Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2025): 8.619 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 12 | Issue: 2 | February 2025 -Peer-Reviewed Journal

FORMATION OF MARKET VALUE OF COMMERCIAL BANKS OF UZBEKISTAN

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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 investments in the development of banking activities are identified and proposals are made to improve the efficiency of their assessment and attraction.
KEYWORDS: *Commercial Banking, Equity Capital, Market Capitalization, Investments, Loans.*

Аннотация: Статья посвящена проблемным вопросам формирования и оценки рыночной капитализации коммерческих банков, условий формирования собственного капитала, целям инвестирования и увеличения капитализации узбекских банков. На примере трех коммерческих банков различной формы собственности авторами проведена оценка рыночной стоимости акций на основе использования международной методики. Определены проблемы привлечения частных инвестиций в развитие банковской деятельности и даны предложения по повышению эффективности их оценки и привлечения.
Ключевые слова: *коммерческий банковский, собственный капитал, рыночная капитализация, инвестиции, кредиты.*

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 can be divided into four categories by capital structure.

Compared to 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 truly 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 a broad campaign to reform and revive 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 address to the Oliy Majlis on 28.12.2018, noted that "The most important problem in the banking system today is that 83 percent of banks' capital belongs to the state. This hinders 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 influx of private and foreign capital into the banking system." [1]

A major step towards reducing the state share in the banking sector through a comprehensive transformation of commercial banks with a state share was the adoption of the Decree of the President of the Republic of Uzbekistan No. UP-5992 on 12.05.2020, which approved the Strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025 and implementing, with the assistance of international financial institutions, a phased privatization of the state share in a number of commercial banks of the republic, providing for their institutional transformation (transformation of activities) at the first stage and the sale of the state block of shares (SPO) at the second stage.

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LITERATURE REVIEW

Capitalization of any business entity is the most important parameter for assessing its investment attractiveness as a business. It is capitalization that helps increase the resource potential of a company by additionally attracting direct and portfolio investments. Therefore, the level of capitalization is very closely related to the volume of the financial market. In addition, the higher the capitalization, the higher the collateral value of the company, the more loans it will be able to attract for the development of its business. Within a separate institution, the level of capitalization characterizes the ability of its managers to prove the prospects of the activity of this institution. The importance of capitalization increases in the context of global changes in the production and institutional structure, the financial sphere of the world economy, exerting a significant influence 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 facilitate the creation of modern production facilities, 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.

For example, Peter S. Rose notes that “we often use the term ‘capitalization’ to mean the banks’ own funds or equity capital 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 a bank - the amount of equity capital, which is formed by the contributions of founders, profit and funds formed from it. The bank's equity capital is a set of various fully paid elements for different purposes, ensuring the economic independence, stability and sustainable operation of the bank. A mandatory condition for the inclusion of certain funds in the equity capital is their ability to act as an insurance fund for coverage.

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 an increase in the bank's capitalization due to an increase in equity capital, we should talk about the book value of equity capital. "For example, capital can be assessed 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 they have at the time of acquisition or issue" [4]. To calculate the book value of the bank's capital, banking uses its own national standards and International Financial Reporting Standards (IFRS).

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 assumes, the amount of which must comply with the requirements established by the regulatory authority. Regulatory standards establish the minimum level of the bank's own capital, and its actual level is determined by the market. Therefore, along with the regulatory capital, it is necessary to consider the bank's economic capital. Unlike the bank's regulatory or accounting (balance sheet) capital, the economic capital is an internal bank assessment of the total need for capital, which is necessary to finance the risks assumed by the bank (mainly unexpected losses in excess of expected ones).

Unlike other sources of banking resources, equity capital is of a permanent, irrevocable nature, has a clearly expressed legal basis and functional certainty, is a mandatory condition for the formation and functioning of any commercial bank, i.e. serves as the core on which all activities of a commercial bank rely from the first day of its existence.

The amount of equity capital plays an important role in assessing the stability, solvency and reliability of a bank and is used to assess regulatory standards, in particular Basel 3 standards and national banking regulators. However, reducing the capitalization process only to the increase in the bank's equity capital means consciously rejecting market factors influencing this process. Therefore, "capitalization" and "capital", despite having the same root, essentially represent different definitions.

