

Issues of Increasing the Capitalization of Commercial Banks in the Conditions of Innovations

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ABSTRACT

The article investigates the issues of the economic essence and features of increasing the capitalization of commercial banks. Also, some issues of increasing the capitalization of commercial banks in the context of the introduction of innovations are considered, scientific conclusions, proposals and recommendations of the authors on increasing the capitalization of commercial banks in the context of the introduction and development of innovations in the economy are formulated.

Keywords:

Capital Of Banks, Authorized Capital Of A Bank, Capitalization Of Commercial Banks, Innovation, Digital Technologies, Commercial Banks, Banking Innovations, Bank Assets, Bank Liabilities, Banking Operations.

1. Introduction.

In the context of the introduction and development of innovations and information technologies in the banking system, an increase in the capitalization of commercial banks is of great practical importance for strengthening the liquidity and financial stability of banks. It is capitalization that helps to increase the resource potential of a company through additional attraction of direct and portfolio investments. For this reason, 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 will be able to attract to develop its business. Within the framework of a separate institution, the level of capitalization characterizes the ability of its managers to prove the prospects of the activity of this institution.

It should be noted that developed countries have accumulated many years of advanced theoretical, methodological and

practical experience in the field of increasing capitalization, modeling, forecasting, analysis, assessment and regulation of the financial stability of commercial banks. The study of advanced foreign experience in this area is of great practical importance for further increasing capitalization, strengthening liquidity and financial stability of commercial banks in Uzbekistan in the context of introducing innovations into the economy.

The global development of market relations in the modern economy requires commercial banks to develop and improve methods for strengthening capitalization and financial stability, based on the principles of the market and economic rationality. In particular, in the Action Strategy for the five priority areas of development of the Republic of Uzbekistan in 2017-2021, in the section of development and liberalization of the economy, special attention is given to deepening the reform and ensuring the stability of the banking system, the level of capitalization and

the deposit base of banks; strengthening their financial stability and reliability; further expansion of lending to promising investment projects [1].

The results of a study of the financial and banking system of developed and developing countries show that the capitalization of commercial banks directly affects the development and stability of the country's economy. Also, bank loans support the development of small and medium-sized businesses, private entrepreneurship and stimulate the development of infrastructure for an innovative and digital economy in the country.

In recent years, international banking practice has seen fundamental changes in the activities of commercial banks. The further development of digital technologies in the economy and, in particular, the banking system is due to global progress in the fields of information technology and telecommunications.

2. Literature review

Theoretical, methodological and practical issues of increasing capitalization, asset and liability management of commercial banks were studied in the scientific works of foreign scientists, economists, such as E.Gill, T.Koch, E.Reed, X.Gruning, E.Dollan, L.Roger, A.Simanovsky, O.Lavrushin, V.Usoskin, G.Panova, J.Sinki, R.Kotter, U.Soto [2] Moiseev, E.Zhukova, G.Beloglazova, N.Valentseva, A.Gavrilenko, V.Kolesnikov, G.Korobov, L.Batrankova, A.Litvinova, O.Ovchinnikova, G.Panov, V.Rodionov, I.Rykov, G.Tosunyan and others.

Scientific approaches to increasing capitalization, managing assets and liabilities of commercial banks have found practical implementation in the works of local scientists, economists and specialists such as: Sh.Kholmurodov, Z.Kholmakhmadov R.Tajiev, R.Shomurodov, N.Karimov, I.Taymukhamedov, M.Nurmuratov, and many others.

Capitalization is largely determined by economic growth and the global competitiveness of the national economy, while capital is a relatively constant value. That is

why the Basel II and Basel III 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 the Basel I standard proceeded from the concept of regulatory capital and determined the requirements for capital without taking into account the real need for banks. The concepts of the structure of assets and the structure of liabilities of a commercial bank are one of the fundamental in the theory of banking, since all the activities of the bank come down to the competent formation of the passive part of the balance sheet with subsequent investment of accumulated funds in active instruments. However, the attitude to the structure of assets and liabilities of a commercial bank as an independent object of management arose relatively recently.

