

EFFECTIVE ORGANIZATION OF IPO PRACTICES OF STATE OWNED COMMERCIAL BANKS: PROBLEMS AND SOLUTIONS

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Abstract

Keywords:

Shares, stock market, state owned shares, asset efficiency, capital efficiency, dividends.

This article presents an analysis of assets and capital efficiency indicators in private and state-owned commercial banks. The interrelation between the share of the state and indicators of financial efficiency in commercial banks is studied. Scientific conclusions are given on ways to increase efficiency through the practice of IPO of commercial banks in our republic.

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Introduction

It is becoming necessary to reconsider the role of commercial banks in the global economy based on the demands of the digital economy. Because on the one hand, financial technology (Fintech) companies are developing as competitors to commercial banks in this regard, and on the other hand, the transition to digital banking practices (Digital Banking) is appearing as a specific direction of development.

In the national economy, more than 80 percent of the total bank assets still belong to state-controlled commercial banks. Nevertheless, the profitability of private joint-stock commercial banks is more than 4 times higher than that of state-controlled commercial banks. In this case, it becomes clear in which sector the effective use of assets is high.

The issue of privatization of the state share in the authorized capital of commercial banks has been frequently mentioned in recent years. Practical results have also begun to appear. In particular, an example of this is the sale of Ipotekabank joint-stock commercial mortgage bank to OTP Bank of Vengia for 324 million US dollars.

The fact that seven state-controlled commercial banks are expected to conduct a public offering of shares, and the public sale of a very small amount of state shares in three private joint-stock commercial banks to the entire population is another practical matter. But the question "what aspects of commercial banks' attention to the public placement of their shares will be beneficial for both investors and commercial banks?" is also on the agenda. Because until today commercial banks in our republic have not conducted IPO practices. Based on this, this issue has its own relevance.

Materials and methods

It is known from the experience of developed and developing countries that commercial banks act as underwriters in the practice of public placement of shares. At the same time, commercial banks as a joint stock company can conduct IPO operations in order to attract cheap capital.

Franklin Allena, Jun 'QJ' Qianb, Susan Chenyu Shanc, and Mengxin Zhaod analyzed the privatization process of the Industrial and Commercial Bank of China, particularly the SPO practice of the Hong Kong and Shanghai Stock Exchanges, and also researched the Chinese model of privatization of other large financial institutions. According to research, although SPO practices are widely used in privatizations, the government's retention of controlling stakes gave it an advantage over others during the global financial and economic crisis that began in 2008. [3].

O.Y. Kuzmina and M.E. Konovalova researched IPO practices conducted by banks in Russia. According to their research results, IPO practices theoretically serve the development of banking business. However, it is noted that before making a decision on conducting an IPO, it is necessary to assess how correct this decision is. That is, it was noted that making such a decision in a state that is not ready for IPO can lead to a deterioration of the financial situation. The importance of pre-estimation of expenses during international IPO by banks was also emphasized [4].

J. Qurbanov, S. Omonov, D. Nuralieva conducted research on the analysis of international IPO practices, in which the Postal Savings Bank of China (Postal Savings Bank of China) achieved capital attraction in the amount of 4 billion US dollars as a result of the IPO practice, and after the successful practice it was noted that the share price increased by 2.3%. The researchers also revealed the features of underwriting activity of banks in IPO practice [5].

According to B. Boev, who carried out monographic studies on the directions of improving the practice of public placement of shares, it is noted that although the public placement of shares of Aloqabank, Sanoatqurilishbank, Asia-Alliance bank was stipulated in certain regulatory documents adopted in 2019, it was not carried out in practice [6].

A. Karimov's research on the analysis of the practice of mass placement of shares carried out in our country states that it is necessary to set the price of the placement of shares in a comprehensive manner [8].

Scientific abstraction, analysis and synthesis, comparison, induction and deduction methods were used in the implementation of this study on the improvement of the practice of public placement of shares of commercial banks.

Results and discussion

Successful implementation of IPOs by commercial banks is directly related to their investment attractiveness. Therefore, the results of the analysis conducted in order to determine the attractiveness of shares of joint-stock commercial banks expected to go to IPO in the stock market are as follows (Table 1).

