBU challenged a bank as it had not set up the register of transactions with related parties (see EC7).</p>
<b>EC5</b>	<p>Laws or regulations establish, or the supervisor sets on a general or case by case basis, limits for exposures to related parties<sup>67</sup> or require such exposures to be collateralized or deducted from capital.<sup>68</sup> When limits are only set on aggregate exposures to related parties, those are at least as strict as those for single counterparties or groups of connected counterparties under Principle 19.</p>
Description and findings re EC5	<p><b>Prudential limits</b></p> <ul style="list-style-type: none"> <li>The maximum amount of risk to one person related to the bank should not exceed 25% of the bank's Tier 1 capital.</li> <li>The maximum amount of risk corresponding to all persons related to the bank should not exceed 50% of the bank's Tier 1 capital.</li> </ul> <p>Setting individual limits at 25% does not mitigate the fact that the aggregate limit is 50%.</p> <p><b>Deduction from capital</b></p> <p>As stated under CP19 EC6, RCRRP para. 22 envisages that if the amount of risk towards a related party exceeds the prudential limits, when calculating capital adequacy, the <b>excess amount is deducted from the Tier 1 capital</b>. In case of a violation, the curator transmits the information to the Banking Supervision Committee, which decides on the application of appropriate measures.</p> <p><b>Collateralization</b></p>

<sup>67</sup> For this purpose, exposures should be calculated consistently with Principle 19 (BCP40.43).

<sup>68</sup> The supervisor may exclude banks' exposures to certain entities within the banking group where the supervisor considers this to be consistent with sound group-wide risk management.

	<p>The bank cannot issue loans without collateral to a related party (BL Article 44). RRCRP establishes minimum collateral requirement for credit allocated to a person related to the bank or a person acting on his behalf (from 100 percent to 130 percent). Bank must take appropriate measures to maintain the value of the collateral at the required amount. If the market value of collateral decreases, the bank must take the necessary measures to bring the amount of collateral into compliance within 10 days.</p> <p>As mentioned under CP18, EC6, the CBU monitors the value of collateral either during off-site supervision (reporting includes collateral) or in the course of on-site inspections (where the CBU assesses the reliability of the information pertaining to collateral). It should also be noted that collateral requirements for exposures to related party are strict both in terms of 'eligibility criteria' - only liquid assets (government guarantee/security) and cash (deposits in UZB sum/FX currency) - and in relation to the haircut (30% for other type of securities).</p>
<b>EC6</b>	<p>The supervisor determines that banks have policies and processes to:</p> <ul style="list-style-type: none"> <li>(a) identify individual exposures to and transactions with related parties as well as the total amount of exposures; and</li> <li>(b) monitor and report on them through an independent credit review or audit process.</li> </ul> <p>The supervisor determines that exceptions to policies, processes and limits are reported to the appropriate level of the bank's senior management and, if necessary, to the board, for timely action. The supervisor also determines that senior management monitors related party transactions on an ongoing basis, and that the board also provides oversight of these transactions.</p>
Description and findings re EC6	<p>The CBU highlighted that it sent letters to some banks about violation of related party requirements. It also pointed out that related parties fall under the audit perimeter through the lens of credit risk. Although the large exposures regime and the related parties discipline are covered by the same regulation and banks exposures are constrained by the same individual limit (25% of Tier 1), the CBU claimed that the prudential framework clearly distinguishes the terms, procedures, and limits applicable to each category of risks. According to the CBU, this unification aims to create a single legal framework that simplifies enforcement and eliminates duplication while maintaining clarity in approaches to different types of risks.</p>
<b>EC7</b>	<p>The supervisor obtains and regularly reviews information on aggregate exposures to related parties. Supervisors require banks to report (or the supervisor acquires this information through other means) individual related party transactions that are material (eg those exceeding a specified amount or a percentage of the bank's Tier 1 capital).</p>
Description and findings re EC7	<p>Pursuant to BL Article 44, banks are obliged to maintain a <b>separate register of transactions with related parties</b> and notify the CBU before concluding transactions. The notification, which contains the name of the borrower, does not require CBU approval.</p> <p>Moreover, banks submit monthly reporting on an individual basis to the CBU on prudential indicators, including those pertaining to related parties. They are reviewed by the curator, who also uses a public database containing, among others, information on</p>

	ownership structure (www.orginfo.uz, www.stat.uz) to study potential relationships among borrowers.
<b>Assessment of Principle 20</b>	<b>Largely Compliant</b>
Comments	<p>Law and regulation adopt a broader definition of 'related parties', however, '<i>members of those committees not responsible for bank risk management</i>' are excluded. The expression is unclear and might open a window of opportunity for insiders' abuse in transactions other than lending (for example, procurements). Although the CBU has discretion on the qualification of related parties and on the arms' length principles, it has never exerted its 'reasoned judgments' on this topic. BL Article 44 requires supervisory board approval for transactions with related parties. There are provisions in the RCRRP and in the RCG that prevent a board member with conflicts of interest from the approval process of related party transactions. The prudential framework consists of collateral requirements, limits both for individual and aggregate, and deduction of excess exposures from capital.</p> <p>While SOEs may not be subject to the related party limit, SOB transactions with SOEs should respect typical qualitative requirements of related party transactions. This includes ensuring that these transactions are conducted on an arms' length basis, avoid conflicts of interest, and are approved and monitored by the CBU. The CBU should intensify supervision of SOBs transactions to related parties, including SOE.</p> <p>Findings</p> <ul style="list-style-type: none"> <li>• Lending by SOBs to SOEs is not subject to the qualitative requirements in place for related party transactions, namely commercial terms and transactions on an arm's length basis.</li> <li>• Although the CBU has discretion regarding the qualification of related party and on the arm's length principles, it has never exerted its 'reasoned judgments' on this topic.</li> <li>• RCRRP excludes '<i>members of those committees not responsible for bank risk management</i>'. The expression is unclear and might open a window of opportunities for insiders' abuse in transactions other than lending (for example, procurements).</li> </ul> <p>Recommendations</p> <ul style="list-style-type: none"> <li>• Intensify supervision of SOBs exposures to related parties, including SOEs, requiring the application of commercial terms and arm's length transactions.</li> <li>• Exert reasoned judgment, as provided by the BL, when assessing related party transactions, either in terms of definition or in relation to the market terms conditions.</li> <li>• Amend RCRRP Article 17 and eliminate the exception '<i>members of those committees not responsible for bank risk management</i>' who should also be considered related parties (exceptions may be appropriate for transactions of a small amount).</li> </ul>



<b>Principle 21</b>	<b>Country and transfer risks.</b> <sup>69</sup> The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk <sup>70</sup> and transfer risk <sup>71</sup> in their international lending and investment activities on a timely basis.
<b>Essential criteria</b>	
<b>EC1</b>	The supervisor determines that a bank's policies and processes adequately consider the identification, measurement, evaluation, monitoring, reporting and control or mitigation of country risk and transfer risk. The supervisor also determines that the processes are consistent with the risk profile, systemic importance and risk appetite of the bank, consider market and macroeconomic conditions, and provide a comprehensive bank-wide view of country and transfer risk exposure. Exposures (including, where relevant, intragroup exposures) are identified, monitored and managed on a regional and an individual country basis (in addition to the end-borrower/end-counterparty basis). Banks are required to monitor and evaluate developments in country risk and in transfer risk and apply appropriate countermeasures.
Description and findings re EC1	<p>Following the war in Ukraine, the CBU has upgraded the prudential framework and stepped up the oversight of country risk and transfer risk (see also EC2). The RRM amendment is in consultation as of the time of the assessment. In parallel, the CBU enhanced its supervisory engagement with banks since the beginning of the conflict.</p> <p>The Government created a Working Group (February 2022), chaired by the Prime Minister. Several sub working groups were formed, directed by Deputy Prime Ministers. Within these sub-working groups, banks assessed risks arising in foreign economic relations with physical or legal entities of Russia and Belarus, especially with those included in the blocking sanction list of the United States and EU.</p> <p>The CBU:</p> <ul style="list-style-type: none"> <li>• set up a Sanction Division, within the Financial Monitoring Department, responsible for coordinating sanction risk of banks</li> <li>• created an analytical council (so called 'compliance group', see CP 26) formed by banks and CBU staff specialists where sanction risks are discussed on weekly basis</li> <li>• instructed banks to suspend cross border transactions where participants in these transactions are included in the block sanction list of the United States and European Union</li> </ul>

<sup>69</sup> Reference documents: IMF, External debt statistics – guide for compilers and users, 2013; BCBS, Management of banks' international lending: country risk analysis and country exposure measurement and control, March 1982.

<sup>70</sup> Country risk is the risk of exposure to loss caused by events in a foreign country. The concept is broader than sovereign risk as all forms of lending or investment activity involving individuals, corporates, banks or governments are covered.

<sup>71</sup> Transfer risk is the risk that a borrower will not be able to convert local currency into a foreign currency and so will be unable to make debt service payments in a foreign currency. The risk normally arises from exchange restrictions imposed by the government in the borrower's country.

	<ul style="list-style-type: none"> <li>• tightened legal requirements in the procedure for opening bank accounts by non-residents, expanding banks' right to refuse to open an account or intermediate the transaction</li> <li>• conducted stress testing on compliance risk</li> <li>• developed risk matrices and rate sanctions risk for clients and their operation</li> <li>• required banks to inform the CBU about non-standard, complex, and economic unjustified cross border transactions and payment schemes</li> <li>• conducted daily monitoring of the dynamics of changes in the balance of borrowed resources from Russian banks and instructed banks to reduce dependence on credit resources from Russian banks.</li> </ul> <p>As of March 1, 2022, the balance of funds in the correspondent accounts of Russian banks amounted to US \$142.6 MN, of which US \$ 87.3 MN were in banks that fell under sanction. At the time of the assessment these funds were recovered. There are still US\$ 670 mn deposited by Uzbek banks in a Russian bank <u>not</u> under sanction.</p> <p>In parallel, the new RRM, published for consultation during the assessment and registered by the Ministry of Justice in January 2025, defines country risk as <i>'the probability that the banks will experience loss and (or) not receive the planned income, which may occur as a result of political, economic, social instability or legislative change in a foreign country'</i>. Country risk includes:</p> <ul style="list-style-type: none"> <li>• <b>Transfer risk:</b> <i>the risk arising from the inability of the borrower to fulfill its obligations due to the imposition of restrictions in a foreign country, including restrictions on currency transactions</i></li> <li>• <b>Sovereign risk:</b> <i>the risk associated with the inability or refusal of a foreign government to fulfill its contractual obligations</i></li> <li>• <b>Contagion risk:</b> <i>the risk that arises when adverse events in one country result in the inability of debtors in another country to meet their obligations.</i></li> </ul> <p>Country risk has been included in the list of material risks. Banks are required to monitor and evaluate developments in country risk. They should <b>analyze the situation in a foreign country</b> (political economic, social etc.), including legislation regulating banking activities. Banks should also assess the <b>impact of the country risk on their financial position</b>. When analyzing country risk, a bank might consider the following factors related to a foreign country: economic growth rates; size and structure of foreign debt; international reserves; state budget balance; dynamic of the national currency exchange rate; trade balance; access to international financial market; level of development of the financial system; social, legal and political situation.</p> <p>In case of a significant increase in country risk, the risk management unit should propose <b>appropriate corrective measures within five working days</b> to the supervisory and management boards. Banks might also conduct <b>stress tests to assess the potential losses associated with country risk</b>.</p>
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	<p>The assessors reviewed several examples of the CBU oversight of Uzbek banks' exposures to Russian banks. Since the Russian invasion of Ukraine, the CBU monitoring became more intrusive, daily for banks with major exposures, contributing to mitigate country risk.</p>
<b>EC2</b>	<p>The supervisor determines that a bank's strategies and policies for the management of country and transfer risks have been approved and are regularly reviewed by the bank's board. The supervisor also determines that the board oversees management in a way that ensures that these policies are implemented effectively and fully integrated into the bank's overall risk management process.</p>
Description and findings re EC2	<p>Even before the amendments to the RRM came into force, <b>several banks</b> had already included country risk in their general risk management policy. Since the beginning of the Russian invasion of Ukraine, the CBU started assessed the existing policies; but only some banks had in place a comprehensive regulation on country risk, with established limits, and a methodology for calculating these limits. The new Chapter 11 of the RRM makes the country risk management system requirements <b>mandatory for all banks</b>.</p> <p>Pursuant to RRM Chapter 11, article 124, the supervisory and the management boards should introduce a <b>country risk management system, to identify, assess, monitor, control and mitigate country risk</b>. The country risk management system should include policies and procedures, including those for submitting country risk report. Country risk <b>policy</b> (and limits) <b>should be reviewed at least once a year or regularly when there are concerns about an increase in the country's risk relative to a particular country</b>.</p> <p>The country risk management policy should include:</p> <ul style="list-style-type: none"> <li>• the organizational structure of the country risk management system, including distribution of duty, power, and responsibilities or relevant structure unit (employees) and their interaction</li> <li>• country risk identification, assessment, monitoring, control, mitigation and reporting requirements</li> <li>• form of report, their submission procedure and periodicity</li> <li>• criteria for determining and analyzing country risk</li> <li>• country risk limits, including the <b>general limit for the bank cross-border operation</b>, as well as individual limits for country and region</li> <li>• a description of cross border financial operations carried out by the bank</li> </ul> <p>To <b>effectively implement the country risk management policy</b>, the bank <b>management board should develop internal procedures</b>, considering the nature and complexity of the bank's activities related to foreign countries. These procedures should be compliant with the requirements and legal document set by the CBU. They should include:</p> <ul style="list-style-type: none"> <li>• procedures for identifying, assessing, monitoring, controlling and mitigating country risk</li> <li>• procedures for ensure compliance of bank activities with country's risk limits</li> </ul>

	<ul style="list-style-type: none"> <li>• exchange of information between participant of the country's risk management process</li> </ul> <p>Propelled by the more intrusive supervision of the CBU, the assessors found that Uzbek banks enhanced their policies for the management of country risk and implemented a strategy for the reduction of their exposures towards Russian banks.</p>
<b>EC3</b>	The supervisor determines that banks have information systems, risk management systems and internal control systems that accurately aggregate, monitor and report country exposures on a timely basis; and ensure adherence to established country exposure limits.
Description and findings re EC3	<p>RRM Requirements pertaining to the bank's management information system (reliability, completeness, flexibility and timely generation and submission of reports) covers now also country risk. Country risk (policy and) <b>limits should be communicated to all relevant departments and employees.</b></p> <p>When the country risk increases significantly, the risk management unit must notify the supervisory and the management boards no later than one working day and, as stated under EC1, propose appropriate corrective measures within five working days.</p> <p>A <b>significant increase in country risk</b> should be specified in the bank's internal documents; in the self-assessment, the CBU pointed out that that this provision covers <b>sanctions.</b></p> <p>The risk management unit must submit <b>quarterly reports on country risk</b> to the supervisory board or the risk management committee (if established), and to the management board at least <b>once a month.</b></p> <p>As stated under EC 1 and 2, banks were requested to submit information on country risk also on daily basis.</p>
<b>EC4</b>	<p>There is supervisory oversight of the setting of appropriate provisions against country risk and transfer risk, which may include the following:</p> <p>(a) The supervisor (or relevant authority) decides on appropriate minimum provisioning by regularly setting fixed percentages for exposures to each country, considering prevailing conditions. The supervisor reviews minimum provisioning levels where appropriate.</p> <p>(b) The supervisor (or relevant authority) regularly sets percentage ranges for each country, considering prevailing conditions, and the banks may decide, within these ranges, which provisioning to apply for their individual exposures. The supervisor reviews percentage ranges for provisioning purposes where appropriate.</p> <p>(c) The bank itself sets percentages or guidelines or even decides on the appropriate provisioning for individual exposures. The adequacy of the provisioning will then be judged by the external auditor and/or by the supervisor.</p>
Description and findings re EC4	<p>The RRM neither set fixed percentage nor range of minimum provisioning for exposures to each country.</p> <p>CBU argued that it <b>indirectly</b> set forth a minimum provisioning requirement through RAQP Article 21 (3). This Article states that assets placed in banks outside the territory of</p>

	<p>the Republic, (correspondent accounts, interbank deposits and loans) are classified as follows:</p> <ol style="list-style-type: none"> <li>1) "standard" - if the bank has an investment grade rating from "Standard &amp; Poor's", "Fitch Ratings" and "Moody's Investors Service" or other ECAI recognized by the Central Bank</li> <li>2) "substandard" - if the bank has ratings below investment grade form the same ECAI mentioned under 1</li> <li>3) "loss" - in the presence of overdue debts on the principal and (or) interest.</li> </ol> <p>Since assets classified as 'substandard' or 'loss' should be provisioned, respectively, by 10 percent and 100 percent, the CBU contended that this is a provisioning requirement for country risk. Nevertheless, this article only relates to counterparties as banks, instead of all assets which are cross-border exposures. Therefore, the CBU does not properly ensure that country risk is sufficiently taken into account in the determination of provisions, if the counterparty is not bank or if the counterparty does not have a rating.</p>
<b>EC5</b>	The supervisor regularly obtains and reviews sufficient and timely information on the country risk and transfer risk of banks. The supervisor has the power to obtain additional information, as needed (eg in crisis situations).
Description and findings re EC5	CBU has the power to receive information on the country risk and transfer risk of banks (BL article 50) and to obtain additional information. In the prudential reports submitted by banks <b>monthly</b> , evidence is kept on funds placed abroad (correspondence accounts/bank deposits).
<b>Assessment of Principle 21</b>	<b>Compliant</b>
Comments	<p>Following the war in Ukraine, the CBU stepped up its regulatory and supervisory efforts on country and transfer risk. The CBU Board resolution (37/6) on amendments to the RRM, registered by the Ministry of Justice (under number 3427-1), will come into force the 21st of April 2025 (due to the extensive nature of the amendments, banks were given 3 months to adjust their policies before the amendments become binding, while typically CBU resolution come into force one month after the publication). The revised RRM introduces a new chapter on <b>country risk management system</b> requiring banks to identify, assess, monitor, control, and mitigate country risk. The system consists of board approval of policy; implementation procedures approved by management; assessment of country risk by the risk management unit; set up of internal limits; appropriate reporting, including proposal or corrective measure, should the exposure become significant; optional stress testing. It should be stressed that the CBU implemented supervisory practices on country risk since 2022, before the amendments to the RRM. In parallel, the CBU set up a Sanction Division, created the 'Compliance group', instructed banks to suspend cross border transactions with participants included in the block sanction list of the United States and European Union, tightened legal requirements in the procedure for opening banks account to non-residents, required banks to conduct stress testing on compliance risk, and conducted daily monitoring of the dynamic of changes in the balance of borrowed resources from Russian banks.</p>

	<p><b>Finding</b></p> <ul style="list-style-type: none"> <li>the CBU does not properly ensure that country risk is sufficiently taken into account in the determination of provisions</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>Introduce appropriate minimum provisioning per country risk considering prevailing conditions (in the form of fixed percentages or range for each country) or systematically assess the adequacy of this provisioning set aside by banks.</li> </ul>
<b>Principle 22</b>	<b>Market risk.</b> <sup>72</sup> The supervisor determines that banks have an adequate market risk management process that considers risk appetite, risk profile, market and macroeconomic conditions, and the risk of a significant deterioration in market liquidity. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require banks to have appropriate market risk management processes that provide a comprehensive bank-wide view of market risk exposure. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank; that they consider market and macroeconomic conditions and the risk of a significant deterioration in market liquidity; and that they clearly articulate the roles and responsibilities for identifying, measuring, monitoring, reporting and controlling market risk.
Description and findings re EC1	<p><b>Regulation</b></p> <p>The CBU RRM (April 2023) includes certain elements of market risk. According to RRM Art 87, the board of directors must ensure that the bank has a risk management system, which serves to identify, assess, monitor, control and reduce market risk. An effective market risk management system should include:</p> <ul style="list-style-type: none"> <li>risk appetite in relation to market risk;</li> <li>policies and procedures for managing market risks;</li> <li>tools for assessing and monitoring market risks;</li> <li>market risk stress testing procedure;</li> <li>reports on market risks.</li> </ul> <p>RRM Article 89 prescribes that market risk includes the following risks:</p> <ul style="list-style-type: none"> <li>interest rate risk arising in the bank's investment portfolio as a result of unexpected changes in the value of securities or other financial instruments with fixed income, market interest rates;</li> <li>currency risk arising from fluctuations in foreign exchange rates, affecting the value of assets, liabilities and off-balance sheet items of the bank;</li> <li>commodity risk arising from changes in the market value of precious metals, stones and coins;</li> </ul>

<sup>72</sup> Reference documents: BCBS, High-level considerations on proportionality, July 2022; (RBC25), (MAR10), (MAR11), (MAR12), (MAR20), (MAR21), (MAR22), (MAR23), (MAR30), (MAR31), (MAR32), (MAR33), (MAR40), (MAR50), (MAR99).

	<ul style="list-style-type: none"> <li>equity risk arising from changes in the current (fair) value of securities as a result of the issuer's activities or stock market fluctuations.</li> </ul> <p>There is a requirement that in the event of a significant increase in market risk, including when approaching the approved risk appetite limits or violating these limits, the banks' Risk Department is obliged to notify the supervisory board and the bank's management thereof no later than one business day and propose appropriate corrective measures within five business days. A significant increase in market risk should be provided for in the bank's internal documents (RRM Article 91).</p> <p>The amendments to the RRM (January 2025):</p> <ul style="list-style-type: none"> <li>introduced the definition of trading book (art. 1) – a set of financial instruments acquired by the bank for the purpose of earning profits from short-term price fluctuations and/or for hedging risks, with the intent of subsequent sale;</li> <li>expanded market risk to derivative instruments, including derivatives with an underlying asset being shares (Article 89) ;</li> <li>broadened the risk appetite requirement for market risk by including (i) the maximum amount of value at risk (VaR) for all types of market risks (in absolute terms and as a percentage of the bank's regulatory capital) with a high confidence level (at least 99 percent) over a 10-day period; (ii) the maximum amount of market risk in the calculation of capital adequacy (in absolute terms and as a percentage of the bank's regulatory capital); and (iii) The maximum amount of currency positions in the bank's major currencies.</li> </ul> <p><b>Supervision</b></p> <p>Within the framework of supervision, in accordance with the GRBS, an analysis and assessment of market risk is carried out, and consists of the following stages:</p> <ul style="list-style-type: none"> <li>Stage One (General information on market risk management in banks): review of strong and weak market risk management practices in banks;</li> <li>Stage Two (Sources of Information): Two non-exhaustive lists of quantitative and qualitative information to be used in assessing inherent market risk and assessing the quality of market risk management;</li> <li>Stage Three (Inherent Market Risk Assessment): three steps to understand and assess the extent of market risk faced by a bank;</li> </ul> <p>These stages also include sub-stages in which the automatic assessment and the assessment of the supervisory authority are carried out, as a result of which an overall assessment is assigned to the bank's market risk management process.</p> <p>The CBU's prudential supervision monitors compliance with the minimum requirements for foreign exchange positions on a daily basis.</p> <p>Six cases of violation of the established limits were identified in 2023 and all were discussed at the Banking Supervision Committee.</p>
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	<p>Banks include market risks in their risk management systems, provide reporting to the regulator and set internal limits to manage and minimize potential risks. As part of the assessment of the risk profile of banks, market risk is assessed, which includes two main components: assessment of inherent risk and assessment of the quality of market risk management.</p> <p>The assessment of inherent market risk is carried out in several stages to determine the degree of risk to which the bank is exposed, while the assessment of the quality of management aims to analyze the management structure and the adequacy of risk mitigation measures. These assessments are carried out both during off-site supervision by curators (off-site) and during on-site inspections.</p>
<b>EC2</b>	<p>The supervisor determines that a bank's strategies and policies for the management of market risk have been approved and are regularly reviewed by the bank's board. The supervisor also determines that the board oversees management in a way that ensures that these policies are implemented effectively and fully integrated into the bank's overall risk management process.</p>
Description and findings re EC2	<p>RRM Article 8 foresees that the banks' Supervisory Board, among other things, approves risk management policies covering the methodology for identifying each of the material risks. Market risk is identified as a material risk.</p> <p>To effectively implement the policy of managing market risks, the bank's management should develop the internal procedures of the bank. This procedure should take into account the nature and complexity of banking activities. This procedure should include:</p> <ul style="list-style-type: none"> <li>• the procedure for identifying, assessing, monitoring, controlling, hedging market risk and preparing a report on it;</li> <li>• necessary tools, indicators, methods and ways to determine market risk;</li> <li>• a list of foreign currencies and financial instruments with which transactions can be carried out;</li> <li>• the procedure for the exchange of information between participants in the market risk management process;</li> <li>• the procedure for preparing a report submitted to the Central Bank on market risk and verifying its reliability.</li> </ul> <p>Banks provide the CBU with the necessary information about the risk management process. Supervisors are able to receive and review the reports sent to the Board, as well as to observe the Board's discussion (by obtaining minutes of the meetings of the Board and the bank's management) of the bank's exposure to all significant risks, including market risk.</p> <p>Within the framework of the risk-based approach, the CBU verifies the engagement of banks' management bodies to the risk management process. The supervisors determine if the strategies and policies for risk management are developed, corresponds to banks' risk profile and risk appetite, are approved by the board and are properly implemented. For more enhanced assessment of the risk management and control, the CBU proceeds with on-site inspections. The on-site examination reports, as a tool for supervisory determination, were found to contain very little coverage of market risk aspects, and did</p>



	not address the aspects of the Board approval of the market risk management policy and its effective implementation.
<b>EC3</b>	<p>The supervisor determines that the bank's policies and processes establish an appropriate and properly controlled market risk environment including:</p> <ul style="list-style-type: none"> <li>(a) comprehensive risk measurement systems for the accurate and timely identification, aggregation, monitoring, and reporting of market risk exposures to the bank's board and senior management;</li> <li>(b) appropriate market risk limits, which are consistent with the bank's risk appetite, risk profile, capital strength and management's ability to manage market risk and which are understood by and regularly communicated to relevant staff;</li> <li>(c) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or board, where necessary;</li> <li>(d) effective controls around the use of models to identify and measure market risk, and set limits; and</li> <li>(e) sound policies and processes for the allocation of exposures to the trading book.</li> </ul>
Description and findings re EC3	<p><b>Risk measurement system</b></p> <p>According to paragraph 40 of the Regulation "On Requirements for the Risk Management System in Banks and Banking Groups" (reg. No3427, 18.04.2023), it is necessary for banks to implement a Risk Management Information System, which enables to collect and summarize information on all areas of banking activities, reliably assess risks in the section of the bank and the banking group, and prepare risk reports. The regulation requires that the bank's risk management information system correspond to the nature, scale and level of complexity of banking operations and ensure the following:</p> <ul style="list-style-type: none"> <li>• truthfulness of information about risks;</li> <li>• completeness and flexibility of information;</li> <li>• formation and timely submission of reports.</li> </ul> <p><b>Risk limits</b></p> <p>In accordance with paragraph 88 of the Regulation "On Requirements for the Risk Management System in Banks and Banking Groups" (reg. No3427, 18.04.2023), an effective market risk management system should, among other things, define the appetite for market risk.</p> <p>A market risk management policy should include the following:</p> <ul style="list-style-type: none"> <li>• organizational structure of the market risk management system, including the distribution of duties, powers, responsibilities and the procedure for interaction between participants in the risk management system;</li> <li>• the procedure for determining market risk limits;</li> <li>• identification, assessment, monitoring, control, mitigation and reporting;</li> </ul>