So, in the textbook "Banking", published in 2009 under the editorship of a well-known foreign scientist economist Lavrushin O.I., the definition of the structure of assets is given as: "... the ratio of different quality items of the bank's balance sheet asset to the balance sheet total" [3], while there is no definition of the structure of liabilities.

Later, the concept of asset and liability management of the bank emerged. Different authors have paid different attention to this issue. So, in the fourth edition of "Banking" under the editorship of the foreign scientist economist Kolesnikov V.I. there is the concept of asset and liability management, but only as part of the liquidity management process: "The bank's liquidity management process includes a set of actions and methods for managing assets and liabilities" [4].

The approach of the famous foreign scientist P.S. Rose is the most constructive and is based on the assumption that the essence of asset and liability management in banks is the formation of a strategy and the implementation of activities that bring the bank's balance sheet structure in line with its strategic programs. In his opinion, "... the main goal of asset and liability management is to maximize or at least stabilize the bank's margin (the difference

between interest income and interest costs) with an acceptable level of risk" [5].

3. Analysis and discussion of results.

The meaning of the capitalization process is to increase the cost of capital owned by subjects of all levels of the country's economy, as a result of the growth of their economic potential and efficiency. Thus, capitalization largely determines the rate of economic growth and the global competitiveness of the national economy.

Indeed, for private and state-owned companies and banks, own funds are practically the only sources of increasing capitalization. For companies and banks whose shares are listed on the stock exchange, the market value of capital is decisive in assessing the level of capitalization. In particular, as of January 1, 2020, the market capitalization of all public companies in the world was 96 trillion. US dollars, of which 5.6 trillion. US dollars - capitalization of commercial banks. The capitalization of public companies exceeds the volume of world GDP, which in 2019 amounted to 85.91 trillion. US dollars [6].

Until now, both in the scientific community and the banking community, capitalization is understood only as an increase in the bank's own capital. For example, Peter S. Rose notes that "we often operate with the term "capitalization", meaning by this the own

funds or equity capital of banks and its sufficiency to cover risks" [7].

Of course, it is difficult to overestimate one of the most important conditions for the stable operation of the bank - the amount of equity, which is formed from the contributions of the founders, profits and funds formed from it. The bank's equity capital is a set of fully paid-up elements of various purposes that ensure the economic independence, stability and sustainability of the bank.

Innovation, information technology and the digital economy have become one of the main factors for the accelerated development of the economies of many countries. To date, the leaders of the digital economy are Germany, Japan, the United States, South Korea and the United Kingdom. The reverse side of this process is the growth of Internet fraud, which is one of the main modern banking risks [8].

The main activities of the bank are lending to the real sector of the economy of Uzbekistan, financing projects for technical and technological modernization in order to promote the production of competitive products and create new jobs. A special place in the work of the bank is occupied by financial support for small businesses and private entrepreneurship.

Table 1

Analysis of the main indicators of commercial banks in Uzbekistan (billion soums) [9]

Nu.	Name of indicator	2019	2020	2021	change 2021/2019	
					billion soums	%
1	Actives	214,420	272,727	366,121	151,701	70,7
2	Credits	167,391	211,581	276,975	109,584	65,5
3	Capital	26,679	51,031	58,351	31,672	118,7
4	Deposits	70,001	91,009	114,747	44,746	63,9

As can be seen from Table 1, commercial banks have high growth rates for all asset indicators. Thus, in relation to 2019, in 2021, the assets of commercial banks increased by 70.7 percent, the loan portfolio by 65.5%, capital by 118.7% and deposits by 63.9%.