Table-1

Analysis of shares of commercial banks expected to go public¹

№	Name of the bank	State share, in percent	Shares for sale		Bookvalue	Market value	Date
			%	number			
1.	«Uzsanoatkurilishbank» ATB	95,2	2,0	4 878 435 656	19	10,24/35*	29.03.2023
2.	"Asakabank" ATB	98,96	2,0	842 745 407	139,01	Ўўк	
3.	JSC "People'sBank"	100	2,0	148 667 596	1000	Ўўк	
4.	"Kishloqkurilishbank" JSC	98,34	2,0	311 141 316	119,25	105,01/175*	29.03.2023
5.	"Alokabank" ATB	66,6	2,0	223 319 146	121	67,51/390,01*	29.03.2023
6.	"Turonbank" ATB	98,77	2,0	17 460 499	1700	796/2260,01*	29.03.2023
7.	"Mikrokreditbank" ATB	98,9	2,0	66 429 463	1068	999,74/500,02*	29.03.2023
8.	AITB "Silk Road".	0,0003	0,0003	192 888	10	26.13	29.03.2023
9.	"Trustbank" JSC	0,001	0,001	598	1000	8800	29.03.2023
10.	"Garantbank" ATB	0,01	0,01	294 396	100	179	

*Preferred share price

It is known from the given table that the shares of Asakabank and Xalqbank have not been listed in the stock market, so there is no market price. Uzsanoatkurilishbank, Qishloqkurilishbank, Alokabank, Turonbank, Mikrokreditbank joint-stock commercial banks such as Xalqbank and Asakbank have been state-owned banks for many years. That is, the control package or more than 90 percent of the shares have been operating under direct state control. As a result, the efficiency was low, and this aspect is reflected in the market price of the shares, even though the areas of activity are provided with resources.

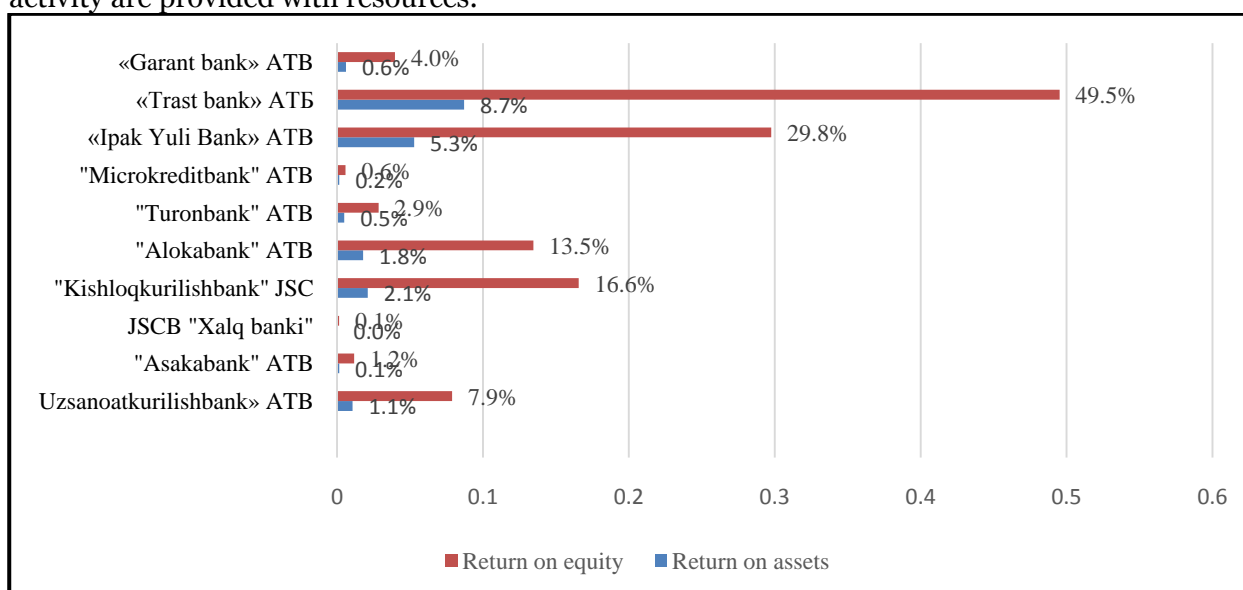


Figure 1. Private equity and return on assets of commercial banks whose shares are expected to be publically placed at the end of 2022²

The shares of commercial banks in the list are traded much lower than the book value. On the other hand, the shares of "Ipak Yoli" AITB, "Trustbank" XATB, and Garantbank ATBs, which are considered private commercial banks, are traded several times higher than the book value. The reason for this is the high level of profitability in private joint-stock commercial banks (Figure 1).

It is clear from the given diagram that among the commercial banks whose shares are expected to be placed publicly, Trustbank has the highest return on equity of 49.5 percent and

¹Ўзбекистон Республикаси Президентининг қарори, 24.03.2023 йилдаги ПҚ-102-сон

ва www.uzse.uz сайтимаълумотлари асосида тузилди.

²www.cbu.uz ва акциядорлик тижорат банклари ҳисоботлари асосида тузилди.

