Problems And Prospects For Forming Market Capitalization (Value) Of Commercial Banks Of Uzbekistan

[1]Khamidulin Mikhail Borisovich, [2]Tursunov Iskander Bakhtinurovich, [3]Usmanov Anvar Saidmakhmudovich, [4]Abdullaeva Shahlo Rustamovna, [5]Zulunova Feruza Anvarovna

[1]*Professor of the Tashkent branch of the Russian Economic University named after G.V. Plekhanov, Tashkent, Uzbekistan.*
E-mail: hamidulinm@rambler.ru
[2]*Applicant for the Tashkent branch of the Russian University of Economics named after G.V. Plekhanova, Chairman of the Board of JSCB "Ravnakbank", Tashkent, Uzbekistan.*
E-mail: hamidulinm@rambler.ru
[3]*Professor of the Tashkent branch of the Russian Economic University named after G.V. Plekhanov, Tashkent, Uzbekistan.*
E-mail: ausmanov54@mail.ru
[4]*Associate professor of the Tashkent branch of the Russian Economic University named after G.V. Plekhanov, Tashkent, Uzbekistan.*
E-mail: ashr@mail.ru
[5]*Associate professor of the Tashkent branch of the Russian Economic University named after G.V. Plekhanov, Tashkent, Uzbekistan.*
E-mail: feruza.xon77@inbox.ru

Abstract

The article is devoted to the problematic issues of the formation and assessment of the market capitalization of commercial banks, the conditions for the formation of equity capital, the goals of investment and increasing the capitalization of Uzbek banks. On the example of three commercial banks of various forms of ownership, the authors estimated the market value of shares based on the use of international methods. The problems of attracting private investment in the development of banking activities are identified and proposals are made to improve the efficiency of their assessment and attraction.

Key words: *commercial banking, equity capital, market capitalization, investments, loans.*

Introduction

The banking system of the Republic of Uzbekistan as of 01.01.2020 is represented by 30 commercial banks. Commercial banks operating in the republic in terms of capital structure can be divided into four categories.

In comparison with the size of the economy and the population of Uzbekistan, the total number of banks is relatively small and the structure of their assets does not provide a genuine competitive environment, since it is characterized by high concentration: at the beginning of 2020, the three largest banks with a state share accounted for 54.9% of total assets.

In this regard, systemic restructuring in the banking and financial sector, the introduction of modern market mechanisms in this area is becoming an integral part of the wider campaign to reform and revitalize the Uzbek economy, carried out by the Government of the Republic of Uzbekistan under the leadership of President Sh.M. Mirziyoyev, who, in particular, in his In a message on December 28, 2018, the Oliy Majlis noted that “The main problem in the banking system today is that 83 percent of the banks' capital belongs to the state. This impedes healthy competition in the banking sector and negatively affects the quality of services provided ... We will gradually reduce the share of state-owned banks due to the inflow of private and foreign capital into the banking system. "[1]

A serious step towards reducing the state share in the banking sector through a comprehensive transformation of commercial banks with a state share was the adoption on 12.05. Decree of the President of the Republic of Uzbekistan No. UP-5992, which approved the Strategy for reforming the banking system of the Republic of Uzbekistan for 2020 - 2025 and the implementation, with the assistance of international financial institutions, of the stage-by-stage privatization of the state's share in a number of commercial banks of the republic, providing at the first stage for their institutional transformation (transformation of activities) and at the second stage - the implementation of the state block of shares (SPO). The research conducted by the authors of this article showed that in the process of privatization of state-owned banks and the sale of state shares in the capital of joint-stock banks, there are at least three problems:

- a high level of toxic assets that the state plans to withdraw from banks' assets into a specially created structure or the Fund for Reconstruction and Development of the Republic of Uzbekistan;

-formality of the implementation of the principles of corporate governance, which reduces the level of investment attractiveness and credit ratings;

- lack of market capitalization of banks, which does not allow the sale of banks' assets at fair market value;

It is the problem of the lack of methodology and practice for assessing the market capitalization of the banking sector of the Republic of Uzbekistan that is the main subject of this article.

The degree of study of the problem.

The capitalization of any economic entity is the most important parameter for assessing its investment attractiveness as a business. It is capitalization that helps to increase the resource potential of a particular company through additional attraction of direct and portfolio investments. Therefore, the volume of the financial market is very closely related to the level of capitalization. In addition, the higher the capitalization, the higher the collateral value of the company, the more loans it can attract to develop its business. Within the framework of a particular institution, the level of capitalization characterizes the ability of its managers to prove the prospects of the institution's activities. The importance of capitalization is increasing in the context of global changes in the production and institutional structure, the financial sphere of the world economy, exerting a significant impact on the development of national economies.