	<ul style="list-style-type: none"> <li>• market risk stress testing procedures;</li> <li>• reporting forms on market risk prepared for the Council and Management Board of the Bank, the procedure and frequency of their submission.</li> </ul> <p>In addition, to ensure a culture of risk management in the bank, it is necessary, among other things, to take the following measures:</p> <ul style="list-style-type: none"> <li>• providing information to employees about their role in risk management, informing them that they are responsible for compliance with risk appetite and risk limits set by the bank;</li> <li>• conducting seminars and training to familiarize employees with significant risks and their responsibilities to manage these risks.</li> </ul> <p>Given the high dollarization in Uzbekistan and significant foreign currency positions in at least some banks, currency risk is identified as the main sub-category of market risk. The CBU regulates it by setting limits on net open foreign exchange positions, which is enshrined in the Regulation "On the Procedure for Managing Open Foreign Exchange Positions" (registered on May 7, 2021, No. 3301). Monitoring of banks' open foreign exchange positions is conducted on a daily basis.</p> <p>In accordance with the Regulation "On the Procedure for Managing Open Foreign Exchange Positions" (registered on May 7, 2021, No. 3301), the below limits apply:</p> <ul style="list-style-type: none"> <li>• The total amount of open foreign exchange positions / regulatory capital of the bank <math>\leq 15\%</math>;</li> <li>• The total amount of long foreign exchange positions / regulatory capital of the bank <math>\leq 15\%</math>;</li> <li>• The total amount of short foreign exchange positions / regulatory capital of the bank <math>\leq 15\%</math>;</li> <li>• The open position for each individual foreign currency / regulatory capital of the bank <math>\leq 10\%</math>.</li> </ul> <p>The calculation of the open foreign exchange position is based on the bank's foreign currency assets and liabilities and include also "Contingencies" accounts, e.g. assets and liabilities arising from derivative financial instruments in foreign currency (futures, forwards, swaps, options, etc.). Data on FX derivative transactions is also subject to constant monitoring; nevertheless, information on derivatives other than FX is not collected and assessed.</p> <p><b>Exceptions and Reporting</b></p> <p>According to this regulation, in case of a significant increase in market risk, including when approaching the approved risk appetite limits or in case of violation of these limits, the risk management unit must notify the supervisory board and the management board of the bank within one business day and propose appropriate corrective measures</p>
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	<p>within five business days. A "significant" increase in the level of market risk should be defined in the bank's internal documents.</p> <p>According to paragraph 35 of the Regulation "On Requirements for the Risk Management System in Banks and Banking Groups" (reg. No3427, 18.04.2023), the head of the risk department must perform, among other things, the following tasks:</p> <ul style="list-style-type: none"> <li>• apply a ban (veto power) on decisions of the bank's management and committees which cause a violation of the bank's risk appetite or risk limits (strategic planning, capital and liquidity planning, introduction of new products and services of the bank, development of a policy of incentives for employees, provision of large increases in loans, implementation of investment operations) and immediately inform the Supervisory Board about this;</li> </ul> <p>In the event of a significant increase in the level of risks and the need to take urgent measures, contact the bank's management to immediately convene an extraordinary meeting of the Supervisory Board or the Risk Management Committee.</p> <p><b>Effective control</b></p> <p>According to Article 28 of the RRM, the supervisory board is responsible for ensuring the effective implementation of the risk management system and exercising control over it. In order to ensure risk management, the supervisory board must, among other things, approve risk limits for each material risk and the measures to be taken in the event of a breach of these limits.</p> <p>At the same time, according to paragraph 31 of this Regulation, the bank's management is obliged to ensure the effective operation of the risk management system in accordance with the risk appetite statement, risk management policy(s) and other internal documents of the bank approved by the Supervisory Board.</p> <p>As part of supervision, in accordance with the G RBS, the CBU assesses these policies and procedures for market risk management. Supervisors review the existence of systems and controls to ensure regular revaluation of market value positions, as well as systems for monitoring exposure to such risks. During the file review process the assessors were provided with examples of off-site risk assessments, with observations considering implementation of risk management system escalated by supervisors.</p>
<b>EC4</b>	<p>The supervisor determines that there are systems and controls to ensure that banks' marked to market positions are revalued frequently. The supervisor also determines that all transactions are captured on a timely basis and that the valuation process uses consistent and prudent practices and reliable market data verified by a function independent of the relevant risk-taking business units (or, in the absence of market prices, internal or industry-accepted models). To the extent that the bank relies on modelling for the purposes of valuation, the bank is required to ensure that the model is validated regularly by a function independent of the relevant risk-taking business units. The supervisor requires banks to establish and maintain policies and processes for</p>

	considering valuation adjustments for positions that otherwise cannot be prudently valued, including concentrated, less liquid and stale positions.
Description and findings re EC4	<p><b>Regulation</b></p> <p>The RRM Paragraph 3 foresees that the risk management system is built on a three-lines of defense model, implying the separation of the structural units responsible for risk management and the structural unit responsible for internal control from the bank's operating activities.</p> <p>Thus, according to this model, risk management responsibilities should be distributed among the following structural divisions of the bank:</p> <ul style="list-style-type: none"> <li>• The first line of defense is the structural unit directly responsible for the provision of banking services. These structural units accept risks, as well as provide reports on ongoing risk management;</li> <li>• The second line of defense is the structural units responsible for risk management and other structural units with control functions. These structural units identify and manage risks;</li> <li>• The third line of defense is the internal audit service. This structural unit studies and evaluates the risk management system.</li> </ul> <p>In addition, according to paragraph 90 of this regulation, financial instruments in the bank's investment portfolio must meet the following requirements:</p> <ul style="list-style-type: none"> <li>• not being subject to any legal obstacles to trading or hedging;</li> <li>• invested for the purpose of subsequent sale in order to profit from short-term price fluctuations;</li> <li>• subject to regular revaluation of fair value.</li> </ul> <p><b>Supervision</b></p> <p>The Guidelines for RBS address the assessment of inherent market risk and the quality of its management in banks. Based on this methodology, the Central Bank assigns a market risk rating to each bank.</p> <p>To date, due to the specifics of the domestic market (a small share of securities in the assets of banks), the Uzbek banks have not yet formed trade portfolios that are subject to significant market risks.</p> <p>The main market risk for banks in Uzbekistan is FX (currency) risk. CBU regulates it by setting limits on net open foreign exchange positions, which is enshrined in the 'Regulation on Open Currency Position'. Market risk assessment and monitoring is carried out both off-site and during on-site inspections, which makes it possible to quickly identify weaknesses in risk management and take corrective measures in a timely manner.</p> <p>Banks also monitor market risks in their risk management systems, report accordingly to the regulator, and set limits to minimize potential risks.</p> <p>From the BCP assessors' discussions with the CBU, it is evident that the primary focus of supervisors is on the evaluation and monitoring of FX risks, while other categories of</p>

	<p>market risk are underestimated. Therefore, as banks are hedging their FX positions by using various derivatives, market risk which is contained in the derivatives portfolio should be properly assessed and monitored.</p> <p>While the CBU collects prudential reporting on over the counter (OTC) derivatives, the information is limited to the notional amount and does not incorporate the fair value of derivatives instrument. The lack of fair value information raises concerns about the supervisor's assessment of market risk management; for example, absent the fair value, it is unclear how the ratio of derivatives to total assets could signal the materiality of this market risk subcategories.</p>
<b>EC5</b>	The supervisor determines that banks hold appropriate levels of capital against unexpected losses and make appropriate valuation adjustments for uncertainties in determining the fair value of assets and liabilities.
Description and findings re EC5	<p><b>Regulation</b></p> <p>In accordance with the RCAR, when calculating the capital adequacy ratio, banks take into account market risk, although at the moment this calculation mainly covers FX (currency) risk. Therefore, risks associated with changes in the interest rate, commodity prices, as well as credit risk spreads are not taken into account.</p> <p><i>It is worth noting that the Central Bank requires banks to have sufficient capital buffers to cover market risk. As of 2023, the capital of banks has a buffer for market risk in the amount of 4 trillion soums. Over the past two years, there have been no losses on market risk.</i></p> <p><b>Supervision</b></p> <p>The CBU assesses the correctness of the capital calculation both during on-site inspections and through off-site supervision. As part of risk-based supervision, a qualitative analysis of market risk management is carried out in three stages:</p> <ol style="list-style-type: none"> <li>1. Collection of information for the qualitative analysis of market risk.</li> <li>2. Automatic assessment of the qualitative parameters.</li> <li>3. An oversight assessment that covers broader aspects of risk management to make a final assessment.</li> </ol> <p>The results of the assessment are ranked by levels: "Strong", "Compliant", "Weak" and "Non-compliant". Automated assessment is carried out through a survey that includes key elements such as policies, processes and procedures, personnel, and internal control systems.</p> <p>The supervisory assessment process assesses the risk management policy and internal control system, including strategic planning, risk appetite, market risk limits, as well as management procedures and the role of those involved.</p>
<b>Assessment of Principle 22</b>	<b>Materially Non Compliant</b>
Comments	The CBU's regulations set certain standards for market risk management and the necessary policy and processes. The CBU has established a set of requirements for banks

	<p>to maintain market risk management system, obliging them to: define risk appetite; establish risk management policies and procedures; describe methods for risk assessment and monitoring; conduct stress-tests; ensure effective management information system. The revised version of the RRM corrected some deficiencies in regulatory framework by introducing the definition of a trading book, expanding market risk to derivative instruments, and broadening the risk appetite requirement for market risk.</p> <p>The CBU pointed out that the level of banks' exposure to market risk remains low, due to the underdeveloped domestic capital market. As of January 1, 2024, banks' investments in securities amounted to 24.5 trillion soms, which corresponds to only 3.8% of the total assets of the banking system'. Nevertheless, the CBU only collects data on the notional amount of OTC derivatives, which as of July 2024 (7.4 billion soums) was higher than the total net profit of the entire banking sector as per 2024 year-end (6.9 billion som). While a proper evaluation of the materiality of financial derivatives should be connected to the fair value, the notional amount itself does not seem immaterial.</p> <p>Given the high dollarization in Uzbekistan, currency risk is the main source of market risk and the CBU has set prudential limits on the net open foreign exchange positions. Banks use derivatives to hedge FX risk. The amendment to the RRM included derivatives in the market risk perimeter. Even before these amendments, FX derivatives were monitored by the CBU to assess compliance with prudential limits (see EC3).</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>• Only recent amendments to the RRM, which will enter into force in April 2025, introduced the definition of trading book, expanded market risk to derivative instruments, and broadened the risk appetite requirements for market risk. The CBU has not yet implemented these amendments, particularly in relation to the new risk appetite requirements</li> <li>• The CBU monitored FX derivatives for the purposes of assessing compliance with limits to net FX open position, but banks might use derivatives to hedge other risk (for example, IRRBB) This has not been reported and monitored.</li> <li>• Based on the information shared, supervisory reporting is limited to the notional amount of derivatives and does not incorporate the fair value, without which it is difficult for the CBU to assess the materiality of this marker risk subcategory</li> </ul> <p>Recommendations:</p> <ul style="list-style-type: none"> <li>• Proceed with the supervisory implementation of the new market risk regulatory requirements</li> <li>• Expand supervisory reporting and assessment of market risk to derivatives instruments hedging risk other than FX</li> <li>• Collect also the fair value of OTC derivatives to better understand the materiality of this marker risk subcategory</li> </ul>
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<b>Principle 23</b>	<b>Interest rate risk in the banking book.</b> <sup>73</sup> The supervisor determines that banks have adequate systems to identify, measure, evaluate, monitor, report and control or mitigate interest rate risk in the banking book on a timely basis. <sup>74</sup> These systems consider the bank's risk appetite, risk profile and market and macroeconomic conditions.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require banks to have an appropriate interest rate risk strategy and interest rate risk management framework that provides a comprehensive bank-wide view of interest rate risk. This includes policies and processes to identify, measure, evaluate, monitor, report and control or mitigate material sources of interest rate risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the risk appetite, risk profile and systemic importance of the bank, that they consider market and macroeconomic conditions, and that they are regularly reviewed and appropriately adjusted, where necessary, in line with the bank's changing risk profile and market developments.
Description and findings re EC1	<p><b>Regulation</b></p> <p>In the original version of the RRM (April 2023), IRRBB was not described as an autonomous risk, but rather as part of the market risk. There was no distinction between the trading portfolio and the banking book.</p> <p>In such a version, the RRM Art-87 requires the bank to implement a market risk management system that serves to identify, assess, monitor, control and reduce market risk.</p> <p>An effective market risk management system should include:</p> <ul style="list-style-type: none"> <li>• risk appetite in relation to market risk;</li> <li>• policies and procedures for managing market risks;</li> <li>• tools for assessing and monitoring market risks;</li> <li>• market risk stress testing procedure;</li> <li>• reports on market risks.</li> </ul> <p>The explanations provided in the regulation states that market risk arising in a bank includes the following risks:</p> <ul style="list-style-type: none"> <li>• interest rate risk arising in the bank's investment portfolio as a result of unexpected changes in the value of securities or other financial instruments with fixed income, market interest rates;</li> <li>• currency risk arising from fluctuations in foreign exchange rates, affecting the value of assets, liabilities and off-balance sheet items of the bank;</li> <li>• commodity risk arising from changes in the market value of precious metals, stones and coins;</li> </ul>

<sup>73</sup> Reference documents: BCBS, High-level considerations on proportionality, July 2022; (SRP31).

<sup>74</sup> Wherever "interest rate risk" is used in this principle the term refers to interest rate risk in the banking book. Interest rate risk in the trading book is covered under Principle 22 (BCP40.50).

	<ul style="list-style-type: none"> <li>• risk arising from changes in the current (fair) value of securities as a result of the issuer's activities or stock market fluctuations.</li> </ul> <p>The mentioned amendments to the RRM (January 2025) define IRRBB as <i>'the likelihood of incurring losses (damages) and/or failing to achieve planned income due to the impact of changes in market interest rates on the assets and liabilities in the banking</i>. At the same time, these amendments define the banking book, include IRRBB among the 'significant risk', expand stress testing requirement to IRRBB (once a year) and general risk management requirements.</p> <p>Thus, banks <b>will be required by April 2025</b> to assess the risk by using at least one of the following methods:</p> <ul style="list-style-type: none"> <li>• A method of quantitative assessment of changes in the economic value of a bank <b>(EVE)</b>, which provides for the assessment of changes in the net value of cash flows on assets and liabilities of a bank.</li> <li>• A method for quantifying changes in net interest <b>income (NII) in</b> stress scenarios, including significant increases or decreases in interest rates.</li> </ul> <p>These methods should cover the following scenarios:</p> <ul style="list-style-type: none"> <li>• an increase in all interest rates;</li> <li>• a reduction in all interest rates;</li> <li>• an increase in long-term rates and decrease in short-term rates;</li> <li>• an increase in short-term rates and decrease in long-term rates;</li> <li>• a sharp increase in short-term rates;</li> <li>• a sharp decline in short-term rates.</li> </ul> <p>The methodology for assessing interest rate risk should include all bank operations that are subject to changes in interest rates and should also provide for a separate risk assessment for foreign currency transactions if their share exceeds 5% of total assets or liabilities. Acceptable assumptions in valuation methods should be documented.</p> <p>At the same time, according to the regulation "On the Maximum Conditions for the Provision of Mortgage Loans to the Population" (No3269), in order to reduce the likelihood of large losses from changes in interest rates, the bank must hedge interest rate risks that arises from directing funds with a variable interest rate to mortgage loans with a fixed interest rate. In addition, when analyzing the mortgage loan portfolio, banks should take into account factors such as differences between attracted resources and terms of mortgage loans, profitability of the mortgage portfolio and impact on the bank's regulated capital.</p> <p><b>Supervision</b></p> <p>The assessment of the bank's interest rate risk is provided for when assessing the bank's risk profile within the framework of GRBS. Thus, CBU applies two indicators for assessing IRRBB:</p>
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	<ul style="list-style-type: none"> <li>• quantification of changes in the economic value of equity (EVE);</li> <li>• quantification of changes in net interest income (NII).</li> </ul> <p>Since 2023, after the introduction of GRBS, once a year the CBU assesses banks' exposure to interest rate risk; however, this is not exactly the IRRBB. Banks' risk strategy, risk appetite, risk level, risk management and risk control are being evaluated during the risk assessment.</p>
<b>EC2</b>	<p>The supervisor determines that a bank's strategies and policies for the management of interest rate risk have been approved and are regularly reviewed by the bank's board. The supervisor also determines that the board oversees management in a way that ensures that these policies are implemented effectively and fully integrated into the bank's overall risk management process.</p>
Description and findings re EC2	<p><b>Regulation</b></p> <p>As mentioned above, IRRBB will be excluded from the market risk according to the amendments to the RRM and will be treated as an autonomous risk.</p> <p>In accordance with Article 8 of this Regulation, the supervisory board, among other things, approves risk management policies covering the methodology for identifying each of the material risks.</p> <p>Also, according to Article 94 of this Regulation, in order to effectively implement the policy of managing market risks, the bank's management should develop the internal procedure of the bank. This procedure should take into account the nature and complexity of banking activities. This procedure should include:</p> <ul style="list-style-type: none"> <li>• the procedure for identifying, assessing, monitoring, controlling, hedging market risk and preparing a report on it;</li> <li>• necessary tools, indicators, methods and ways to determine market risk;</li> <li>• a list of foreign currencies and financial instruments with which transactions can be carried out;</li> <li>• the procedure for the exchange of information between participants in the market risk management process;</li> <li>• the procedure for preparing a report submitted to the CBU on market risk and verifying its reliability.</li> </ul> <p><b>Supervision</b></p> <p>As noted earlier, banks provide CBU with all information requested by curators on the risk management process, and the supervisors are able to receive and review the reports sent to the board, as well as participate as observers to the board's discussion, (by obtaining minutes of the meetings of the board and the bank's management) of the bank's exposure to all significant risks, including market risk.</p> <p>Banks' policies and strategies are reviewed and reconfirmed once a year, in the first quarter. The policy, strategy, risk appetite strategy approved or re-approved by the bank's board is forwarded to the bank curator.</p>

<b>EC3</b>	<p>The supervisor determines that a bank's policies and processes establish an appropriate and properly controlled interest rate risk environment, including:</p> <ul style="list-style-type: none"> <li>(a) comprehensive risk measurement systems for the accurate and timely identification, aggregation, monitoring and reporting of interest rate risk exposures to the bank's board and senior management;</li> <li>(b) a regular review and independent (internal or external) validation of any models used by the functions tasked with managing interest rate risk (including a review of key model assumptions, eg regarding optional elements (whether implicit or explicit) embedded in a bank's assets, liabilities and/or off-balance sheet items, in which the bank or its customer can alter the level and timing of their cash flows);</li> <li>(c) appropriate limits, approved by the bank's board and senior management, that reflect the bank's risk appetite, risk profile and capital strength and that are understood by and regularly communicated to relevant staff; and</li> <li>(d) effective exception tracking and reporting processes which ensure prompt action at the appropriate level of the bank's senior management or board, where necessary.</li> </ul>
Description and findings re EC3	<p>As mentioned, the amendments to RRM on IRRBB risk and its management are discussed as part of market risk.</p> <p>(See CP22)</p>
<b>EC4</b>	<p>The supervisor obtains from banks the results of their internal interest rate risk measurement systems, expressed in terms of the threat to both economic value and earnings, using standardized interest rate shocks on the banking book.</p>
Description and findings re EC4	<p>The CBU is studying the negative differences between the interest rate risks of assets and liabilities of banks. The CBU Board has decided that if the negative difference between the assets and liabilities of some banks is not eliminated, deposits attracted by these banks will be subject to a maximum interest rate limit.</p> <p>In addition, as part of a set of measures taken by the CBU to reduce interest rate risks in the banking system, the relevant decision of the CBU Board established the maximum permissible annual interest rate on attracted deposits and loans issued (until the end of 2020).</p> <p>Within the framework of the risk-based approach, the CBU analyzes current and future risks when assessing the risk profile of banks, including interest rate risks. The strengths and weaknesses of the business model, the quality of risk management, capital adequacy, income and liquidity are also assessed. In addition, as part of the implementation of the GRBS, interest rate risk was assessed in a number of banks as a sub-category of Market risk. This assessment included two stages: an assessment of inherent risk and an assessment of the quality of risk management, which helps to understand the structure of interest rate risk management.</p> <p>Monitoring and assessment of interest rate risk is carried out both by off-site supervision and during inspections. As a result of the analysis, it was established that</p>

	<p>banks comply with their risk appetites, and in case of exceeding the limits, the boards of banks are informed in a timely manner.</p> <p>Banks are not required to provide information to supervision on banks' results of their internal interest rate risk measurement systems, expressed in terms of the threat to both economic value and earnings, using standardized interest rate shocks on the banking book.</p>
<b>EC5</b>	The supervisor assesses whether the internal capital measurement systems of banks adequately capture interest rate risk in the banking book.
Description and findings re EC5	IRRBB until recently was not treated as a separate risk and the CBU does not assess the internal capital system of banks.
<b>Assessment of Principle 23</b>	<b>Materially Non-Compliant</b>
Comments	<p>Findings:</p> <ul style="list-style-type: none"> <li>In the RRM issued in April 2023 (i) IRRBB was described as a sub-category of market risk, but not as an autonomous risk. (ii) trading book and banking book were not distinguished</li> <li>Although the amendments to the RRM (January 2025) consider IRRBB as an autonomous and significant risk, there is no evidence of sufficient implementation of supervision of IRRBB risk</li> </ul> <p>Recommendations</p> <ul style="list-style-type: none"> <li>Require D-SIBs to calculate Economic Valuation of Equity (EVE) under the six scenarios prescribed by the BCBS;</li> <li>Develop a challenger model to initiate supervisory dialogue with banks on their exposure to IRRBB;</li> <li>Implement the Pillar 2 methodology on IRRBB.</li> </ul>
<b>Principle 24</b>	<b>Liquidity risk.</b> <sup>75</sup> The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) that reflect the liquidity needs of banks. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy considers the bank's risk profile, market and macroeconomic conditions, and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons. At least for internationally active banks, liquidity (including funding) requirements are not lower than the applicable Basel standards.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require banks to consistently observe prescribed liquidity requirements, including thresholds with reference to which a bank is subject to supervisory action. At least for internationally active banks, the prescribed requirements

<sup>75</sup> Reference documents: BCBS, High-level considerations on proportionality, July 2022; BCBS, Principles for sound liquidity risk management and supervision, September 2008; (LCR10), (LCR20), (LCR30), (LCR31), (LCR40), (LCR99), (NSF10), (NSF20), (NSF30), (NSF99).

	are not lower than those prescribed in the applicable Basel standards, and the supervisor uses a range of liquidity monitoring tools no less extensive than those prescribed in the applicable Basel standards.
Description and findings re EC1	<p>Article 38 of the BL foresees that to ensure the financial stability of banks and protect the interests of depositors and creditors, banks and banking groups are obliged to comply with the prudential requirements established by the CBU. Set of prudential requirements, among others, includes liquidity ratio.</p> <p>The RRLM defines bank's liquidity as the ability to finance the growth of a bank's assets and ensure that its obligations are met timely with no losses occurred.</p> <p>The CBU sets following liquidity requirements:</p> <ol style="list-style-type: none"> <li>1. LCR <math>\geq</math> 100% (in national and foreign currency);</li> <li>2. NSFR <math>\geq</math> 100% (in national and foreign currency);</li> <li>3. Ratio of Highly Liquid Assets to total assets is 10%;</li> <li>4. Instant Liquidity Ratio (Liquid Assets/Liabilities on Demand) <math>\geq</math> 25%.</li> </ol> <p>The LCR become effective from January 2016 through the phased-in approach:</p> <ul style="list-style-type: none"> <li>• from January 1, 2016 – 80%;</li> <li>• from January 1, 2017 – 90%;</li> <li>• from January 1, 2018 – 100%;</li> <li>• from January 1, 2019 – 100% in all currencies, in the national currency, in foreign currency (the sum of all foreign currencies).</li> </ul> <p>The Net Stable Funding Ratio (NSFR) became effective from January 2018 through a phased-in approach:</p> <ul style="list-style-type: none"> <li>• from January 1, 2018 – 100%;</li> <li>• from January 1, 2019 – 100% in all currencies, in national currency, in foreign currency (sum of all foreign currencies).</li> </ul> <p>The below table explains the deviation between the LCR as per the Basel framework, required to internationally active banks, and the LCR calculated by the CBU. For the assessment, the CBU calculated the difference in the LCR ratios based on the two different definitions; the difference was 7 percentage points (177 versus 170 percent). However, the adjustment to the Basel framework would result in some banks breaching the local LCR in foreign currency, as in the market there are very limited options for HQLA in foreign currencies.</p>