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return on assets of 8.7 percent. Silk Road Joint Stock Innovative Commercial Bank also has high profitability indicators, with a return on equity of 29.8 percent and a return on assets of 5.3 percent. The profitability indicators of other commercial banks are relatively low.

It is known that the President of the Republic of Uzbekistan Shavkat Mirziyoev, on March 24, 2023, at a meeting devoted to the discussion of privatization issues, it was noted that "The companies whose shares are sold will direct at least 30 percent of their net profit to dividend payments for five years." Accordingly, we will pay attention to the share profitability of commercial banks whose shares are set to be publicly placed, when 30 percent of the net profit at the end of 2022 is allocated to dividends (Figure 2).

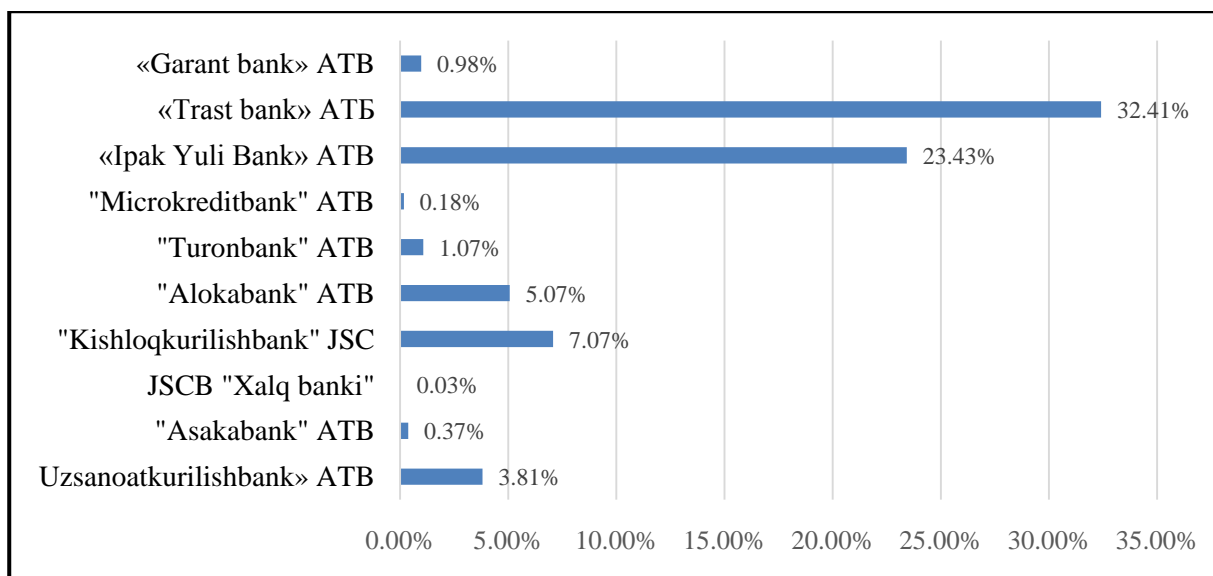


Figure 2. Stock return (relative to book value) when commercial banks expected to go to IPO distribute 30% of their net profit to dividends in 2022³

Analysis shows that in this regard, shares of Trustbank and Silk Road Banks are also highly profitable. The return on the nominal value of the shares of other commercial banks is sharply lower than the official inflation rate when 30 percent of the net profit is allocated. This situation indicates that commercial banks with a high share of the state in the authorized capital have a very low investment attractiveness. But it should also be noted that the Law of the Republic of Uzbekistan "On the State Budget of the Republic of Uzbekistan for 2023" states that "State enterprises and legal entities with a 50 percent or more state share in the authorized capital (including by enterprises that are part of them) 2023 50% of its net profit at the end of 2022 until July 1, 2022 will be calculated as dividends and dividends on the state's share and will be transferred to the budgets of the appropriate level no later than September 1, 2023. Also, gold-mining enterprises with 50 percent or more of the state's share in the charter capital will transfer 100 percent of their net profit in 2022 and 2023 to the State budget of the Republic of Uzbekistan in the form of dividends" [1], a strict norm was introduced. Based on this, when 50% of the net profit received by banks in 2022 is allocated to dividends, the return on the nominal value of shares is as follows (Figure 3).