The credit and financial mechanism that has developed in the Republic of Uzbekistan over the years of Independence is implemented through centralized investments and credit activities of commercial banks. Investment loans from commercial banks contribute to the creation of modern industries, support the development of small and medium-sized businesses, and stimulate the development of economic infrastructure. As a result, the capitalization of the banking system directly affects the stability and determines the main trends in the development of the economy of Uzbekistan.

In this regard, capital and the related concept of "bank capitalization" are of particular importance for each specific bank. The analysis of the existing definitions allows us to conclude that there is no unified approach to the disclosure of this concept, which undoubtedly indicates its versatility and ambiguity. The analysis of this problem also revealed a lack of comprehensive research on the capitalization of commercial banks in Uzbekistan. The very concept of capitalization is still not associated with the market interpretation of this term in relation to Uzbek credit institutions. Until now, both in the scientific community and the banking community, capitalization is understood only as an increase in the bank's equity capital.

For example, Peter S. Rose notes that "we often use the term 'capitalization', meaning by this equity or equity capital of banks and its sufficiency to cover risks" [2].

Of course, it is difficult to overestimate one of the most important conditions for the stable operation of the bank - the amount of equity capital, which is formed from the contributions of the founders, profit and funds formed from it. The bank's equity capital is a combination of fully paid elements of various purposes, ensuring economic independence, stability and sustainable operation of the bank. A prerequisite for the inclusion of certain funds in equity capital is their ability to act as an insurance fund to cover.

Materials

Depending on the applied quantitative assessment of the bank's capital, it is customary to consider: accounting (balance sheet) capital; regulatory capital; economic capital. [3] In the case of increasing the bank's capitalization by increasing its own funds, we should talk about the book value of equity capital. “For example, capital can be valued at its book value (in accounting terminology,“ according to generally accepted accounting principles ”). In this case, most of the bank's assets and liabilities are assessed in the balance sheet at the value that they have at the time of acquisition or issue ”[4]. To calculate the book value of the bank's capital in banking, its own national standards and International Financial Reporting Standards (IFRS) are applied.

The bank's regulatory capital is the capital required by the bank to carry out the relevant operations and sufficient to cover the risks it undertakes, the amount of which must comply with the requirements established by the regulatory body. Regulatory standards set the minimum level of the bank's equity capital, and its real level is determined by the market. Therefore, along with the regulatory capital, it is necessary to consider the economic capital of the bank. Unlike the regulatory or accounting (balance sheet) capital of a bank, economic capital is an intra-bank estimate of the total capital requirement that is required to finance the risks assumed by the bank (mainly unforeseen losses in excess of expected).

Unlike other sources of banking resources, equity capital is permanent, irrecoverable, has a clearly expressed legal basis and functional certainty, is a prerequisite for the formation and functioning of any commercial bank, i.e. serves as the core on which all activities of a commercial bank are based from the first day of its existence. The amount of own funds plays an important role in assessing the stability, solvency and reliability of a bank and is used to assess regulatory norms, in particular, Basel 3 standards and national banking regulators.

However, to reduce the process of capitalization only to increasing the bank's equity capital means deliberately rejecting market factors influencing this process. Therefore, "capitalization" and "capital", despite the same root, in essence represent different definitions.

Capitalization is an attempt to find a value expression of economic capital and a continuously changing value that shows the ability of a bank to carry out efficient activities in conditions of tough market competition. At the same time, the so-called direct capitalization method, in which the process of transforming income or profit into value, does not contradict market capitalization. These processes are interrelated, since an increase in net equity through profit is likely to lead to an increase in the value of shares and increase the market capitalization of the company. In turn, the growth of market capitalization increases the investment attractiveness of the bank and allows it to attract, through the issue of shares, resources to replenish its equity capital.

For private and state companies and banks, their own funds are practically the only sources of capitalization growth. For companies and banks whose shares are quoted on the stock exchange, the market value of capital is decisive in assessing the level of capitalization. Capitalization is largely determined by economic growth and the global competitiveness of the national economy, while capital is relatively constant.

Analyzing foreign economic literature, we find confirmation of this understanding of the definition of "capitalization". Thus, according to W. Sharpe, market capitalization is "the total market value of a security equal to the product of the market price of a share by the number of shares outside the corporation that issued the shares." [five]

Brett M. also interprets this concept "as the market value of all ordinary shares of the company: the number of shares in issue, multiplied by their market price." [6] With regard to the use of the term capitalization in relation to banking structures, Peter S. Rose [2] also understands the market value of a bank's capital as the product of the current market value of the issued shares by the number of issued shares. Ilyina L.V. agrees with this definition. speaking "about the market value of the capital of a credit institution as the product of the number of shares by their market value" [3]. Rutgeiser V.M. and Buditskiy A.E., citing the rating assessment of the banks' capitalization, note the market value (capitalization) of the bank, based on the exchange quotations of 100% of the bank's ordinary shares. Consequently, the concept of market capitalization in a broad sense is interpreted as the market (exchange) value of the bank. [4] That is why Basel 2 and Basel 3 standards attempted to bring the technique of implementing the concept of regulatory capital to a qualitatively new level: the level of market-oriented assessments, since Basel I proceeded from the concept of regulatory capital and determined capital requirements without taking into account the real need for it by banks (see table. 1).