	<b>LCR – Basel vs Uzbekistan</b>		
		<b>Basel</b>	<b>Uzbekistan</b>
	HQLA	Cap Level 2 max 40%	No cap
		Cap Level 2B max 15%	No cap
		Haircut 15% Level 2A	No haircut
		Haircut 25-50% Level 2B	No haircut
		Based on product, counterparty and credit rating	Based on accounting data (securities)
		NA	Interbank claims (not all, see inflows)
	Inflows	Claims on banks 100%	Some claims on banks 50%
		Non-bank financial institutions 100%	Non-bank financial institutions 50%
		Accrued interest 100%	Accrued interest 50%
		Some other assets 100%	Some other assets 0%
	Outflows	Deposits 5, 25, 40 or 100%	Deposits 15%
		Loans and leases (finance lease) 100%	Loans and leases (finance lease) 5%
		Guarantees and letter of credits 5%	Guarantees and letter of credits 15%
	*For some items, Uzbekistan distinguish between domestic and foreign currency		
	Liquidity requirements are set at the same level for all banks, due to the lack of a Pillar 2 methodology.		
<b>EC2</b>	The prescribed liquidity requirements reflect the liquidity risk profile of banks (including on- and off-balance sheet risks) in the context of the markets and macroeconomic conditions in which they operate.		
Description and findings re EC2	<p>As indicated under EC1, the prescribed liquidity requirements do not fully reflect the risk profile of banks, as they are set at the same level for all banks. Although the CBU has the power to impose liquidity ratio above the minimum level (Article 38 of the BL), it does not calibrate liquidity requirement to banks' risk profile.</p> <p>The CBU explains that it is gradually developing supervisory system. Firstly, the requirements in line with the provisions of Pillar 1 are being introduced. Secondly, it is planned to integrate approaches based on internal models, such as ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process).</p>		
<b>EC3</b>	The supervisor determines that banks have a robust liquidity management framework that requires them to maintain sufficient liquidity to withstand a range of stress events and that includes appropriate policies for managing liquidity risk, which have been approved by the bank's board. The supervisor also determines that these policies and processes provide a comprehensive bank-wide view of liquidity risk and are consistent with the bank's liquidity risk tolerance, risk profile and systemic importance.		
Description and findings re EC3	According to Article 31 of the RRM the board of directors ensures that the risk management system is in place and matches the selected business model, scale of activity, complexity of operations, and provides an appropriate process for identifying, measuring, evaluating, monitoring, controlling and mitigating risks. RRM Chapter 8, par. 2 describes requirements for a liquidity management framework and foresees that banks are obliged to implement a <b>liquidity risk management system</b> that serves to identify,		

	<p>assess, monitor, control and mitigate liquidity risk. The liquidity risk management system should include these elements:</p> <ul style="list-style-type: none"> <li>• established risk appetite for liquidity risk;</li> <li>• liquidity risk management policies and processes;</li> <li>• liquidity risk assessment and monitoring tools;</li> <li>• the procedure for intraday liquidity management;</li> <li>• stress testing of liquidity risk;</li> <li>• reporting on liquidity risk.</li> </ul> <p>The existing regulation foresees that risk appetite for liquidity risk should include the following quantitative measures:</p> <ul style="list-style-type: none"> <li>• minimum ratio of highly liquid assets in the bank's total assets;</li> <li>• thresholds for liquidity coverage ratio and net stable funding;</li> <li>• maximum permissible level of negative cumulative gap between cash inflows and outflows in terms of time intervals from 30 days to one year;</li> <li>• the largest amount of accumulation (concentration) of funds attributable to one largest depositor and (or) creditor and twenty largest depositors and (or) creditors of the bank, as well as related persons.</li> </ul> <p>The CBU assesses whether banks have a sound liquidity management system, policies and procedures that support a comprehensive bank-wide approach of liquidity risk, mainly through a qualitative analysis of risk-based supervision.</p> <p>The CBU assesses that the liquidity risk management system is consistent with the risk appetite and risk profile.</p> <p>As part of this assessment, elements of the risk management system and internal control are analyzed. The assessment also includes topics related to liquidity risk management processes, risk appetite, liquidity risk limits and early warning indicators, as well as stress testing results.</p> <p>In addition, in the course of quantitative assessment within the framework of the GRBS, indicators are analyzed, taking into account the permissible limits provided for by prudential standards.</p> <p>Curators monitor daily liquidity changes by analyzing the change in HQLA. Assessors were presented with a dashboard which the CBU uses for monitoring purposes. The dashboard allows consistently (on a daily basis) monitor changes in indicators and evaluate trends.</p> <p>The CBU periodically assesses the adequacy of banks' liquidity based on: LCR downward trends; growth of the loan portfolio and/or deterioration in the quality of the loan portfolio; outflows on customer deposits; active borrowing of additional liquidity from banks in the repo market; evaluates if there are significant gaps in the maturity of assets</p>
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	<p>and liabilities; increase in currency imbalances; NSFR and other prudential liquidity ratios. The results of this analysis are submitted to the senior management.</p> <p>A detailed risk assessment is carried out once a year during the risk-based assessment of banks, where the supervisor assesses the presence of liquidity management framework, investigate adequacy and the robustness of the existing framework, evaluates if the internal policies and processes of the bank are consistent with banks' risk profile and importance to the banking system. Specific recommendations for each institution are made after detailed risk assessment.</p>
<b>EC4</b>	<p>The supervisor determines that a bank's liquidity strategy, policies and processes establish an appropriate and properly controlled liquidity risk environment, including:</p> <ul style="list-style-type: none"> <li>(a) clear articulation of an overall liquidity risk appetite that is appropriate for the bank's business and its role in the financial system, and that is approved by the bank's board;</li> <li>(b) sound day-to-day and intraday liquidity risk management practices;</li> <li>(c) comprehensive risk measurement systems for the accurate and timely identification, aggregation, monitoring, reporting and control of liquidity risk exposures and funding needs (including active management of collateral positions) bank-wide;</li> <li>(d) adequate oversight by the bank's board to ensure that management effectively implements policies and processes for the management of liquidity risk in a manner consistent with the bank's liquidity risk appetite; and</li> <li>(e) regular review by the bank's board (at least annually) and appropriate adjustment of the bank's strategy, policies and processes for the management of liquidity risk given the bank's changing risk profile and external developments in the markets and macroeconomic conditions in which it operates.</li> </ul>
Description and findings re EC4	<p>The curator on a yearly basis receives banks' liquidity risk policies approved and reviewed by the board and assesses that they are consistent with the risk appetite set by the board, also shared with the curator. The curator determines that a bank's liquidity strategy, policies and processes establish an appropriate and properly controlled liquidity risk framework.</p> <p><b>Liquidity risk appetite</b></p> <p>Pursuant to RRM, Section 2, Chapter 8, §2, the bank's risk appetite statement should include procedures for approving risk limits, continuous monitoring and reporting on them. The bank is obliged to set quantitative limits on significant risks to reduce its propensity to significant risks. These risk limits should be within the risk appetite limits. Liquidity risk appetite should include the following quantitative indicators:</p> <ul style="list-style-type: none"> <li>• minimum share of highly liquid assets in total assets;</li> <li>• thresholds of the LCR and NSFR;</li> </ul>

	<ul style="list-style-type: none"> <li>the largest value of the negative generalized difference between cash inflows and outflows in the period from 30 days to one year, determined on the basis of an analysis of imbalances between the terms of liabilities and assets;</li> <li>the highest amount of accumulation (concentration) of funds attributable to one largest depositor and (or) creditor and twenty largest depositors and (or) creditors of the bank, as well as persons related to them.</li> </ul> <p><b>Intraday liquidity risk management</b></p> <p>According to the Article 52-1 of the RRLMs, starting from June 1, 2020, the share of highly liquid assets of banks in total assets should not be less than 10 percent at the end of the business day.</p> <p>According to Article 79 of the RRMt, the bank's liquidity risk management policy, approved by the supervisory board, must include, among other, the procedure for managing intraday liquidity risk.</p> <p>The procedure foresees this to be include:</p> <ul style="list-style-type: none"> <li>description of the participants in the liquidity risk management process, their duties, powers, obligations and the procedure for interaction during the bank's working day;</li> <li>that the liquidity situation is controlled taking into account the expected daily inflows and outflows;</li> <li>determination of the size of the liquidity deficit that may arise during the banking day;</li> <li>identification of large customers who form the bulk of the volume of cash inflow or outflow, and forecasting the inflow or outflow of funds for them;</li> <li>situations requiring a special procedure for working with liquidity risk during the banking day;</li> <li>assessment of the liquidity of the bank's assets that can be used as collateral to attract additional financing;</li> <li>procedures for managing liquidity in stressful situations during the banking day.</li> </ul> <p><b>Risk management information system</b></p> <p>According to the Article 40 of the RRM the bank required to implement a risk management information system, which makes it possible to collect and summarize information on all areas of banking activities, reliably assess risks in the section of the bank and the banking group and prepare risk reports.</p> <p>The risk management information system should correspond to the nature, scale and level of complexity of banking operations and ensure the following:</p> <ul style="list-style-type: none"> <li>truthfulness of information about risks;</li> <li>completeness and flexibility of information;</li> <li>formation and timely submission of reports.</li> </ul>
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	<p><b>Oversight by the board</b></p> <p>Article 28 of the RRM describes the responsibilities of the board for ensuring the effective implementation of the risk management system and exercising control over it. To ensure risk management, the supervisory board must, among other things, approve risk limits for each material risk and the measures to be taken in the event of a breach of these limits.</p> <p>At the same time, according to Article 31 of the above Regulation, the bank's management is obliged to ensure the effective operation of the risk management system in accordance with the risk appetite statement, risk management policy(s) and other internal documents of the bank approved by the supervisory board. The head of the risk management department must immediately inform the supervisory board in case of violation of the limits.</p> <p>In addition, according to the Article 13 of the RRLM, liquidity management should be discussed by the bank's supervisory board at least once a quarter, and as a result, appropriate decisions should be made.</p> <p><b>Regular review</b></p> <p>According to Article 10 of the RRM the liquidity management policy in banks should cover the main cases of liquidity management and clearly express a position on specific aspects of liquidity management or attitude to the use of various financial instruments. Also, according to Article 12 of the above Regulation, the liquidity management policy is developed in a separate document and approved by the bank's supervisory board annually by February 1 of the corresponding year.</p> <p>In addition, according to Article 29 of the RRM in order to ensure risk management, the supervisory board must, among other things, review the bank's risk assessment methodology, including the methodology for managing liquidity risks, at least once a year.</p> <p><b>Supervision</b></p> <p>The CBU proceeds with both off- and on-site supervision to assess liquidity risk within the banks and banking system. To monitor day-to-day liquidity, banks are obliged on a daily basis to provide the CBU with the information on their current liquidity and compliance with the Highly Liquid Assets Ratio (highly liquid assets should compose at least 10 % of total assets). Also, banks are obliged to provide information on certain exposures, for example, exposures of correspondent accounts (in local and foreign currencies). Close monitoring of daily changes allows the CBU to take immediate supervisory measures if necessary.</p> <p>Additionally, on a quarterly basis, banks provide supervisors with the report on compliance with risk appetite approved by the supervisory board of the bank.</p> <p>The qualitative analysis process is carried out by assessing the bank's risk profile once a year (risk-based assessment) among other things, the elements of the risk management and internal control system are being assessed:</p>
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	<p>(i) a risk appetite strategy that is subject to approval, regular monitoring and review by the board of directors; (ii) full reporting of liquidity risk exposure, which corresponds to its risk appetite, risk profile; (iii) risk appetite reports submitted to the supervisory board, including in cases of violation limit (for example, providing the supervisory board with the results of the bank's compliance with risk appetite at least once a quarter). This assessment also includes an evaluation of banks' contingency funding plans.</p> <p>To assess liquidity risk management the CBU also proceeds with the full scope and thematic on-site inspections to assess liquidity exposures and liquidity risk management. All full scope on-site investigations involve assessment of liquidity risk. In the last years there were also targeted liquidity risk management inspections.</p>
<b>EC5</b>	<p>The supervisor requires banks to establish, and regularly review, funding strategies, policies and processes for the ongoing measurement and monitoring of funding requirements and the effective management of funding risk. The policies and processes include consideration of how other risks (eg credit, market, operational and reputational risks) may impact the bank's overall liquidity strategy, and include:</p> <ul style="list-style-type: none"> <li>(a) an analysis of funding requirements under alternative scenarios;</li> <li>(b) the maintenance of a cushion of high-quality, unencumbered, liquid assets that can be used, without impediment, to obtain funding in times of stress;</li> <li>(c) diversification in the sources (including counterparties, instruments, currencies and markets) and tenor of funding, and regular review of concentration limits;</li> <li>(d) regular efforts to establish and maintain relationships with liability holders; and</li> <li>(e) regular assessment of the capacity to monetise assets.</li> </ul>
Description and findings re EC5	<p><b>Requirements under alternative scenarios</b></p> <p>According to Article 51 of the RRLM banks must conduct stress tests of their liquidity situation at least once a quarter. Based on the final results of the stress tests, the risk management strategy should be adjusted. Based on the results of the stress tests, banks need to develop plans to provide additional funds in the event of an unforeseen stressful situation.</p> <p>Banks provide the CBU with the results of stress tests and with decisions made by the bank's management regarding the contingency funding plans. The bank's management board and supervisory board are obliged to review the adequacy and consistency of stress indicators and assumptions, as well as contingency financing plans. Once per year based on the results of stress testing, the bank must develop an emergency funding plan.</p> <p><b>Maintenance of a high-quality, unencumbered, liquid assets</b></p> <p>According to the Article 4 of the RRLM, highly liquid assets must meet the following requirements:</p> <ul style="list-style-type: none"> <li>• have a low level of concentration and ease of selling in the money or repo markets;</li> </ul>

	<ul style="list-style-type: none"> <li>• be a proven reliable source of liquidity in any market conditions;</li> <li>• not include the liabilities of the financial institution or its related persons.</li> <li>• not to be placed and not taken into account as collateral.</li> </ul> <p>Thus, the ratio of highly liquid assets to total assets should be at least 10 percent of total assets.</p> <p>In addition, banks are obliged to monitor the amount of liquid assets that can be used as a collateral to attract secured funds from the interbank market or to borrow from the CBU in times of stress. Also, banks determine the share of securities not used to cover urgent liquidity needs by dividing the pledged securities in the securities portfolio by the total securities portfolio.</p> <p>In addition, according to Article 79 of the RRM the bank's liquidity risk management policy, approved by the supervisory board, should include, among other things, the list and composition of alternative resources that can be used in the time of stress.</p> <p>Article 81 of RRM stipulates that when managing and monitoring liquidity risk, it is necessary to take into account, among other things, the size, currency and main characteristics of assets owned by the bank, which are not included in the category of highly liquid assets, but can be provided as collateral for attracting additional financing in the secondary market in stress testing scenarios.</p> <p><b>Diversification in the sources</b></p> <p>Article 28 of the RRLM states that banks should develop financial strategy, which will effectively diversify resources and areas of funding. Also, according to paragraph 33 of the above provision, banks should diversify the composition of their liabilities (instruments) in order to prevent their dependence on special deposits of large client enterprises.</p> <p>In addition, according to paragraph 79 of the Regulation "On Requirements for the Risk Management System in Banks and Banking Groups" (reg. No3427, 04/18/2023) the bank's liquidity risk management policy, approved by the Supervisory Board, should include, among other things, the principles of diversification of assets and sources of financing.</p> <p><b>Relationships with liability holders</b></p> <p>An important component of diversification of financing is access to financial markets, which is crucial for efficiency and the ability to attract funds from investors and counterparties. Banks should take steps to create the ability to quickly raise funds from each source of funding to assess the effectiveness of liquidity provision in the long term. In addition, according to paragraph 50 of the RRLM, banks must conduct a general analysis of sources of financing from large clients, counterparties, sectors of the economy and instruments, and based on the results of the analysis, the Board must take an appropriate measure.</p>
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	<p><b>Capacity to monetize assets</b></p> <p>According to paragraph 38 of the RRLM, banks must control the volume of liquid assets that can be used as collateral to attract funds from the interbank market or the CBU in times of stress. At the same time, banks should assess the risk they bear when using illiquid forms of collateral, such as securities and fixed assets that are not listed on the market.</p> <p>The provided regulation is sufficiently detailed and extensive. Properly implemented requirements would ensure adequate liquidity risk management in banks. This is a good prerequisite for risk management.</p>
<b>EC6</b>	<p>The supervisor determines that banks have robust liquidity contingency funding plans to handle liquidity problems. The supervisor determines that the bank's contingency funding plan is formally articulated, adequately documented and sets out the bank's strategy for addressing liquidity shortfalls in a range of stress environments without placing reliance on lender of last resort support. The supervisor also determines that the bank's contingency funding plan establishes clear lines of responsibility, includes clear communication plans (including communication with the supervisor) and is regularly tested and updated to ensure it is operationally robust. The supervisor assesses whether the bank's contingency funding plan is feasible (given its risk profile and systemic importance) and requires the bank to address any deficiencies.</p>
Description and findings re EC6	<p>According to paragraph 21 of the Regulation "On Requirements for the Risk Management System in Banks and Banking Groups" (reg. No3427, 04/18/2023) Based on the results of stress testing, the bank must develop an emergency additional financing plan for the bank once a year.</p> <p>This plan should include:</p> <ul style="list-style-type: none"> <li>the procedure for detecting a liquidity crisis in the bank, including indicators of early warning of liquidity risk and notifying the supervisory board and the bank's management of measures taken against a liquidity crisis;</li> <li>various sources of liquidity, their availability, conditions for attracting (using) sources of liquidity, as well as a list of anti-crisis measures that ensure their stability and the level of their priority in order to ensure liquidity in the bank in emergency situations and compensation in case of a shortage of funds;</li> <li>emergency resources;</li> <li>the time required to raise additional funds from liquidity sources in emergency situations;</li> <li>decision-making and interaction procedures, including necessary decision-making measures, decision-makers;</li> <li>the procedure for providing information to the CBU on the causes of the liquidity crisis in the bank and the measures taken to eliminate them;</li> <li>the procedure for submitting reports to the Supervisory Board and the bank's management.</li> </ul>

	The CBU assesses liquidity contingency funding plans once a year, prior to assessing the bank's risk profile. The assessment of this plan is incorporated into the overall liquidity risk assessment.
<b>EC7</b>	The supervisor requires banks to include a variety of short-term and protracted bank-specific and market-wide liquidity stress scenarios (individually and in combination), using conservative and regularly reviewed assumptions, into their stress testing programs for risk management purposes. The supervisor determines that the results of the stress tests are used by the bank to adjust its liquidity risk management strategies, policies and positions and to develop effective contingency funding plans.
Description and findings re EC7	<p>According to paragraphs 17-18 of the Regulation "On Requirements for the Risk Management System in Banks and Banking Groups" (reg. No3427, 18.04.2023) When conducting stress testing of liquidity risk, the bank should use the following scenarios:</p> <ul style="list-style-type: none"> <li>• in the stable state of the country's economy, a scenario associated with the occurrence of a stressful situation in the bank, including a deterioration in the quality of assets, an increase in the accumulation (concentration) of liabilities, a significant decrease in highly liquid assets, a downgrade of the bank's credit rating, an information attack on the bank, problems with the bank's shareholders;</li> <li>• scenario associated with the occurrence of a stressful situation in the bank as a result of the crisis of the country's banking system.</li> </ul> <p>When conducting stress testing of liquidity risk, a bank may use the following assumptions:</p> <ul style="list-style-type: none"> <li>• outflow of funds of individuals and legal entities in the bank;</li> <li>• depreciation of the bank's highly liquid assets and (or) unavailability of their use;</li> <li>• loss or significant reduction in the ability to raise funds;</li> <li>• loss or significant reduction of the ability to attract funds from the interbank market of resources;</li> <li>• a significant decrease in the possibility of redistributing liquidity from one currency to another.</li> </ul> <p>Also, as indicated by the GRBS the CBU assesses the extent to which the bank has developed a reliable and forward-looking liquidity risk stress testing program as an integral part of its liquidity risk management (third stage of the risk assessment). The following elements were evaluated:</p> <ul style="list-style-type: none"> <li>• process of stress- testing;</li> <li>• scenarios and assumptions;</li> <li>• behavior analysis;</li> <li>• use of stress test results.</li> </ul> <p>The assessors also examined a liquidity stress test conducted by the CBU Department of Prudential supervision. In that case the assessors found a lack of distinction between the baseline and the adverse scenario, with assumptions not adequately conservative (for example, the deposit outflow was assumed at just 2-3 percent and the drawdown of credit line at only 1-2 percent).</p>

<b>EC8</b>	<p>The supervisor identifies those banks carrying out significant foreign currency liquidity transformation. Where a bank's foreign currency business is significant, or the bank has significant exposure in a given currency, the supervisor requires the bank to undertake separate analysis of its strategy and monitor its liquidity needs separately for each such significant currency. This includes the use of stress testing to determine the appropriateness of mismatches in that currency and, where appropriate, the setting and regular review of limits on the size of its cash flow mismatches for foreign currencies in aggregate and for each significant currency individually. In such cases, the supervisor also monitors the bank's liquidity needs in each significant currency, and evaluates the bank's ability to transfer liquidity from one currency to another across jurisdictions and legal entities.</p>
Description and findings re EC8	<p>The "Maintain an Open Foreign Exchange Position" rule requires all banks to comply with the daily open position limits.</p> <p>In addition, as described in EC1, banks must comply with liquidity ratios (NSFR, LCR) in both local and foreign currencies.</p> <p>According to paragraph 81 of the Regulation "On Requirements for the Risk Management System in Banks and Banking Groups" (reg. No3427, 04/18/2023) When managing and monitoring liquidity risk, the following requirements should be taken into account, among others:</p> <ul style="list-style-type: none"> <li>• imbalances in expected and/or contractual maturities of assets and liabilities (cash flows) in the context of time intervals and major currencies determined by the bank independently (imbalance analysis);</li> <li>• Increase in the difference between the currencies of highly liquid assets and liabilities of the bank.</li> </ul> <p>In addition, when conducting stress testing of liquidity risk, the bank, among other things, may use assumptions about a significant decrease in the possibility of redistributing liquidity from one currency to another currency.</p> <p>At the same time, when conducting stress testing of market risk, the bank, among other things, may use assumptions about changes in foreign exchange rates in an open currency position.</p> <p>It is worth noting that on a daily basis, the CBU analyzes the sufficiency of the liquidity buffer (the ratio of highly liquid assets to total assets) in different currencies, if a significant transfer of liquidity to a foreign currency is detected, the CBU requires a detailed report from the bank on the state and measures, plans for managing liquidity risk.</p>
<b>EC9</b>	<p>The supervisor determines that a bank's level of encumbered balance sheet assets is managed within acceptable limits to mitigate the risks in terms of the impact on the bank's cost of funding and the implications for the sustainability of its long-term liquidity position. The supervisor requires banks to commit to adequate disclosure and to set appropriate limits to mitigate identified risks.</p>
Description and findings re EC9	<p>According to paragraph 38 of the RRLM banks should monitor the amount of liquid assets that can be used as collateral to attract secured funds from the interbank market or from the central bank in times of stress.</p>

	<p>In addition, according to paragraph 48 of this RRLM, banks determine the share of securities not used to cover urgent liquidity needs by dividing the pledged securities in the securities portfolio by the total securities portfolio.</p> <p>According to paragraph 84 of the Regulation "On Requirements for the Risk Management System in Banks and Banking Groups" (reg. No3427, 04/18/2023) To ensure the timely fulfillment of the bank's obligations in normal stressful situations, the bank should develop a liquidity management procedure during the operational day. This procedure should include, among other things, an assessment of the liquidity of the bank's assets that can be used as collateral to attract additional financing.</p>
<b>Assessment of Principle 24</b>	<b>Largely Compliant</b>
Comments	<p>Findings:</p> <ul style="list-style-type: none"> <li>• The supervisors determine banks' liquidity management strategy, risk appetite, policies and processes during the risk assessment process but liquidity requirements are not calibrated to the bank's risk profile and systemic importance</li> <li>• The CBU liquidity stress testing is based on scenarios not adequately conservative (for example, the assumptions was deposit outflow was just 2-3 percent and the drawdown of credit line only 1-2 percent).</li> </ul> <p>Recommendations:</p> <ul style="list-style-type: none"> <li>• Calibrate liquidity requirement to the banks' risk profile and systemic importance</li> <li>• Strengthen liquidity risk stress testing, by adopting more conservative assumptions in the adverse scenarios;</li> </ul>
<b>Principle 25</b>	<p><b>Operational risk and operational resilience.</b><sup>76</sup> The supervisor determines that banks have an adequate operational risk<sup>77</sup> management framework and operational resilience<sup>78</sup> approach that considers their risk profile, risk appetite, business environment, tolerance for disruption to their critical operations,<sup>79</sup> and emerging risks. This includes prudent policies and processes to: (i) identify, assess, evaluate, monitor,</p>

<sup>76</sup> Reference documents: FSB, Enhancing third-party risk management and oversight: a toolkit for financial institutions and financial authorities, December 2023; BCBS, High-level considerations on proportionality, July 2022; BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022; BCBS, Revisions to the principles for the sound management of operational risk, March 2021; BCBS, Principles for operational resilience, March 2021; BCBS, Cyber resilience: range of practices, December 2018; BCBS, Sound practices implications of fintech developments for banks and bank supervisors, February 2018; FSB, Guidance on identification of critical functions and critical shared services, July 2013; BCBS, Recognizing the risk-mitigating impact of insurance in operational risk modelling, October 2010; BCBS, High-level principles for business continuity, August 2006; BCBS, Outsourcing in financial services, February 2005.

<sup>77</sup> Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

<sup>78</sup> Operational resilience refers to the ability of the bank to deliver critical operations through disruption. Operational resilience is an outcome that benefits from the effective management of operational risk.