³ Тижорат банклари молиявий ҳисоботлари ва акциялар эмиссияси маълумотлари асосида тузилди.
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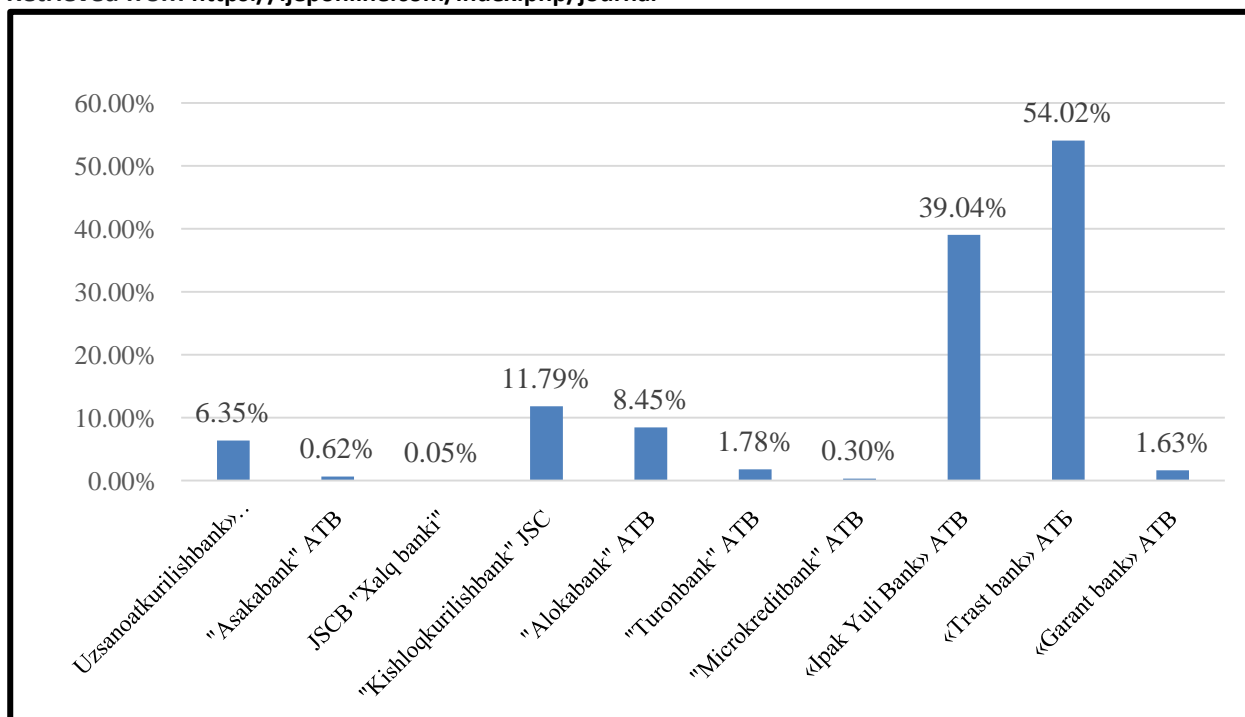


Figure 3. Return on book value of shares when commercial banks expected to go to IPO allocate 50% of net profit to dividends⁴

Even when 50 percent of the net profit is allocated to dividends, the return on the shares of the state-controlled commercial banks is significantly lower than the market return, in particular, the return on deposits and bonds. However, since shares are a high-risk financial instrument, the return is expected to be higher than other financial assets.

On the basis of the conducted analysis, we should note that although private banks are attractive for investment, commercial banks with a controlling stake in the state should undergo serious preparation for public offering of their shares. Because the investment attractiveness in the current situation is extremely low.

Conclusion

First, commercial banks actively participate as underwriters in organizing and conducting IPOs or SPOs, along with raising capital through public placement of their shares. As a result, in international practice, public placement of their shares by commercial banks is successful.

Second, public placement of shares of commercial banks in our country is a positive signal for the market. But it is advisable to ensure investment attractiveness on the basis of thorough preparation. Otherwise, financial losses may also be observed due to increased costs of conducting IPO or SPO operations.

Thirdly, according to the analysis, the profitability indicators of the commercial banks in which the controlling package of shares is owned by the state are much lower, and this has a negative effect on the dividends paid. On the other hand, their shares are traded in the stock market at a lower price than the nominal value. Therefore, it is not appropriate for commercial banks with state participation to go to IPO or SPO at the same time.

Fourth, Trustbank and Silk Road Bank both have relatively high profitability indicators and dividend rates. This situation serves as the basis for liquid trading of their shares on the stock market. Therefore, it can be expected that the public placement of small state shares in private banks or insurance companies will be successful.

⁴Тижорат банклари молиявий ҳисоботлари ва акциялар эмиссияси маълумотлари асосида тузилди.

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Fifth, the implementation of the requirement to allocate at least 50% of the net profit to the dividend, as defined by the law, should be strictly controlled. Allowing special exceptions in this case leads to hesitation of investors. Dividends, on the other hand, are the main lever that makes stocks attractive for investment.

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