For the first time the thesis about the critical role of the financial market and banks in increasing the value of companies was expressed by J. Schumpeter in his work "The Theory of Economic Development", published in 1911. [8] He argued that by selecting the most efficient production and investment projects for financing, banks ensure the acceleration of economic growth. The opposite position was first clearly formulated by J. Robinson, who believed that the development of financial markets was only a relative. [9]

Table 1

Basel Methods for Capital Structuring and calculating its value

The amount of the bank's capital for regulatory purposes			
The structure of the total capital of the bank		**Deductions from bank capital**	
Main capital	**Additional capital**	**From the main**	**From the aggregate**
Paid up share capital. The declared reserves are formed from profit..	Undeclared reserves Revaluation reserves for solid assets. Provisions for covering doubtful debts. Free capital instruments. Recorded fixed-term debt obligations with a minimum maturity of more than 5 years	Intangible assets	Investments in the banking sector and controlled companies. Investments in capital of other banks and financial instruments.

The exacerbation of the discussion about the role of various segments of the financial market in macroeconomic processes was facilitated by the work of R. Lucas in 1988, in which he stated that the relationship between the development of financial markets and economic development is "painfully overestimated" by most economists. [10]

This position provided rich food for theoretical conclusions regarding the intensity of this relationship, the peculiarities of its manifestation in different countries and industries. The first in a series of these studies was the work of R. King and R. Levin, "Finance and Growth: Schumpeter Might be Right", published in 1993 [11], the theses of which focused on the positive impact of stock market instruments on the value of joint stock companies.

This discussion became especially active after the crisis of 1997-1998; therefore, the period 1998-2003. allowed significant progress in understanding the nature of the relationship between the stock market and the pace of modernization of enterprises. In particular, it became clear that the process of realizing the potential of stock market instruments includes, on the one hand, attracting investment resources on favorable terms for the needs of innovative renovation of the most competitive enterprises, and on the other hand, their skillful and timely use in the process of implementing investment projects. has a positive impact on the formation of sustainable income of enterprises. Another important conclusion based on the results of the research conducted by the World Bank experts was the relationship between the effectiveness of government participation in the functional development of the stock market and the expansion of the impact of stock market instruments on the processes of increasing the value of enterprises in the real sector of the economy.

Despite the divergence of views and approaches to the nature of the impact of the securities market on the processes of modernization of enterprises in the real sector of the economy among the authors of various theories, it should be noted that most of them as one of the main advantages of the stock market cite a high level of efficiency in the implementation of the redistributive function that opens access the most competitive enterprises to significant volumes of external and internal investments.

Another important function of the modern securities market is the function of pricing, which serves as an indicator of effective valuation of banks, enterprises and other organizations. This situation is especially typical for the stock market, where behind a specific instrument stands an enterprise with the entire set of its economic and relations or a bank with its investment potential.

Thus, it can be concluded that the modern stock market is able to have a positive effect on the growth of the market value of joint-stock enterprises, including joint-stock commercial banks, as well as the performance of the stock industry as a locomotive for the processes of technical and technological renewal of enterprises in the real sector of the economy. Knowledge of the available conceptual approaches to solving the problem of using the enormous socio-economic potential of securities can increase the efficiency of work to increase the level of capitalization and market value of commercial banks in Uzbekistan.

Research methods

The basic principle of sufficiency: the amount of equity capital should correspond to the size of assets, taking into account their degree of risk. But in practice, in order to correctly assess the capital adequacy, it is not enough just to calculate the indicators. Bank executives and bank supervisors strive to find the optimal balance between capital and other parameters of a commercial bank.

The earliest methodology for calculating capital adequacy was developed in 1988. under the auspices of the Basel Committee on Banking Regulation in accordance with the Agreement on the International Unification of Capital Calculation and Capital Standards, which introduced the adequacy ratio (Cook's ratio) into practice. The agreement entered into force in 1993. and is currently used as a benchmark by the central banks of many countries. The standard applies only to international banks. The concept for assessing capital adequacy was based on the following principles:

- division of capital into two levels - capital of the first (main) and capital of the second (additional) level;

- taking into account the quality of assets by weighing assets and off-balance sheet transactions at risk, and, consequently, assessing capital, taking into account the risk accepted by the bank; emphasis on the quality of the loan portfolio and balanced lending policy; setting restrictions on the ratio between the capital of the first and second level; determination of the regulatory requirement for the capital adequacy ratio (adequacy ratio or Cook's ratio) at the level of 8 percent for the total amount of equity capital and 4 percent for the first tier capital.