<sup>79</sup> Tolerance for disruption is the level of disruption from any type of operational risk a bank is willing to accept given a range of severe but plausible scenarios. The term "critical operations" encompasses critical functions and includes activities, processes, services and their relevant supporting assets, the disruption of which would be material to the continued operation of the bank or its role in the financial system. Whether a particular operation is critical depends on the nature of the bank and its role in the financial system.

	report and control or mitigate operational risk on a timely basis; and (ii) identify and protect themselves from threats and potential failures, respond and adapt to, as well as recover and learn from, disruptive events to minimize their impact on delivering critical operations through disruption.
<b>Essential criteria</b>	
<b>EC1</b>	<p>Laws, regulations or the supervisor require banks to have appropriate operational risk management and operational resilience strategies, policies, procedures, systems, controls and processes to:</p> <ul style="list-style-type: none"> <li>(a) identify, assess, evaluate, monitor, report and control or mitigate operational risk; and</li> <li>(b) identify and protect themselves from threats and potential failures, respond and adapt to, as well as recover and learn from, disruptive events to minimize their impact on their delivery of critical operations.</li> </ul> <p>These strategies, policies, procedures, systems and controls are consistent with the bank's risk profile, systemic importance, risk appetite, tolerance for disruption and capital strength, and consider market and macroeconomic conditions and emerging risks.</p>
Description and findings re EC1	<p>During the assessment, the CBU shared the amendment to the RRM, already published for consultation (and subsequently registered by the MoJ), aimed at reinforcing business continuity plan requirements. The assessors recommended expanding the revisions of the RRM to operational resilience and the other novelties introduced by the BCBS to the Core Principle 25. The CBU took advantage of the interaction with the assessors and revised the amendments to the RRM to incorporate the suggested technical changes. The assessors noted that the new framework has been expanded from operational risk to operational resilience. Nevertheless, the implementation is at the infancy stage.</p> <p>The revised amendments to the RRM</p> <ul style="list-style-type: none"> <li>• introduce the definition of operational resilience, e.g. bank's ability to deliver critical functions through disruption</li> <li>• requires (i) the supervisory board to review and approve the bank's operational resilience approach and (ii) the senior management to implement bank's operational resilience approach</li> <li>• include business continuity and disaster recovery plans within the operational risk procedures and introduces requirement for testing business continuity</li> <li>• establishes duty to map critical operations and interdependencies</li> <li>• provide for change management requirements</li> </ul> <p>The RRM Chapter 10 requires banks to implement an <b>operational risk management system</b> to identify, assess, monitor, control and mitigate operational risk. An effective operational risk management system should at least include:</p> <ul style="list-style-type: none"> <li>• bank's risk appetite for operational risk</li> <li>• operational risk management policies and internal procedures</li> <li>• tools for assessing and monitoring operational risks</li> </ul>



	<ul style="list-style-type: none"> <li>the procedure for conducting stress testing of operational risks</li> <li>operational resilience approach</li> <li>reporting on operational risks.</li> </ul> <p>The Supervisory board should review and approve the operational resilience approach considering the bank's risk appetite and tolerance for disruption to bank's critical operations. The senior management should implement the bank's operational resilience approach and ensure that financial, technical and other resources are appropriately allocated.</p>
<b>EC2</b>	<p>The supervisor determines that a bank's board approves and periodically reviews the strategies and policies for its:</p> <p>(a) management of operational risk for all material products, activities, processes and systems (including the bank's risk appetite for operational risk); and</p> <p>(b) operational resilience approach (including tolerance for disruption to critical operations).</p> <p>The supervisor also requires that the board oversee senior management to ensure that these policies are implemented effectively and fully integrated into the overall framework for managing risks across the bank. The supervisor determines that banks have adequate functions<sup>80</sup> for the management of operational risk to identify external and internal threats and potential failures in people, processes and systems on an ongoing basis.</p>
Description and findings re EC2	<p>The CBU assessment of the new requirements introduced by the RRM has not started yet. While operational risk is part of the risk assessment contemplated by the Guidelines on risk-based supervision, operational resilience has not been incorporated into this framework.</p> <p><u>Off-site supervision</u></p> <p>In stage 3 of the risk assessment the supervisor assigns a rating to the quality of the bank's operational risk management, based on a questionnaire. The questionnaire contains 12 questions (in the form of compliance answers - Yes/No) including evidence that the <b>supervisory board approves and periodically (at least annually) reviews policy on operational risk</b> in accordance with the CBU requirements. However, <b>operational resilience is not mentioned in the Guidelines.</b></p> <p><u>On-site supervision</u></p> <p>Inspections assess the compliance with the RRM qualitative requirements.</p> <p>The RRM Chapter 3 requires banks' boards to approve the <b>risk management policy</b>, covering material risk, including <b>operational risk</b> (para. 8); quantitative indicators for operational risk should be contained in the <b>risk appetite</b> statement (para. 10). Banks' <b>operational risk management policy</b> (RRM Chapter 10, para. 107) includes:</p>

<sup>80</sup> Including control functions, risk management and internal audit.

	<ul style="list-style-type: none"> <li>the organizational structure of the operational risk management system, including the distribution of tasks, powers, responsibilities of the relevant structural units, and the procedures for interaction</li> <li>the procedure for establishing the boundaries of operational risk</li> <li>requirements for identifying, measuring, monitoring, controlling, mitigating and reporting operational risks</li> <li>criteria for assessing operational risk</li> <li>procedure for stress testing of operational risk</li> <li>forms of reports prepared on operational risk, procedure and frequency of their submission.</li> </ul> <p>The assessors went through 4 risk assessments. The CBU challenged</p> <ul style="list-style-type: none"> <li>the lack of limits on operational risk into the risk appetite</li> <li>the inadequate operational risk management function (ORMF) due to the limited number of staff assigned and the number of vacancies opened.</li> <li>the lack of an internal audit on operational risk.</li> </ul> <p>Moreover, the CBU provided some evidence of the on-site scrutiny of operational risk. Nonetheless, <b>operational resilience</b> was outside the mandate.</p>
<b>EC3</b>	<p>The supervisor determines that the bank has identified its critical operations (consistent with its operational resilience approach) and mapped the people, technology, processes, data, facilities, third parties or intragroup entities and the interconnections and interdependencies among them that are necessary for the delivery of critical operations through disruption.</p>
Description and findings re EC3	<p>The new <b>RRM requires banks to define their critical operation</b> in the banks' continuity and disaster recovery plan (Article 109) as well as to identify employees technology and processes, data, facilities and third parties that are necessary for delivery of critical operations through disruption.</p> <p>RRM also requires describing the sequence of actions to ensure the continuity of critical operations, the time required to restore them, the minimum amount of resources necessary to ensure the continuity of critical operations.</p> <p>The CBU showed how some <b>banks (3) have mapped their critical operations as well as people and technology needed to delivery these operations</b> (IT system, servers, cyberattacks to the servers, natural disasters, military conflict, pandemic, death of staff and other incidents, key staff, negative info from social media). However, no supervisory assessment was conducted over this process.</p>
<b>EC4</b>	<p>The supervisor determines that banks develop and implement response and recovery plans to manage incidents that could disrupt the delivery of critical operations in line with the bank's risk appetite and tolerance for disruption and that they continuously improve their incident response and recovery plans by incorporating the lessons learnt from previous incidents.</p>

Description and findings re EC4	<p>The Regulation on information protection (RIP) in automated banking systems of commercial banks No. 3224/2020, whose content has been agreed with the Ministry of Information Technologies and Communications Development, and the Ministry of Innovative Development, requires banks to introduce an information security service to ensure protection security, and prevent, among others, cases of temporary shutdown (paras. 3-4).</p> <p>Banks must ensure the continuity of the automated banking system and take organizational and technical measures for this purpose. Banks must ensure business continuity in the event of interruptions (see also EC5), technical failures, emergency situations and major damage situations in the automated banking system and take appropriate measures in advance (para. 111.) Bank should approve a plan of measures to be carried out during interruptions to ensure the continuity of the automated banking system (para. 112). Employees must receive appropriate training.</p> <p>Banks should develop a procedure for restoring automated banking systems, subsystems, back up data and related programs, and document all performed work. A <b>recovery plan</b> should be created considering all existing information systems, operating systems and technical devices (para. 113). Banks must have a backup recovery plan, software and equipment to ensure <b>uninterrupted operation</b> of the system in the event of failure of the technical means of automated banking systems (para. 117).</p> <p>During the meetings the CBU showed a limited sense of ownership of this Regulation, which and it seemed to the assessors that it was not properly integrated into the supervisory framework and there was limited awareness by the CBU staff.</p> <p>The recent amendment to the RRM introduces business continuity and disaster recovery plans requirements to maintain the continuity of banks operations during emergency and unexpected operational interruptions. As stated under EC 3, the plan should map critical functions. The CBU showed 3 business continuity plans prepared by the bank, but it was not able to provide evidence of its assessment.</p>
EC5	<p>The supervisor requires that banks conduct business continuity exercises under a range of severe but plausible scenarios to test their ability to deliver critical operations through disruption. The supervisor reviews the quality and comprehensiveness of the bank's business continuity and disaster recovery plans to assess their ability to deliver critical operations. In doing so, the supervisor determines that the bank can operate on an ongoing basis and minimize losses and interruptions to service provision in the event of a severe business disruption or failure (including but not limited to disruption at a service provider and disturbances in payment and settlement systems).</p>
Description and findings re EC5	<p>The amendments to the RRM introduced business continuity exercises to ensure that critical activities are safeguarded and to enable banks to operate under unforeseen circumstances and transition back to normal operation Article 109). Business continuity tests should be conducted and validated for a range of severe but plausible scenarios that incorporate disruptive events. Test controllers should monitor the performance of the test, assess the result, prepare protocol (process, outcome, feedback), coordinate</p>

	<p>with head of division involved in ten business continuity plans, and prepare reports recommending how to address identified deficiencies.</p> <p>Moreover, the amendment to the RRM (Art 122) requires banks to <b>assess the risk associated with the interruption of correspondent banking relationship</b>.</p> <p>In addition, the RIP requires banks to <b>conduct restoration tests at least twice a year</b>, and to document all performed work (para. 113). The technology supporting the payment system should be kept up to date with respect to the end of yesterday's day (para. 114).</p> <p>The CBU does not assess business continuity tests conducted by banks.</p>
<b>EC6</b>	<p>Laws, regulations or the supervisor require banks to implement a robust information and communication technology (ICT)<sup>81</sup> framework (including cyber security) within their operational risk management framework and operational resilience approach. The supervisor determines that banks have established appropriate policies and processes to identify, assess, mitigate, monitor and manage ICT risks.<sup>82</sup> These policies and processes also require the board to regularly oversee the effectiveness of the bank's ICT risk management and senior management to routinely evaluate the design, implementation and effectiveness of the bank's ICT risk management. The supervisor also determines that banks have resilient ICT that is subject to protection, detection, response and recovery processes that are regularly tested, incorporate appropriate situational awareness of vulnerabilities and convey relevant timely information for risk management and decision-making processes to fully support and facilitate the delivery of the bank's critical operations.</p>
Description and findings re EC6	<p>RIP (para 17-19) requires banks to implement an <b>information security system</b> (legal, organizational, and technical measures) to identify, prevent and minimize information security risks (par. 17-19). Banks must create a system for managing <b>information security risk</b> (par. 21), supervised by an <b>information security service</b>. The information security service should analyze IT risk and keep the chairman of the board informed (par. 24). The RIC sets fourth requirement on information security policy, access control, database management system, network security, use of e-mails and internet, data protection system and antivirus, digital signatures, and electronic archive.</p> <p>RIP also states that banks must organize at least two storage places for storing information resources of the electronic archive (para. 104). However, it does not set minimum requirement for the alternate site (for example, geographical distance).</p> <p>Moreover, in relation to the security requirements of server rooms, the fuel reserve of</p>

<sup>81</sup> Information and communication technology refers to the underlying physical and logical design of information technology and communication systems, the individual hardware and software components, data and the operating environments.

<sup>82</sup> These include cyber security, ICT response and recovery programs, ICT change management processes, ICT incident management processes and relevant information transmission to users on a timely basis.

	<p>power station is (at least) one day, which might not be enough to ensure continuity of critical function when there is no electricity in the bank.</p> <p>The CBU highlighted that it assesses ICT risk during off-site and on-site inspection. To ensure the collective suitability of the board, ICT skills and experience are considered. The risk assessment includes a questionnaire on the management information system (adequacy to identify, aggregate, and report operational risk exposure data in a timely manner, reliability of data on operational risk, completeness of information, data quality checks, consistency between management information system and nature, scale and complexity of the bank's operations). No evidence was found on inspection on IT risk.</p>
<b>EC7</b>	<p>The supervisor assesses whether banks have appropriate processes and effective information systems to:</p> <ul style="list-style-type: none"> <li>(a) regularly monitor operational risk profiles and material operational exposures;</li> <li>(b) compile and analyze operational risk event data, which include internal loss data, and, when feasible, external operational loss event data; and</li> <li>(c) facilitate appropriate reporting mechanisms at the level of the bank's board, senior management, the independent risk function and the business units that support proactive management of operational risk and operational resilience.</li> </ul>
Description and findings re EC7	<p>There are requirements (RRM Article 110) for banks to:</p> <ul style="list-style-type: none"> <li>• create, maintain and analyze the information available in the <b>database of internal operational risk events</b>.</li> <li>• analyze the results of <b>internal and external auditors</b></li> </ul> <p>The RRM identifies key risk indicators (employee dissatisfaction; fines paid to gross income; loans with signs of fraud to total loans; technical, technological failures or power outages; transactions concluded in violation of legislative acts to total number of transactions).</p> <p><b>Operational risk event data</b></p> <p>The database of internal operational risk events should include the date of occurrence, detection and registration of the event; the staff member involved; the unit that identified the event and is responsible for the investigation; a description of the event and the reasons for its occurrence; the amount and type of economic consequences of the event in national currency, including damage, compensation payment, possible damage; the risks associated with the event (e.g., credit, market risk), the status (open or closed).</p> <p>During the assessment, the CBU expanded the collection and registration of information to losses associated with the operational risk event (RRM para. 112).</p> <p><b>Material operational exposure and reporting mechanisms</b></p> <p>Banks must have an approved procedure for examining operational risk events, which should include at least the criteria for categorizing operational risk events as significant; the procedure for establishing a working group to investigate significant operational risk</p>

	<p>events and the procedure for conducting the investigation; the procedure for communicating the results of the investigation to the bank's management and relevant structural units, as well as approval of measures to reduce the consequences of the event and prevent similar events in the future. Moreover, in case of significant increase of operational risk, including approaching or breaching approved risk appetite limit, the risk unit must notify the supervisory and the management boards in a timely manner and propose appropriate corrective action. A significant increase in operational risk should be established in the bank's internal documents.</p> <p>In the self-assessment the CBU pointed out that since 2023 banks shared information on operational losses recorded in their database which amount only to 0.4 percent of capital. While this amount is limited, the CBU is cognizant that the lack of historical series makes it premature to conclude about the immateriality of operational risk. By contrast, the evolving digital landscape and geopolitical risk exacerbated cyber risk, for which the CBU intends to formalize a request of technical assistance on ICT risk to the WB or the IMF.</p> <p>The assessors found the <b>CBU challenged banks' database of internal operational risk events due to the lack of clear classification criteria</b>, and the incomplete classes of events (only external and internal fraud, without considering human resources, systems failures etc.).</p>
<b>EC8</b>	The supervisor requires banks to have appropriate reporting mechanisms to keep the supervisor apprised of developments affecting their operational risk, including reporting of incidents that disrupt critical operations, and their severity.
<b>Description and findings re EC8</b>	As stated under CP9, EC10 the Regulation on information protection in automated banking systems of commercial banks No. 3224/2020 introduced also the duty to notify the CBU in written or electronic form about incidents pertaining to breach of confidentiality, integrity, right of access to information, violation of the technological process (para. 32); moreover, banks are requested to inform the CBU about detected virus, their origin and type (para. 82).
<b>EC9</b>	<p>Laws, regulations or the supervisor require the board and senior management to understand the risks associated with bank activities performed by service providers and ensure that effective risk management policies and processes are in place to manage these risks. The supervisor determines that banks have established appropriate policies and processes to assess, manage and monitor bank activities performed by service providers. The supervisor determines that banks' third-party risk management policies cover:</p> <ul style="list-style-type: none"> <li>(a) procedures for determining whether and how activities can be provided by service providers, and conducting appropriate due diligence for selecting potential service providers;</li> <li>(b) sound structuring of the service providers' provision, including ownership and confidentiality of data, as well as termination rights;</li> <li>(c) managing and monitoring the risks associated with the service provider arrangement, including the financial condition of the service provider;</li> </ul>

	<p>(d) maintaining an effective control environment at the bank over the service provider, which includes a register of outsourced activities, metrics and reporting to facilitate service provider oversight;</p> <p>(e) managing dependencies on arrangements, including (but not limited to) those of service providers, for the delivery of critical operations;</p> <p>(f) maintaining viable contingency planning and developing exit strategies to demonstrate the bank's operational resilience in the event of a failure or disruption at a service provider impacting the provision of critical operations.<sup>83</sup> The bank's business continuity plans should assess the substitutability of the service providers that it uses for critical operations and other viable alternatives that may facilitate operational resilience in the event of an outage at a service provider, such as bringing the activity back in-house;</p> <p>(g) execution of comprehensive contracts and/or service level agreements that ensure a clear allocation of responsibilities between the service provider and the bank; and</p> <p>(h) the bank's right to inspect the service provider's books and records and ability to request reporting (eg audit reports), and permission for the bank's supervisor to access, directly or via the supervised bank, documentation, data and any other information related to the provision of the activity to the bank.</p>
Description and findings re EC9	<p>BL Article 41 enables banks to outsource services and operations <b>after obtaining the CBU's permission</b> and delegates the CBU to establish requirements governing outsourcing. CBU pointed out that it has been preparing a draft regulation on outsourcing but was not able to share it. During the meetings with CBU staff, the assessors emphasized the importance of speeding up the preparation of this regulation and expanding its coverage to the entire spectrum of third-party risk management, to fulfill all the new requirements introduced in this EC by the recent review of the Core Principles.</p> <p>A possible modification to the BL was also discussed, limiting the CBU's authorization only to material outsourcing contracts, and requiring, for those not material, only an ex-ante notification. Such an approach appeared more risk-based and can have a positive impact on the use of resources.</p> <p>Article 41 of the BL emphasizes the bank's responsibility for managing the risks associated with outsourced services and operations and require banks to meet the CBU requirements, including those pertaining to internal policies and reporting, as well as the information to the supervisor on services and operations outsourced.</p>

<sup>83</sup> In developing their exit strategies, banks should consider both near-term and long-term disorderly and orderly exits, as this could impact exit strategies and assumptions.

	<p>Banks annually or at the CBU's request should provide an audit of outsourced services and operations. Moreover, the CBU has the right to demand termination of the outsourcing agreement in cases of:</p> <ul style="list-style-type: none"> <li>• failure by the bank to properly and regularly supervise, control and manage the outsourcing risks;</li> <li>• deficiencies in the outsourced activities that threaten the bank's ability to fulfill its obligations.</li> </ul> <p>The outsourcing of services requiring a license is permitted only to holders of the corresponding license. Sub-outsourcing is prohibited, and the ban should be reflected in the contract.</p> <p>The CBU has not provided evidence of adequate supervision of outsourcing risk.</p>
<b>EC10</b>	The supervisor determines that senior management has established a change management process <sup>84</sup> that is comprehensive, appropriately resourced, adequately divided up between the risk management and control functions, and conducive to the assessment of potential effects on the delivery of critical operations and on their interconnections and interdependencies.
Description and findings re EC10	As stated under CP15, EC9, the decision to introduce new products should be made, evaluated and documented by the bank in an appropriate manner, assessing economic feasibility, compliance with legal requirements, risks, monitor tools, pricing, and readiness, including availability of qualified personnel, and changes in the technological infrastructure for the introduction of a new product. The CBU showed one case where it prevented banks from introducing a new product, because it was considered not compliant with the regulation.
<b>Additional criteria</b>	
<b>AC1</b>	The supervisor regularly identifies any common points of exposure across banks to operational risk or potential vulnerability (e.g. reliance of many banks on a common service provider, disruption to service providers of payment and settlement activities, exposures to losses from physical risks or from geopolitical events).
Description and findings re AC1	The CBU opted to be assessed on EC and AC, but graded only on EC. However, in the self-assessment the CBU did not provide any answer to this AC. During the meeting it emerged that the CBU does not identify identifies any common points of exposure across banks to operational risk or potential vulnerability.
<b>AC2</b>	The supervisor assesses concentration risk-related arrangements, and potential systemic risks arising from the concentration of services provided by specific service providers to banks within its jurisdiction.

<sup>84</sup> A bank's operational risk exposure evolves when it initiates change, such as engaging in new activities or developing new products or services; entering into unfamiliar markets or jurisdictions; implementing new business processes or technology systems or modifying existing ones; and/or engaging in businesses that are geographically distant from the head office. Change management should assess the evolution of associated risks across time throughout the full life cycle of a product or service.



Description and findings re AC2	The CBU opted to be assessed on EC and AC, but graded only on EC. However, in the self-assessment the CBU did not provide any answer to this AC. During the meeting it emerged that the CBU does not assess concentration risk-related arrangements. It would be opportune to set up an outsourcing register for all banks to identify concentration among third-party providers.
<b>Assessment of Principle 25</b>	<b>Materially Non-Compliant</b>
Comments	<p>The CBU has just expanded regulatory requirements from operational risk to operational resilience; nevertheless, the supervisory oversight of the banks' ability to deliver critical operations under disruption is at an infancy stage.</p> <p>Findings</p> <ul style="list-style-type: none"> <li>Operational resilience is neither incorporated in the GRBS, nor part of the minimum requirement for the inspection of banks.</li> <li>There has been no evidence of assessment by the CBU of banks' mapping process of critical operations and interdependencies, business continuity plans and their testing, third party risk management.</li> <li>The CBU has not issued a regulation on outsourcing.</li> </ul> <p>Recommendations</p> <ul style="list-style-type: none"> <li>Update the GRBS, with a chapter on operational resilience.</li> <li>Assess banks' operational resilience, including tolerance for disruption to critical operations, mapping interconnectedness and interdependencies, incident management, business continuity plan testing, and third party risk management</li> <li>Issue a regulation on outsourcing.</li> </ul>
<b>Principle 26</b>	<b>Internal control and audit.</b> <sup>85</sup> The supervisor determines that banks have adequate internal control frameworks to establish and maintain an effectively controlled and tested operating environment for the conduct of their business, considering their risk profile. These include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent <sup>86</sup> internal audit (including those that are outsourced or co-sourced), compliance and other control functions to test adherence to and effectiveness of these controls as well as applicable laws and regulations.

<sup>85</sup> Reference documents: BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022; BCBS, Corporate governance principles for banks, July 2015; BCBS, The internal audit function in banks, June 2012; BCBS, Compliance and the compliance function in banks, April 2005; BCBS, Framework for internal control systems in banking organizations, September 1998.

<sup>86</sup> In assessing independence, supervisors give due regard to the control systems designed to avoid conflicts of interest in the performance measurement of staff in the compliance, control and internal audit functions. For example, the remuneration of such staff should be determined independently of the business lines that they oversee.

Essential criteria	
<b>EC1</b>	<p>Laws, regulations or the supervisor require banks to have internal control frameworks that are adequate to establish an effectively controlled and tested operating environment for the conduct of their business, considering their risk profile with a forward-looking view.<sup>87</sup> These controls are the responsibility of the bank's board and/or senior management and deal with organisational structure, accounting policies and processes, checks and balances, and the safeguarding of assets and investments (including measures for the prevention and early detection and reporting of misuse, such as fraud, embezzlement, unauthorised trading and computer intrusion). More specifically, these controls address:</p> <ul style="list-style-type: none"> <li>(a) organisational structure: definitions of duties and responsibilities, including clear delegation of authority (eg clear loan approval limits), decision-making policies and processes, separation of critical functions (eg business origination, payments, reconciliation, risk management, accounting, audit and compliance);</li> <li>(b) accounting policies and processes, such as but not limited to: reconciliation of accounts, control lists, information for management;</li> <li>(c) checks and balances (or "four-eyes principle"): segregation of duties, cross-checking, dual control of assets, double signatures; and</li> <li>(d) safeguarding assets and investments: including physical control and computer access.</li> </ul>
Description and findings re EC1	<p>The regulatory framework on internal control and audit is enshrined in:</p> <ul style="list-style-type: none"> <li>• BL Article 42 which obliges banks to comply with the CBU <b>requirements on internal control</b> and risk management system</li> <li>• RRM Chapter 1, para. 4 which sets forth the <b>three lines of defense system</b></li> <li>• RCG Article 16, which requires banks to establish an <b>Audit Committee</b></li> <li>• Regulation "On Requirements for Internal Audit in Commercial Banks" No 3302/2021 (RIA) determines the requirements for the organization of <b>internal audit</b> in banks.</li> <li>• RIP requires banks to introduce an <b>information security service to ensure protection security</b> (see CP25 EC6)</li> </ul> <p><u>Organizational structure</u></p> <p>Pursuant to the RRM Chapter 1, para. 4, the risk management system should be based on the <b>three lines of defense</b> and allocate responsibilities in accordance with it:</p> <ul style="list-style-type: none"> <li>• the first line of defense are the business lines, responsible for the provision of banking services, taking on risks, and reporting on risk management</li> <li>• the second line of defense is the risk management unit and other units performing control functions. They identify and manage risks</li> </ul>

<sup>87</sup> The time horizon for establishing a forward-looking view should appropriately reflect climate-related financial risks and emerging risks as needed.