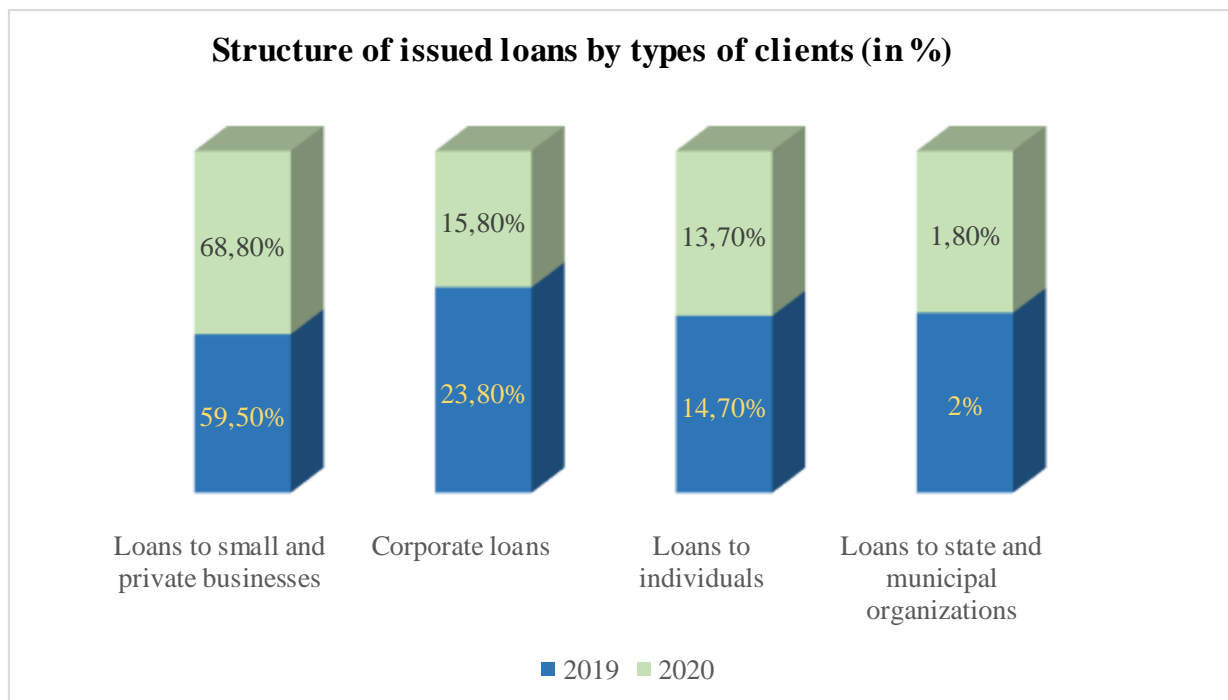


Figure 1. Loan portfolio by types of clients [10]

As an example, we analyze the loan portfolio of AICB “Ipak Yuli” (Fig. 1). Assessment of the quality of the loan portfolio is a qualitative analysis of the portfolio. In the process of conducting a qualitative analysis, it is necessary to carry out the following activities: classify all loans, check all documents and credit files, identify the degree of risk for each loan; research large loans and analyze them; identify loans that do not pay interest; evaluate the volume and nature of transactions with insiders; determine the adequacy of the provision to cover losses on credit risks.

The structure of loans issued for 2019 and 2020 is divided into: loans to small and

private businesses. This category includes private enterprises and individual entrepreneurs who have become bank borrowers. The share of loans to small and private businesses is the largest share - 59.5% in 2019 and 68.8% in 2020, respectively. This fact indicates that small and private businesses are the main client base for the bank's active lending operations.

However, due to the growth in the share of small and private businesses, we are seeing a decrease in the share of loans to individuals in the loan portfolio of AICB “Ipak Yuli”