It is proposed to calculate the capital adequacy ratio according to the following formula (Cook's coefficient):

$$K_{\hat{e}\acute{o}\hat{e}\grave{a}} = \frac{k}{ckp + cop + cpp} \times 100 \geq 8\% \quad (1)$$

where K is the bank's own funds (capital), thousand soums;

TFR - total amount of credit risk, thousand soums;

COP - the total amount of operational risk, thousand soums;

CPP - total value of market risk, thousand soums.

The approach to determining capital adequacy proposed by the Basel Committee has the following main advantages: it characterizes "real" capital; contributes to the revision of the banks' strategy and refusal from excessive increase of loans with a minimum capital, giving preference not to the volume of the loan portfolio, but to its quality; contributes to an increase in the risk-free activities of the bank; encourages the government to reduce the regulation of banks' activities, since it manifests more elements of self-regulation; makes it possible to take into account the risks of off-balance sheet obligations; allows you to compare banks from different countries.

At the same time, this method of calculating capital adequacy has a number of significant shortcomings: lack of sufficient clarity in defining the constituent elements of capital by levels, which makes it possible to soften capital requirements on the part of central banks; insufficiently detailed differentiation of assets by risk level and understatement of requirements for reserves for certain types of transactions. Despite some shortcomings of the Basel methodology, almost all central banks rely on it when drawing up their own methodology for assessing capital and capital adequacy.

The final conclusion about capital adequacy is made on the basis, firstly, of comparing the actual levels of the coefficients of the main indicators with the criterion levels adopted in the country and, secondly, the assessment of the results of the analysis of the quality of assets. The Cook's Ratio establishes the minimum ratio between a bank's capital and its balance sheet and off-balance sheet assets, weighted by the degree of risk in accordance with norms that may differ from country to country, but a certain logic must be followed. The ratio is set at 8% (core or fixed capital must account for at least half).

The definition of a bank's capital adequacy according to the CAMEL system is also based on the standards for assessing a bank's equity established by the Basel Accord, in which the amount of assets is weighted taking into account the possible risk, which is determined on the basis of Basel 3 recommendations.

The additional indicators include, first of all, the leverage indicator, which characterizes the share of fixed capital in assets. Additional indicators that concretize and complement the state of the main indicators also include:

- the ratio of material fixed capital adequacy (the ratio of fixed capital minus intangible assets to the average amount of assets);
- the ratio of risky assets;
- the volume and dynamics of critical and low-quality assets.

For banks operating on open markets, a prerequisite is the regular calculation of market risk, or the risk of stock transactions. Stock risk is assessed by the credit institution in relation to the following financial instruments: ordinary shares; depositary receipts; convertible securities (bonds and preferred shares) that meet the conditions for conversion into ordinary shares, derivative financial instruments, the underlying asset of which is securities, and a stock index.

We believe that Benjamin Graham and David L. Dodd's method is best for evaluating domestic banks that do not have regular quotations on the stock market. [12]

According to Graham's theory, each share has a certain internal (true, real) value, which depends on its market value. One of the postulates of the theory states that the value of an asset is predetermined by fundamental indicators, and usually it is not affected by speculative forecasts of future returns.

In the long term, those who work with intrinsic value expect quotes to approach the actual price. At the same time, prices can fluctuate significantly above or below this level for a long time before returning, just as they always return to the moving average on the price chart.

The method of using the Graham coefficient involves the use of an algorithm of three stages:

- identification of special criteria for the selection of securities that meet the requirements of the Graham coefficient;
- calculation of the coefficient itself;
- identifying undervalued stocks using the simplest mathematical calculations.

The following can be used as pre-selection criteria:

- the ratio of the value of a paper on the market to the price of the bank's capital per one physical share should not be less than 0.75;
- the average trading volume for a stock on the exchange per day must be at least a hundred times higher than the volume that the investor intends to acquire, otherwise the transaction will look doubtful;
- the ratio of the value of paper on the market to the volume of the company's working capital per share must not exceed 0.1. This suggests that the bank has enough liquid assets for operations, which makes it possible for the investor to bypass unnecessary risks by buying his securities;
- the ratio of the total volume of all bank debts to its market capitalization should not decrease to less than 0.15;
- the quotient of dividing the value of a firm's security by the volume of its sales per share should not exceed 0.3. You should always pay attention to whether the bank is increasing the volume of activities. If so, this is a positive factor;
- the cost of a separate paper should not be very low.