	<ul style="list-style-type: none"> <li>the third line of defense is the internal audit service, which assesses the risk management system</li> </ul> <p><u>Accounting policy and processes</u></p> <p>The CBU requirements for internal control and risk management (BL Article 42) include, among others, completeness, reliability and timeliness of <b>financial, supervisory and other reporting</b> for internal and external users. In addition, RCG tasks the <b>audit committee</b> (see also CP 14) with functions pertaining, among others, to the participation in the development and approval process of financial reporting; the verification of the completeness and reliability of control, financial, and other reports; the review of external audit reports and their presentation to the board; (article 16). Moreover, RIA requires the Internal Audit unit to control the accuracy and reliability of financial statements, including key performed accounting entries (Article 25).</p> <p><u>Check and balance</u></p> <p>CBU Resolution n. 1834/2008 '<i>Instruction of the procedure for keeping accounting records and organizing accounting work in banks</i> provides rules for the accounting apparatus in banks, customer service, document circulation, and control and responsibility for banks' transactions. The Regulation sets forth segregation of duties between the back office and the front office and requires the chief accountant to organize the general control and daily monitoring of compliance with established procedures at all levels of accounting and cash management.</p> <p><u>Safeguarding security</u></p> <p>RIA entrusts the Internal Audit with the function of independent analysis and evaluation of, among others, asset security. Moreover, RIP requires banks, among others, to (i) monitor the list of users authorized to access the automated banking system and their use (Article 35); (ii) as well as to take measures to prevent unauthorized access to the automated banking system (Article 36) and (iii) use an intrusion detection system (Article 57)</p> <p>Controls are the responsibility of the supervisory board (BL Article 42).</p>
<b>EC2</b>	<p>The supervisor determines that there is an appropriate balance in the skills and resources of the back office, control functions and operational management relative to the business origination units. The supervisor also determines that the staff of the back office and control functions have sufficient expertise and authority within the organization (and, where appropriate, in the case of control functions, sufficient access to the bank's board) to be an effective check and balance to the business origination units.</p>
Description and findings re EC2	<p>The number of employees of the internal audit unit should be formed based on the volume of assets and risks of the bank, the nature of its operations, organizational structure (RIA, Article 32). Internal auditors should be competent to conduct analysis in</p>

	<p>matters of risk management, prudential standards (capital adequacy and liquidity), corporate governance, compliance, and finance.</p> <p>Employees must have a higher education; at least one year of work experience in the banking and financial sector; or international certificates such as "Certified Internal Auditor (CIA)", "Certified Financial Analyst (CFA)", "Certified International Professional Accountant (CIPA)", "Chartered Certified Accountant (ACCA)", "Certified Public Accountant (CPA)", or "Diploma in International Financial Reporting Standards (DiplFR)" and (or) international risk management certificates "Certified Risk Manager (CRM)" or "Financial Risk Manager (FRM). The Chief Auditor must have at least 5 years of experience in the banking and (or) financial system (RIA art. 32).</p> <p>The heads of internal control function are subject to the CBU fit and proper assessment (CP 5). The Internal audit has direct access to the Board or the Audit Committee (RIA Art. 48), like the head of the risk management unit (RRM Article 34 and 35).</p> <p>The CBU evaluates the quality of risk control function as part of its supervisions of banks. The assessors were provided with cases where the CBU was not satisfied with the work of the Internal Audit (see CP 8)</p>
<b>EC3</b>	<p>The supervisor determines that banks have an adequately staffed, permanent and independent compliance function that assists senior management in managing effectively the compliance risks faced by the bank. The supervisor determines that staff within the compliance function are suitably trained, have relevant experience and have sufficient authority within the bank to perform their role effectively. The supervisor determines that the bank's board exercises oversight of the management of the compliance function.</p>
Description and findings re EC3	<p>Pursuant to the RRM Chapter 5, Article 36, banks shall establish a <b>compliance unit</b> to assess compliance with the requirements of legislative norms and internal documents. The regulation defining the duties, responsibilities and powers of this unit should be approved by the supervisory board. The RRM entrusts the compliance unit with multiple tasks pertaining to compliance risks, AML/CFT, conflicts of interest, new banking products, monitoring changes in rule and standards of the banking activities, conducting training sessions on compliance (etc.). According to the RRM article 30, the supervisory board must ensure the <b>independence</b> of the compliance unit.</p> <p>The unit should develop and submit for approval to the supervisory board or the Risk Management Committee (if established) an <b>annual plan</b> for checking compliance by other structural units with legal documents and internal documents of the bank and <b>training of employees on compliance risk management</b>. The head of the unit submits a report on the work done to the Supervisory Board or the Risk Management Committee (if established) at least once a year.</p> <p>The CBU holds several interactions with the Compliance Unit. At appointment stage, the CBU assesses the fit and proper requirements, and it provided evidence of 7 rejections and 7 approvals with conditions. Moreover, the curators receive policies on compliance risk management and evaluate them in the context of the risk assessment, as part of the</p>

	<p>Governance. The onsite department inspected 14 banks in 2024 to verify the status on implementation of RRM and, as part of this exercise, verified the setting up of the compliance office by banks. Moreover, following the Russian invasion of Ukraine, the CBU took several measures, including the creation of a <b>Compliance Club</b>, formed of supervisory specialists from its financial monitoring Department and banks' compliance officers. The main task of the club is to discuss on a weekly basis existing and emerging problems in the <b>management of banks' sanction risk</b>, and to exchange experiences for their solution.</p>
<b>EC4</b>	<p>The supervisor determines that banks have an independent, permanent and effective internal audit function (including those that are outsourced or co-sourced) charged with:</p> <ul style="list-style-type: none"> <li>(a) assessing whether existing policies, processes and internal controls (including risk management, compliance and corporate governance processes) are effective and appropriate and remain sufficient for the bank's business; and</li> <li>(b) ensuring that policies and processes are complied with.</li> </ul>
Description and findings re EC4	<p>Pursuan to RIA Chapter 2 the Internal Audit unit is <b>independent</b> from the audited activities and from the management board and <u>directly reports</u> to the supervisory board and the audit committee. The Chief Auditor must be appointed by the supervisory board and it is approved by the CBU. Members of the management board cannot be appointed as employees of the internal audit unit (or Chief auditor).</p> <p>The Internal Audit function is permanent and must have unconditional access to any buildings (premises), reports, protocols, records, files, other documents, data, information systems of the bank, as well as to obtain from employees and the management board information and explanations that may be required to perform its functions.</p> <p>The internal audit unit is entrusted with the independent analysis and evaluation of the <b>effectiveness and adequacy of the internal control system</b> (including AML/CFT, compliance), the <b>effectiveness of the risk management system and corporate governance</b>, including the processes to identify, measure, assess, control, respond to and report on risks (RIA, Article 19 and 20).</p> <p>As stated under CP 9, EC 6, the CBU provided evidence of the assessment of the internal audit function, including its policies and procedures (for example, audit plan, lack of internal assessment of the professional skill level of the staff member).</p>
<b>EC5</b>	<p>The supervisor determines that the internal audit function:</p> <ul style="list-style-type: none"> <li>(a) has sufficient resources and that staff are suitably trained and have relevant experience to understand and evaluate the business they are auditing;</li> <li>(b) has appropriate independence and is accountable to the bank's board or to an audit committee of the board, and its status within the bank ensures that senior management reacts to and acts upon its recommendations;</li> <li>(c) is kept informed in a timely manner of any material changes made to the bank's risk management strategy, policies or processes;</li> </ul>

	<p>(d) may communicate with any member of staff and has full access to records, files or data of the bank and its affiliates, whenever relevant to the performance of its duties;</p> <p>(e) employs a methodology that identifies the material risks run by the bank;</p> <p>(f) prepares an audit plan, which is reviewed regularly, based on its own risk assessment and allocates its resources accordingly; and</p> <p>(g) has the authority to assess any outsourced functions.</p>
Description and findings re EC5	<p>In the context of the risk assessment, the CBU evaluates the audit function's role as a third line of defense. Following the GRBS, the CBU assesses the work of internal audit, in particular, the audit perimeter (frequency and scope of review) and whether the auditor verifies the reliability of reporting systems and the accuracy of the results of the management information system.</p> <p>Indicators of effective functioning relate, among others, to staff turnover (less than 30 percent); submission of audit reports to the supervisory board (or audit committee); sufficient resources and independence; implementation by the bank of 3-5 key recommendations proposed by the internal audit service, duly accepted and approved at the appropriate level of the bank's management; follow up activities; direct report and access to the supervisory board. The CBU validates the qualification of the internal audit staff, the training offered, and the sufficiency of staff.</p> <p>As stated under EC4, RIA protects the Internal Auditor's independence. The supervisory board must be immediately informed by the internal audit unit of any attempt to pressure or obstruct the activities of the Chief Auditor or employees of the internal audit unit (RIA Article 9). The Chief Auditor and employees of the internal audit unit should not participate in the decision-making process on conducting banking or other transactions, including signing of receipts, as well as other documents with which the bank assumes risks; they should not be involved in any other activities and processes that may negatively affect the impartiality and objectivity of internal auditors (RIA Article 10). The Chief Auditor should rotate the staff at least once every five years to avoid deterioration of the ability of internal auditors to make critical judgments.</p> <p>The annual audit plan, prepared by the Chief Auditor, is approved by the supervisory board; employees of the internal audit unit can conduct audits on their own initiative in all areas and functions of the bank.</p> <p>The annual budget of the unit is annually approved by the supervisory board or the audit committee. Although the board or audit committee can make changes to the budget, the budget must ensure sufficient funds for unit to perform its functions efficiently and in full and also be flexible enough to consider changes in the audit plan in accordance with changes in the bank's risk profile.</p>

	<p>Salaries are set by the supervisory board or the audit committee and, in particular for the Chief Auditor, <u>should not be related to the financial performance of the bank</u>, and should be structured in such a way as to avoid (potential) conflicts of interest and ensure the independence and objectivity of the internal audit unit.</p> <p>The Regulation does not explicitly indicate that internal audit can or should review outsourced activities. Considering the uncertainty about the internal audit's authority to assess outsourced function, it is important to clarify that Internal Audit should review outsourced activities, even though the lack of this specific statement is not viewed as a significant deficiency.</p>
<b>Assessment of Principle 26</b>	<b>Compliant</b>
Comments	<p>The regulatory framework for internal control is comprehensive. Based on the <b>three lines of defense system</b> it ensures segregation of duties and the independence of Internal Audit Qualification requirement for the staff employed in the internal audit are based on international certificate (CFA, CIPA, CIA etc.). Fit and proper test of key personnel preserves skill, experience and integrity of the heads of control functions and the CBU provided adequate evidence of rejections of candidate for the position of head of internal control department and/or head of compliance. The compliance club proved to be a useful network for the management for sanction risk. The RIA does not explicitly indicate that internal audit can or should review outsourced activities; but the lack of this specific statement is not viewed as a significant deficiency.</p> <p>Finding</p> <ul style="list-style-type: none"> <li>The RIA does not explicitly indicate that internal audit can or should review outsourced activities.</li> </ul> <p>Recommendation</p> <ul style="list-style-type: none"> <li>Amend the RIA to introduce the duty of the Internal Audit to review outsourced activities.</li> </ul>
<b>Principle 27</b>	<p><b>Financial reporting and external audit.</b><sup>88</sup> The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.</p>
<b>Essential criteria</b>	

<sup>88</sup> Reference documents: BCBS, Supplemental note to external audits of banks – audit of expected credit loss, December 2020; BCBS, External audits of banks, March 2014; BCBS, Supervisory guidance for assessing banks' financial instrument fair value practices, April 2009.

<b>EC1</b>	The supervisor <sup>89</sup> holds the bank's board and management responsible for ensuring that financial statements are prepared in accordance with accounting policies and practices that are widely accepted internationally and for ensuring that these are supported by recordkeeping systems to produce adequate and reliable data.
Description and findings re EC1	<p>BL Article 70 requires banks to organize and maintain accounting records in accordance with <b>internal</b> accounting policies developed based on the rules established by the CBU. Banks <b>can</b> apply <b>international</b> financial reporting standards.</p> <p>In Uzbekistan the Ministry of Finance is entrusted with regulatory power on accounting and financial reporting, development and approval of accounting standards (Article 9 on Law n. 279/1, 2016). Article 22 of this Law states that the composition and content of financial statements of banks is determined by the CBU. Based on this Article, the CBU issued the RAFS, whose appendix determined the content of the below statements:</p> <ul style="list-style-type: none"> <li>• financial position</li> <li>• profit and loss and other comprehensive income</li> <li>• change in equity</li> <li>• cash flow</li> </ul> <p>On February 24, 2020, the President of the Republic of Uzbekistan signed Resolution No. 4611 '<i>On Additional Measures to Transition to International Financial Reporting Standards</i>'. This resolution requires joint-stock companies, <b>commercial banks</b>, insurance organizations and legal entities classified as large taxpayers to prepare financial statements in accordance with IFRS Standards from 1 January 2021. IFRS Standards and their interpretation are endorsed by the Cabinet of Ministers of the Republic of Uzbekistan, based on the Resolution No. 507/2020 '<i>On approval of the Regulation on and the procedure for recognizing International Financial Reporting Standards and their Interpretations</i>'.</p> <p>As a result, the <b>bank's accounting policy must comply with the current legislation of the Republic of Uzbekistan and IFRS.</b></p> <p>BL Article 70 requires banks to provide <b>reliable</b> management, <b>financial</b>, tax, supervisory and other reports, reflecting the real financial condition of the bank and the results of its activities; it holds supervisory board responsible for monitoring the financial condition of the bank and the work of its officials.</p>
<b>EC2</b>	The supervisor holds the bank's board and management responsible for ensuring that the financial statements issued annually to the public bear an independent external auditor's opinion as a result of an audit conducted in accordance with internationally accepted auditing practices and standards.

<sup>89</sup> In this essential criterion, the supervisor is not necessarily limited to the banking supervisor. Responsibility for ensuring that financial statements are prepared in accordance with accounting policies and practices may also be vested with securities and market supervisors.



Description and findings re EC2	<p>In Uzbekistan the Ministry of Finance is the '<i>authorized state body</i>' also in the field of audit activities, according to the Law on Audit activities dated 25.02.2021 No ZRU-677. However, Article 12 of this Law enable the CBU to:</p> <ul style="list-style-type: none"> <li>• determine the specifics of conducting audit in banks</li> <li>• determine the procedure for issuing auditor's qualification certificates and issues such certificate</li> <li>• maintain the Register of auditors entitled to conduct audits of banks and posts it on its official website (Law on Audit activities, Article 14).</li> </ul> <p>Banks' individual financial statements and the annual consolidated financial statements of the banking group are subject to <b>mandatory audit</b> (BL Article 74). They are published, in the form established by the CBU, <b>after</b> the audit organization confirms the accuracy of the information specified therein (BL Article 72).</p> <p>Without an auditor's report, banks' individual financial statements as well as the annual consolidated financial statements of the banking group are not accepted by the CBU and are not subject to publication (BL Article 74).</p> <p>The <b>supervisory board is responsible for selecting the external auditors</b> (JSC Article 75), based on the proposal of the Audit Committee (RCG, Article 18) which also assists the board in the preparation of the term of reference of the external auditor.</p> <p>As regards independence, the audit organization should not be related to the bank or have monetary obligations to it (BL Article 75). In addition, the main principles in the field of audit activity are <b>independence, objectivity and integrity</b>, along with professional competence and confidentiality of information Law on audit activities, Article 4). Moreover, the CBU may require the bank and the banking group to conduct a re-audit involving another audit organization if it is found that the audit was conducted under condition that <b>compromised the independence</b> of the audit organization (Article 18 of the Regulation on the <i>peculiarities of conducting audits in banks and banking groups, as well as the procedure for issuing a qualification certificate to an auditor for the right to conduct audits in banks</i>; hereinafter Regulation of External Audit, REA). CBU has never used this power.</p> <p>The <b>supervisory board and the bank's management are responsible</b> for ensuring the completeness, reliability, and timeliness of the information and documents provided to the auditor for preparing the <b>audit opinion</b> (REA, Article 9)</p> <p>The audit opinion (REA Article 14) may include:</p> <ul style="list-style-type: none"> <li>• recommendations and comments on the conduct and organization of the audit</li> <li>• identified deviations from the established accounting practices</li> <li>• information on violations in the financial statements</li> </ul>
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	<ul style="list-style-type: none"> <li>identified deficiencies in the internal control system, including corporate governance, risk management, and internal audit service</li> <li>cases of non-compliance with legal requirements and recommendations for their elimination</li> <li>recommendations and suggestions for improving the bank's operational efficiency.</li> </ul> <p>The CBU has never received a modified audit opinion. D-SIBs are audited by the 'Big Four'; some local audit firms carry out external audits for smaller banks.</p>
<b>EC3</b>	The supervisor determines that banks use valuation practices consistent with accounting standards widely accepted internationally. The supervisor also determines that the framework, structure and processes for fair value estimation are subject to independent verification and validation, and that banks document any significant differences between the valuations used for financial reporting purposes and for regulatory purposes.
Description and findings re EC3	<p>The CBU highlighted that the curators regularly assess the consistency between financial statements and supervisory reporting. In addition, during the on-site inspection the reliability of the information provided by the banks to the offsite supervision is also verified, including by evaluating the '<i>accounting apparatus</i>'.</p> <p>The CBU also remarked that the RRM para. 90 requires banks to regularly <b>reassess fair value of the investment portfolio</b>. As noted under CP21, the CBU pointed out of January 1, 2024, investments in securities are 24.5 trillion soums, which is only 3.8% in the structure of banks' assets. Most of these assets consist of government securities and securities issued by the CBU. The assessors acknowledge that most of the banks' portfolio is classified as banking book and held at amortized cost. Nevertheless, banks also engage in <b>derivatives to hedge FX exposures</b>. CBU pointed out that the determination of the fair value of these financial instruments is subject to independent verification by the internal and external audits.</p>
<b>EC4</b>	Laws, regulations or the supervisor set out the scope of external audits of banks and the standards to be followed in performing such audits. These should be aligned with internationally accepted standards and require the use of a risk- and materiality-based approach in planning and performing the external audit.
Description and findings re EC4	<p>BL Article 74 states that the <b>purpose</b> of the external audit of a bank and a banking group is to assess by an auditing organization the <b>reliability of financial statements</b> and other financial information, as well as the <b>compliance</b> of a banking group with accounting legislation and <b>international financial reporting standards</b>. Moreover, the same article empowers the CBU to require an external audit of a bank and a banking group, both as a whole and for <b>individual areas</b> of their activities. CBU has never used this power.</p> <p>The auditor's report on the annual financial statements and the annual consolidated financial statements of the banking group must contain the results of the audit pertaining to:</p> <ul style="list-style-type: none"> <li>compliance of <b>prudential standards</b> by the bank, banking group as of the reporting date</li> <li>compliance of <b>internal control and organization of risk management systems</b> of a bank or a banking group with the CBU requirements</li> </ul>

	The CBU pointed out that, based on this requirements, external auditors should focus on material risks.
<b>EC5</b>	Supervisory guidelines or local auditing standards determine that audits cover several areas, including but not limited to the loan portfolio, loan loss provisions, non-performing exposures, asset valuations, trading and other securities activities, derivatives, asset securitizations, consolidation of off-balance sheet vehicles and other involvement with such vehicles, and the adequacy of internal controls over financial reporting.
Description and findings re EC5	As stated under EC4, the external auditor report must contain the results of the verification of banks and banking groups' compliance with <b>prudential standards</b> at the reporting date, as well as compliance of <b>internal control and of risk management systems</b> with the CBU requirements. The assessment of the loan portfolio and loan loss provisioning is included in the IFRS 9 auditing. The securitization market is not developed, and according to the meetings, there are no deconsolidated off-balance sheet vehicles. As regards FX derivatives, see EC3.
<b>EC6</b>	The supervisor has the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence or who is not subject to or does not adhere to established professional standards.
Description and findings re EC6	<p>The CBU may request a bank and the banking group to conduct a <u>second audit</u> if it deemed that the previous audit was conducted under compromised independence (EC 2), or if the audit was conducted by an audit organization that did not hold the required qualification certificate (REA Article 18).</p> <p>Moreover Article 43 on Law on Audit enable the authorized body to exclude an audit organization from the register in case, among others, of <b>violation of certain restrictions aiming at preserving its independence</b>; drawing up a deliberately false auditor's report; disclosure of confidential information; failure to provide the authorized state body with the necessary documentation and information during external quality control. The exclusion from the register of audit organizations is published in the media, as well as posted on the official website of the authorized state body.</p> <p>The Central Bank provided evidence that it considered issues related to the issuance and cancellation of the auditor's qualification certificate. For example:</p> <ul style="list-style-type: none"> <li>• in February 2024, the CBU challenged the qualification requirement of an applicant and rejected its application for registration, since the applicant did not participate in the qualification exam.</li> <li>• In April 2024 it refused to issue the qualification certificate for an applicant assessed as 'unsatisfactory' at the end of the qualification exam.</li> <li>• In April 2024, it denied the issuance of the certificate without conducting examination due to the lack of adequate work experience.</li> </ul>
<b>EC7</b>	The supervisor determines that banks rotate their external auditors (either the firm or individuals within the firm) from time to time.

Description and findings re EC7	According to Article 34 of the Law "On Auditing Activities", an audit organization is not entitled to conduct an audit of the same business entity for more than <b>seven years</b> in a row.
<b>EC8</b>	The supervisor meets periodically with external audit firms to discuss issues of common interest relating to bank operations.
Description and findings re EC8	Pursuant REA Article 11 ' <i>Before, during, or after the audit, the CBU may organize <b>bilateral meetings with the audit organization or trilateral meetings with the audit organization and the bank.</b> The audit contract must not contain provisions that restrict the auditor's participation in such meetings organized by the CBU.</i> ' The CBU pointed out that it regularly holds meetings with audit companies, including to discuss issues of common interest.
<b>EC9</b>	The supervisor requires the external auditor, directly or through the bank, to report to the supervisor matters of material significance, for example: failure to comply with the licensing criteria or breaches of banking or other laws; significant deficiencies and control weaknesses in the bank's financial reporting process; or any other matters that they believe are likely to be of material significance to the safety and soundness of the bank. Laws or regulations provide that auditors who make any such reports in good faith cannot be held liable for breach of the duty of confidentiality.
Description and findings re EC9	BL Article 75 requires the audit organization to ' <i>immediately inform the CBU about situations that:</i> <ul style="list-style-type: none"> <li>• <i>lead to <u>gross</u> violations of the laws on banks and banking activities</i></li> <li>• <i>may negatively affect the bank's activities</i></li> <li>• <i>may lead to a refusal by the audit organization to express an opinion on the reliability of financial statements and the compliance of the accounting procedure with the requirements established by law, or to express an opinion with a reservation.</i></li> </ul> <p>REA Article 7 adds that '<i>the audit contract must not contain restrictive provisions regarding the provision of information to the CBU</i>'</p> <p>Moreover, '<i>at the request of the CBU, the bank must provide information related to the audit, including explanations of the financial statements given by the auditors</i>' (REA Article 12).</p>
<b>Additional criterion</b>	
<b>AC1</b>	The supervisor has the power to access external auditors' working papers, where necessary.
Description and findings re AC1	Article 75 states that the agreements concluded between the bank and the audit organization should not contain provisions limiting the transmission of the audit report to the Central Bank. Moreover, REA Article 12 empowers the CBU to request information related to the audit, including explanations of the financial statements given by the auditors. Nevertheless, there is no explicit provision enabling the CBU to access external auditors' working papers, where necessary.
<b>Assessment of Principle 27</b>	<b>Largely Compliant</b>

Comments	<p>In Uzbekistan the Ministry of Finance is the '<i>authorized state body</i>' in the field of both accounting and audit activities. However, for banks the CBU has the power to determine the composition and content of financial statements, as well the specifics of conducting audit in banks. The CBU has adopted rules and regulations that are broadly aligned with international standards regarding financial reporting and external audit.</p> <p>Findings</p> <ul style="list-style-type: none"> <li>• The BL Article 75 requires an audit organization to '<i>immediately inform the CBU about situations that lead to <u>gross</u> violations of the laws on banks and banking activities</i>'; however, it excludes <u>serious</u> violations from the duty of communication.</li> <li>• The CBU has not clarified the differences between banks' financial statements prepared in accordance with IFRS and those prepared in accordance with CBU regulation 3337/2021, which places undue burden on banks.</li> </ul> <p>Recommendations</p> <ul style="list-style-type: none"> <li>• Amend Article 75 of the BL and include serious violations among those that external auditors should immediately communicate to the CBU.</li> <li>• The CBU should ensure that banks' financial statements are prepared exclusively in accordance with accounting principles, and practices that are widely accepted internationally.</li> </ul>
<b>Principle 28</b>	<b>Disclosure and transparency.</b> <sup>90</sup> The supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes (including compensation practices). At least for internationally active banks, disclosure requirements are not less stringent than the applicable Basel standards.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require periodic public disclosures <sup>91</sup> of information by banks on a consolidated and, where appropriate, solo basis that adequately reflect the bank's true financial condition and performance, and adhere to standards promoting comparability, relevance, reliability and timeliness of the information disclosed.
Description and findings re EC1	CBU has not implemented the Pillar 3 of the Basel framework; However, periodic public disclosure of information is required by BL Article 72, which obliges banks to (i) publish financial statements and <b>consolidated financial statements</b> in the form established by the CBU (see CP27), and to <b>disclose</b> information related to their own funds, compliance

<sup>90</sup> Reference documents: BCBS, High-level considerations on proportionality, July 2022; BCBS, Corporate governance principles for banks, July 2015; FSB, Enhancing the risk disclosure of banks, October 2012; BCBS, Enhancing bank transparency, September 1998; (DIS10), (DIS20), (DIS21), (DIS25), [DIS26], (DIS30), (DIS31), (DIS35), (DIS40), (DIS42), (DIS43), (DIS45), (DIS50), (DIS51), (DIS60), (DIS70), (DIS75), (DIS80), (DIS85), (DIS99).

<sup>91</sup> In this essential criterion, the disclosure requirement may be found in applicable accounting, stock exchange listing or other similar rules, instead of or in addition to directives issued by the supervisor.