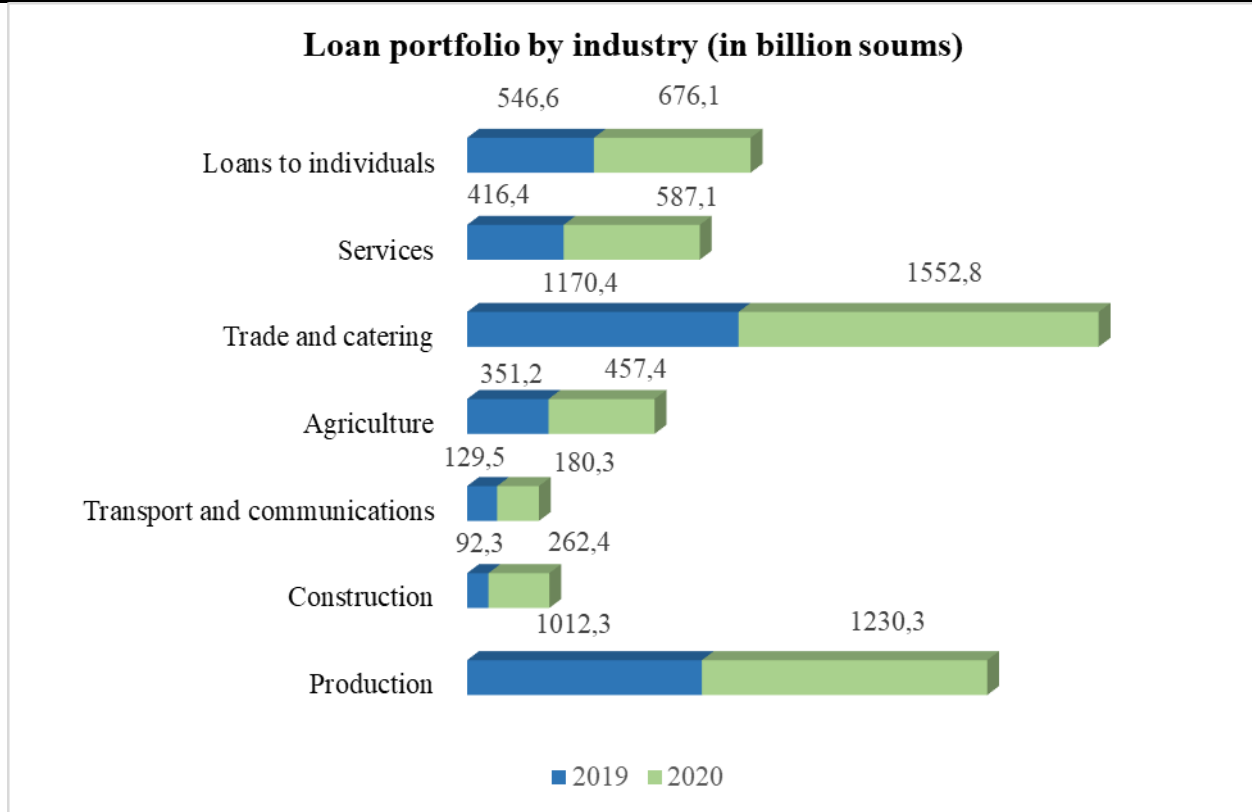


Figure 2. Loan portfolio of AICB “Ipak Yuli” by industry [11]

Based on the above calculations, the following conclusions can be drawn. Thus, trade and public catering are a priority area for lending. The total amount of loans issued in 2020 to this industry amounted to more than 1 trillion. 552 billion soums, which indicates that this industry is growing at the fastest pace and, accordingly, needs funding the most.

The analysis of the financial statements of the Joint Stock Innovative Commercial Bank “Ipak Yuli” is based on the Bank’s Annual

Balance Sheets officially approved by the Annual General Meeting of Shareholders for the periods 2019 and 2020, as well as the Statement of Financial Results for the same periods.

In the course of the analysis of the Bank's activities, it is necessary to analyze the bank's assets, analyze liabilities and equity. In addition, it is necessary to calculate the indicators of profitability, efficiency, liquidity and profitability.