Benjamin Graham was sure that if the company does not send funds for payments to shareholders, then there is no point in working with such a company. If the purchase of shares is considered a long-term investment, then the presence of dividends is highly desirable. However, this criterion cannot be considered completely necessary due to the fact that today many banks and companies direct all profits to development, deliberately refusing to pay part of it in the form of dividends.

The second step is to understand the very principle of the Graham coefficient, which is calculated using a simple formula. The calculation implies that the indicator (Net Current Asset Value, NCAV) is calculated as the difference between all the company's assets (Total Current Assets) and its debts (Total Liabilities), divided by the number of securities issued. The final stage is formulated in one phrase: it is advisable to purchase paper at a cost that is approximately 2/3 (66.67% +/- 5%) of the Graham ratio for this asset.

It should be noted that the company's market rate may not show growth immediately. The stock may even continue to fall, so it will take a lot of patience from the market participant. At the same time, there is a correct signal to buy a security: a stock that meets Graham's theory is gradually increasing in price over the course of a month, which means that its growth will continue in the future.

The Sharpe ratio is one of the indicators used by investors before buying an asset, since it shows the potential advantage over conventional bank deposits and the risk premium. The calculation of a share by the Sharpe ratio, its publication and inclusion in the company's presentations, as part of the Road to show, is useful especially for those corporations that are going to conduct an IPO and for whose issuers are interested in increasing the liquidity of their own securities.

Sharpe ratio is calculated as the ratio of the average risk premium to the average deviation of the portfolio. The higher this indicator, the more efficiently the portfolio is managed in terms of the combination of return and risk):

"Sharp ratio =" $(R-R_f) / \sigma$ (2)

R = portfolio (asset) return

R_f = return on alternative investment (as a rule, the risk-free interest rate is taken)

σ = standard deviation of portfolio (asset) return

Analysis of the current state

In order to improve the quality of assets, commercial banks of Uzbekistan are completing a phased transition to the implementation of the banking sector regulation system in accordance with Basel III. This work is carried out in pursuance of the Decree of the President of the Republic of Uzbekistan dated May 6, 2015. № PP-2344 "On measures to further improve the financial stability of commercial banks and the development of their resource base."

Increased requirements for banks' equity capital ensured its sharp growth in the last 2 years and contributed to the implementation by commercial banks of the Regulation “On capital adequacy requirements for commercial banks”. [13] As the study has shown, the requirements for banks in Uzbekistan within the framework of the introduction of Basel III standards are comparable to Western ones and even exceed a number of parameters. **[14]**

In particular, the capital adequacy level in Uzbek commercial banks exceeds the requirements by almost three times, and the liquidity ratio is more than twice the international requirements.

However, if we proceed from the postulate of the auxiliary role of banks in financing economic processes, it is not entirely correct to consider this as a positive factor. Of course, exceeding these indicators reduces the risk of the banking system, but on the other hand, high capital adequacy ratios may mean insufficient work of domestic banks to attract deposits and loans, and an increase in the liquidity coverage ratio is reflected in the efficiency of resource use, which is shown by the analysis of such ratios as ROE and ROA (Fig. 1).

Today, the banking system of Uzbekistan is largely the result of the industrial policy of the past years, concentrated on large industry-forming enterprises and related banks. any bank - to ensure the flow of funds to those sectors and industries where they can be used most effectively, to bring higher income. As a result, the leading commercial banks of the republic are mainly focused on “their” segments of the economy, which, as a rule, do not enter into direct competition with each other. This affects the size and structure of assets, equity capital, deposit base, loans issued and other indicators that determine the stability and international competitiveness of banks. The quality of these assets is another aspect that seriously affects the market capitalization of domestic banks in the future. The balance sheets of state-owned banks are dominated by soft loans to state-owned enterprises, which negatively affects bank profits and the development of a competitive environment.