	<p>with capital requirements, liquidity, the magnitude of risks and other key indicators (ratios).</p> <p>Moreover, the Regulation "On Requirements for Corporate Websites of Joint Stock Companies" requires banks to publish in their website several information, including goals of the activity, charter, business plan, strategy, organizational structure, managers, vacancies, corporate governance code, prospectuses of securities issue, information on the general meeting of shareholder, open tender, main indicators concerning the financial and economic conditions, paid dividends in the last three years, conclusion of the audit organization, etc.</p> <p>RCG Article 53 requires also banks to <b>post on their website</b> strategic goals and corporate values; history, including information on changes in the bank's establishment, reorganization, renaming, activity, characteristics or direction; state registration and license (serial number, date of issue, list of banking operations), as well as suspension of activity, restoration and revocation of the license; charter; working procedure; press releases regarding changes in the activity, organizational and property structure; ownership structure; composition of the group belonging to the bank and its structure; internal organizational structure of the bank; composition of all board committees (including qualifications and experience of member and main tasks of these committees); composition of supervisory and the management members, and key employees (personal information, positions held, qualifications and work experience); internal regulatory documents related to corporate governance (rules of conduct, policy on disclosure, dividend payment policy, etc.); rating received in the last 3 years. Moreover, RCG Article 31 states that the remuneration system for board and management members and key employees should be clear, open and transparent for shareholders.</p>
<b>EC2</b>	<p>The supervisor determines that the required disclosures include both qualitative and quantitative information on a bank's financial performance, financial position, risk management strategies and practices, risk exposures (including information that will help in understanding a bank's risk exposures during a financial reporting period), aggregate exposures to related parties, transactions with related parties, accounting policies, business models, management, governance (including major share ownership and voting rights) and compensation practices. The scope and content of the information provided, and the level of disaggregation and detail are commensurate with the risk profile and systemic importance of the bank. At least for internationally active banks, disclosure requirements are not less stringent than the applicable Basel standards.</p>
Description and findings re EC2	<p>The curator verifies the completeness of the information published in the banks' websites on a quarterly basis. There have been cases where banks were requested to integrate and or amend the information published. The assessors went through the website of the same banks and found a sufficient level of disclosure.</p> <p>Nonetheless, disclosure requirements do not include – and the CBU cannot enforce (see EC 4) – information related to (i) risk management strategy, (ii) risk exposure (for</p>

	<p>example, sovereign risk, climate risk). Moreover, SOCBs do not disclose their exposure to SOEs as part of related party transactions.</p> <p>It is recommended that relevant regulations and rules be amended to require disclosures about these topics.</p> <p>Although business model is not expressly mentioned, the assessors considered it <i>latu sensu</i> incorporate into the duty to disclose strategic goals and the business model.</p>
<b>EC3</b>	Laws, regulations or the supervisor require banks to disclose all material entities in the group structure.
Description and findings re EC3	<p>RCG Article 53 requires bank to disclose the <b>composition of the group</b> and its <b>structure</b>: name of legal entities, structure of the bank group, participation in the authorized capital, name, location and official website of the main organization.</p> <p>Moreover, RCG clarifies that the disclosed information about the ownership structure should include:</p> <ul style="list-style-type: none"> <li>shareholders who <u>directly</u> own at least five percent of the bank's capital, the amount of their share in the capital, type of share (ordinary, preferred), location (place of residence), type of activity (for legal entities)</li> <li>information about shareholders who <u>indirectly</u> own at least five percent of the bank's authorized capital, location (place of residence), type of activity (for legal entities) and other information that led to the ownership of bank shares last name, first name and first name of the last beneficial owner (if any).</li> </ul>
<b>EC4</b>	The supervisor or another authority effectively reviews and enforces compliance with disclosure standards.
Description and findings re EC4	As stated under EC2, the CBU verifies the completeness of the information published in the banks' websites on a quarterly basis. However, as stated under EC2, disclosure requirements do not include information related to risk management strategy, and risk exposure (for example, sovereign, and climate related financial risk).
<b>EC5</b>	The supervisor or other relevant authorities regularly publish information on the banking system in aggregate to facilitate public understanding of the banking system and the exercise of market discipline. Such information includes aggregate data on balance sheet indicators and statistical parameters that reflect the principal aspects of banks' operations (balance sheet structure, capital ratios, income earning capacity and risk profiles).
Description and findings re EC5	<p>The CBU publishes an <b>annual report</b> on its official website annually, which includes the analysis of the state of the economy; a report on the activity of the CBU, including an overview of monetary policy, and the <b>state of the banking sector</b> (CBL Law Article 15).</p> <p>In addition, information about the banking system is regularly published on the CBU website by the 25th of each month, and it reflects the main indicators of the banking system:</p> <p>Moreover, the Financial Stability Review is published by the CBU twice a year and covers issues as the assessment of vulnerabilities and risks in the financial system, the analysis of the stability of the financial system, as well as policies and measures to maintain financial stability.</p>
<b>Assessment of Principle 28</b>	<b>Largely Compliant</b>

<b>Comments</b>	<p>Although CBU has not implemented the Pillar 3 of the Basel Framework, adequate disclosure is requested to Joint Stock Companies (Requirements for Corporate Websites of Joint Stock Companies) and for banks RCG Article 53.</p> <p>The assessors went through the website of the same banks and found a sufficient level of disclosure.</p> <p><u>Findings</u></p> <ul style="list-style-type: none"> <li>• Disclosure requirements do not include information related to (i) risk management strategies, (ii) risk exposures (for example, sovereign risk, climate risk). Moreover, SOCBs do not disclose their exposures to SOEs as part of related party transactions.</li> </ul> <p><u>Recommendation</u></p> <ul style="list-style-type: none"> <li>• Amend RCG and require banks to disclose information related to (i) risk management strategies and (ii) risk exposures (for example, sovereign risk, climate risk).</li> <li>• Require SOCBs to disclose their exposures to SOEs as part of related party transactions.</li> </ul>
<b>Principle 29</b>	<b>Abuse of financial services.</b> <sup>92</sup> The supervisor determines that banks have adequate policies and processes, including robust and risk-based <sup>93</sup> customer due diligence (CDD) rules and effective compliance functions to promote high ethical and professional standards in the financial sector and prevent the bank from being used intentionally or unintentionally for criminal activities. <sup>94</sup>
<b>Essential criteria</b>	
<b>EC1</b>	Laws or regulations establish the duties, responsibilities and powers of the supervisor related to the supervision of banks' internal controls and enforcement of compliance with the relevant laws and regulations regarding criminal activities.
Description and findings re EC1	The Law "On Countering the Legalization of Proceeds from Criminal Activities" amended in 2019 (hereafter – <b>Law on AML/CFT</b> ) specifies the duties and responsibilities of the Authorized State Body (Uzbek FIU) and other supervisory authorities, including CBU, regarding preventing and eradicating the crime of money laundering and its authority over banks in this regard.

<sup>92</sup> Reference documents: FATF Recommendations (February 2012, as amended in November 2023); BCBS, Sound management of risks related to money laundering and financing of terrorism, July 2020; FATF, Guidance on risk-based supervision, March 2021; FATF, Guidance on correspondent banking services, October 2016; FATF, Risk-based approach guidance for the banking sector, October 2014; BCBS, Shell banks and booking offices, January 2003.

<sup>93</sup> Adopting a risk-based approach will enable competent authorities and banks to ensure that measures to prevent or mitigate money laundering and terrorist and proliferation financing are commensurate with the identified risks.

<sup>94</sup> The Committee is aware that, in some jurisdictions, other authorities, such as a financial intelligence unit, may have primary responsibility for assessing compliance with laws and regulations regarding criminal activities in banks, such as fraud, money laundering and terrorist and proliferation financing. Thus, in the context of this principle, "the supervisor" might refer to such other authorities, particularly in essential criteria 7, 8 and 10. In such jurisdictions, the banking supervisor cooperates with such authorities to achieve adherence with the criteria set out in this principle.



	<p>AML Law together with the CBL describes the CBU's <b>duties, responsibilities and powers</b> in this regard:</p> <ul style="list-style-type: none"> <li>• Article 12 of the CBL stipulates that the CBU monitors and controls compliance with the internal control rules and the procedure for providing information related to counteraction the legalization of proceeds from criminal activity, the financing of terrorism and the financing of the proliferation of weapons of mass destruction to a specially authorized state body by organizations, licensed by the CBU;</li> <li>• Article 61 of the CBL states that to exercise its supervisory functions, the CBU establishes requirements for internal control and risk management system of banks and banking groups, as well as corporate governance in banks;</li> <li>• Article 64 of the CBL foresees that the CBU, together with a special public authority (FIU), approves the internal control rules for countering the legalization of proceeds from crime, the financing of terrorism and the financing of the proliferation of weapons of mass destruction, which are binding on credit institutions;</li> <li>• Article 67 gives the CBU the right to apply measures and sanctions in case of violation of the applied requirements.</li> </ul> <p>Following the duties stated by the CBL, the CBU issued regulation "<i>Rules of Internal Control for Combating Money Laundering and Financing of Terrorism in Commercial Banks</i>" (reg. No 2886 dated 23.05.2017), (hereafter - <b>Rules on AML/CFT</b>) that prescribe banks to enlarge internal control in order to prevent the intentional or unintentional involvement of a bank in criminal activities, the penetration of criminal capital into its authorized capital, as well as the penetration of criminal persons into the management of a commercial bank.</p> <p>Therefore, all commercial banks are obliged to develop internal rules, which, in addition to other requirements, should also reflect the procedure for implementing measures to identify, assess, monitor, manage, reduce and document risks related to AML/CFT; the rules for due diligence of customers; as well as the implementation of constant monitoring of customer transactions. Banks are obliged to describe the criteria for identification of a suspicious transactions and the procedure for accounting and monitoring customers classified as clients. The process that allows banks to monitor transactions of such customers should be implemented.</p>
<b>EC2</b>	The supervisor determines that banks have adequate policies and processes that promote high ethical and professional standards and prevent the bank from being used intentionally or unintentionally for criminal activities. This includes the monitoring, detection and prevention of criminal activity, and reporting of such suspected activities to the appropriate authorities.
Description and findings re EC2	Rules on AML/CFT prescribe banks to carry out internal control to prevent the intentional or unintentional involvement of a bank in criminal activities, the penetration of criminal

	<p>capital into its authorized capital, as well as the penetration of criminal persons into the management of a bank.</p> <p>Banks are required to develop internal rules, which, in addition to other requirements, should also reflect the procedure for implementing measures to identify, assess, monitor, manage, reduce and document risks, the rules for due diligence of customers (CDD), as well as the implementation of constant monitoring of customer transactions, the criteria for identifying and signs of suspicious transactions, the procedure for accounting and monitoring customers classified as a high risk.</p> <p>In addition, according to Article 36 of the RRM, to monitor compliance with the legal acts, regulations and internal documents of the bank, a responsible structural unit must be established to manage compliance risk. A regulation defining the tasks, responsibilities and powers of this structural unit must be approved by the supervisory board.</p> <p>Thus, this structural unit should, among other things, develop and implement internal documents aimed at combating the legalization of proceeds from crime, the financing of terrorism and the financing of the proliferation of weapons of mass destruction.</p> <p>To determine banks' activities regarding implementation of AML/CFT requirements, specifically dedicated supervisory units are established within the CBU:</p> <ul style="list-style-type: none"> <li>• Financial Monitoring Department (FMD) consists of three Divisions (in total 20 FTEs) responsible for off-site AML/CFT supervision and</li> <li>• AML/CFT On-Site Inspection Division (8 full time employees) is in charge of AML/CFT on site supervision. The Division is established as a unit of the On-Site Department (see CP9, EC1).</li> </ul> <p>The FMD verifies banks' AML/CFT compliance by:</p> <ol style="list-style-type: none"> <li>1) analysing internal policies, processes and procedures to measure and control risk;</li> <li>2) valuing the implementation of recommendations issued by banks' compliance and internal audits;</li> <li>3) performing analysis on how banks comply with Regulation on Internal AML/CFT Control (No. 2886);</li> <li>4) investigate new products of the banks by accessing their compliance with AML/CFT.</li> </ol> <p>Moreover, FMD <b>once a year performs an assessment of the risk profile of all banks in terms of AML/CFT</b> risks according to a developed and implemented methodology (hereafter - AML Methodology, applied since November 2022) and proceeds with the AML/CFT Sectorial Analysis for all financial sectors (the internal model for the assessment applied since August 2022).</p> <p><b>AML Methodology</b> allows to assess the institution's risk profile in relation to AML/CFT risk. Assessment of institutions' inherent risk (IR) includes evaluation of these elements:</p>
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	<ul style="list-style-type: none"> <li>• type and structure of the organisation of beneficial owners;</li> <li>• risks arising from the business model;</li> <li>• risks associated with customers;</li> <li>• geographical risks;</li> <li>• risks associated with products and services;</li> <li>• risks associated with the channels of services and products supply.</li> </ul> <p>Analysis also includes evaluation of risk mitigators (RM) undertaken by the organisations, as well as evaluation of the quality of risk control. The judgement of risk control, among other, is based on the assessment of:</p> <ul style="list-style-type: none"> <li>• role of the management bodies (SB and MB);</li> <li>• level and completeness of management information system;</li> <li>• appropriateness of customer verification process (KYC);</li> <li>• monitoring of operations;</li> <li>• FIU notification process;</li> <li>• quality of audits conducted by internal and external auditors;</li> <li>• implementation of compliance function;</li> <li>• trainings and recruitment process.</li> </ul> <p>Banks recognized as „High risk“ institutions are subject to on-site inspections for the upcoming year. Following the enhanced risk assessment of 2023, nine (9) banks (out of total 36) were classified as “High” risk institutions.</p> <p>Following the decision of the Banking Supervisory Committee all these institutions were subject to on-site inspections in 2024. Assessors were provided with several on-site AML/CFT inspections reports recently held. The main findings and observations are related to the KYC process, FIU notification process, and weaknesses observed in internal controls.</p> <p>FMD regularly conducts an assessment on banks compliance with the requirements established by the laws (Law on AML/CFT, CBL, BL) and regulations (Rules for AML/CFT, CORP, RRM) by internal procedure established by the CBU. In case of non-compliance, the FMD requires banks to provide explanations and, if necessary, initiate a thematic review or on-site examination. If the results of the on-site inspection confirm a violation of the AML/CFT requirements, the Banking Supervisory Committee apply appropriate corrective measures (for example, by issuing, warnings) and/or to put a sanction.</p> <p>Assessors were provided with evidence of sanctioning for AML/CFT violation.</p>
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№	Year	Number of investigations	Provided Recommendations		Fine Set	
			Number of Recommendations	Number of Banks	Number of Banks	Amount in mio UZS
1	2022	11	41	19	6	600
2	2023	7	42	21	-	-
3	2024 (as per October 1st, 2024)	4	20	20	3	845

The established supervisory process enables the CBU to identify deficiencies in banks' policies and processes that may jeopardize their compliance with the Law on AML/CFT, to make supervisory judgments where necessary, and to instruct banks to take appropriate measures to remedy the relevant deficiencies.

The assessors were provided with two AML/CFT on-site reports. One of them related to a 'high risk' bank and was conducted in September 2023 (duration of the inspection – 1 month, inspection team consists of 4 members, including Head of Mission). The main findings were: 1) incompleteness of Customer Due Diligence mostly for natural persons, but also for some companies; 2) lack of knowledge of front-office staff; 3) it was found that the bank's solution used for automatic verification was tested improperly; 4) lack of internal control (not a single internal audit was performed for AML/CFT). On-site report is well structured and is of a good quality.

Considering that **4 out of 8 AML/CFT on site inspectors were involved in one inspection for one month**, it can be assumed that the resources available to the CBU for AML/CFT on-site inspections are not sufficient.

<b>EC3</b>	In addition to reporting to the financial intelligence unit or other designated authorities, banks report suspicious activities and incidents of fraud to the banking supervisor if such activities/incidents are material to the safety, soundness or reputation of the bank. <sup>95</sup>
Description and findings re EC3	<p>As stated by Articles 68, 69 and 98 of the Rules on AML/CFT, recognition of transactions as suspicious is carried out in each specific case on the basis of a comprehensive analysis carried out using the criteria and signs established by the mentioned rules and internal rules established by the bank.</p> <p>After the customer's transaction is recognized as suspicious, the Internal Control Unit for AML must take the following steps:</p> <ul style="list-style-type: none"> <li>• submit a suspicious transaction report to a Specially Authorized State Body (FIU);</li> <li>• approach the client to get additional information;</li> <li>• review the client's risk level;</li> </ul>

<sup>95</sup> In accordance with international standards, banks are to report suspicious activities involving cases of potential money laundering, terrorist financing and proliferation financing to the relevant national centre, which is established either as an independent governmental authority or as a department within an existing authority or authorities that serves as a financial intelligence unit.

	<ul style="list-style-type: none"> <li>strengthen monitoring of client transactions.</li> </ul> <p>The CBU carries out off-site monitoring of compliance with these Rules on the organization and effectiveness of internal control based on information submitted by banks according to the procedure established (see EC2).</p> <p>Suspicious transaction reports (STRs) are submitted to FIU but not reported directly to the CBU. However, the FIU shares relevant information with the CBU, provide assessments and reviews performed by FIU. The CBU can review STRs during on-site inspections conducted by the CBU.</p> <p>As stated under CP9, EC10, the Regulation on information protection in automated banking systems of banks No. 3224/2020 introduced the duty for banks to notify the CBU in written or electronic form about any incident pertaining, among other, to the breach of integrity rule, which covers the requirement of this EC</p>
<b>EC4</b>	<p>If the supervisor becomes aware of any additional suspicious transactions, it informs the financial intelligence unit and, if applicable, other designated authorities of such transactions. In addition, the supervisor directly or indirectly shares information related to suspected or actual criminal activities with relevant authorities, in a timely manner.</p>
Description and findings re EC4	<p>The AML/CFT legislation provides the obligation to the state bodies to exchange information on suspicious transactions according to Article 18 of the Law on AML/CFT.</p> <p>In addition, the Interdepartmental Commission on combating the legalization of proceeds from criminal activity, financing of terrorism and financing of the proliferation of weapons of mass destruction (hereinafter - Commission) was established by the Decree of the President in 2018 to coordinate the functioning of the national system for combating the legalization of proceeds derived from criminal activity, financing of terrorism and financing of the proliferation of weapons of mass destruction, as well as for the implementation of Recommendation No. 2 of the Financial Measures Task Force against Money Laundering (FATF).</p> <p>The Establishment of the Commission broadly oversees its' rights, obligations, and responsibilities, among other foresees information sharing. Members of the Commission are obliged to ensure the confidentiality and safety of the information that has become known, constituting banking, commercial secrets and other secrets protected by law.</p>
<b>EC5</b>	<p>The supervisor determines that banks establish CDD policies and processes that are well documented and communicated to all relevant staff. The supervisor also determines that such policies and processes are integrated into the bank's overall risk management and include appropriate steps to identify, assess, monitor, manage and mitigate the risks of money laundering, terrorist financing and proliferation financing with respect to customers, countries and regions, as well as to products, services, transactions and delivery channels on an ongoing basis. The CDD management programme, on a group-wide basis, has as its essential elements:</p>

	<p>(a) a customer acceptance policy that identifies business relationships that the bank will not accept (or will be terminated) based on identified risks;</p> <p>(b) an ongoing customer identification, verification and due diligence programme, which encompasses verification of beneficial ownership, understanding the purpose and nature of the business relationship, and risk-based reviews to ensure that CDD information is updated and relevant;</p> <p>(c) policies and processes to monitor transactions on an ongoing basis and identify unusual or potentially suspicious transactions as well as those individuals or entities subject to the United Nations sanctions related to terrorism and proliferation financing;</p> <p>(d) enhanced due diligence on high-risk accounts (eg escalation to the bank's senior management of decisions on entering into business relationships with these accounts or maintaining such relationships when an existing relationship becomes high-risk);</p> <p>(e) enhanced due diligence on politically exposed persons (including their family members and close associates) encompassing, among other things, escalation to the bank's senior management of decisions on entering into business relationships with these persons; and</p> <p>(f) clear rules on what records must be kept on CDD and individual transactions and their retention period. Such records have at least a five-year retention period.</p>
Description and findings re EC5	<p>Rules on AML/CFT prescribes requirements for CDD policies and processes. In accordance with Chapter 3, banks are required to have policies and procedures to manage and mitigate AML/CFT risks identified in the risk assessment process.</p> <p>The policies and procedures for implementing the AML/CFT programs should include but may not be limited to:</p> <ul style="list-style-type: none"> <li>• the procedure for accepting clients for servicing, including the procedures, grounds for and terms of the bank's decision to refuse to establish a business relationship and (or) to conduct a transaction, as well as termination of the business relationship;</li> <li>• the procedures for identifying and conducting due diligence of the client (or its representative) and the beneficial owner, including the requirements for the application of simplified and enhanced customer due diligence measures;</li> <li>• the requirements for due diligence when establishing the correspondent relationships with foreign financial institutions;</li> <li>• the description of measures to identify and conduct due diligence on customers (their representatives); beneficial owners; public officials, their spouses, and close relatives being serviced or accepted for servicing;</li> <li>• procedures for addressing targeted financial sanctions and for the verification of clients (their representatives) and beneficial owners against the list of organizations and persons connected with terrorism and extremism financing or the financing weapons of mass destruction and proliferation;</li> </ul>

	<ul style="list-style-type: none"> <li>• requirements for identification and customer due diligence when establishing business relationships remotely;</li> <li>• requirements regarding the exchange of information obtained during the identification and customer due diligence of the client (its representative) and the beneficial owner, as well as the storage and confidentiality of such information as part of the AML/CFT requirements established by the banking group, which includes the bank (if any);</li> <li>• requirements regarding the identification and due diligence for customers when obtaining information from other financial institutions, including identification of individuals and legal entities for the benefit or on behalf of which the broker (dealer) performs transactions on its bank account;</li> <li>• procedures for verification of the authenticity of information about the client (its representative) and beneficial owner;</li> <li>• requirements for the form, content, and procedure for maintaining the client file, updating information contained in the file, with an indication of the periodicity for updating information;</li> <li>• procedures to assess the risk level of the customer and the grounds for such risk assessment.</li> </ul>
<b>EC6</b>	<p>The supervisor determines that banks have specific policies and processes regarding correspondent banking and other similar relationships, in addition to normal due diligence. Such policies and processes include:</p> <p>(a) gathering sufficient information about their respondent banks to understand fully the nature of their business and customer base, their reputation, how they are supervised and whether they have been subject to money laundering, terrorism financing or proliferation financing investigations or regulatory actions;</p> <p>(b) prohibitions on establishing or continuing correspondent banking relationships with those banks that do not have adequate controls to manage the risk of criminal activities, that are not effectively supervised by the relevant authorities, or that are considered to be shell banks; and</p> <p>(c) senior management approval for entering into new correspondent banking relationships.</p>
Description and findings re EC6	<p>When establishing and maintaining correspondent relations with a non-resident bank, the bank must:</p> <ul style="list-style-type: none"> <li>• collect information about a non-resident bank in order to get a complete picture of the nature of its business activities;</li> <li>• on the basis of public information to determine the reputation and quality of supervision;</li> <li>• assess the measures taken by the non-resident bank to counteract the AML/CFT;</li> <li>• in relation to "transit accounts", receive appropriate confirmation that the correspondent bank has fulfilled the obligation to conduct due diligence in relation to its customers;</li> <li>• ensure a clear and complete distribution of responsibilities between correspondents.</li> </ul>

	<p>Banks are obligated to make sure that non-resident banks with which correspondent relations are established apply international standards in AML/CFT.</p> <p>While continuing correspondent relations with banks which do not participate in international cooperation in the field of AML/CFT, banks must pay specific attention and ensure deeper investigation to all transactions carried out with them.</p> <p>Rules on AML/CFT require senior management approval for entering new correspondent banking relations.</p>
<b>EC7</b>	<p>The supervisor determines that banks have sufficient controls and systems to prevent, identify and report potential abuses of financial services, including money laundering, terrorism financing and proliferation financing.</p>
Description and findings re EC7	<p>The legislation obliges banks to put in place proper systems to identify, prevent and report potential abuses of financial services as well as establish sufficient controls.</p> <p>Banks are obliged to implement internal control systems to prevent, identify and report potential abuses of financial services.</p> <p>The main objectives of the internal control system of commercial banks are:</p> <ul style="list-style-type: none"> <li>• taking appropriate measures to identify and assess, document and reduce their risks;</li> <li>• implementation of customer identification procedures and due diligence measures, including verification and regular updating of data on the client and their beneficial owners;</li> <li>• identification of beneficial owners, taking available measures to verify their identity and determine the sources of funds or other property used in the transaction;</li> <li>• in-depth monitoring of transactions conducted by public officials, their family members and persons close to public officials;</li> <li>• detection of suspicious and suspicious transactions in accordance with the procedure established by these Rules and internal documents;</li> <li>• timely submission to the specially authorized state body of information (documents) on suspicious transactions identified in the course of internal control;</li> <li>• identification of persons participating in or suspected of participating in terrorist activities or proliferation of weapons of mass destruction among the participants in the operation by checking against the List;</li> <li>• immediate suspension of the transaction, except for transactions involving the crediting of funds received to the account of a legal entity or individual, and/or freezing of funds or other property of persons included in the list without prior notice to them;</li> </ul>



	<ul style="list-style-type: none"> <li>ensuring the confidentiality of information related to combating the legalization of proceeds from crime, the financing of terrorism and the financing of the proliferation of weapons of mass destruction.</li> </ul> <p>The CBU assesses AML/CFT control system during off-site and on-site investigation (see EC2).</p>
<b>EC8</b>	The supervisor has adequate powers to take action against a bank that does not comply with relevant laws and regulations regarding criminal activities.
Description and findings re EC8	<p>All banks defined as a "high" risk banks (after the annual assessment of banks risk profile in terms of AML/CFT (see EC 2) are subject to on-site inspection for the following year. Different sanctions might be applied, depending on the severity of findings (see EC1).</p> <p>According to the "Regulations on the procedure for applying measures and sanctions against banks and non-bank credit organizations" (reg. No3492 dated 23.01.2024): The CBU has the right to:</p> <ul style="list-style-type: none"> <li>apply measures and sanctions against banks and non-bank credit organizations, owners and managers of the bank;</li> <li>to apply several measures and (or) sanctions for the same violation simultaneously or sequentially.</li> </ul> <p>Measures and sanctions applied by the CBU in relation to banks and non-bank credit organizations, owners and managers of the bank shall not exceed the amounts established by the legislation and this Regulation.</p> <p>Section 5 of the Annex to the above provision contains a detailed table indicating the amount of fines for violations of the legislation in the field of AML/CFT.</p>
<b>EC9</b>	<p>The supervisor determines that banks have:</p> <ol style="list-style-type: none"> <li>requirements for internal audit and/or external experts to independently evaluate the relevant risk management policies, processes and controls. The supervisor has access to their reports;</li> <li>effective policies and processes to designate a compliance officer at the bank's management level to manage the financial crimes compliance programme, and a dedicated officer to whom potential abuses of the bank's financial services (including suspicious transactions) are reported;</li> <li>a compliance function with adequate powers, reporting independence, staff and other resources;</li> <li>adequate screening policies and processes to ensure high ethical and professional standards when hiring staff or when entering into an agency or outsourcing relationship;</li> <li>ongoing training programmes for their staff, including on CDD and methods to monitor and detect criminal and suspicious activities; and</li> </ol>