Capitalization is an attempt to find a value expression of economic capital and a continuously changing value showing the bank's ability to carry out effective activities in conditions of tough market competition. Analyzing foreign economic literature, we find confirmation of such an understanding of the definition of "capitalization". Thus, according to Sharpe W., market capitalization is "the total market value of a security equal to the product of the market price of the share by the number of shares outside the corporation that issued the shares" [5].

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Brett M. also interprets this concept "as the market value of all common shares of the company: the number of shares in the issue, multiplied by their market price."[6] As for the use of the term capitalization in relation to banking structures, Peter S. Rose [2] also understands the market value of the bank's capital as the product of the current market value of the issued shares and 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 and their market value" [3]. Rutgaizer V.M. and Buditsky A.E., citing a rating assessment of the capitalization of banks, note the market value (capitalization) of the bank, based on the stock exchange quotations of 100% of the bank's common shares. Consequently, the concept of market capitalization in a broad sense is interpreted as the market (stock exchange) value of the bank.[4] This is why the Basel 2 and Basel 3 standards attempted to take the technique of implementing the regulatory capital concept to a qualitatively new level: the level of market-oriented assessments, since the Basel I standard was based on the regulatory capital concept and defined capital requirements without taking into account the real need of banks for it (see Table 1).

The thesis on the critical role of the financial market and banks in increasing the value of companies was first 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 only relatively passively follows economic development.[9]

Table 1
Basel methodology for structuring capital and calculating its amount

The amount of bank capital for regulatory purposes			
Structure of the total capital of the bank		**Deductions from bank capital**	
Fixed capital	**Additional capital**	**From the main**	**From the total**
Paid share capital. Declared reserves formed from profit.	Undeclared reserves Reserves for revaluation of hard assets. Reserves for doubtful debts. Unrestricted capital instruments. Recorded current debt obligations with a minimum term of more than 5 years.	Intangible assets	Investments in the banking sector and controlled companies. Investments in the capital of other banks and financial instruments.

The debate about the role of various segments of the financial market in macroeconomic processes was intensified 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 such a relationship, the peculiarities of its manifestation in various 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 emphasized the positive influence 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 of 1998-2003 allowed to advance significantly 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 renewal 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 effect on the formation of stable income of enterprises. Another important conclusion based on the results of the research conducted by specialists of the World Bank was the relationship between the effectiveness of state participation in the functional development of the stock market and the expansion of the scale 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 discrepancy in views and approaches to the nature of the impact of the securities market on the modernization processes 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, name the high level of efficiency in the implementation of its redistribution function, which opens access for the most competitive enterprises to significant volumes of external and internal investments.

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Another important function of the modern securities market is the pricing function, which acts as an indicator of the effective assessment of the value of banks, enterprises and other organizations. This situation is especially characteristic of the stock market, where a specific instrument is backed by an enterprise with all its economic relations or a bank with its investment potential.

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

RESEARCH METHODS

The basic principle of adequacy: the size of equity capital must correspond to the size of assets, taking into account the degree of their risk. But in practice, in order to correctly assess capital adequacy, it is not enough to simply calculate the indicators. Bank managers and bank supervisory authorities strive to find the optimal ratio between the amount of capital and other parameters of a commercial bank's activity.

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 Harmonization of Capital Calculations and Capital Standards, which introduced the adequacy standard (the Cook ratio) into practice.1 The Agreement entered into force in 1993 and is currently used as a basic benchmark by central banks in many countries. The standard applies only to international banks. The concept of assessing capital adequacy was based on the following principles:

- Dividing capital into two levels - first (primary) capital and second (additional) level capital;
- Taking into account the quality of assets by weighting assets and off-balance sheet transactions by risk, and, consequently, assessing capital taking into account the risk assumed by the bank; emphasis on the quality of the loan portfolio and a balanced credit policy; establishing restrictions on the ratio between first and second level capital; determining the regulatory requirement for the capital adequacy ratio (adequacy ratio or Cook ratio) at 8 percent for the total amount of equity capital and 4 percent for first level capital.