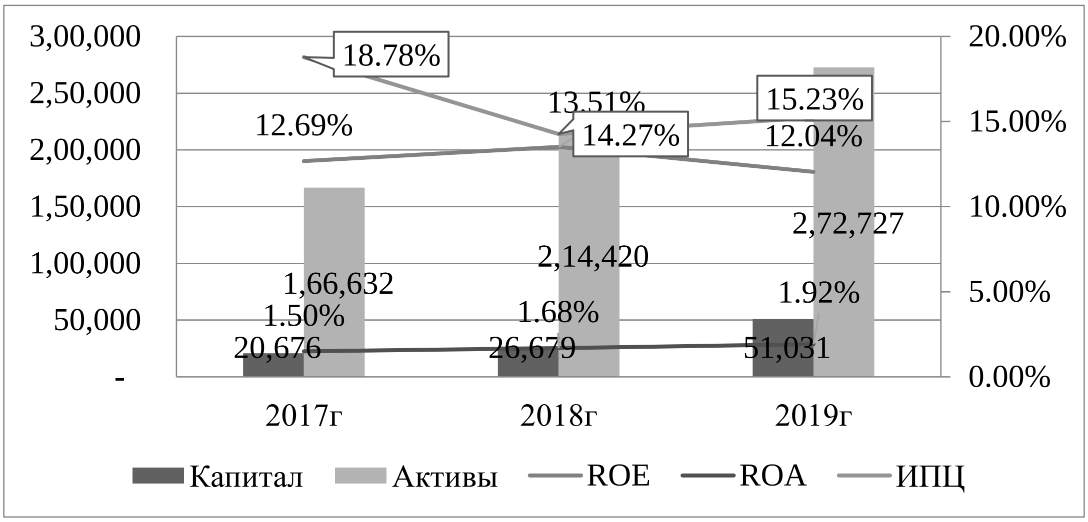

Figure: 1. Performance indicators of the banking sector in Uzbekistan (billion soums and%) [14]

Moreover, the control and supervisory functions prevailed over the main function of the banking sector as an investment intermediary. Despite the fact that the current level of officially registered problem loans of Uzbek banks (non-performing loans) remains lower than in other Central Asian countries and Russia (their ratio to total loans was only 1.3% as of early 2020), this is due to primarily with an increasing growth of new total loans by 51.4% in 2018 and by 40.2% in 9 months of 2019. As a result, the net volume of loans by 01.01.2020 reached 231 trillion. soums, or 76.1% of the total assets of the banking sector, which significantly worsens the diversification of the income base. (see Table 2).

Low differentiation of the income base significantly increases the risks of the domestic banking sector and reduces efficiency indicators. At the same time, the share of loans to individuals in the banks' portfolio remains rather low - only 15% as of 01.01.2020. The bulk of the banks' portfolio is made up of corporate loans, which increased by 47.4% in 2018. and by 37.7% in 2019. (see Table 2.) In the short term, further expansion of lending, along with the depreciation of the national currency, will continue to put pressure on capital adequacy ratios.

Until recently, the state solved the problem of maintaining the level of capital adequacy at the level of Basel 3 requirements by significant financial investments in controlled banks, which ensured an increase in the total regulatory capital in 2019 compared to 2018 for state banks by 105% (almost 2 times). At the same time, the capital of private banks grew by only 37%. Private banks seek to attract financing, but due to their small size, they find it difficult to attract international resources and are mainly focused on domestic deposits, which they attract at market interest rates. As a result, this limits their competitive opportunities and active expansion in the lending market, as a result of which they do not meet the requirements for entering the world capital markets.

Table 2

The structure of assets of commercial banks of the Republic of Uzbekistan (billion soums) [14]

Indicators	01.01.2018		01.01.2019		01.01.2020	
	Volume	Share (%)	Volume	Share (%)	Volume	Share (%)

Cash on hand and other financial instruments	4 841	2,9	5 269	2,5	6553	2,40
Central bank funds	14 909	8,9	11 429	5,3	14769	5,4
Resident banks' funds	6 713	4,0	6 374	3,0	10089	3,7
Funds of non-resident banks	18 347	11,0	13 545	6,3	15420	5,7
Investments and securities	1 649	1,0	2 277	1,1	3157	1,2
Clients' commitments under financial instruments	2 466	1,5	1 879	0,9	411	0,2
Net loan investments	108 467	65,1	164 670	76,8	207646	76,1
Net fixed assets	2 335	1,4	3 488	1,6	5723	2,1
Accrued interest on assets	1 413	0,8	2 842	1,3	3306	1,2
Other bank property	298	0,2	230	0,1	353	0,1
Other assets	5 193	3,1	2 416	1,1	5299	1,9
Total assets	166 632	100	214 420	100	272 727	100

In turn, large banks with a state share in assets are losing their attractiveness due to the low quality of loans that cause systemic debt, since almost 40% of all lending to the banking sector is the transfer of financing by state banks from the Fund for Reconstruction and Development of the Republic of Uzbekistan (FRDU) to a strategically important sectors (such as oil and gas, chemical, energy, industrial and civil construction). Thus, the availability of large loans of unsatisfactory quality becomes a significant obstacle to the privatization of state-owned banks.

The Uzbek government has announced plans to provide emergency support to banks by ensuring regular recapitalizations and possibly easing lending pressures by transferring some of the largest legacy, underperforming loans to the FRRU. In addition, part of the banks' debt to the fund will be transferred to equity capital, which will increase their capitalization.