	(f) policies and processes to report criminal activities by staff to competent authorities.
Description and findings re EC9	<p><b>Internal Audit</b></p> <p>According to the RIA, the Internal Audit service should be independent and responsible for assessing the effectiveness of the internal control, risk management and corporate governance system (see CP26, EC 4).</p> <p>When assessing the risk management system, the internal audit assesses at least the following components:</p> <ul style="list-style-type: none"> <li>• the activities of the structural unit for risk management, including decisions made by this structural unit, as well as, based on the tasks and powers of the unit, the correctness of the organization of the risk management system (credit, liquidity risk, market, operational, compliance, etc.);</li> <li>• risk appetite of the bank and compliance of the bank's activities with risk appetite;</li> <li>• risk management, including providing information to the CBU, the supervisory board and the management board with information about major risks;</li> <li>• the correctness of the organization of the risk management system, including the definition, measurement, evaluation, management, timely action, and reporting processes;</li> <li>• integrity of information systems used within the framework of risk management, accuracy, reliability and completeness of these data.</li> </ul> <p>Pursuant to RIA Article 19, the audit service should independently analyze and evaluate, among others, the effectiveness of internal control (<b>including the fight against money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction, compliance control</b>, etc.), risk management and corporate governance systems and their correct implementation, considering the bank's risk profile.</p> <p>The Regulation "<i>On the Procedure and Conditions for Admission to Banking Activities</i>" (reg. No 3252, 30.06.2020) establishes specific criteria (fit and proper requirements) for compliance officer (see also CP26, EC3).</p> <p>Decisions on the appointment and dismissal of the head and employees of the Internal Control Unit for AML, as well as the assessment of their performance and the amount of remuneration (salary, bonuses, etc.) are made exclusively by the supervisory board.</p> <p>A person appointed to the position of the Head of Internal Control for AML shall:</p> <ul style="list-style-type: none"> <li>• know banking and financial legislation;</li> <li>• know international standards for combating money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction;</li> <li>• have knowledge of the rules of accounting, as well as regularly undergo advanced training at specialized courses.</li> </ul>

	<p><b>Internal Control for AML</b></p> <p>Detailed descriptions of the requirements for organisation of internal control for AML/CFT in the bank are provided by the Rules on AML/CFT.</p> <p>As it is stated in Chapter 2 of the Rules on AML/CFT, as part of organization of internal control for AML/CFT purposes, the management or executive body of the bank shall develop and adopt internal control rules, including requirements for the internal audit service of the bank to assess the effectiveness of internal control for AML/CFT purposes. The internal control rules shall be executed by the bank considering the results of assessment of the degree of exposure of the bank's services to ML/TF risks, size, nature, and complexity of the bank.</p> <p>Requirements for Internal Controls for AML stipulates that in accordance with the procedure established by the internal documents of the bank, the bank shall appoint a person responsible for the implementation of and compliance with internal control regulations in the bank (hereinafter - the responsible employee) from among the bank's executives or other bank managers not below the level of head of the relevant structural unit of the bank, and identify employees or a bank unit whose competence includes AML/CFT issues (hereinafter - the AML/CFT unit).</p> <p>The AML/CFT internal control organization program shall include a description of AML/CFT division functions, including the procedure for interaction with other divisions of the bank, branches, subsidiaries when implementing AML/CFT internal control, as well as functions, powers of the responsible employee, the procedure for interaction of the responsible employee with the management body and executive body of the bank.</p> <p>To perform the assigned functions, the AML/CFT unit officer and employees shall be vested with the following powers, including, but not limited to:</p> <ul style="list-style-type: none"> <li>• obtaining access to all bank premises, information systems, means of telecommunication, documents and files within the limits that allow carrying out their functions to the full extent and in the manner prescribed by the internal documents of the bank;</li> <li>• sending instructions to bank divisions regarding performance of operation with money and/or other property;</li> <li>• ensuring confidentiality of information received during performance of its functions;</li> <li>• ensuring safety of documents and files received from bank departments.</li> </ul> <p>In accordance with the Article 21 of the Rules on AML/CFT, the purpose of the AML/CFT training and education program is to provide bank employees with knowledge and skills necessary for their compliance with AML/CFT legislation, internal control rules and other internal documents of the bank in the AML/CFT sphere.</p>
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<b>EC10</b>	The supervisor determines that banks have and follow clear policies and processes for staff to report any issues related to the abuse of the banks' financial services to local management and/or the relevant dedicated officer. The supervisor also determines that banks have and utilise adequate management information systems to provide the banks' boards, management and dedicated officers with timely and appropriate information on such activities.
Description and findings re EC10	<p>According to the requirements, stated in Article 6 of the Rules on AML/CFT, banks are required to develop the internal procedure on providing the Internal Control for AML with information on the facts of violations of the legislation related to AML/CFT. It is foreseen that internal rules and/or amendments to them are subject to be approved the supervisory board.</p> <p>Employees who have become aware of the facts of violations of the law or/and regulations, including in the field of ML, TF, CPF, must immediately inform these facts in writing to the head or staff of the Internal Control unit. The procedure of interaction between staff (including head of internal control) must be described by the internal documents.</p>
<b>EC11</b>	Laws provide that a member of a bank's staff who reports suspicious activity in good faith either internally or directly to the relevant authority cannot be held liable.
Description and findings re EC11	<p>According to Article 41 of the RCG, to take appropriate measures in a timely manner when committing actions in a bank that are contrary to the law and ethical rules, an effective system for identifying unacceptable actions and reporting them must be developed and put into practice.</p> <p>The system must enable employees to notify the board of unacceptable and illegal activities in the bank, while ensuring confidentiality and security. The goals of the Whistleblowing System include:</p> <ul style="list-style-type: none"> <li>• encouragement for timely notification of possible unacceptable actions;</li> <li>• providing means (channels) for confidential and secure notification of unacceptable activities;</li> <li>• Ensuring consistent and timely action on notifications of unacceptable conduct and informing notifiers of their rights;</li> <li>• ensuring that the Board appropriately monitors compliance with the rules governing the confidentiality of employee notifications of unacceptable conduct;</li> <li>• protection of the rights of the bank and its shareholders.</li> </ul>
<b>EC12</b>	The supervisor, directly or indirectly, cooperates with relevant domestic and foreign financial sector authorities or exchanges information with them regarding suspected or actual criminal activities present in banks, where this information is for supervisory purposes.
Description and findings re EC12	<p>Collaboration between the agencies, including the CBU, achieved through the following ways:</p> <ul style="list-style-type: none"> <li>• meetings between CBU, FIU, and other relevant authorities to discuss specific issues to prevent the criminal act of money laundering;</li> </ul>

	<ul style="list-style-type: none"> <li>• regular meetings among the members of the Interdepartmental Commission;</li> <li>• any new typologies or unusual transactions, disclosed by the CBU during on-site inspections are subject to prompt report to FIU;</li> <li>• established cooperation and coordination forum – Compliance Academy - with representatives from banks, stock market and non-banks industries. The purpose of this mechanism is to enhance cooperation and coordination between CBU, dedicated authorities and market participants.</li> </ul> <p>The CBU has also concluded agreements with the supervisory authorities in of Kazakhstan, Georgia, Hungary, Russia (in total 26 MoUs and 8 Agreements are signed) on the exchange of information to effectively perform functions in supervising subsidiaries and banking groups. In addition, the CBU cooperates with the tax authorities in the exchange of information related to suspicious transactions carried out by economic entities.</p> <p>Assessors discussed the approach to sharing information with the relevant domestic authorities and found these approaches to be adequate. Exchange of information with foreign supervisors might be strengthened also in AML/CFT field.</p> <p>While discussing cooperation and information sharing among departments it was revealed that ‘curators’ do not participate in the discussion on findings from AML/CFT on-site inspection (the discussion held among On-Site and Financial Monitoring departments).</p>
<b>EC13</b>	<p>Unless another authority is responsible, the supervisor has in-house resources with specialist expertise for addressing criminal activities detected in banks. In this case, the supervisor regularly provides information on the risks of money laundering, terrorism financing and proliferation financing to the banks.</p>
Description and findings re EC13	<p>Article 7-1 of the Law on AML/CFT foresees that organizations providing financial transactions, as well as bodies exercising monitoring and control over compliance with the rules of internal control, are obliged in their activities systematically, at least once a year, analyze and identify possible risks connected to ML, TF and CPF; document the results and take proper measures to reduce the identified risks.</p> <p>The results of the risk assessment should be communicated to all bodies involved in combating the legalization of proceeds from crime, the financing of terrorism and the financing of the proliferation of weapons of mass destruction, and organizations engaged in transactions with funds or other property.</p> <p>The FIU conducts efforts to counter the laundering of illegally gained income and terrorism financing, and on prevention, revealing, suppression, disclosing and investigation of economic and financial offenses. This includes offering guidance to banks on emerging risks and typologies regarding AML/CFT. The Commission is also obliged to ensure proper exchange of information in timely manner.</p>

<b>EC14</b>	The supervisor determines that banks have in place group-wide programs to address money laundering, terrorist financing and proliferation financing, including policies and procedures for sharing information within the group for these purposes.
Description and findings re EC14	<p>As it is stated in Clause 6-1 of the Rules on AML/CFT the internal rules for a banking group must include:</p> <ul style="list-style-type: none"> <li>• rules and procedures to exchange necessary information and data to manage risks associated with the ML, TF and CPF and proper verification of clients;</li> <li>• ensuring compliance, internal control and internal audit functions at the group level;</li> <li>• protect the confidentiality and ensure proper use of data at a group level.</li> </ul> <p>As there is no properly organized consolidated supervision (see CP 12), accordingly, requirements for consolidated supervision in the field of AML/CFT also are not implemented.</p>
<b>Assessment of Principle 29</b>	<b>Largely Compliant</b>
Comments	<p>The CBU has adopted a comprehensive approach to implement the existing legislation and regulations. Cooperation and collaboration among the authorities brings positive results and proves that the attitude to AML/CFT risks is a priority at the national level. The CBU has implemented a risk-based approach to supervision for banks and carries out off-site and on-site AML/CFT inspections.</p> <p>There is positive evaluation from EAG which also found a strong level of supervision over the activities of financial institutions. The EAG also found that the CBU takes a comprehensive approach to the training of its supervised entities on an ongoing basis.</p> <p>Although AML/CFT risk assessment and management in the banking sector is strong, there are some observations for further improvement:</p> <ul style="list-style-type: none"> <li>• The results of AML/CFT inspections are discussed among onsite and financial monitoring staff; however, the curator does not participate in these discussions.</li> <li>• The on-site AML/CFT supervision team has been recently expanded to 8 people; however, as they are dedicated to financial market wide inspections, the available staff resources might be considered insufficient.</li> </ul> <p>Recommendations:</p> <ul style="list-style-type: none"> <li>• The CBU should continue to invest in its staffing and technology for AML/CFT supervision, including encouraging staff and managers to attain internationally recognized professional certificates.</li> <li>• The CBU should establish dedicated teams to cover significant and specialized risks such as those related to crypto asset activities or fraud. Currently, the team that supervises AML/CFT also handles other risks.</li> </ul>

## SUMMARY OF COMPLIANCE WITH THE BASEL CORE PRINCIPLES

Core Principle	Grade	Comments
1. Responsibilities, objectives and powers	LC	<p>To avoid double jeopardy, the issues related to the involvement of the Chamber of Commerce and Industry and the Ministry of Justice in issuing CBU regulations are addressed as part of the assessment of CP 2</p> <ul style="list-style-type: none"> <li>The CBU's primary objective of banking supervision is to promote safety and soundness of banks and the banking system, but other objectives, including consumer protection and financial inclusion are not subordinated.</li> <li>The BL does not clearly empower the CBU to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank.</li> </ul>
2. Independence, accountability, resourcing and legal protection for supervisors	MNC	<ul style="list-style-type: none"> <li>There is a material gap between <i>de jure</i> and <i>de facto</i> independence. While the CBU's independence is upheld in principle in the Constitution and in the CBU Act, there are other legal instruments that have a limiting effect on it. The responsibility to ensure the adequate implementation of development programs negatively affects the CBU's operational independence. Moreover, from a policies setter standpoint, the CBU lacks full discretion to set prudential policies, either vis-a-vis the industry/private sector parties, due to the need to achieve agreement with the Chamber of Commerce and Industry – an entity which among others represents private banks – or with regard to the government, because the MoJ can refuse registration based on technical and not technical grounds</li> <li>The law does not clarify eligibility criteria for the CBU Board members (for example, sound reputation, honesty/integrity, and minimum years of professional experience), and it does not specify incompatibility criteria for the two independent members (for example, members should not hold positions in Parliament or Government).</li> <li>Article 23 of the CBU Law does not provide for the duty to publicly disclose the reasons for the removal of the Chair of the CBU Board.</li> </ul>

Core Principle	Grade	Comments
		<ul style="list-style-type: none"> <li>The CBU has not published its supervisory objectives.</li> <li>The CBU cannot adopt a '<i>provisional motivated judgment</i>', giving the persons concerned the opportunity to be heard as soon as possible <u>after</u> taking its decision.</li> </ul>
3. Cooperation and collaboration	LC	<ul style="list-style-type: none"> <li>Laws and regulations provide a framework for cooperation and collaboration with relevant domestic and foreign authorities; however, forms of cooperation vary. Insurance companies in Uzbekistan are licensed and supervised by NAPP, yet cooperation between CBU and NAPP occurs only on an ad-hoc basis. It is not formalized and the agreement for cooperation is not signed.</li> <li>The Resolution authority who is an important agent in banking supervision and the resolution network have not been established (the draft law has been submitted for approval and adoption), therefore an important framework for cooperation is missing.</li> </ul>
4. Permissible activities	C	<ul style="list-style-type: none"> <li>The term 'bank' can only be used by companies engaged in banking activities. The CBU does not regularly conduct investigations on the use of the term 'bank.' The investigations carried out in 2020 and 2024 identified companies using the term in their name (trademark) without justification (i.e. illegally).</li> </ul>
5. Licensing criteria	LC	<ul style="list-style-type: none"> <li>The evaluation of the business activities (business plan) for licensing purposes is not comprehensive: it does not provide a broad and detailed picture of the activities of the future bank. The justification of the foreseen activity is superficial, and the sustainability of the bank's business model is not assessed. Bank activity forecasts are presented in only one (baseline) scenario. No comparison of the future bank with peers is made; competitiveness within the market is not assessed.</li> </ul>
6. Transfer of significant ownership	LC	<ul style="list-style-type: none"> <li>The BL gives the CBU sufficient authority to approve or reject applications for major acquisitions and to impose prudential conditions on those acquisitions; however, the evaluation of the expected/foreseen bank's business model after the transfer of control does not provide a detailed explanation of how the bank's activities will change after the mentioned transfer.</li> </ul>
7. Major acquisitions	LC	<ul style="list-style-type: none"> <li>The CBU does not require ex-ante or ex-post notification of acquisitions up to 15 percent of the bank's total Tier 1 capital and collects only quantitative information through regular prudential reporting. The required information may not be sufficient to assess whether the acquisition poses undue risks to the bank or not.</li> </ul>



Core Principle	Grade	Comments
		<ul style="list-style-type: none"> <li>In the lack of prudential limits on consolidates level pertaining to major investments, the CBU might not be able to constrain acquisitions or investments made by entities (other than banks) belonging to the banking group which could nevertheless expose the bank to any undue risks or hinder effective supervision</li> </ul>
8. Supervisory approach	LC	<ul style="list-style-type: none"> <li>The Guideline for risk-based supervision is a milestone for the transition from compliance to a risk based-approach; however, the guideline does not incorporate climate-related financial risks while banks in Uzbekistan are vulnerable to physical and transition risk.</li> <li>In 2024, there were 13 changes in the automatic ratings during the assessment of banks' risk profile (out of 14 banks examined) but the scrutiny of each upgrading and downgrading has not been as intense as required given that this is a new methodology.</li> <li>The CBU has not conducted a resolvability assessment of D-SIBs and has not issued a regulation on recovery plans (this has been weighted under CP11).</li> </ul>
9. Supervisory techniques and tools	MNC	<ul style="list-style-type: none"> <li>The role of the curator is neither formalized in the Law nor in a binding public regulation. There is no cooling-off period before the curator can be hired by the bank that he/she supervises.</li> <li>The assessors did not find sufficient evidence of separate meetings held by the CBU with independent directors.</li> <li>A system enabling the CBU to systematically track open findings with banks (beyond the action plan) is lacking.</li> <li>There is no general duty by banks to notify it in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments.</li> <li>There is room for improving the on-site inspections effectiveness: most inspections (80 percent) are conducted within the 30-day limit set by the internal regulation and this timeline may constrict the ability to conduct a thorough credit file review, considering the large number of corporate exposures examined.</li> <li>The offsite and on-site assessment of corporate governance is not systematically included in the report shared with the assessors (one out four cases) and such risk profile is even not mentioned in the Resolution <i>'Minimum Requirements for Inspection in Banks, based on the Risk-Based Supervisory Guidelines'</i> (August 2024).</li> </ul>
10. Supervisory reporting	MNC	<ul style="list-style-type: none"> <li>The CBU collects prudential reports and statistical returns on solo basis, but not on consolidated basis.</li> </ul>

Core Principle	Grade	Comments
		<ul style="list-style-type: none"> <li>The CBU requests ad hoc information in an unstructured form, via emails or other less secure channels.</li> <li>Supervisory reporting relies on CBU Recommendations which are based on internal accounting policy, instead of accounting principles and rules that are widely accepted internationally.</li> <li>The CBU does not collect information that allows for the assessment of the materiality of climate-related financial risks.</li> <li>Even though the CBU regularly reviews and adjusts data packages, all banks, despite their size and business model are obliged to provide the same data (and the same number of data points). Therefore, the CBU has not shifted its approach on reporting to risk-based supervision (i.e. tailor-made in essence), leveraging on the principle of proportionality.</li> <li>The CBU does not have the power to request relevant information to any entities in the wider group, irrespective of their activities.</li> </ul>
11. Corrective and sanctioning powers of supervisors	LC	<ul style="list-style-type: none"> <li>The cooperation and collaboration with relevant authorities (Deposit Guarantee Agency, the Ministry of Economy and Finance, the Financial Stability Board, the Central Securities Depository) in deciding when and how to effect the orderly resolution of a problem bank, is not in place until draft law "On Resolution and Liquidation of Banks" is approved and implemented</li> <li>The Article 67 of the CBL could lead to the violation of the ne bis in idem principle, that prohibits double punishment for the same offence</li> </ul>
12. Consolidated supervision	MNC	<ul style="list-style-type: none"> <li>Prudential requirements apply only on an individual bank level.</li> <li>The Strategy for Reforming the Banking system (2020-2025) identifies consolidated supervision as a priority area for regulatory and supervisory enhancement, but the CBU has not issued a regulation on consolidated supervision so far.</li> <li>The CBU does not assess how group-wide risks are managed and if entities in the wider group may jeopardize the safety and soundness of the bank and the banking system.</li> <li>The CBU is working on completing the mapping of the banking groups. The CBU has requested technical assistance on consolidated supervision.</li> </ul>
13. Home-host relationships	C	<ul style="list-style-type: none"> <li>While the establishment of colleges is the responsibility of the home authority, the CBU, as host supervisor with</li> </ul>

Core Principle	Grade	Comments
		shared interest in the effective supervisory oversight of the banking group, has not adequately engaged with the home supervisor to gain comprehensive information on the wider group risks or the parent company risks.
14. Corporate governance	LC	<ul style="list-style-type: none"> <li>The CBU recently strengthened the RCG; however, some shortcomings have not yet been addressed. There is no requirement for succession plans. The Risk Committee is not mandatory for D-SIBs</li> <li>The off-site risk assessment of corporate governance has recently been introduced in the supervisory manual, but not fully tested in the pilot phase, based on the documents shared with the assessors. Moreover, the new methodology for on-site inspection does not include corporate governance (the assessors take note that the draft amendment the methodology envisages such an extension).</li> </ul>
15. Risk management process	LC	<ul style="list-style-type: none"> <li>The CBU has not issued a regulation to determine content, updating, and procedure for submitting recovery plans.</li> <li>The CBU has introduced 'Requirements for internal capital adequacy assessment procedures' (RRM Article 67-71) but they are optional for all banks, regardless of size and domestic systemic importance.</li> <li>Notwithstanding the recent amendments to the RRM, the assessors could not find evidence that the CBU determines that (i) banks perform regular and independent validation and testing of the models (ii) the banks' boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use. Moreover, the revised RRM does not contain a requirement to publicly disclose the CRO removal.</li> </ul>
16. Capital adequacy	MNC	<ul style="list-style-type: none"> <li>The capital requirements are not calibrated to banks' risk profile and systemic importance.</li> <li>Although the CBU declared that it implemented Basel III, the capital definition deviates from the said framework. There are also deviations in the credit risk weighted assets, albeit for minor exposures.</li> <li>The capital does not give enough emphasis to those elements of capital permanently available to absorb losses on a going concern basis. Criteria for the inclusion of common shares in CET1 (see Basel Framework par.</li> </ul>

Core Principle	Grade	Comments
		<p>10.8) do not include distribution features (the level of distributions should not be in any way tied or linked to the amount paid in at issuance; there should not be circumstances under which the distributions are obligatory; there should not be preferential distribution). Moreover, subordinated debts in the Tier II (see, Basel Framework par. 10.16 n. 10) do not meet the writing-off/conversion requirement, i.e. the provision that requires, at the option of the relevant authority, the instrument to either be written off or converted into common equity upon the occurrence of a trigger event.</p> <ul style="list-style-type: none"> <li>• The RWA calculation deviates from the Basel framework which the CBU claims to have implemented:               <ol style="list-style-type: none"> <li>a) Corporate bonds issued by mortgage refinancing companies are risk weighted by 20 percent, instead of 40, 75 or 150 percent, depending on the banks' due diligence.</li> <li>b) Banks' exposure to MFIs are risk weighted at 75 percent. As MFIs are not subject to prudential standards and a level of supervision equivalent to that in place for banks, they should be treated as exposure to corporates and, since unrated, attract risk weights of 100 percent.</li> <li>c) The CBU does not distinguish residential real exposures that are <i>NOT 'materially dependent on cash flows generated by the property'</i> from those that are <i>"materially dependent on cash flows generated by the property (Basel Framework par. 20.70)</i>. There is no express requirement for a <i>'prudent conservative evaluation criteria'</i> for residential real estate (e.g. there should be no expectations on price increases).</li> </ol> </li> </ul>
17. Credit risk	LC	<p>Some banks were found to have loose underwriting standards in retail lending:</p> <ul style="list-style-type: none"> <li>• Although decreasing, the share of mortgages allocated to households without official income remains elevated (according to the CBU thematic review 43 percent in January 2024, down from 60 percent in October 2023), while residential real estate prices seem to be de-anchored from their fundamental values (on average this discrepancy has been estimated by the CBU at 28 percent). Moreover, there are cases where microloans are used to repay the mortgage loan.</li> </ul>

Core Principle	Grade	Comments
		<ul style="list-style-type: none"> <li>The assessment of creditworthiness might underestimate the DSTI of obligors, since buy now pay later is underreported in the credit bureau.</li> <li>Car loans grew quickly, also due to some speculative activities in the secondary market; the recent concentration limit (25 percent of the loan portfolio) has constrained banks' risk appetite.</li> </ul> <p>The RRM does not require that transactions that are especially risky or otherwise not aligned with the bank's core business activities are approved by the supervisory board or the senior management.</p> <p>For exposures other than mortgages, an anomaly has been identified: RAQP par. 40 enables banks <i>to provide additional credit funds/resources on a current loan classified as 'standard' without a thorough risk analysis associated with possible losses.</i></p>
18. Problem assets, provisions, and reserves	MNC	<ul style="list-style-type: none"> <li>The criteria for an exposure to be defined non-performing are too narrow. Non-performing exposures include "unsatisfactory", "doubtful" and "losses" but they do not expressly include (i) defaulted exposures (there is no definition of default in the regulatory framework) and (ii) credit impaired under the applicable accounting framework (IFRS 9 Stage 3 assets are equal to 7.8 percent of total loan as at December 2023, while NPL stands at 4.2 percent).</li> <li>There is no definition of forbore exposures. 'Assets with revised terms' are not equivalent to forbore exposures, because RAQP (i) neglects the concept of 'financial difficulty' of the borrowers and (ii) the list of 'concessions' is closed, instead of being flexible to capture all the 'concessions' that a bank might make to a borrower (for example, it does not mention allowing the conversion of the debt into equity, easing the covenants). Moreover: <ul style="list-style-type: none"> <li>a) the first revision of the terms of an asset does not change the previous classification in terms of quality;</li> <li>b) some exceptions obfuscate the true extent of banks' assets quality. For example, assets are <u>not</u> classified as 'assets with revised terms' in case of (a) reduction of interest rate on loans in national currency, when the interest rate, after the change, is not lower than 2 p.p. compared to the CBU key rate; (b) extension of the grace period up to 6 months. The process of reclassifying assets (other than those with revised</li> </ul> </li> </ul>