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

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

where K is the bank’s own funds (capital), thousand soums;
CKP — total value of credit risk, thousand soums;
COP — total value 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; it promotes a review of bank strategy and a refusal to excessively increase loans with minimal capital, giving preference not to the volume of the loan portfolio, but to its quality; it promotes an increase in the risk-free activity of the bank; it encourages the government to reduce the regulation of bank activities, since it shows more elements of self-regulation; it makes it possible to take into account the risks of off-balance sheet liabilities; it allows for comparison of 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 allows for the easing of capital requirements by central banks; insufficiently detailed differentiation of assets by degree of risk and underestimation of reserve requirements for certain types of operations. Despite some shortcomings of the Basel methodology, it is precisely this methodology that almost all central banks rely on when developing their own methodology for assessing capital and its adequacy.

The final conclusion on capital adequacy is made based, firstly, on a comparison of the actual levels of the key ratios with the criteria levels adopted in the country and, secondly, on an assessment of the results of the asset

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quality analysis. The Cook ratio establishes the minimum ratio between the bank's capital and its balance sheet and off-balance sheet assets, weighted by risk in accordance with standards that may differ in individual countries, but a certain logic must be observed. The ratio is set at 8% (core or main capital must account for at least half).

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

Additional indicators include, first of all, the leverage indicator, which characterizes the share of core capital in assets. Additional indicators that specify and supplement the state of the main indicators also include:

Tangible fixed capital adequacy ratio (ratio of fixed capital minus intangible assets to average total assets);

- Risky assets ratio;
- Volume and dynamics of critical and low-quality assets.

For banks operating on open markets, a mandatory requirement is regular calculation of market risk, or stock market risk. The stock market risk is assessed by the credit institution in relation to the following financial instruments: common stocks; depositary receipts; convertible securities (bonds and preferred stocks) that meet the conditions for conversion into common stocks, derivative financial instruments whose underlying asset is securities, as well as a stock index.

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 Basel III banking sector regulation system. This work is being carried out in pursuance of the Resolution of the President of the Republic of Uzbekistan dated 6.05.2015 No. PP-2344 "On measures to further improve the financial stability of commercial banks and develop their resource base."

Increased requirements for banks' own capital have ensured its sharp growth in the last two years and contributed to the implementation by commercial banks of the Regulation "On requirements for the adequacy of capital of commercial banks". [12] As the study showed, the requirements for banks of Uzbekistan within the framework of the introduction of Basel III standards are comparable with Western ones and even exceed a number of parameters. [13]

Further interest in the issue and placement of securities, with their subsequent quotation on the secondary securities market, is caused by persistent high inflation, which constantly depreciates the bank's own capital and simultaneously causes a sharp increase in "unmanaged" deposits (balances on settlement and current accounts), which leads to a violation of the regulations of the Central Bank of the Republic of Uzbekistan. Inflation deprives banks of the opportunity to attract long-term deposits, therefore, in order to make relatively long-term investments, banks must use their own capital in ever-increasing amounts. In addition, high quotations of bank shares are considered by banks as a way to strengthen their positions in the market, expand their sphere of influence and attract new clients.

CONCLUSIONS AND RESULTS

We will analyze the characteristic features of the work of banking institutions of Uzbekistan, on the basis of which the main proposals and recommendations for increasing the level of capitalization of the banking sector of the Republic of Uzbekistan will be formulated, using the example of three banks: JSCB Uzpromstroibank (PSB), JSCB Hamkorbank (Hamkorbank) and JSCB Ravnakbank (Ravnakbank).

The choice of these banks is due to the fact that JSCB Uzpromstroibank represents the top five largest banks in Uzbekistan with the overwhelming share of the state in assets, JSCB Hamkorbank is a bright representative of medium-sized joint-stock commercial banks over 30 percent of the capital of which belongs to foreign investors and JSCB Ravnakbank is among the private, small banks of the republic. Thus, the conclusions and proposals obtained as a result of the analysis of these banks can be applied with a high degree of reliability to the entire banking system of Uzbekistan.

Some revival of trading in Uzpromstroibank shares 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 indicators of Hamkorbank shares are rather an exception to the rule and are due to the high share of foreign investors in the capital and an effective corporate governance system that meets recognized international OECD standards.

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