However, there is no reason to expect a significant improvement in the quality of banks' assets in connection with the transfer of loans to the FRRU, since the transferred problem loans already had guarantees from the state and were not recognized in the reporting as impaired. In fact, the share of impaired loans from banks will slightly increase, as the transfer of loans will reduce the denominator (gross loans), while the numerator will remain unchanged (loans recognized as impaired in the reporting).

At the same time, these initiatives of the government indicate an intention to transfer the banking system of Uzbekistan to a more commercial basis and limit directed lending, in which banks transfer public funds to enterprises with state ownership. All this serves as a good signal to the market, which, in particular, was confirmed by Fitch Ratings, which is ready to change its opinion on the increase in the credit rating of seven state-owned banks, which it is rating on, subject to the privatization of controlling stakes in banks or in the case of if Uzbekistan develops a system for rehabilitating problem banks.

We consider today's attempts to carry out privatization by granting the right to determine strategic partners to the bank's management and representatives of the Central Bank, without the development of an internal domestic secondary securities market, to be ineffective. This method leads to uncertainty about property rights, serves as a brake on attracting a wide range of investors and does not contribute to the formation of a corporate control system.

Of course, attracting strategic investors allows attracting additional capital to the banking sector, foreign experience and technologies, and eliminates the need to work with many small shareholders. However, this method requires a thorough strategy to attract such investors. Otherwise, the privatization process will be slow. Any strategic investor pays attention to the development of the secondary securities market. In the case of its low capitalization, the risk of the inability to sell the asset increases if it is necessary to withdraw capital to the country of the resident. Today, neither the domestic secondary securities market nor the low liquidity of bank securities can provide such guarantees to investors. Hence the low probability of attracting additional cash resources to the bank's capital by the method of primary or secondary public offering of shares. Lack of experience in attracting investments and limited local investment resources do not allow for a quick placement of shares within the country, and the requirements of world stock exchanges in the coming years are unattainable for domestic banks.

Further interest in the issue and placement of securities, with their subsequent quotation on the secondary securities market, is caused by the persisting high inflation, which constantly devalues the bank's own capital and at the same time causes a sharp increase in "unmanaged" deposits (balances on settlement and current accounts), which leads to violation of the standards of the Central Bank of the Republic of Uzbekistan. Inflation deprives banks of the opportunity to attract long-term deposits, therefore, to make relatively long-term investments, banks must use their own capital on an ever-increasing scale. In addition, high quotations of bank shares are viewed by banks as a way to strengthen their position in the market, expand their sphere of influence and attract new customers.

Conclusions and results

The characteristic features of the banking institutions of Uzbekistan, on the basis of which the main proposals and recommendations will be formulated to increase the level of capitalization of the banking sector of the Republic of Uzbekistan, will be analyzed using the example of three banks: JSCB Uzpromstroybank (PSB), AKB Hamkorbank (Hamkorbank) and JSCB Ravnakbank (Ravnakbank).

Table 3

Comparative analysis of the total capital of commercial banks JSCB Uzprostroybank, JSCB Hamkorbank, JSCB Ravnak

	Uzpromstroybank		**Khamkor bank**		**Ravnak bank**	
	Mln sum	share	Mln sum	share	Mln sum	share
Shares - Common	4 627 483	74,1%	143 345	12,6%	100 000	77%
Shares - Preferred	7 030	0,1%	3 367	0,3%		0,0%
Added capital	696	0,0%	38 814	3,4%	1	0,0%
Reserve capital		0,0%	0	0,0%		0,0%
General purpose reserve fund	640 131	10,2%	336 376	29,6%	2 439	1,9%
Provisions for standard assets	198 784	3,2%	45 517	4,0%	3 502	2,7%
Devaluation reserve		0,0%	6 500	0,6%		0,0%
Other reserves and funds	57 259	0,9%	4 814	0,4%	3 051	2,4%
retained earnings	715 334	11,5%	558 935	49,1%	20 511	168%
Total capital	6 246 717		1 137 669		129 505	

The choice of these banks is due to the fact that JSCB "Uzpromstroybank" represents the first five largest banks in Uzbekistan with an overwhelming share of the state in assets, JSCB "Hamkorbank" is a prominent representative of medium joint-stock commercial banks, over 30 percent of whose capital belongs to foreign investors and JSCB "Ravnakbank" is among the private, small banks of the republic. Thus, the conclusions and proposals obtained based on the results of the analysis of these banks can relate with a high degree of reliability to the entire banking system of Uzbekistan.

A characteristic feature of the lack of diversification in the formation of equity capital can be traced to the capital structure of the analyzed banks. The determining share of the authorized capital indicates the absence of minority shareholders and the concentration of the bank's capital in the hands of the owner-stakeholders: PSB has the state, Ravnakbank has private owners (see Table 3).