Core Principle	Grade	Comments
		terms) as performing is not stringent. A 'cure period' is missing, to demonstrate that repayments have been made when due over a continuous repayment period.
19. Concentration risk and large exposure limits	LC	Banks' exposures to the sovereign, as estimated during the assessment is UZS 102 BN, equal to 16.6 percent of total assets and 102 percent of total capital. Given the lack of a Pillar 2 framework, this risk is not incorporated in the banks' risk assessment.
20. Transactions with related parties	LC	<ul style="list-style-type: none"> <li>Lending by SOBs to SOEs is not subject to the qualitative requirements in place for related party transactions, namely commercial terms and transactions on an arm's length basis.</li> <li>Although the CBU has discretion regarding the qualification of related party and on the arm's length principles, it has never exerted its 'reasoned judgments' on this topic.</li> <li>RCRRP excludes '<i>members of those committees not responsible for bank risk management</i>'. The expression is unclear and might open a window of opportunities for insiders' abuse in transactions other than lending (for example, procurements).</li> </ul>
21. Country and transfer risks	C	<ul style="list-style-type: none"> <li>The CBU does not properly ensure that country risk is sufficiently taken into account in the determination of provisions.</li> </ul>
22. Market risk	MNC	<ul style="list-style-type: none"> <li>Only recent amendments to the RRM, which will enter into force in April 2025, introduced the definition of trading book, expanded market risk to derivative instruments, and broadened the risk appetite requirements for market risk. The CBU has not yet implemented these amendments, particularly in relation to the new risk appetite requirements</li> <li>The CBU monitored FX derivatives for the purposes of assessing compliance with limits to net FX open position, but banks might use derivatives to hedge other risk (for example, IRRBB) This has not been reported and monitored.</li> </ul> <p>Based on the information shared, the supervisory reporting is limited to the notional amount of derivatives and does not incorporate the fair value, without which it is difficult for the CBU to assess the materiality of this market risk subcategory.</p>

Core Principle	Grade	Comments
23. Interest rate risk in the banking book	MNC	<ul style="list-style-type: none"> <li>In the RRM issued in April 2023, (i) IRRBB was described as a sub-category of market risk, but not as an autonomous risk; (ii) trading book and banking book were not distinguished. Although the amendments to the RRM (January 2025) consider IRRBB as an autonomous and material risk, there is no evidence of sufficient implementation of supervision of IRRBB.</li> </ul>
24. Liquidity risk	LC	<ul style="list-style-type: none"> <li>The supervisors determine banks' liquidity management strategy, risk appetite, policies and processes during the risk assessment process but liquidity requirements are not calibrated to the bank's risk profile and systemic importance. The LCR is also not aligned with the Basel framework.</li> <li>The CBU liquidity stress testing is based on scenarios not adequately conservative (for example, the assumptions for deposit outflow was just 2-3 percent and the drawdown of credit line only 1-2 percent).</li> </ul>
25. Operational risk	MNC	<ul style="list-style-type: none"> <li>Operational resilience is neither incorporated in the Guidelines for risk-based supervision, nor part of the minimum requirement for the inspection of banks.</li> <li>There has been no evidence of assessment by the CBU of banks' mapping process of critical operations and interdependencies, business continuity plans and their testing, and third-party risk management.</li> <li>The CBU has not issued a regulation on outsourcing.</li> </ul>
26. Internal control and audit	C	<ul style="list-style-type: none"> <li>The RIA does not explicitly indicate that internal audit can or should review outsourced activities.</li> </ul>
27. Financial reporting and external audit	LC	<ul style="list-style-type: none"> <li>The BL Article 75 requires an audit organization to <i>'immediately inform the CBU about situations that lead to <u>gross</u> violations of the laws on banks and banking activities'</i>; however, it excludes <u>serious</u> violations from the duty of communication.</li> <li>The CBU has not clarified the differences between banks' financial statements prepared in accordance with IFRS and those prepared in accordance with CBU regulation 3337/2021, which places undue burden on banks.</li> </ul>
28. Disclosure and transparency	LC	<ul style="list-style-type: none"> <li>Disclosure requirements do not include information related to (i) risk management strategies, (ii) risk exposures (for example, sovereign risk, climate risk). Moreover, SOBs do not disclose their exposures to SOEs as part of related party transactions.</li> </ul>
29. Abuse of financial services	LC	<ul style="list-style-type: none"> <li>The results of AML/CFT inspections are discussed among onsite and financial monitoring staff; however, the curator does not participate in these discussions.</li> </ul>

Core Principle	Grade	Comments
		<ul style="list-style-type: none"> <li>The on-site AML/CFT supervision team has been recently expanded to 8 people; however, as they are dedicated to financial market wide inspections, the available staff resources might be considered insufficient.</li> </ul>

## RECOMMENDED ACTIONS AND AUTHORITIES' COMMENTS

### A. Recommended Actions

Recommended Actions to Improve Compliance with the Basel Core Principles and the Effectiveness of Regulatory and Supervisory Frameworks	
Reference Principle	Recommended Action
Principle 1	<ul style="list-style-type: none"> <li>Subordinate the CBU's responsibility in consumer protection and financial inclusion and development to its primary objective to ensure the safety and soundness of banks and the banking system.</li> <li>Empower the CBU to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank.</li> </ul>
Principle 2	<ul style="list-style-type: none"> <li>Take action to ensure that the CBU's independence is not only enshrined in the Constitution and in the CBU Law, but also protected in substance, including by avoiding that the responsibility for the implementation of development programs might compromise its operational independence.</li> <li>Amend Article 102 of the LNLA to streamline the process for the adoption of regulations setting prudential standards by the CBU, e.g. no need for agreement with the Chamber of Commerce and Industry</li> <li>Amend Article 110 of the LNLA to narrow the Ministry of Justice's power to refuse the registration of the CBU Regulations.</li> <li>Enhance the transparency of the appointment and removal process of CBU Board members by: <ul style="list-style-type: none"> <li>a) introducing in the CBU Law (Article 19 and 24) eligibility criteria (for example, sound reputation, honesty/integrity, and minimum years of professional experience) and, for the two independent members, also incompatibility criteria (for example, they should not be members of the Parliament or the Government), and</li> <li>b) Amending Article 23 of the CBU Law and requiring that reasons for dismissal are publicly disclosed.</li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>As the 2020-2025 banking sector strategy is coming to its expiration, take stock of what has been achieved, and redetermine and regularly communicate supervisory priorities publicly.</li> <li>In case urgent action is needed (for example, classifying a borrower as a related party and preventing the bank from further lending), enable the CBU to adopt a "<i>provisional motivated judgment</i>," giving the persons concerned the opportunity to be heard as soon as possible <u>after</u> taking its decision.</li> </ul>
Principle 3	<ul style="list-style-type: none"> <li>Sign a cooperation agreement with NAPP (in a form acceptable to the parties), foreseeing regular meetings, agreeing on information that would be relevant to exchange on a regular basis, foreseeing the availability to exchange confidential information, and describing a channel for such information exchanges.</li> <li>After the resolution authority is established, it is recommended to provide the principles for cooperation and prepare and implement the cooperation framework.</li> </ul>
Principle 4	<ul style="list-style-type: none"> <li>Establish effective systems to monitor the use of the term 'bank' and derivation (including through digital platforms, social media, and advertisements) to avoid that the general public can be misled.</li> </ul>
Principle 5	<ul style="list-style-type: none"> <li>Amend the CBU <i>Regulation on 'Procedure and Conditions of Authorisation of Banking Activities' No. 3252</i> by enhancing requirements for the preparation of a business plan.</li> <li>Strengthen the evaluation on business plan/business activities during the licensing by performing: <ul style="list-style-type: none"> <li>✓ a detailed assessment of the performance;</li> <li>✓ a review regarding the complexity of the bank both from the organizational and business perspectives;</li> <li>✓ an evaluation of the sustainability of the business model;</li> <li>✓ an evaluation of the bank's forecasts for at least three years according to both baseline and stress scenarios;</li> <li>✓ an assessment of bank's compliance with prudential requirements under the stress conditions;</li> <li>✓ a comparison with existing peers.</li> </ul> </li> <li>Prescribe that the criteria for evaluation of business plans for the process of issuing licenses are consistent with those applied in ongoing supervision.</li> </ul>
Principle 6	<ul style="list-style-type: none"> <li>It is recommended to strengthen the evaluation of the envisaged bank's business model after the transfer of control occurs through criteria which are consistent with those applied in ongoing supervision.</li> </ul>
Principle 7	<ul style="list-style-type: none"> <li>Implement a timely notification containing qualitative information about investments, and the bank's ability to manage it.</li> <li>Reviews major acquisitions or investments by other entities in the banking group to determine that these do not expose the bank to any undue risks or hinder effective supervision</li> </ul>
Principle 8	<ul style="list-style-type: none"> <li>Integrate climate-related financial risks in the risk-based supervisory approach by:</li> </ul>

	<ul style="list-style-type: none"> <li>a) issuing guidelines for effective management of climate related financial risk by banks (BCBS, 2022);</li> <li>b) conducting, or requiring banks to conduct, a climate risk sensitivity analysis; and</li> <li>c) identifying outlier banks and adopting targeted measures (for example, more frequent reporting, periodic disclosure, transition plans) for those outliers.</li> </ul> <ul style="list-style-type: none"> <li>• Consider setting up a quality assurance unit to ensure that the adjustments to the automatic ratings made by the curators are subject to systematic horizontal scrutiny.</li> <li>• Conduct a resolvability assessment for D-SIBs.</li> </ul>
Principle 9	<ul style="list-style-type: none"> <li>• Formalize the role of the curator (do's and don'ts) in a binding regulation and introduce a cooling off period before the curator could be hired by the banks that he/she supervises.</li> <li>• Enhance the off-site engagement with non-executive and independent board members.</li> <li>• Systematically track open findings in the bank's institutional profile</li> <li>• Require a mandatory notification requirement for all substantive changes in an institution's activities, structure, and overall condition, or as soon as they become aware of any material adverse developments.</li> <li>• Amend Article 15 of the Regulation '<i>On the procedure for inspections of banks and their branch</i>' and extend the inspection period to a more reasonable timeline (for example, 60-90 days).</li> <li>• Enhance the off-site and on-site supervision of corporate governance and amend the Resolution '<i>Minimum Requirements for Inspections in Banks, based on the Risk-Based Supervision Guidelines</i>' (August 2024) to expand the scope of on-site supervision to banks' corporate governance.</li> </ul>
Principle 10	<ul style="list-style-type: none"> <li>• The CBU should: <ul style="list-style-type: none"> <li>○ collect prudential reports and statistical returns also on consolidated basis;</li> <li>○ improve the data quality, validity checks and data safety for the ad-hoc data transfers and structure ad-hoc data transfers with a secure channel;</li> <li>○ reformulate its recommendation on supervisory reporting to be based on accounting principles and rules that are widely accepted internationally, instead of internal accounting policy;</li> <li>○ collect information on banks' exposure to climate-related financial risk; and</li> <li>○ embed the proportionality principle in the supervisory reporting e.g.the implementation of the SupTech Project could help address the above finding</li> </ul> </li> <li>• The CBU should be enabled to request relevant information from any entities in the wider group, irrespective of their activities, when this information is material to the condition of the bank or to the assessment of the risks of the bank; or needed to support resolution planning.</li> </ul>
Principle 11	<ul style="list-style-type: none"> <li>• Once the draft law "On Resolution and Liquidation of Banks" is approved by the Parliament, put in place a robust cooperation and collaboration with relevant authorities (Deposit Guarantee Agency, the Ministry of Economy and Finance, the</li> </ul>

	<p>Financial Stability Board, the Central Securities Depository) in deciding when and how to effect the orderly resolution of a problem bank</p> <ul style="list-style-type: none"> <li>• Reconsider the application of the CBL Article 67, to avoid violation of the ne bis in idem principle.</li> </ul>
Principle 12	<p>Accelerate implementation of consolidated supervision with focus on these particular areas:</p> <ul style="list-style-type: none"> <li>• Definition and identification of banking groups (mapping, describing the perimeter of consolidation);</li> <li>• Development of consolidated reporting;</li> <li>• Prudential requirements should be set at the consolidated level;</li> <li>• Enhancing the internal supervisory manual and procedures (i.e. GRBS);</li> <li>• Enhancing coordination and information sharing;</li> <li>• Assessing how group-wide risks are managed and if entities in the wider group may jeopardize the safety and soundness of the bank and the banking system.</li> </ul> <p>A clear deadline to implement the framework should be established.</p>
Principle 13	<ul style="list-style-type: none"> <li>• Consider formalizing a request to the home supervisor of biggest subsidiaries operating in Uzbekistan to be invited to the existing supervisory college</li> </ul>
Principle 14	<ul style="list-style-type: none"> <li>• The RCG should consider requirements for the board to develop succession plans and a requirement for D-SiBs to mandatorily introduce(?) the Risk Committee</li> <li>• The CBU should consider structurally embedding the corporate governance analysis in the offsite and onsite assessment of banks risk profile remuneration until the banks reimburse the public support.</li> </ul>
Principle 15	<p>The CBU should:</p> <ul style="list-style-type: none"> <li>• Introduce a regulation for the preparation and submission by banks of recovery plans</li> <li>• make mandatory for D-SiBs the 'Requirements for internal capital adequacy assessment procedures'</li> <li>• determine that (i) banks perform regular and independent validation and testing of the models; and (ii) the banks' boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use</li> <li>• introduce the requirement to publicly disclose the CRO removal</li> </ul>
Principle 16	<ul style="list-style-type: none"> <li>• Adopt a Pillar 2 methodology to calibrate capital requirements to banks' risk profile.</li> <li>• Set a capital buffer for D-SiBs.</li> <li>• Align the capital definition to the Basel Framework by tightening the criteria for the inclusion of common shares in CET1, and subordinated debts in Tier II, in line with the Basel framework par. 10.8; 10.11; and 10.16 n. 10)</li> <li>• Align the RWA calculation with the Basel framework by: <ul style="list-style-type: none"> <li>(i) increasing RWAs for banks' exposures to 'Corporate bonds issued by mortgage refinancing companies' from 20 to 40, 75 or 150 percent, depending on the banks' due diligence;</li> <li>(ii) increase to 100 percent risk weight assets for banks' exposure to MFIs;</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>(iii) distinguishing RWAs for residential real exposures that <i>are NOT 'materially dependent on cash flows generated by the property'</i> from those that <i>are 'materially dependent on cash flows generated by the property'</i> (Basel Framework par. 20.70); and</li> <li>(iv) introducing a requirement for 'prudent conservative evaluation criteria' of residential real estate (e.g. no expectations on price increases).</li> </ul>
Principle 17	<ul style="list-style-type: none"> <li>• CBU should perform a closer oversight of mortgage loans, aiming at a further decrease in the share of mortgages granted to borrowers without official income. It should also apply measures to those banks that do not strictly monitor the adequate use of those loans.</li> <li>• For a proper assessment of the DSTI, CBU should ensure that all buy now pay later providers (e.g., car dealers) report their contracts to the credit bureau.</li> <li>• CBU should amend RRM and require that banks transactions that are especially risky or otherwise not aligned with the bank's core business activity are approved by the supervisory or the management board.</li> <li>• CBU should amend RAQP and require banks to carry out a thorough risk analysis associated with possible losses when providing additional credit funds/resources on a loan, even when it is classified as 'standard' (Article 40).</li> </ul>
Principle 18	<ul style="list-style-type: none"> <li>• Expand the NPL definition in the RAQP to include defaulted borrowers and impaired credits (IFRS 9 Stage 3 assets).</li> <li>• Align the definition of 'assets with revised terms' to forbore exposures, namely by introducing the concept of 'financial difficulty' and 'concessions'.</li> <li>• Eliminate those exceptions that obfuscate the true extent of assets quality (first revisions of terms not impacting the classification, extension of the grace period up to 6 months, reduction of interest rate within a certain band for loans in national currency)</li> <li>• Adopt a more defined, rigid approach for the reclassification of assets from non-performing to performing (introduce a minimum 'cure period'), and from IFRS 9 Stage 2 to Stage 1.</li> </ul>
Principle 19	<ul style="list-style-type: none"> <li>• The CBU should strictly monitor the sovereign-bank nexus, and stress test banks' exposures to the sovereign, incorporate stress test outcomes in the risk assessment especially considering the lack of a Pillar 2 regime.</li> </ul>
Principle 20	<ul style="list-style-type: none"> <li>• Intensify supervision of SOB exposures to related parties, including SOEs, requiring the application of commercial terms and arm's length transactions.</li> <li>• Exert reasoned judgment, as provided by the BL, when assessing related party transactions, either in terms of a definition or in relation to the market terms conditions.</li> <li>• Amend RCRRP Article 17 and eliminate the exception '<i>members of those committees not responsible for bank risk management</i>' who should also be considered related parties (exceptions may be appropriate for transactions of a small amount).</li> </ul>
Principle 21	<ul style="list-style-type: none"> <li>• Introduce appropriate minimum provisioning per country risk considering prevailing conditions (in the form of fixed percentages or a range for each country) or systematically assess the adequacy of this provisioning set aside by banks.</li> </ul>

Principle 22	<ul style="list-style-type: none"> <li>• Proceed with the supervisory implementation of the new market risk regulatory requirements</li> <li>• Expand supervisory reporting and assessment of market risk to derivatives instruments hedging risk other than FX</li> <li>• Collect also the fair value of OTC derivatives to better understand the materiality of this market risk subcategory</li> </ul>
Principle 23	<ul style="list-style-type: none"> <li>• Introduce the full set of requirements for IRRBB evaluation and mitigation;</li> <li>• Require D-SIBs to calculate EVE under the six scenarios prescribed by the BCBS;</li> <li>• Develop a challenger model to initiate a supervisory dialogue with banks on their exposure to IRRBB;</li> <li>• Implement the Pillar 2 methodology on IRRBB.</li> </ul>
Principle 24	<ul style="list-style-type: none"> <li>• Calibrate liquidity requirements to the banks' risk profile and systemic importance</li> <li>• Strengthen the liquidity risk stress-testing, by adopting more conservative assumption in the adverse scenarios.</li> </ul>
Principle 25	<ul style="list-style-type: none"> <li>• Update the Guideline for risk-based supervision, with a chapter on operational resilience.</li> <li>• Assess banks' operational resilience, including tolerance for disruption to critical operations, mapping interconnectedness and interdependencies, incident management, business continuity plan testing, and third-party risk management.</li> <li>• Issue a regulation on outsourcing.</li> </ul>
Principle 26	<ul style="list-style-type: none"> <li>• Amend the RIA to introduce the duty of the Internal Audit to review outsourced activities.</li> </ul>
Principle 27	<ul style="list-style-type: none"> <li>• Amend Article 75 of the BL and include serious violations among those that external auditors should immediately communicate to the CBU.</li> <li>• The CBU should ensure that banks' financial statements are prepared exclusively in accordance with accounting policies and practices that are widely accepted internationally.</li> </ul>
Principle 28	<ul style="list-style-type: none"> <li>• Amend RCG and require banks to disclose information related to (i) risk management strategies and (ii) risk exposures (for example, sovereign risk, climate risk).</li> <li>• Require SOBs to disclose their exposures to SOEs as part of related party transactions.</li> </ul>
Principle 29	<ul style="list-style-type: none"> <li>• The CBU should continue to invest in its staffing and technology for AML/CFT supervision, including encouraging staff and managers to attain internationally recognized professional certificates.</li> <li>• The CBU should establish dedicated teams to cover significant and specialized risks such as those related to crypto asset activities or fraud.</li> </ul>

## B. Authorities' Response to the Assessment

**42. The Central Bank of the Republic of Uzbekistan (CBU) welcomed the Financial Sector Assessment Program (FSAP) mission's evaluation of the implementation of the Basel Core Principles for Effective Banking Supervision (BCP) in the banking system.** We deeply value the

mission members' professionalism and collaborative approach throughout this review. This rigorous assessment has provided invaluable insights into our existing supervisory and regulatory framework, highlighting both strengths and areas for enhancement. The CBU remains fully committed to translating the FSAP's constructive recommendations into concrete measures that will further strengthen supervisory practices, reinforce financial stability, and support the sustainable development of Uzbekistan's banking system.

**43. Uzbekistan's first-ever FSAP assessment, the CBU views this exercise as a significant milestone and validation of the efficiency of its efforts.** The findings acknowledge the CBU's steady progress in strengthening its bank regulatory and supervisory practices. In particular, the assessment notes significant achievements across several critical areas, including the soundness of the legal framework, enhancements to the licensing regime, improvements in the prudential regulatory framework, and the successful transition to risk-based supervision.

**44. Some of the weaknesses identified by the FSAP assessment were already recognized by the CBU and have been part of a reform pipeline initiated in 2019.** In 2019, new versions of the Laws "On the Central Bank of the Republic of Uzbekistan" and "On Banks and Banking Activities" were adopted. In the same year, a self-assessment against the BCP was carried out, which highlighted gaps and vulnerabilities throughout the supervisory cycle. Based on self-assessment, the CBU formulated a comprehensive action plan to enhance the regulatory and supervisory framework. Since then, the CBU has revised its regulatory framework to align capital-adequacy and liquidity requirements with Basel III, and has strengthened banks' corporate-governance, risk-management, and internal- and external-audit standards. Standards for large exposures, related-party transactions, asset classification, and provisioning have also been significantly enhanced. In addition, risk-based supervision was introduced in 2023, marking a transformative shift from compliance-based oversight. Some from the areas for improvement identified by the FSAP — full implementation of Pillar 2 and Pillar 3 requirements, establishment of consolidated supervision, and reinforcement of outsourcing standards—are already integral to this reform plan although their completion was still pending at the time of the FSAP mission.

**45. Several key recommendations from the results of BCP assessment have already been implemented by the CBU.** The CBU made amendments to the Regulation "On requirements for the risk management system of banks and bank groups" (RRM), introducing new provisions addressing country risk and interest rate risk in the banking book (IRRBB), alongside strengthened frameworks for credit, operational and market risk management. The CBU is now working on their effective implementation.

**46. To strengthen the regulatory capital definition in line with Basel framework, the CBU amended the Regulation "On Capital Adequacy Requirements for Banks" (RCAR)** to align the requirements for the inclusion of capital instruments in AT1 in line with Basel framework para. 10.11 to ensure their ability to absorb losses on a going concern basis. Moreover, the previous 75 percent risk weight applied to banks' exposures to microfinance institutions has been removed and for the calculation of risk-weighted assets a minimum of 100 percent risk weight is used.

**47. Corporate governance evaluations have been fully embedded within banks' inspection framework.** This integration is now reflected in the Minimum Requirements for Inspections Conducted Based on the Guidelines for Risk-Based Banking Supervision in Commercial Banks. Under these provisions, on-site inspections explicitly include a review of banks' corporate governance arrangements to assess their risk profile.

**48. The liquidity requirements have been enhanced in line with Basel framework.** The CBU has made amendments to the Regulation "On Requirements for Liquidity Management of Commercial Banks" (RRLM) to bring the requirements on LCR and NSFR in line with Basel framework, including on HQLA composition, 30-day inflow and outflow rates, and the relevant RSF and ASF factors.

**49. The CBU has strengthened its macroprudential policy framework to ensure financial stability. The CBU approved a new Regulation in April 2025, which further allows the application of borrower-based measures.** The Regulation encompasses requirements on DSTI ratio, LTV ratio and concentration limits on credit portfolio. It also refines DSTI calculations to include borrowers' outstanding obligations to buy-now-pay-later services.

**50. To improve the existing deposit insurance system and align it with the core principles of the International Association of Deposit Insurers, the Republic of Uzbekistan adopted the Law "On Guarantees for the Protection of Bank Deposits."** The law entered into force on February 19, 2025.

**51. The CBU emphasizes that the Revised Basel Core Principles, updated in 2024, encompass new requirements on emerging risks, including climate-related financial risks, operational resilience, and ICT risk.** Given the novelty of these requirements, the CBU has begun integrating them into its supervisory and regulatory frameworks. The CBU has approved the Strategy for the Management and Supervision of Climate-Related Financial Risks, which establishes an action plan to embed climate risk management across its regulatory and supervisory framework. In addition, operational-resilience requirements have been incorporated into the Regulation "On requirements for the risk management system of banks and bank groups" (RRM), mandating that banks implement robust measures to prevent, respond to, and recover from operational disruptions.

**52. The CBU noted that the BCP assessment does not sufficiently reflect the progress in supervisory reporting framework which led to underestimation of the grade on the Core Principle 10.** The assessment does not show the granularity and range of data that the CBU possesses. Moreover, the CBU collects consolidated financial reports on a quarterly basis, which include a balance sheet, profit and loss statement, cash flow, changes in equity statements, data on problem loans and other information. The CBU notes that the same consolidated-reporting deficiency is cited under Core Principle 12, leading to a double penalty for a single shortfall. When necessary, all ad hoc reports are submitted through a secure IBM Lotus Notes platform accessible solely to registered Central Bank users, thereby ensuring data integrity and confidentiality. To optimize efficiency, redundant or repetitive fields are purged annually, and the volume of manually

collected information is steadily decreasing. Moreover, to further strengthen the supervisory reporting framework, the CBU is actively advancing the implementation of SupTech.

**53. The CBU maintains that its large - exposure limits fully satisfy every essential criterion of Principle 19.** The Regulation “On the maximum amount of exposures per borrower, a group of related borrowers, including persons related to bank” (RCRRP) is entirely aligned with the Basel Framework’s Large Exposures requirements, and control relationships as well as economic interdependencies are subject to rigorous oversight through both regular on-site examinations and continuous off-site monitoring.

**54. The CBU accepts the market-risk recommendation but underscores that derivatives have always been encompassed within our market-risk management framework.** Although not explicitly named, these instruments were covered under existing market-risk provisions. To eliminate any ambiguity, the revised Regulation “On requirements for the risk management system of banks and bank groups” (RRM) now explicitly references derivatives, clearly defining their treatment. Moreover, since January 2025, the CBU has been collecting detailed information on every derivative contract, enabling supervisors to request fair-value data for precise market-risk assessment. Banks are also required to record daily foreign-exchange gains and losses from derivative exposures in their income statements, ensuring timely and transparent reflection of currency risk.

**55. The CBU acknowledges areas for further development and reform.** Key areas of focus include further improving capital requirements, including the introduction of CCyB and Pillar 2 add-ons, full implementation Pillar 3, establishing a robust consolidated supervision regime, refining asset classification and provisioning standards as well as enhancing NPL resolution framework.

**56. To support the implementation of FSAP recommendations, a comprehensive Roadmap has been developed.** The Roadmap, which is currently under interim discussion and expected to be adopted by the CBU Board in the first half of 2025, outlines a wide range of measures to be taken over the medium term. These include legislative and regulatory reforms, as well as further enhancements to the supervisory framework. The CBU expresses interest in follow up technical assistance.