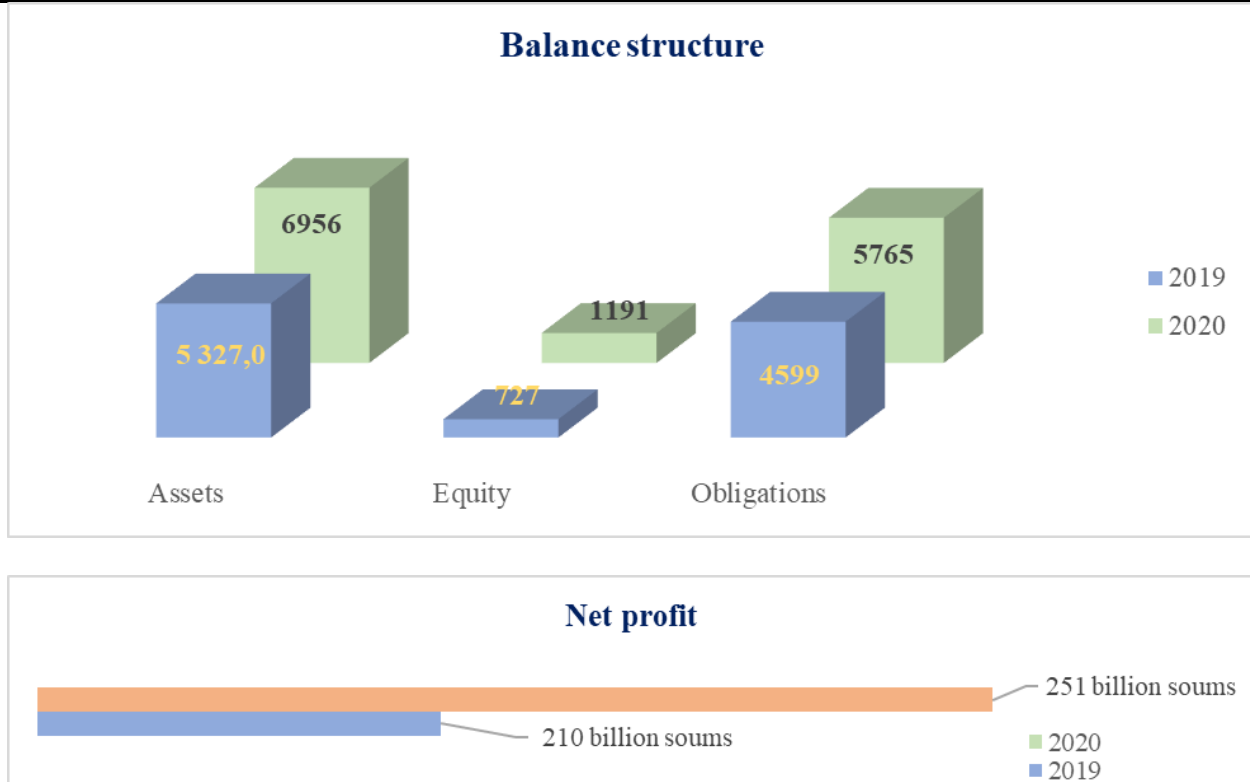


Fig.3. Balance sheet structure of AIKB Ipak Yuli [12]

In 2020, there is an increase in the bank's liabilities, which indicates the attraction of new clients and the demand for goods provided by the bank. There is also an increase in net profit, which indicates the availability of free funds that can be used to optimize current activities, for example, to develop the investment sphere of the bank's activities.

For a more detailed analysis, it is necessary to consider the asset structure for 2019 and 2020 and make a comparison.

The most liquid assets of the Bank are “Cash on hand and other payment documents”, funds on a correspondent account with the Central Bank “To be received from the Central Bank of the Republic of Uzbekistan”

The relatively liquid assets of the Bank include: interbank loans, investments in securities, short-term loans, etc.