In theory, market capitalization reflects the real value of the company, and in practice it is often possible to observe the excess of the company's market value over the real one, or vice versa. Based on this or that situation, the company's shares may be undervalued or overvalued. Despite the fact that the main driver of the change in capitalization is its fundamental indicators in the market, the price can change in the other direction and it mainly depends on the market sentiment, which can have a bullish or bearish trend. Trends moving in the opposite direction from fundamentals are usually short-term and in the long term the share price will reach its fair value.

Using the above methods for assessing the market value of a bank, in particular the B. Graham coefficient, we examined how much the market value of shares differs from its book (accounting) value for the three banks selected as objects of analysis (Table 4).

Table 4

Comparative table of share prices of three banks according to B. Graham's method

Name of the bank	**Market share price**	**Stock price according to Graham's method**	**Discount from market value**
Uzpromstroybank	17,38	27	65,3%
Hamkorbank	28	57.81	48,4%
Ravnakbank	1200	1.28	-99,89%

As the analysis shows, the shares of Hamkorbank are the most undervalued in terms of book value, which have a growth potential of up to 57.81 UZS per share. PSB shares are also undervalued and have upside potential at book value of up to 27 soums. Ravnakbank shares are significantly overvalued due to low liquidity in the securities market and the lack of transparency in the corporate governance system.

The quotation of shares, among other things, increases the transparency of the bank and investment attractiveness, which makes it possible to place other securities, for example, bonds and certificates of deposit, on more favorable terms, thereby increasing the resource base of commercial banks. The lack of a market approach in the formation of banks' capital (regardless of the structure of owners: the state or private business) also negatively affects the structure of the resource base of commercial banks, which is confirmed by the statistics given in Table 5. The adopted program for the transformation of the banking sector by 2025 may change this situation. In 2019, subsidiary foreign banks began to operate in the financial market, commercial banks appear, fully focusing their activities in the digital segment, which can also have a positive impact on the development of competition and increase the investment attractiveness of Uzbek banks.

Table 5

Structure of liabilities of the analyzed banks as of 01.01.2020

	Uzpromstroybank		**Khamkor bank**		**Ravnak bank**	
	Mln sum	share (%)	Mln sum	share (%)	Mln sum	share (%)

Demand deposits	4 695 450	18,4	1 306 642	17,0	136 555	28,5
Time deposits	4 308 418	16,9	1 953 093	25,4	295 626	61,7
Pay to other banks	463 399	1,8	165 557	2,2	44 116	9,2
Loans and leasing transactions payable	15 211 869	59,7	3 870 515	50,3		0,0
Subordinated debt	586 065	2,3	216 541	2,8		0,0
Interest charges	179 132	0,7	111 138	1,4	782	0,2
Accrued taxes		0,0	696	0,0	45	0,0
Clearing Transactions		0,0	47	0,0	23	0,0
Other obligations	18 442	0,1	75 860	1,0	2 025	0,4
Total commitment	25 462 775		7 700 089		479 172	

Summarizing the above, it should be noted that in Uzbekistan today there is a large-scale share market, most of the large transactions with which are carried out on the over-the-counter market, which is a consequence of the greater importance of controlling stakes in the ownership structure of issuers. This also leads to a low capitalization of the domestic securities market, as a result, it does not fulfill its functions in attracting resources from a wide range of investors.

The instruments of the securities market have not yet become a source of the resource base of the domestic banking system. The reasons for this state of affairs are both the high share of state participation in capital and the low efficiency of corporate governance, which reduces the investment attractiveness of bank securities.

The virtual absence of a secondary securities market is not allowed to adequately assess the market value of not only commercial banks, but also other joint stock companies. The share of the securities market in the country's GDP remains relatively low in relation to similar indicators in other countries of Central Asia and the CIS. Individuals as investors rather passively participate in transactions with securities, except for the acquisition of targeted stakes in private commercial banks or joint stock companies for management purposes. The application of the Sharpe ratio to the shares of the three banks selected as the object of analysis and having some free float in the secondary market in 2019 showed that the most preferable for investments were the shares of JSCB "Ravnakbank" (Table 6).[15]

Table 6

Sharpe ratio for shares of three banks

Name of the bank	**Sharpe ratio**
Uzpromstroybank	2,25
Hamkorbank	11,85
Ravnakbank	13,79

However, since the shares of Ravnakbank do not actually have quotations, which have almost no liquidity and are often traded on a contractual basis, where there is no real market value, it is not advisable to use the Sharpe ratio.

Some revival of trading in shares of Uzpromstroybank allows us to talk about some reliability of the calculation of the Sharpe ratio. Unfortunately, this trend is typical for the entire banking sector of Uzbekistan. Good investment performance of Hamkorbank shares is rather an exception to the rule and is due to a high share of a foreign investor in the capital and an effective corporate governance system that meets recognized international OECD standards.

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