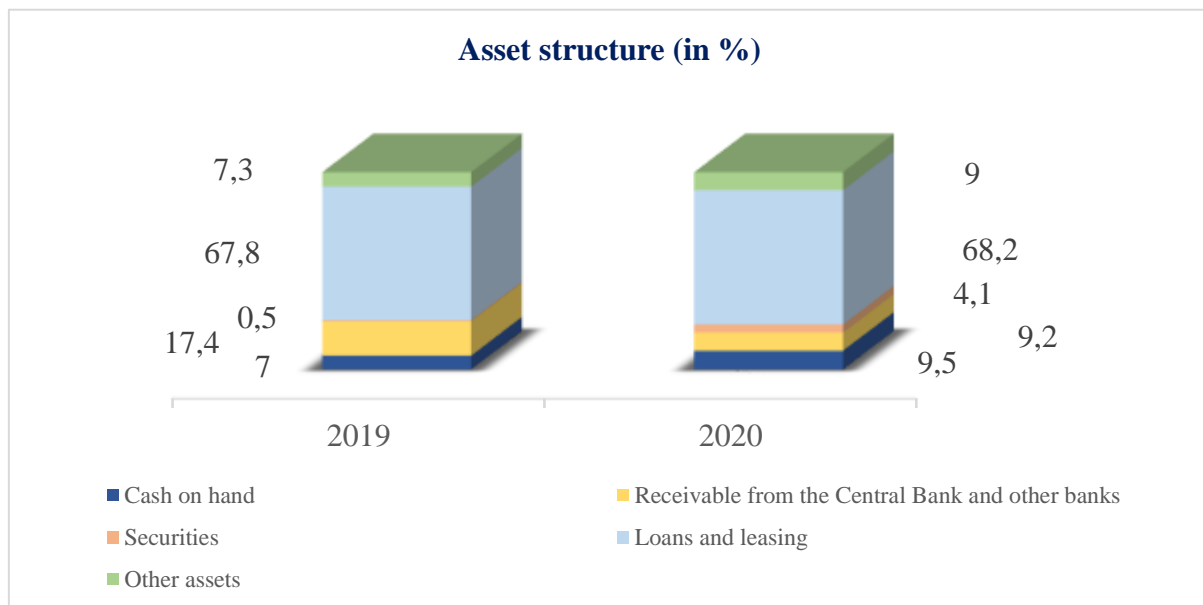


Fig.4. Asset structure of Ipak Yuli bank [13]

Illiquid assets include: overdue loans, fixed assets and property of the bank.

In the course of quantitative analysis, the composition and structure of the bank's loan portfolio is studied in dynamics (for a number of years, for quarterly dates of the reporting year) according to a certain number of quantitative economic criteria and characteristics, which include: the volume and structure of loan investments by type; the structure of credit investments by groups of borrowers (loans to legal entities, loans to individuals); terms of loans; timeliness of repayment of provided loans (presence of overdue loans); industry affiliation; types of currencies; the price of lending (the level of interest rates). Such an analysis makes it possible to identify priority areas of lending, trends in the development and repayment of loans and their profitability. The scope of the borrower's activity and its type carry different risks for certain economic conditions. In this regard, the types of loans, depending on the volume and purpose of lending, are evaluated and characterized in different ways, which should be taken into account when studying the bank's loan portfolio. For this, different relative indicators are used, which are calculated by turnover for a certain period or by the balance on a certain date. These

indicators include the share of problem loans in the entire gross client loan portfolio or the ratio of overdue debt to equity and others.

5. Conclusions and suggestions.

Based on the results of a study of the theoretical foundations for increasing the capitalization of commercial banks in the context of innovation, the following scientific conclusions, proposals and recommendations were formulated:

1. In a broad sense, the market capitalization of a company is an assessment of the company's value through the aggregate market valuation of its shares admitted to trading on the stock exchange, the increase in the company's value due to profits, goodwill and market expectations.

3. To increase capitalization, strengthen liquidity and financial stability of commercial banks in Uzbekistan, it is necessary to attract experienced domestic and international specialists in the field of banking, economic forecasting and analytics, research personnel, as well as higher educational institutions, for the development, testing, and further introduction of modern advanced banking technologies.

4. The stability of an individual bank, liquidity, reliability and stability of the banking

system are interdependent indicators, as they are determined by the state of the economic environment within which banking activities are carried out.

5. In their activities, commercial banks have to take into account various nuances. In particular, the nature of the risks is of considerable importance. There are external and internal causes of their occurrence. The category of the first includes those risks that are not directly related to the activities of the bank. These are losses incurred as a result of some serious events.

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11. Compiled by the author on the basis of the Management Report of AIKB "Ipak Yuli Bank"
12. Compiled by the author on the basis of the Management Report of AIKB "Ipak Yuli Bank"
13. Compiled by the author on the basis of the Management Report of AIKB "Ipak Yuli Bank"